Dialog

FINANCE

ANNUAL REPORT 2018/19

Contents

Vision

To be Sri Lanka's No.1 Fintech Company

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.

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 deposits, margin trading services, revolving loans, cheque discounting, factoring, and other financial facilities.

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

Dialog Finance PLC is setting itself to be at the forefront of innovation in the finance industry in Sri Lanka and has a vision to propel the nation's finance technology to a level of advancement on par with the developed world. Dialog Finance PLC recognizes 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

	2018/2019	2017/2018	Change (%)
Operating results for the year (LKR' Mn)			
Gross income	330,588	215,109	54
Total operating income	243,912	121,309	101
Impairment charges/(reversals) for loans and advances	133,136	54,117	146
Operating expenses	238,948	95,707	150
Operating profit/(loss) before taxes on financial services	(128,172)	(28,515)	350
Profit/(loss) for the year	(129,410)	(22,525)	475
Assets and liabilities (LKR' Mn)			
Customer deposits	632,209	830,565	(24)
Loans and receivables	991,417	852,178	16
Total assets	1,621,468	1,259,136	29
Total liabilities	787,920	849,119	(7)
Shareholders' funds	833,548	410,017	103
Profitability ratios (%)			
Net interest margin	9.79	8.74	1.05
Return on assets (ROA)	(8.96)	(2.50)	(6.46)
Return on equity (ROE)	(20.81)	(5.12)	(15.69)
Investors' information (LKR)			
Market price	35.50	25	42.00
Net assets per share	11.54	8.81	30.99
Earnings per share	(1.97)	(0.48)	310.42
Regulatory ratios (%)			
Capital adequacy ratios			
Tier I (minimum ratio - 6%)	38.10	42.68	(4.58)
Tier I + Tier II (minimum ratio - 10%)	39.19	42.68	(3.49)
Other key indicators (%)			
Non performing loan ratio (gross)	23.99	14.07	9.92
Cost to income ratio	98.47	73.94	24.53
Fitch rating	AA (lka)		

Chairman's Message

My dear shareholders,

It is with distinct pleasure that I write to you at the close of the financial year, to present the annual report and financial statements for the year ended 31 March 2019 of Dialog Finance PLC.

During the year under review, the Company's revenue grew by 54% Year on Year ('YoY') to Rs. 331Mn and recorded a loss of Rs. 129.4Mn, mainly due to increase in impairment provision expenses and an increase in operating expenses arising from the modernisation of technology platforms and organisational strengthening and restructuring.

The business and financial performance of your Company is discussed in greater detail in the Management Discussion and Analysis Section of the Annual Report.

During the year under review, your Company has made significant investments in advanced technology platforms and systems to enable the provision of cutting edge FinTech services. A comprehensive portfolio of inclusive financial services architected by the Company has been placed for regulatory approval and was not launched to the market during the year under review.

Progressive, innovative and purpose-fit regulation based on proportionality principles will continue to be pivotal in achieving the financial inclusion ideals of the Government of Sri Lanka.

"During the year under review, your Company has made significant investments in advanced technology platforms and systems to enable the provision of cutting edge FinTech services."

While we remain strongly committed to the achievement of these ideals and confident of our capabilities in driving an all-new frontier in equitable access to regulated financial services, we look forward to regulatory innovation supportive of FinTech in general and financial inclusion in specific.

In closing, my sincere appreciation goes out to the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and other agencies for the encouragement and support extended to us at all times.

I would also like to take this opportunity to thank the team at Dialog Finance PLC for their steadfast commitment to excellence, and to thank our valued shareholders, customers and business partners for their continued support.

Dr. Hans Wijayasuriya
Chairman

31 July 2019

Chief Executive Officer's Review

My dear shareholders,

The year under review has been a year of strategic transformation for the Company, and I am pleased to report that the organisation has made significant progress against both financial and strategic objectives.

Under the banner of Dialog Finance, we set out to bring together the realms of advanced digital connectivity and cutting edge Financial Technology (FinTech) to deliver a revolutionary suite of financial products and services which will expand the vistas of financial inclusion in Sri Lanka. Within the envisaged inclusion drive, the Company focused significantly on financing solutions aimed at increasing the affordability and accelerating the adoption of digital devices and services for a wide spectrum of consumers and businesses.

In an age where mobile technologies are redefining the face of commerce and the continued digitalisation of cash, it is apparent that our opportunity to drive the next era of financial inclusion is immense. Despite the inherent advantages of the digital economy, it is evident that Sri Lanka is yet to fully realise the benefits of FinTech due to rapidly evolving economic, social dynamics and the current regulatory environment.

As we continue to transform our business by implementing disruptive innovations in technology to reshape the financial services sector to improve customer experience, reduce costs, and drive growth and profitability, I am pleased to share with you the progress the Company has made this year in its vision in becoming the leader in FinTech products and services in Sri Lanka.

Transforming Dialog Finance into a FinTech Organisation

In our goal to make the Company a digital financial service provider enabling universally affordable and accessible financial services leveraging on technology platforms, an extensive distribution network, and customer base, the Company invested extensively in FinTech technology and people during the year under review.

As an agile company with scalable and resilient business models in place, we are well-positioned to succeed in an evolving regulatory environment. The Company worked closely with the regulator during the year under review to obtain the necessary approvals to launch its industry-defining products and services with a clear and inspiring mission, and a commitment to stay true to our values all pointing towards expanding the reach of FinTech across Sri Lanka, including the unbanked and underbanked segments of the society.

Strong Growth in Revenue

Our performance in the year 2018/2019 has been strong. During the year under review, your Company's revenue grew by 54% Year on Year (YoY) to Rs. 331Mn with the introduction of high yield products such as Device Financing. However, the Company recorded a loss of Rs. 129.4Mn due to the increase in impairment from deterioration in portfolio quality evidenced through an increase in Non-Performing Advances and shift in the provisioning model from incurred loss model to expected loss model (ECL) as prescribed by SLFRS 9. Furthermore, operating expenses have been adversely impacted by expenses for FinTech capacity building in the organisation and investments in FinTech platforms/solutions.

It's important to highlight that, in October 2018, Fitch Ratings Lanka Ltd assigned the Company 'AA(lka)' stable rating which is underpinned by its strong business fundamentals and parental support. With this rating, Dialog Finance PLC became the highest rated finance company in Sri Lanka.

Keeping in line with our objective of maximising shareholder returns, while delivering innovative customer value propositions, we are committed to focus on increasing revenues and lowering operational costs, thereby improving the profitability of the organisation.

Outlook

As we continue to operate in a volatile environment, we will be mindful of the risks and uncertainties relating to the economy and look ahead for a myriad of opportunities. As our nation evolves towards digitisation, our business models and strategies are focused on technology and innovation to simplify and automate financial experiences for our customers, as well as develop thought leadership across the sector. We will remain committed to developing exceptional

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and contemporary financial services from inception to delivery, designed to transform the finance industry and ultimately provide value to all our stakeholders.

The Asian FinTech industry is positioned for consistent growth, reflected by the FinTech investments in ASEAN countries in 2018 exceeding the $5.7Bn invested in 2017 by 20% to 30%. This robust growth is set to continue as the Asian FinTech market is projected to reach US$72Bn by 2020.

Worldwide, regulators are moving into national regulatory systems that are increasingly proportionate and innovation-friendly. Applications by the Company to obtain approvals for proportionate regulations for digital product offerings are currently being studied by the Central Bank of Sri Lanka ('CBSL'). In the coming months, we will continue to engage with CBSL to expand our service portfolio, with digital innovation and inclusiveness in mind, to provide a genuine digital financial experience to all Sri Lankans.

Appreciation

I extend my gratitude to our Chairman, Dr. Hans Wijayasuriya and the Board Members for their invaluable counsel and guidance in steering your Company towards success. I would like to take this opportunity to thank the Government of Sri Lanka, the Governor and staff of the Central Bank of Sri Lanka,

Chief Executive Officer's Review

"Worldwide, regulators are moving into national regulatory systems that are increasingly proportionate and innovation-friendly. Applications by the Company to obtain approvals for proportionate regulations for digital product offerings are currently being studied by the Central Bank of Sri Lanka ('CBSL')."

the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange for the support and encouragement extended to us.

In closing, I wish to commend my team for their contribution, commitment and dedication in making this a successful year. Our sincere appreciation and gratitude go to our customers, business partners and other stakeholders, for their trust placed in us. To our valued shareholders, we are thankful for your support and for placing your confidence in us to lead your Company successfully into the future. We are committed to deliver value to all Sri Lankans through continued strong performance, positioning us well to succeed in a digital world. We look forward to make 2019/20 another productive year for the Company. Thank you for your support and confidence.

Asanga Priyadarshana
Director/Chief Executive Officer

31 July 2019

Board of Directors

Dr. Hans Wijayasuriya
Chairman / Non-Independent,
Non-Executive Director

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

Mr. Priyan Edirisinghe
Independent,
Non-Executive Director

Mr. Roshaan Hettiaratchi
Independent,
Non-Executive Director

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

Mr. Asanga Priyadarshana
Chief Executive Officer
Non-Independent, Executive Director

Board of Directors

Dr. Hans Wijayasuriya

Chairman / Non-Independent, Non-Executive Director

Dr. Hans Wijayasuriya was appointed to the Board on 9 November 2017.

Dr. Wijayasuriya is currently the Corporate Executive Vice President and Regional Chief Executive Officer for the South Asia Region of Axiata Group Berhad (Axiata) of Malaysia, which is the ultimate parent company of Dialog Finance PLC ('the Company'). Dr. Wijayasuriya also serves on the Board of Directors of Dialog Axiata PLC ('Dialog'), the Company's parent company.

From 1997 up to 2016, Dr. Wijayasuriya additionally functioned as the Group Chief Executive of Dialog. Over the course of Dr. Wijayasuriya's tenure of leadership spanning close to two decades, Dialog progressed from being the 4th entrant to Sri Lanka's mobile market to become the country's leading multi-play connectivity provider, and one of the highest valued companies on the Colombo Stock Exchange.

Dr. Wijayasuriya serves on the Boards of several Axiata Group Companies and also serves on the Board of John Keells Holdings PLC as an Independent, Non-Executive Director. Dr. Wijayasuriya is presently the Chairman of the Ceylon Chamber of Commerce and is also a past Chairman of GSM Asia Pacific – the regional interest group of the GSM Association.

In 2016, the GSMA, the worldwide association governing the Global Mobile Industry, honoured Dr. Wijayasuriya with the 'Outstanding Contribution to Asian Mobile Industry' Award – the highest honour at the Asia Mobile Awards. In 2008, Dr. Hans Wijayasuriya was named the 'Sri Lankan of the Year' by Sri Lanka's premier business journal the LMD.

Dr. Wijayasuriya holds a degree in Electrical and Electronic Engineering from the University of Cambridge, UK, an MBA from the University of Warwick UK and a PhD in Digital Mobile Communications from the University of Bristol, UK. Dr. Wijayasuriya is a Fellow-Member of the Institute of Engineering Technology of the UK (IET), and a Chartered Professional Engineer.

Mr. Supun Weerasinghe

Non-Independent, Non-Executive Director

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

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

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

In 2013, he was seconded to Axiata Group Berhad ('Axiata'), in Malaysia as its Group Chief Strategy Officer. At Axiata, he also served as the Head of Network Transformation Strategic Business Unit under which he led Group Technology, Carrier Collaboration and the Axiata Intelligence Unit. From January 2014 to October 2016, Mr. Weerasinghe functioned as the CEO and Managing Director of Robi Axiata Limited in Bangladesh, the second largest mobile network provider in Bangladesh with 33 million subscribers.

Mr. Weerasinghe serves on the Boards of subsidiary and associate companies of Dialog as well as Sri Lanka Institute of Nano Technology (SLINTEC) and UNGC Network Sri Lanka.

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

Mr. Priyan Edirisinghe
Independent, Non-Executive Director

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

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

He is a Fellow Member of 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.

Mr. Roshaan Hettiaratchi
Independent, Non-Executive Director

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

Mr. Hettiaratchi is an Attorney-at-Law by profession, having a wide practice in the Original Courts as well as the Appellate Courts, specialized in commercial law, business law and intellectual property law for which he counts over 19 years of experience.

He holds a Master's degree in Intellectual Property Law and Information Technology. He also serves as a Director in several private companies.

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

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

Mr. Abeykoon currently serves as the Chief Financial Officer of Axiata Digital Services Sdn Bhd, a wholly owned subsidiary of the Axiata Group Berhad, based in Kuala Lumpur in Malaysia. Prior to taking on this role Mr. Abeykoon served as the Chief Executive Officer of Digital Commerce Lanka (Private) Limited, the operator of wow.lk, the largest e-commerce portal in Sri Lanka and a subsidiary of Dialog Axiata PLC. He has over 18 years of work experience spanning various industries including financial services, retail, ICTA, the last 11 of which have been in senior management positions.

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

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

Mr. Asanga Priyadarshana
Chief Executive Officer/Non-Independent, Executive Director

Mr. Asanga Priyadarshana was appointed as the Chief Executive Officer and as a member of the Board of the Company on 6 April 2018.

Mr. Priyadarshana started his career in telecommunications at Dialog Axiata PLC ('Dialog') in 2001 and held multiple roles in Dialog's Corporate Planning function, till May 2015 when he was appointed as Senior General Manager - Group Corporate Planning and Operational Strategy. From June 2015 to April 2018 he functioned as the Head of Mobile Telecommunications Business Unit, the largest Business Unit of the Dialog Group. He also served as Assistant Vice President - Regional Development, Axiata Group Berhad in Malaysia from October 2011 to March 2012.

Mr. Priyadarshana is a Fellow Member of the Chartered Institute of Management Accountants (CIMA), United Kingdom and the Association of Chartered Certified Accountants (ACCA), United Kingdom. He holds a BSc (Engineering) (Hons) from the University of Moratuwa, Sri Lanka, a Post Graduate Diploma from the Chartered Institute of Marketing (CIM), UK and an MBA from The Australian National University, Australia.

Management Discussion and Analysis

Operating Environment

Macro-Economic overview

- GDP Growth

Sri Lanka's economy has recorded a modest growth of 3.2% in 2018 in comparison to 3.4% in 2017 which was below the level envisaged due to reasons such as droughts, floods and policy tightening. The performance of the country was not satisfactory compared to its regional peers in South Asia and Southeast Asia as most of the countries recorded growth over 5%.

During 2018, industry related activities experienced a slowdown with the decline in construction, mining and quarrying activities while services related activities expanded by 4.7% compared to its growth of 3.6% recorded in the previous year.

- Inflation

The core inflation, which reflects the underlying inflation in the economy remained 3.1% in December on a year on year basis. Moreover, reflecting the impact of the tight monetary policy stance, money supply decelerated gradually along with the inflation. The headline inflation remained in low single digit levels during the year due to continued slowdown in food inflation and low money supply in the market while conforming to the Inflation expectations which are to be anchored more firmly at mid-single digit levels in the medium term. The envisaged adoption of the flexible inflation targeting (FIT) framework by 2020, stakeholders of the economy need to get accustomed to low nominal rates of interest on financial products in the future with reasonable real returns.

Despite the sharp depreciation of the rupee against major currencies and transitory price pressures due to upward revisions to prices of domestic petroleum products and other administratively determined prices, both headline and core inflation remained subdued in 2018 as a result of well anchored inflation expectations under the enhanced monetary policy framework.

However, the annual inflation rate in Sri Lanka increased to 5.0% in May of 2019, from 4.5% in the previous month. It was the highest rate since August 2018, as food and non-alcoholic beverages cost rebounded (0.8% vs -0.9% in April) while inflation was steady for non-food products (at 6.8%).

- Unemployment

The unemployment rate increased marginally to 4.4% in 2018 compared to 4.2% recorded during 2017. Reforms are required to improve and sustain the contribution of labour resources towards economic growth while the country's unemployment rate has remained low during the past several years.

- External Sector

Sri Lanka's external sector experienced a setback during 2018 which stemmed from increased foreign exchange outflows, higher import expenditure and capital outflows which increased the trade account deficit in year 2018.

Growth of import expenditure, driven by a significant increase in the imports of vehicles and fuel (as well as gold during early 2018) which outpaced the growth of export earnings has increased the deficit in the primary income account widened. This was further expanded due to an increase in interest payments on foreign loans by the government and dividend payments by direct investment enterprises (DIEs). Trade in services recorded a notable surplus during the year, driven mainly by earnings from tourism, transportation and computer services sectors.

- Fiscal Sector

The fiscal strategy of the Government in 2018 was aimed at continuing the fiscal consolidation measures to reduce the budget deficit and outstanding debt, while generating a sizable surplus in the primary balance.

Government revenue as a percentage of GDP declined to 13.3% in 2018 from 13.6% recorded in 2017 and total expenditure and net lending during 2018 declined to 18.6% of GDP from 19.2% in 2017, due to the decline in capital expenditure and net lending. More than 50% of the budget deficit for 2018 was financed through domestic sources. Central government debt as a percentage of GDP increased to 82.9% by end 2018 from 76.9% at end 2017.

- Monetary Policy

With the realization of the objective of the tight monetary policy stance that was in place since end 2015, the Central Bank signaled an end to the monetary tightening cycle in April 2018 and maintained a neutral monetary policy stance thereafter.

Amidst tight liquidity conditions and the tight monetary policy stance that was maintained until April 2018, most market lending and deposit interest rates of commercial banks remained high in both nominal and real terms during 2018. Reserve money recorded a moderate growth during 2018, particularly in the latter part of the year, with the downward adjustment in the SRR in November 2018. Broad money (M2b) growth, which gradually moderated since late 2017, maintained its decelerating trend throughout the year, largely on account of the contraction in NFA of the banking system.

- Money Supply and Credit Growth

Credit to the private sector by commercial banks grew at a slower pace during the first eight months of 2018 while some acceleration was witnessed during the last four months of 2018.

Performance of NBFI Sector

The performance of the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector has shown a moderate growth during the year 2018 with reference to credit growth, profitability and non-performing loans.

- Reach - The industry's branch network which consisted of 1,373 branches and 658 other outlets of the LFCs and SLCs sector shows its reach to the general public.
- Asset base - Lending activities of the sector showed signs of slowing down in response to fiscal and macroprudential policy measures taken to curtail importation of motor vehicles and lending towards vehicles. Total asset base reached Rs.1,431.3Bn, with a growth rate of 5.6% (Rs. 76.3Bn) compared to the 11.8% growth reported in 2017. Leases and Hire purchases made up the largest proportion of sector loans and stood at 53% at end December 2018.
- Asset quality and profitability - Non-banking financial institutions continued to face pressure on asset quality and profitability. The gross non-performing advances (NPAs) ratio increased to 7.7% in 2018 compared to 5.9% reported in 2017 showing deterioration of credit quality in the sector. Net interest income of the sector increased at a slower rate compared to the preceding year 2017 to Rs. 108.8Bn (recording a growth of 6%).
- Minimum capital requirement - Although, the sector maintained its overall capital level well above the minimum requirement during the year, the sector core capital and total risk weighted capital adequacy ratios decreased to 9.9% and 11.2% in 2018 from the reported levels of 12.4% and 13.1% in 2017 as the companies had to report risk weighted assets with a more risk sensitive focus covering credit risk and operational risk under a new capital adequacy framework. Higher taxes on financial institutions further weakened the internal capital generation of finance companies.

Despite the above, the NBFI sector continued to operate with an adequate liquidity buffer over and above the minimum regulatory requirements. The overall statutory liquid assets available in the sector during 2018 indicated a surplus of Rs.25.6Bn as against the stipulated minimum requirement of Rs.88.2Bn.

- Supervisory and Regulatory Developments

The Central Bank of Sri Lanka (CBSL) initiated several policy measures throughout the year 2018 to strengthen the supervisory and regulatory framework of non-bank financial institutions.

Introduction of a new 'Capital Adequacy Framework' for LFCs and SLCs was a key achievement for CBSL in its role as a regulator during the year 2018. Another notable development by CBSL during the year was the implementation of the 'Financial Customer Protection Framework' emphasizing minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy.

CBSL continued to strengthen its regulatory framework in order to safeguard the country's financial system and to increase its resilience. Valuation procedure of the LFCs and SLCs regarding immovable properties, outsourcing of business operations, maximum rate of interest on microfinance loans with the objective of protecting customers from being charged with exorbitant interest rates for microfinance loans and Loan to Value (LTV) Ratio on vehicle imports was further revised to curtail imports requiring LFCs and SLCs to adopt the new ratio with effect from 01 October 2018 are amongst the directions issued by CBSL.

CBSL recently issued directives on the following (during the year 2019);

- Maximum interest rates on deposits and debt instruments
- Amendments to Directions on Loan to Value ratios for credit facilities granted in respect of motor vehicles

Overview of Financial Results

Income Statement Analysis

Gross Income

Total operating income growth of 101% was supported by growth in loan and advances as well as transaction growth. It is reflective through the significant increase in Net Interest Income (NII) and Net Fee and Commission Income. Total interest income grew by 12.8% (Rs. 26.3Mn) YoY to record Rs. 231.1Mn from Rs. 204.8Mn in the year under review.

Non - interest income contributed 40.78% to total operating income compared to 8.46% in the preceding year stemming from facilitation fee income earned from Device Finance.

Net Interest Income (NII)

The Company's NII, which stood at Rs.111Mn in 2018, grew by Rs.33.4Mn (30%) to touch Rs.144.4Mn in the current year supported by good growth in loans and advances. Growth in lending portfolio, Device Finance were the main contributory factor for the increase in NII. The Company has managed to improve its Net Interest Margin (NIM) from 8.74% to 9.79%.

Interest expense decreased as the Company was able to shed certain large high cost deposits during the year due to raising of Tier I Capital amounting to Rs.599Mn in July 2018 which made the Company less dependent on customer deposits in financing its loans and advances during the year.

Net Fee and Commission Income

Net fee and commission income depicted a significant increase and its contribution to total operating income was 37.7 % during the year under review.

Growth in total operating income of 101% was off set by the negative impact of increase in operating expenses and provision for impairment. Growth in expenses was higher than the growth in operating income (101%) for the year.

Impairment Losses

The Company began to experience a growth in non-performing advances to 23.99% from 14.07% in March 2018 in the year under review. It was a challenging year for the key sectors of the economy, despite the conservative lending and aggressive recovery actions.

Increase in the provisioning for impairment could be attributed to the aforementioned portfolio deterioration on account of increase in NPA, which is a phenomenon witnessed in the industry due to stressed conditions in key sectors of the economy and shift in provisioning models from the Incurred Credit Loss to Expected Credit Loss (ECL) method as per SLFRS 9. Increase in collective impairment was driven by transition to SLFRS 9.

SLFRS 9 (Financial Instruments) which was effective from 1 January 2018 replaced LKAS 39 (Financial Instruments, Recognition and Measurement). Accordingly, the forward looking 'Expected Credit Loss' model replaced the 'Incurred Loss Model' under LKAS 39. SLFRS 9 also introduced a new classification approach to financial assets and liabilities in line with the business model in which they are managed and cash flow characteristics.

The modified retrospect approach was followed in adopting SLFRS 9. Accordingly the comparative figures in the year of adoption were not restated making the financial statements for the years ended 31 March 2019 and 2018 non comparable. The impact of adopting SLFRS 9 was made on the Statement of Financial Position and an adjustment was made to re-state the opening balance of retained earnings as of the date of transition, 1 April 2018. The day 1 impact to the Company on the implementation of SLFRS 9 amounted to Rs.45.92Mn.

Operating Expenses

Total operating expenses experienced a 149.7% YoY increase. The increase in expenses to Rs. 238.9Mn from Rs. 95.7Mn, in the preceding year, is primarily triggered by new recruitments and increase in other expenses due to IT expenses owing to platform developments for intended operational developments.

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

Income Tax

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

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

The Company has recorded a loss of Rs.129.4Mn, compared to the Rs.22.5Mn loss incurred in the preceding year. The decline in profitability is on account of higher impairment charges and increased operating expenses reducing the Return on Assets (ROA) and Return on Equity (ROE).

Analysis of Statement of Financial Position

Total Assets

The Company's total asset base grew by 29% YoY, to Rs.1,621Mn (industry wide asset growth - 5.6%).

Loan Growth

Net loans and advances were a key contributor to the growth of the Company's financial position recording 16% growth as the loan book increased from Rs.852Mn to Rs.991Mn which accounted for 61% of the total assets. The said growth of 16% is higher than the average CAGR of 1% over the last 5 years.

Liabilities

The deposit base of the Company reached Rs. 632Mn by 31 March 2019. Conscious efforts were made to slow down deposit mobilization activities and due to shedding certain high cost large deposits in the backdrop of the recent capital infusions. The Company has the capacity and required infrastructure to accelerate deposit mobilization, when the requirement arises to do so.

Advances to Deposits ratio increased from 118% to 207% by the year end, indicating that the Company is less dependent on deposits to fund its loan growth during the period under review.

Shareholders' Funds

Shareholders' funds rose by 103% during the year under review due to the raising of Tier I Capital through a rights issue. Capital adequacy ratios of 38.10% for Tier I and 39.19% for total as at 31 March 2019 were well above the CBSL's prescribed minimum thresholds. The Company is required to maintain the Tier I Capital Adequacy Ratio (CAR) at 6% and its total CAR at 10%.

In order to fall in line with new regulatory requirements on minimum core capital, the Company raised Rs. 599Mn and Rs. 764Mn worth of Tier I Capital by way of rights issues in July 2018 and April 2019 respectively.

Liquidity

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

Net Asset Value per Share and Earnings per Share (EPS)

Net Assets per Share reached Rs. 11.54 (Rs. 8.81- preceding year) in parallel to the growth in equity and EPS deteriorated to a negative figure of Rs. 1.97 from Rs. 0.48 (negative) reported for the year 2017/2018.

Performance of the Share

The Company's share price as at 31 March 2019 stood at Rs. 35.50 which is an increase of Rs. 10.50 or 42% compared to the last traded price of Rs. 25.00 as at 31 March 2018. The share price fluctuated between Rs. 28.60 at the lowest and Rs. 78.70 at the highest during the year.

Corporate Governance

Introduction

Corporate Governance is the mechanism by which companies are directed and controlled. The Board of Directors are 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 Corporate Governance compliance has been set out in the Corporate Governance checklist from pages 20 to 31. The Board has obtained a factual finding report on the compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended.

Board of Directors

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

Composition

The composition of the Board of Directors as at 31 March 2019 was as follows:

Name of Director	Position	Date of Appointment
Dr. Hans Wijayasuriya	Non-Independent, Non-Executive / Chairman	9 November 2017
Mr. Supun Weerasinghe	Non-Independent, Non-Executive	9 November 2017
Mr. Priyan Edirisinghe	Independent, Non-Executive	19 January 2016
Mr. Roshaan Hettiaratchi	Independent, Non-Executive	9 February 2016
Mr. Sheyantha Abeykoon	Non-Independent, Non-Executive	9 November 2017
Mr. Asanga Priyadarshana	Non- Independent, Executive	6 April 2018

There were no changes to the composition of the Board during the year under review.

The profiles of each Director are given on pages 9 to 11.

As at 31 March 2019, the Board comprised of six (6) Directors, of which five (5) are Non-Executive Directors and one (01) is an Executive Director, who is also the Chief Executive Officer of the Company. The Non-Executive Directors collectively provide a considerable depth of knowledge gained from their experiences and have necessary skills to bring an objective judgment to bear on issues of strategy, performance and resources.

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

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 and external advisors are invited as and when required to attend Board meetings to present proposals and provide further clarity to the Board.

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

Name of Director	Attendance
Dr. Hans Wijayasuriya	8/13
Mr. Supun Weerasinghe	12/13
Mr. Roshaan Hettiaratchi	10/13
Mr. Priyan Edirisinghe	12/13
Mr. Sheyantha Abeykoon	9/13
Mr. Asanga Priyadarshana	13/13

Delegation of Authority and Board Committees

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

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

- Audit Committee
- Remuneration Committee
- Related Party Transactions Review Committee
- Integrated Risk Management 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 36 to 43.

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

The Management

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

Access to Information

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

Financial Disclosure and Transparency

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

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

Ethical Standards

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

Statutory Payments

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

Compliance with Central Bank Regulations

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

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

Accountability and Disclosure

In the year under review, the members of the Board of Directors have reviewed in detail the annual financial statements in order to satisfy themselves that they present a true and fair view of the affairs of the Company. A summary of Directors' Responsibilities in respect of finance statements are given on page 52.

Respect for the Rights of Shareholders

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

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

1. Annual General Meeting (AGM)

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

2. Announcements to the Colombo Stock Exchange (CSE)

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

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

Section	Rule	Compliance/ Non-compliance	Status of Compliance
2. The Responsibilities of the Board of Directors			
2 (1) (a) to m)	Strengthening the safety and soundness of the Company	Complied	The Board of Directors of the Company: • Formulates the business strategy • Ensures that the Director/Chief Executive Officer (CEO) and the Management Team possess the required skills, experience and knowledge to implement the strategy; and • Ensures that effective systems are in place to secure the integrity of the information, internal controls and risk management and compliance with all applicable laws and regulations
2. (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities	Complied	The Chairman and the CEO of the Company are appointed, subject to the approval of the Central Bank of Sri Lanka (CBSL), and in accordance with the terms of the Companies Act No. 7 of 2007
2. (3)	Directors' ability to seek independent professional advice	Complied	The members of the Board are afforded the opportunity to obtain independent professional advice from third party specialists in the area at the expense of the Company
2. (4)	Dealing with conflicts of interests	Complied	The Company Secretary obtained disclosures of Related Party Transactions from Directors annually and conflict of interest (if any) is managed based on this statement
2. (5)	Formal schedule of matters specifically reserved for Board Decisions	Complied	The Board has a formal schedule of matters reserved to it
2. (6)	Situation of Insolvency	Complied	No such situation has arisen during the year under review
2. (7)	Publish corporate governance report in the Annual Report	Complied	This report addresses this requirement
2. (8)	Annual self-assessment by the Directors and maintenance of such records	Complied	The Company Secretary carried out the self-assessment exercise for the Directors

Section	Rule	Compliance/ Non-compliance	Status of Compliance
3. Meeting of the Board			
3. (1)	Regular Board meetings and circulation of written or electronic resolutions	Complied	Board meetings were held at monthly intervals. The Company held 13 board meetings during the year under review
3. (2)	Arrangements for Directors to include matters and proposals in the agenda	Complied	The Company Secretary facilitates any requests made by the Directors at the meetings or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion All members of the Board were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for same. Monthly meetings are scheduled and informed to the Board at the beginning of each calendar year to enable submission of proposals to the agenda
3. (3)	Notice of meetings	Complied	Board meetings are scheduled in advance for the calendar year. Agenda and all board papers are shared with the Directors prior to the Board meetings
3. (4)	Directors' attendance at board meetings	Complied	The Directors attended at least two-thirds of the meetings held during the year under review, Refer page 18 for details of individual directors' attendance at Board meetings
3. (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	Complied	Ms. Viranthi Nalinka Attygalle serves as the Company Secretary, handling the secretarial services to the Board and shareholder meetings and carries out other functions specified in related laws and regulations
3. (6)	Responsibility of preparation of agenda for a Board meeting	Complied	The Company Secretary prepares the agenda for the meetings and circulates same to the Directors
3. (7)	Directors' access to advice and services of the Company Secretaries	Complied	All directors have access to the Company Secretary
3. (8)	Maintenance of Board minutes	Complied	The Company Secretary maintains the minutes of the Board meetings, which are available for inspection by any Director
3. (9)	Recording of Minutes of Board meetings in sufficient detail	Complied	The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail

Section	Rule	Compliance/ Non-compliance	Status of Compliance
4. The Board's Composition			
4. (1)	Number of Directors	Complied	The Board comprised of six (6) Directors as at 31 March 2019
4. (2)	Period of service of a Director	Complied	None of the Directors have exceeded nine (9) years of service on the Board
4. (3)	Appointment of an employee as a Director	Complied	The Company has one (01) Executive Director who serves as the CEO of the Company
4. (4)	Independent Non-Executive Directors and the criteria for independence	Complied	Two (2) out of six (6) Directors are Independent Non-Executive Directors
4. (5)	Appointment of Alternate Directors	Complied	No alternate Directors were appointed during the year under review
4. (6)	Skills and experience of Non-Executive Directors	Complied	All five (05) Non-Executive Directors possess adequate skills and experience to contribute to the Board in effectively discharging its obligations
4. (7)	More than half the quorum of Non-Executive Directors in Board meetings	Complied	Five (5) out of the six (6) Directors of the Company are Non-Executive Directors
4. (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors	Complied	The composition of the Board by category of Directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors are disclosed in the Annual Report under Directors' profiles on pages 9 to 11
4. (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board	Complied	The Board collectively assesses the composition of the Board and makes appointments as may be necessary, subject to approval of the CBSL
4. (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment	Complied	There were no casual vacancies to be filled during the year under review
4. (11)	Communication of reasons for removal or resignation of Directors	Complied.	There were no resignations during the year under review

Section	Rule	Compliance/ Non-compliance	Status of Compliance
5. Criteria to assess the fitness and propriety of Directors			
5. (1)	The age of a Director shall not exceed 70 years	Complied	All Directors are below the age of 70 years
5. (2)	Directors shall not hold office as a Director of more than 20 Companies/ Societies/Corporate bodies including Associate and Subsidiary Companies	Complied	Other than Dr. Hans Wijayasuriya, none of the Directors hold directorships of more than 20 companies Dr. Hans Wijayasuriya currently serves on the Boards of more than 20 companies in the capacity of a Nominee of Dialog Axiata PLC or Axiata Group Berhad ("Axiata"), arising from his position as the Corporate Executive Vice President and CEO – South Asia Region of Axiata Group Berhad
6. Management function delegated by the Board			
6. (1)	Delegation of work to the management	Complied	The Board delegates its powers to the Board-appointed committees or to any person it deems fit in accordance with the Articles of Association of the Company and Section 186 of the Companies Act No. 7 of 2007
6. (2)	Periodical evaluations of the delegation process	Complied	The Board evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions
7. The Chairman and Chief Executive Officer			
7. (1)	Division of responsibilities of the Chairman and CEO	Complied	The posts of the Chairman and the CEO of the Company are separated in order to ensure the balance of power and authority
7. (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director	Complied	Chairman is a Non-Independent, Non-Executive Director. Therefore Independent, Non-Executive Director, Mr. Priyan Edirisinghe has been designated as the Senior Director
7. (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	Complied	There are no material relationships between the Chairman/CEO and other members of the Board which will impair their respective roles

Section	Rule	Compliance/ Non-compliance	Status of Compliance
7. (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	Complied	The Chairman provides leadership to the Board and ensures the Board works effectively and discharges its responsibilities. He also ensures that all key issues are discussed by the Board in a timely manner
7. (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary	Complied	The Chairman has delegated the function of preparing the Agenda to the Company Secretary
7. (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner	Complied	All Directors were provided adequate notice of the issues arising at each Board meeting
7. (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company	Complied	The Chairman encourages each Director to actively contribute at the meetings and ensures that the Board acts in the best interest of the Company
7. (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors	Complied	The Chairman facilitates the effective contribution of Non-Executive Directors
7. (9)	Refrain from direct supervision of Key Management Personnel or executive duties	Complied	The Chairman has not engaged in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever
7. (10)	Maintain effective communication with shareholders	Complied	The Chairman ensures that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board
7. (11)	Chief Executive Officer functions as the apex executive-in-charge of the day-today operations and businesses	Complied	The CEO functioned as the apex Executive-In-Charge of the day-to-day-management of the Company

Section	Rule	Compliance/ Non-compliance	Status of Compliance
8. Board Appointed Committees			
8. (1)	Establishing Board committees, their functions and reporting	Complied	The following committees have been appointed by the Board and each such committee is required to report to the Board : • Audit Committee • Remuneration Committee • Related Party Transactions Review Committee and • Integrated Risk Management Committee Recommendations of these committees are addressed directly to the Board and minutes of meetings are tabled and discussed at the Board meetings. The Company has presented reports on the performance, duties and functions of each committee in the Annual Report
8. (2) Audit Committee			
8.2.(a)	The Chairman to be a Non-Executive Director with relevant qualifications and experience	Complied	Mr. Priyan Edirisinghe, an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. He is a Chartered Accountant and a Fellow Member of Chartered Accountants of Sri Lanka (FCA)
8.2.(b)	All members of the Committee to be Non-Executive Directors	Complied	All other members in the Committee are Non-Executive Directors
8.2.(c)	Functions of the committee include; (i) the appointment of the External Auditors (ii) the implementation of the Central Bank Guidelines. (iii) the application of the relevant accounting standards; and (iv)the service period, audit fee and any resignation or dismissal of the Auditor;	Complied	The Audit Committee has recommended; The re-appointment of M/s. PricewaterhouseCoopers, Chartered Accountants as External Auditors for audit services; The implementation of guidelines issued by Central Bank of Sri Lanka to auditors from time to time. The application of Accounting Standards in consultation with the Head of Finance and External Auditors; The service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the Auditor has taken place during the year under review

Section	Rule	Compliance/ Non-compliance	Status of Compliance
8.2. (d)	Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes	Complied	In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking account of the regulations and guidelines
8.2. (e)	Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering; (i) Skills and experience of the Auditor (ii) Threat to the independence (iii) Fee for the non-audit services and independence	Complied	The Company has an Audit and Non-Audit Policy and Procedure approved by the Board
8.2(f)	Determine the nature and the scope of the External Audit	Complied	The Company discussed and has finalised with external auditors, the nature and scope of the audit
8.2(g)	Review the financial information of the Company	Complied	Quarterly Financial Statements as well as year-end Financial Statements are circulated to the Audit Committee and discussed prior to recommendation to Board for approval.
8.2(h)	Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary)	Complied	Committee met with the external auditors once without the presence of the Key Management
8.2(i)	Reviewing of the External Auditors' management letter and the response thereto	Complied	Upon receipt of the management letter, the External Auditors are invited to make a presentation to the Audit Committee with the responses of the corporate management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary

Section	Rule	Compliance/ Non-compliance	Status of Compliance
8.2 (j)	Review of the Internal Audit Function - Review scope, function and resources - Review of Internal Audit Programme - Review of Internal Audit Department - Recommendations on Internal Audit functions - Appraise the resignation of senior staff of Internal Audit and any outsourced service providers - Independence of Internal Audit functions	Complied	The Audit Committee has reviewed the information provided in the risk-based audit plan and concluded that the scope, functions and resources are sufficient to carry out its functions
8.2(k)	Consideration about the internal investigations and Management's responses	Complied	The need for an internal investigation on major findings has not arisen during the year
8.2(l)	Attendees of Audit Committee meeting with corporate Management and External Auditors	Non- Complied	The Committee met once during the period under review with the external auditors without the executive director being present
8.2(m)	Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary	Complied	The committee has : • Explicit authority to investigate any matter within its Terms of Reference; • The resources required to do so; • Full access to information; and • The authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary
8.2(n)	Regular meetings	Complied	The Committee met 8 times during the year under review
8.2.(o)	Disclosure in Annual Report	Complied	The Report of the Audit Committee includes the detailed activities, meetings held during the year and the Directors attendance at the Audit Committee Meetings
8.2.(p)	Meeting Minutes of the Audit Committee	Complied	The Company Secretary is the secretary of the Committee and records and maintain minutes of the meetings.
8.2.(q)	Whistle Blowing Policy	Complied	The Company has a whistle blowing policy approved by the Board

Section	Rule	Compliance/ Non-compliance	Status of Compliance
8.3 Integrated Risk Management Committee			
8.3(a)	The composition of IRMC	Complied	The Committee comprises of Two (02) Non-Executive Directors and Executive Director/ Chief Executive Officer
8.3 (b)	Periodical risk assessment	Complied	The Company has a Board approved Risk Management Committee
8.3(c)	Review the adequacy and effectiveness of Management level committees to manage risk	Complied	The Committee reviews the effectiveness in addressing specific risk and managing the same within the risk limits set by such respective committees
8.3 (d)	Corrective action to mitigate risk	Complied	Prompt corrective actions are taken to mitigate the effects of risk higher than the level beyond the prudent levels decided by the committee
8.3 (e)	Frequency of meeting	Non Complied	The Committee met three (3) times during the year under review
8.3 (f)	Actions against the officers responsible for failure to identify risks and take prompt corrective actions	Complied	Committee refers such matters, if any, to the HR Department for necessary action
8.3 (g)	Risk assessment report to the Board	Complied	Risk reports are tabled at each Board meeting
8.3 (h)	Establishment of a compliance function	Complied	Committee established a compliance function to assess the finance company's compliance with laws regulations, directions, rules, regulatory, guidelines, internal controls and approved policies and a dedicated compliance officer has been appointed
9. Related Party Transactions			
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties	Complied	The Board has taken steps to avoid any conflict of interests and favourable treatment when transacting with related parties as defined in this Direction
10. Disclosures			
10.1	Publish Interim and Annual Financial Statements based on applicable accounting standards and publish in Sinhala, Tamil and English newspapers	Complied	Relevant Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers, in all three languages
10.2	The Board shall ensure that at least the required disclosures are made in the Annual Report	Complied	The necessary disclosures were made in the Annual Report The Company delayed in complying with Section 1.1 (ii) of the Minimum Core Capital Direction No. 2 of 2017. The Company conducted a Rights Issue and complied with the said direction on 11 April 2019. Subsequent thereto, the Cap on deposits imposed by CBSL on the Company, was lifted on 1 July 2019

Compliance with the Rules on Corporate Governance contained in the Listing Rules of the Colombo Stock Exchange is tabulated below and the Board confirms that the Company is compliant with the said Rules.

Section	Rule	Compliance/ Non-compliance	Status of Compliance
Contents of Annual Report			
7.6 (i) to (xvi)	Matters to be disclosed in the Annual report	Complied	All relevant disclosures have been made in the Annual Report. The Company further confirms that there has been no issues pertaining to employees and industrial relations of the Company
Corporate Governance			
7.10 (a) to (c)	Confirmation on the compliance with the Corporate Governance Rules	Complied	
7.10.1	The Board of Directors to include 2 non-executive Directors or such number of non-executive directors' equivalent to 1/3 of total number of directors whichever is higher	Complied	The Board consists of 5 Non-Executive Directors
Independent Directors			
7.10.2 (a)	2 or 1/3 of non-executive directors appointed to the Board of Directors whichever if higher shall be "Independent"	Complied	2 of the 5 Non-Executive Directors are independent
7.10.2 (b)	Each non-executive director to submit a signed and dated declaration annually of his/her independence against the specified criteria	Complied	2 Non-Executive Directors submitted a duly completed declarations
Disclosure relating to Directors			
7.10.3 (a)	Board determine the independence or non-independence of each non-executive director based on the declaration	Complied	Board determined that the 2 Directors are independent
7.10.3 (b)	In the event the directors do not qualify as "independent" against any of the criteria set out below. The board shall specify the criteria not met and the basis for its determination in the annual report	Complied	No such determination was required to be made by the Board, as all the Independent Directors of the Company met the specified criteria
7.10.3 (c)	Publication of the brief resume of each director on its Board which includes information on the nature of his/her expertise in relevant functional areas	Complied	Refer pages from 9 to 11 of the Annual Report for the resume of each of the Directors

Section	Rule	Compliance/ Non-compliance	Status of Compliance
7.10.3 (d)	Upon appointment of a new director, the entity to provide to the exchange a brief resume of such director for dissemination to the public	Complied	
7.10.5 Remuneration Committee			
Compositions			
(a)	The committee shall comprise; of a min of 2 independent non-executive directors (in instances where an Entity has only two directors on its Board); or of non-executive directors a majority of whom shall be independent, whichever shall be higher. One non-executive director shall be appointed as Chairman of the Committee	Complied	The Committee comprises of 2 independent Non-Executive Directors and one non-independent Non-Executive Director An independent Non-Executive Director has been appointed as Chairman of the Committee
Functions			
(b)	The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Listed entity and/or equivalent position thereof for determination by the Board of Directors	Complied	the Terms of Reference of the Committee permit same
Disclosure in the Annual Report			
(c)	Set out the names of directors comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors		Refer Remuneration Committee Report on page 39 of the Annual Report Refer Audited Financial Statement note 40(c) at page 113

Section	Rule	Compliance/ Non-compliance	Status of Compliance
7.10.6 Audit Committee			
Compositions			
(a)	The audit committee shall comprise; of a minimum of two independent non-executive directors or of non-executive directors a majority of whom shall be independent, whichever shall be higher.	Complied	The Committee comprises of 2 independent Non-Executive Directors and one non-independent Non-Executive Director
	One non-executive director shall be appointed as Chairman of the Committee by the Board of Directors		An independent Non-Executive Director has been appointed as Chairman of the Committee
Functions			
(b)	Overseeing preparation, presentation and adequacy of disclosures in the financial statements in accordance with Sri Lanka Accounting Standards; overseeing compliance with financial reporting requirements; overseeing processes to ensure internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing standards; assessment of the independence and performance of the external auditors; and make recommends to the Board pertaining to appointment and terms of engagement of the external auditors	Complied	
Disclosure in the Annual Report			
(c)	Disclosure of name of directors comprising the Audit Committee, determination of the independence of the auditors and basis for such determination; and report by the Audit Committee	Complied	Refer Audit Committee Report on pages 36 to 38 of the Annual Report

Risk Management

1. Overview

Risk is inherent in all aspects of the businesses carried out by Dialog Finance PLC (the Company) and mitigating the impact of risk is an integral part of its functions. Risk can have a negative and positive impact on the organisation. Positive impact will be the opportunities that are created through an incident.

The Company ensures that its risks are identified, assessed and mitigation action is taken to control the impact of risk through its robust risk management framework.

Global and domestic risk incidents can have an impact on the Company strategic objectives. Hence, it is important to analyse the impact of these incidents on the Company.

2. Global and Domestic Outlook

In 2018, the pressure on the exchange rates of developing countries caused by global financial tightening due to monetary policy normalisation specially in the USA and the downgrading of Sri Lanka's sovereign rating in the 4th quarter of the year due to political uncertainties (Source Central Bank of Sri Lanka - CBSL Annual report 2018) had an impact on the economic growth in the country. However, the Company did not have a direct adverse impact as it did not deal in foreign currency transactions.

On the domestic side, the slowness of credit growth within finance companies due to controls by the Central Bank of Sri Lanka (CBSL) to limit import of vehicles to manage the exchange rate appreciation and marginal increase in inflation during 2018 (Source – CBSL Annual report 2018), had an impact on the consumer spending ability and resulted in an increase in non-performing loans.

3. Risk Governance

The Board of Directors (the Board) has the oversight responsibility of ensuring that the Company establishes a sound risk management system to identify, assess and mitigate the impact of risk. This responsibility has been vested in the Integrated Risk Management Committee (IRMC). The IRMC is responsible in ensuring to the Board that the Company has established a Risk Management Policy and a Risk Management framework. The IRMC was also involved with the senior management team to establish other internal committees such as the Asset-Liability Committee to manage risk within the Company.

3.1 Integrated Risk Management Committee (IRMC)

The IRMC currently consists of three (3) Directors (appointed by the Board) and key management personnel from Risk Management, Finance and Operations join the meeting on invitations. The IRMC meets every quarter.

The IRMC ensures that the Company implements an effective risk management framework, risk treatment is carried out on identified risks, and that risk impact is maintained within the risk appetite of the Company. The IRMC will go through the key risks within the Company and the measures taken by the Company to mitigate such risks. The IRMC provides their advice and feedback on how effectively to carry out the risk management activities to mitigate these risks.

3.2 Asset and Liability Committee (ALCO)

ALCO is established under IRMC to manage the risks within the Company and it meets every month to assess and evaluate potential risks in interest rates, capital adequacy, liquidity of the Company and other risks that could have a direct financial impact to the Company. Through ALCO, investment and credit decisions relating to the Company are also made and IRMC is apprised accordingly.

3.3 Risk Management Department (RMD)

RMD will identify the key risks for the Company and report to the IRMC and to the Board. RMD will ensure that identified risks are within the risk appetite/ parameters of the Company and ensure risk treatment is applied to mitigate the impact of risks. Its overall function is to manage the enterprise wide risks. RMD will also implement the Business Continuity Plan for the Company and ensure that necessary BCM tests have been carried out by the Company.

3.4 The Three Lines of Defence Model

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

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

1st Line of Defence – Business Owners/Department Heads

The business units are responsible to identify and mitigate risks in the first instance. The heads of the business units in the Company will identify, report and take necessary action to mitigate the impact of risks. The respective department risk registers will be managed by the heads of the business units. They will obtain guidance from RMD whilst implementing the risk mitigation action and ensuring that the relevant internal controls are implemented.

2nd Line of Defence – RMD/Legal and Compliance/ IRMC

The 2nd Line of Defence will be the RMD along with the Compliance Department and overlooked by IRMC. Heads of both functions (Risk Management and Compliance) will be responsible for the governance of risk management and for ensuring that the Risk Management Policy, process and systems are in place for the Company with the primary objective of ensuring that the risks of the company are within its risk parameters. RMD will carry out risk assessments to ensure that all risks for the Company are identified, recorded and mitigated accordingly whilst the compliance function will assess the compliance with regulatory requirements on a periodical basis.

3rd Line of Defence – Internal Audit/Audit Committee

Internal Audit will provide an independent validation of the internal controls within the Company and assess the adequacy of the effectiveness of risk management framework and process. The Internal Audit reports to the Audit Committee (AC). Ernst and Young has been engaged as the internal auditors of the Company.

3.5 Risk Policy and framework

RMD implements the Board approved Risk Policy and Risk Management Framework including the risk matrix. RMD ensures that enterprise wide risks are identified, and necessary action is taken to mitigate the impact of risks. The Risk Policy is based on the guidelines of ISO 31000 – Risk Management and is in line with the Axiata Group Enterprise Risk Management Framework.

Risk Management

The Risk Management Framework involves a system of identifying risks, documenting the risk and its impact, identifying the risk level based on likelihood and impact, and then establishing the relevant key controls to mitigate that risk. The Company uses a risk register to record its risks and to report key risks to the Board.

The following risks are identified as key risks for the Company during the financial period :

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 economic situation in the country such as rising inflation and slowness in credit growth resulted in an increase in credit risk exposure in the financial industry.

The Company was able to withstand this situation and managed its credit risk exposure by constantly evaluating the lending criteria and reviewing the borrowers lending limits in line with collaterals, income of the customers, assets of the customers and credit bureau reports (CRIB) to ascertain potential risks. An extensive credit appraisal is carried out prior to loan approval by the credit team and if the customer is considered to be of high risk, the loan application is declined. The Company is looking at growing its consumer loan segment in 2019/20.

Credit related decisions, including lending activities are made through the ALCO and the IRMC.

4.1 Impairment Charges

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

5. Operational Risk

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

Effective internal controls have been adopted by the Company and each business unit is responsible in managing and mitigating operational risk in line with the three lines of defence model adopted by the Company. All processes and systems are secured with dual controls and detective controls to ensure that potential system or process failures are identified. The Company has developed and implemented the Business Continuity Plan and has carried out relevant tests. There is an effective process of backing up critical systems and backup servers are located at a different location. An Information Security Policy has been implemented by the Information Technology department giving importance to customer data protection. Firewalls are in place and being monitored for potential data hacking on an ongoing basis.

Further to the above controls, the RMD carries out a quarterly assessment to identify any operational risks due to potential control lapses and measures are taken to rectify same.

Ernst and Young has been engaged as the internal auditors of the Company. They provide an independent assurance on the effectiveness of the internal controls in the Company to the Audit Committee.

6. Market Risk – Interest Rate Risk

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

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

7. Regulatory and Compliance Risk

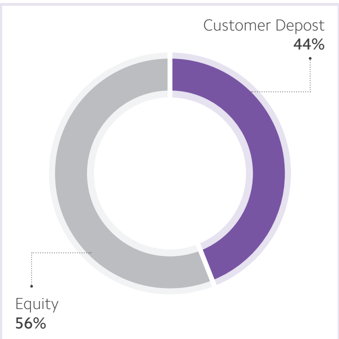
Risk of non-compliance with regulatory requirements may result in fines or suspension of certain functions of the Company. Rather than financial losses, it results in reputational damage for the organization. Money laundering and terrorist financing risk is also categorised under this segment.

The Company continues to monitor its compliance with regulations on a monthly basis and the Board is updated accordingly through the Compliance Officer. The Company maintains an ethical business at all times in line with regulatory requirements.

8. Liquidity Risk

Risks associated with maintaining adequate levels of funding at reasonable cost for the Company. ALCO monitors these risks along with the Finance Department of the Company. The Company derives its funding through depositors and equity. The funding mix of the Company as of 31 March 2019 is given below.

Funding Mix as at 31 March 2019

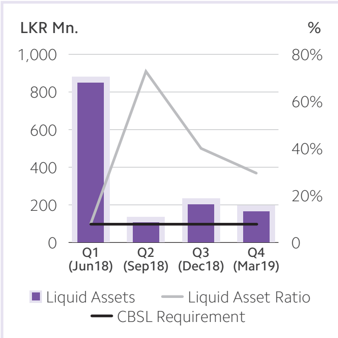


An efficient liquidity risk management is critical to the Company to maintain the confidence of the depositors, counterparties and stakeholders, to manage the cost of funding and to ensure that the Company's core business revenue generating functions operate even in adverse situations.

ALCO provides the approval for the appropriate funding mix to be maintained and the Company has not encountered funding related issues in the financial year, under review.

The Company maintained the liquid assets above the minimum requirement of the CBSL as provided below,

Liquid Assets



Audit Committee Report

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

The Committee comprised of three (3) Non-Executive Directors (of whom two (2) were Independent directors) who conducted Committee proceedings in accordance with the Terms of Reference approved by the Board of the Company.

Composition of the Committee

The Committee consists of the following members whose profiles are given on pages 9 to 11.

The composition of the Committee as at 31 March 2019 is given below:

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 eight (8) meetings during the year ended 31 March 2019. Details of attendance of the Committee members at these meetings are given below.

Name of Member	Attendance
Mr. Priyan Edirisinghe – Chairman	8/8
Mr. Roshaan Hettiaratchi	7/8
Mr. Supun Weerasinghe	7/8

Representatives of the Company's external auditors, Messrs. Pricewaterhouse Coopers (PwC) (Appointed on 31 August 2018) participated in two (2) meetings by invitation, and representatives of Messrs. KPMG, former external auditors of the Company participated in two (2) meetings during the year ended 31 March 2019. The Chief Executive Officer/Director, Head of Finance, Internal Auditors and External Auditors attended the meeting 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 March 2019, the Audit Committee and the Audit Partner of PricewaterhouseCoopers met once, without members of the Key Management Personnel of the Company, in order to facilitate confidential discussions between the two parties.

The Terms of Reference

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

Functions of the Committee

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

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

Audit Committee Report

Activities for the year ended 31 March 2019

1. Financial Reporting

The Committee assists 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.

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

2. Internal Controls over Financial Reporting

The Company is required to comply with Section 10 (2) b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and assess the effectiveness of internal control over financial reporting as at 31 March 2019.

The statement of internal control over financial reporting is reviewed by the Committee prior to the same being endorsed 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 to avoid, mitigate and transfer current and evolving risks.

3. Internal Audit

Ernst and Young, chartered accountants have been appointed as the internal auditors of the Company 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 the commencement of the annual audit plan.

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

Performance evaluation of internal auditors will be carried out in the first quarter of the financial year 2019/2020.

4. External Audit

Overseeing the appointment, compensation, resignation and dismissal of the external auditors is vested with the Committee. The functions are inclusive of review of the external audit function, its costs and effectiveness and monitoring of 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.

Audit Committee Report

Following were amongst the activities carried out by the Committee during the year ended 31 March 2019.

- Annual evaluation of the independence and objectivity of External Auditors and the Committee is satisfied that they do not have any relationship or interest in the Company which has a bearing on their independence within the meaning of Code of Conduct and Ethics of CA Sri Lanka
- Discussion with External Auditors on the scope of the audit, audit approach and procedures
- Reviewing the Management Letter along with the responses provided
- A meeting was held with the External Auditors without the presence of Key Management Personnel of the Company in order to identify any incidents which require the notice of the Committee
- Evaluation of the External Auditors based on the audit deliverables and the quality assurance initiatives and recommendations
- Reviewing the letter of representation provided by the Management to the External Auditors

Messrs PricewaterhouseCoopers, Chartered Accountants were appointed as the External Auditors of the Company at the Annual General Meeting held on 31 August 2018.

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 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 Messers. PricewaterhouseCoopers, Chartered Accountants as the External Auditors for the year ending 31 March 2020, 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. 03 of 2008 and publish the Annual Corporate Governance Report for the year ended 31 March 2019.

The findings of the Corporate Governance report were reviewed by the Committee and consistent with the matters disclosed in the report on pages 17 to 31.

Reporting to the Board

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

Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview and from time to time. During the year consultations were held with various parties.

Evaluation of the Committee

An independent evaluation of the effectiveness of the Committee was carried out by the other members of the Board during the year. The performance evaluation was concluded as effective based on the overall conduct of the Committee and its contribution to the performance of the Company.

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

31 July 2019

Remuneration Committee Report

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

The Company's remuneration policy endeavours to attract, retain and motivate directors of the quality and experience commensurate with the stature and operational complexity of the Company.

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 year. The remuneration of the executive director, in his capacity of an employee, comprises of a salary, bonuses and other customary benefits as appropriate.

Role of the Committee

The Committee reviews all significant Human Resource policies and initiatives. The Committee deliberates and recommends to the Board of Directors annual increments and bonuses of the members of the staff of the Company based on individual and corporate performance. The Committee also reviews salary structures and terms and conditions of services to ensure compatibility with the market.

Composition

The Committee comprises of three (03) non-executive directors, of whom a majority are independent directors. The Committee is chaired by Mr. Priyan Edirisinghe, who is a Fellow member of the Institute of Chartered Accountants of Sri Lanka. The composition meets the requirements stipulated in the Listing Rules of the Colombo Stock Exchange. The Company Secretary functions as the Secretary to the Committee.

The members of the Committee as at 31 March 2019 were:

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

Meetings

The Committee had three (3) meetings during the year under review. The meeting attendance of the members is set out in the table below: -

Name of Member	Attendance
Mr. Priyan Edirisinghe – Chairman	3/3
Mr. Roshaan Hettiaratchi	3/3
Mr. Supun Weerasinghe	3/3

The Director/ Chief Executive Officer and Head of Human Resources and Administration attended committee meetings by invitation. The Committee met as and when required during the year under review.

The Board of Directors is apprised of the significant issues and the Board deliberates and considers and adopts, if thought fit, the recommendations of the Committee.

Summary of Principal Activities of the Committee During the Year

- Approval of staff bonus, increments and promotions
- Approval of the employee performance and motivation plan
- Approval of the career levels for the Company

Conclusion

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

On behalf of the Remuneration Committee.

Mr. Priyan Edirisinghe
Chairman - Remuneration Committee

31 July 2019

Related Party Transactions Review Committee Report

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

Composition

The Committee consists of the following members whose profiles are given on pages 9 to 11. The composition below is in compliance with the provisions of the Rules regarding the composition of the Related Party Transactions Review Committee.

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

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee had five (5) meetings during the year ended 31 March 2019. Details of attendance of the Committee Members at these meetings are given below.

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

Terms of Reference

The role and functions of the Committee are regulated by the Code and the Rules. The Terms of Reference of the Committee was formulated and approved by the Board on 16 June 2016.

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 'Related Party Transactions Policy' consistent with the provisions of the Code and the Rules for adoption by the Board.
2. Review all proposed Related Party Transactions ('RPTs') in compliance with the provisions of the Code and the Rules.
3. Advise the Board on making immediate Market Disclosures and Disclosures in the Annual Report where necessary, in respect of RPTs, in compliance with the provisions of the Code and the Rules, Procedures and Directives/Guidelines adopted by the Committee.
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 favourable treatment to Related Parties (RPs) in granting credit facilities, offering interest rates for deposits, providing and obtaining financial and non-financial services.
- Implementing regulations relating to Related Party Transactions (RPTs) issued by the Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.
- Ensure that the interests of shareholders are considered by the Company when entering RPTs.

- Ensure 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 for the year ended 31 March 2019

Transactions of related parties (as defined in LKAS 24 - 'Related party Disclosures') with the Company are set out in Note 40 to the Financial Statements on pages 112 to 114.

Policies and Procedure adopted by the Committee

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

Conclusion

The Committee is satisfied that all RPTs reviewed by the Committee during the year ended 31 March 2019 were in compliance with the Rules.

Related Party Transactions principles were at arm's-length terms and not prejudicial to the interests of Company and its minority shareholders and that the observations of the Committee have been duly communicated to the Board.

On behalf of the Related Party Transactions Review Committee

Mr. Roshaan Hettiaratchi
Chairman – Related Party Transaction Review Committee

31 July 2019

Integrated Risk Management Committee Report

Role of the Committee

The Integrated Risk Management Committee (The Committee) is a formally constituted sub-committee of the Board of Directors (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 monthly basis through appropriate risk indicators and management information. The Committee reviews the adequacy of management level committees such as Asset-Liability Committee (ALCO) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.

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

Composition

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

The members of the Committee as at 31 March 2019 were:

1. Mr. Roshaan Hettiaratchi – Independent, Non-Executive Director (Chairman)
2. Mr. Supun Weerasinghe – Non-Independent, Non-Executive Director
3. Mr. Asanga Priyadarshana – Non-Independent, Executive Director (Chief Executive Officer)

Meetings

The Committee had 3 meetings during the year under review. The meeting attendance of the members is set out in the table below;

Name of Member	Attendance
Mr. Roshaan Hettiaratchi	3/3
Mr. Supun Weerasinghe	3/3
Mr. Asanga Priyadarshana	3/3

Head of Finance, Head of Operations and Head of Risk Management attended these meetings on invitation. During the financial year 2018/19, the Committee had only 3 meetings instead of 4. This has been identified as a non-compliance issue but is resolved now.

The Board is apprised of the significant issues deliberated, and considers and adopts, if thought fit, the recommendations of the Committee.

Summary of Principal Activities of the Committee During the Year

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

- Directed the Company on several key risk issues including credit risk which was one of the key risks for the Company. It further reviewed in detail all the other risks affecting the Company i.e. compliance risk, credit risk, operations risk and money laundering risk, and recommended that management mitigates the impact of these risks.
- The Committee also provided guidance to the management of the Company to implement proactive credit monitoring processes to enable early detection of potential customers with credit issues.

Integrated Risk Management Committee Report

- The Committee also discussed compliance by the Company with the Minimum Core Capital Direction issued by CBSL and recommended that a rights issue be conducted to meet the short fall in the core capital requirement. The Company complied with the aforesaid direction by conducting a right issue in April 2019.
- The Committee had reviewed the risks relating to liquidity, specially the impact caused by the deposit withdrawal of 275Mn in March 2019 by a large corporate institute. The Committee was concerned over deposit concentration risk and requested the Management to expand its deposit campaigns to the staff of the group.
- The Committee reviewed all the other risk affecting the Company in detail such as compliance risk, credit risk, operations risk and money laundering risk. Relevant instructions were given to the management to mitigate the impact of these risks.
- The Committee also directed the management to brief the Committee on important decisions taken by the ALCO. As such, the first briefing on ALCO decisions was tabled at the Committee meeting held on 24 May 2019.

The following include other key routine activities carried out by the Committee during 2018/19:

a) Review of all risks impacting the Company

b) Ensuring the reported risks are within the risk appetite of the Company as per the Board approved Risk Policy of the Company

c) Reviewing the financial performance of the Company

d) Reviewing the list of top ten depositors and borrowers

e) Providing advice on mitigating credit risk through insurance schemes

Conclusion

The Committee is satisfied that the overall Enterprise Risk Management (ERM) framework adopted by the Company is in line with the Risk Policy and other CBSL financial regulations.

On behalf of the Integrated Risk Management Committee.

Mr. Roshaan Hettiaratchi
Chairman – Integrated Risk Management Committee

31 July 2019

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

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 financial year ended 31 March 2019, 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 (CSE).

1. 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 2nd Floor, Parkland 1, No.33, Park Street, Colombo 02.

The Company was incorporated on 25 November 1981, under the Companies Act No. 17 of 1982, bearing the name Silvereen Finance Company Limited. The Company changed its name to People's Merchant Finance Company Limited on 30 September 2009 and to Capital Alliance Finance Limited on 16 September 2011. The Company was re-registered under the provisions of the Companies Act, No. 07 of 2007 on 22 November 2011 and was accordingly renamed as Capital Alliance Finance PLC. On 22 December 2015, the Company changed its name to Colombo Trust Finance PLC and following the acquisition by Dialog Axiata PLC, the Company changed its name to Dialog Finance PLC on 15 September 2018.

The Company is a Licensed Finance Company under the Finance Business Act No. 42 of 2011 and the ordinary shares of the Company were listed on the CSE on 4 October 2011.

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.

3. Financial Statements

The financial statements of the Company as set out on pages 57 to 128, 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 and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act, No. 7 of 2007 and the Finance Business Act, No. 42 of 2011.

The aforementioned financial statements for the year ended 31 March 2019 are duly signed by the Chief Executive Officer/Director, Head of Finance and two other Directors of the Company.

4. Independent Auditors' Report

The Independent Auditors of the Company are Messrs. PricewaterhouseCoopers, Chartered Accountants. Messrs. PricewaterhouseCoopers carried out the audit on the financial statements of the Company for the year ended 31 March 2019 and their report on the financial statements is set out on pages 53 to 56.

5. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 66 to 86.

6. 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 57 to 128 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, No.7 of 2007, the Finance Business Act, No.42 of 2011 and amendments thereto and the Listing Rules of the CSE.

The detailed Statement of Directors' Responsibility for Financial Reporting is set out on page 52 of this Annual Report.

7. Property, Plant and Equipment (PPE)

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

7 [A]. Capital Expenditure

The total capital expenditure made on acquiring property, plant and equipment and intangible assets of the Company amounted to LKR 133.26Mn (2018 – LKR 1.11Mn) and the details are given in Notes 27 and 28 to the financial statements.

7 [B]. Capital Commitments

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

8. Market Value of Freehold Properties

The Directors are of the view that the carrying values of properties are appropriately stated in Note 27 to the financial statements.

9. Reserves

The aggregate value of reserves and their composition are set out in the Statement of Changes in Equity of the Company on page 59 to the financial statements.

9 [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.

10. Stated Capital

The Stated Capital of the Company as at 31 March 2019 amounted to Rs.909,038,221.90 consisting of 72,233,816 ordinary shares (31 March 2018 - Rs.309,888,671/- consisting of 46,519,243 ordinary shares).

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

10 [A]. Issue Of Shares

- During the year under review, the Company issued 25,714,573 ordinary shares by way of a Rights Issue in the proportion of three hundred and nine (309) Ordinary Shares for five hundred and fifty-nine (559) Ordinary shares held in the capital of the Company and the allotment of shares was finalised on 6 July 2018. The Company raised Rs. 599,149,550.90 from the Rights Issue and increased the Stated Capital of the Company from Rs.309,888,671/- representing 46,519,243 shares to Rs. 909,038,221.90 representing 72,233,816 shares.

- Events after the Balance Sheet Date – The Company issued 19,103,158 ordinary shares by way of a Rights Issue in the proportion of thirty-two (32) Ordinary Shares for one hundred and twenty-one (121) Ordinary shares held in the capital of the Company and shares were allotted on 12 April 2019. The Company raised Rs.764,126,320/- from the Rights Issue and increased the Stated Capital of the Company from Rs.909,038,221.90 representing 72,233,816 shares to Rs.1,673,164,541.90 representing 91,336,974 shares.

Shareholdings of the Company

The parent company, Dialog Axiata PLC, held 98.88% of the Ordinary shares in issue of the Company as at 31 March 2019. The main shareholders of the Company and corresponding holding percentages are set out below.

	Name of Shareholder	31 March 2019	
		No of Shares	% Holding
1.	Dialog Axiata PLC	71,421,450	98.88%
2.	Mr. R.C.J Goonewardene	106,589	0.15%
3.	Mr. L.C.Y Welikala	22,600	0.03%
4.	Mr. P.S.M. Fernando	22,173	0.03%
5.	Mr. R.E. Rambukwella	20,647	0.03%
6.	Mrs. A.A. Raaymakers	19,802	0.03%
7.	Mr. K.N.R.L.W. Nandasiri / Mr. T.B.Ratna Sujeewa	18,632	0.03%
8.	Mr. K.A.D.R.N. Gunawardena	16,080	0.02%
9.	People's Leasing & Finance PLC /C.D. Kohombanwickramage	16,066	0.02%
10.	Mr. B.C.V Mendis	15,727	0.02%
10.	Mr. B.C.N Mendis	15,727	0.02%
12.	Mr. S.L Paranamange	13,700	0.02%
13.	Mr. W.S Perera / MRS. H.M.C.M. Perera	12,911	0.02%
14.	Mr. R.L.G. Fernando	12,000	0.02%
15.	Mr. N.S. Wijesekara	11,813	0.02%
16.	Mr. O.W.D Yasapala	11,000	0.02%
17.	Mr. G.D.M Ranasinghe/ Mr. O.R.K Ranasinghe	10,000	0.01%
18.	Mr. H.V.S.M Navaratne	10,000	0.01%
19.	Mr. T.D Mahaliyana	9,940	0.01%
20.	Mr. T. Thiruthtanigainathan	9,763	0.01%

10 [B]. Minimum Public Holding Requirement

The percentage of shares held by the public as at 31 March 2019 was 1.12%, in the hands of 779 public shareholders (31 March 2018 – 1.13% in the hands of 544 public shareholders)

The Company is not compliant with the Minimum Public Holding requirement under Option 2 of Rule 7.13.1(b) of the Listing Rules of the CSE. However, in terms of Listing Rule 7.13.3 (iii), the CSE has granted an exemption to the Company up to 2 August 2019 to comply with the minimum public holding requirement, subject to the Company making appropriate disclosures to the market in this regard.

10 [C]. Equitable Treatment to Shareholders

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

11. Board of Directors

The Board of Directors of the Company is comprised of six (6) Directors (2018 - 6) with wide financial and commercial knowledge and experience. The names of the Directors as at 31 March 2019 are given below. There were no changes to the Board during the year under review.

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

The Directors of the Company as at 31 March 2019 were ;

Name	Classification (NED/NID/ ED)	Remarks (Appointed date, change of directorate to chairman etc)
Dr. Hans Wijayasuriya (Chairman)	NID/NED	09 November 2017
Mr. Supun Weerasinghe	NID/NED	09 November 2017
Mr. Priyan Edirisinghe	IND/NED	19 January 2016
Mr. Roshaan Hettiaratchi	IND/NED	09 February 2016
Mr. Sheyantha Abeykoon	NID/NED	09 November 2017
Mr. Asanga Priyadarshana (Chief Executive Officer)	NID/ED	06 April 2018

12. Board Subcommittees

The Board, while assuming the overall responsibility and accountability for the management oversight of the Company, has also appointed 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.

1. Audit Committee - The Report of the Audit Committee is given on pages 36 to 38.
2. Remuneration Committee - The Report of the Remuneration Committee is given on page 39.
3. Related Party Transactions Review Committee - The Report of the Related Party Transactions Review Committee is given on pages 40 to 41.
4. Integrated Risk Management Committee - The Report of the Integrated Risk Management Committee is given on pages 42 to 43.

13. Directors' Interest in Contracts and Proposed Contracts

The Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of Section 192(1) and 192(2) of the Companies Act No.07 of 2007. These interests have been recorded in the interest register which is available for inspection in terms of the Act. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.

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

None of the Directors and their close family members held any shares in the Company as at 31 March 2019.

14. Directors' Remuneration

The details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 40 to the financial statements.

15. 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 year are disclosed in Note 40 to the financial statements.

16. Outstanding Litigation

In the opinion of the Directors and in consultation with the Company lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results, or future operations of the Company. Details of litigation pending against the Company are given in note 37 to the financial statements.

17. 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 provided for, except as disclosed in Note 37 to the financial statements.

18. Risk Management and Internal Control

18 [A]. Internal Controls

The Directors 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 year 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.

18 [B]. Corporate Governance

The Directors 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 CBSL.

19. Environmental Protection

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

To the best of the knowledge of the 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.

20. Donations

The total donations made by the Company during the year amounted to Rs. 4,700/- (2018 – Rs. 10,100/-).

21. Taxation

Provision for taxation has been computed in accordance with income tax legislations and applicable tax rates are given in Note 16 to the financial statements.

22. Dividends

The Directors have not recommended a dividend on ordinary shares for the year ended 31 March 2019.

23. 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.

24. Future Developments

An overview of the future development of the Company is given in the Chairman's Message (pages 4 to 5) and the Chief Executive Officer/Director's Review (pages 6 to 8).

25. Auditors

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

The audit fees payable to Messrs. PricewaterhouseCoopers for the year ended 31 March 2019 amounted to Rs. 900,000/- Further, a sum of Rs. 528,049/- was payable to Messrs. PricewaterhouseCoopers for permitted non-audit related 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 Independent Auditors will be proposed at the forthcoming Annual General Meeting.

26. Employment Policy

The Company believes that its potential rests on the skilled and competent workforce in the rapidly changing environment. As at 31 March 2019, the number of employees on the payroll of the Company was 175 (2018 – 38).

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

27. 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

Dr. Hans Wijayasuriya
Chairman

Mr. Asanga Priyadarshana
Director/Chief Executive Officer

Ms. Viranthi Attygalle
Company Secretary

Colombo
19 June 2019

Directors' Statement on Internal Controls over Financial Reporting

Purpose

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

Responsibility

The Board is responsible for implementation of an adequate and effective internal control mechanism and continuous reviewing of design and effectiveness. An on going 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 Control 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 the Board-appointed sub committees.

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

The Board is satisfied that the system of internal controls, over financial reporting which is in place is sound and adequate to obtain reasonable assurance regarding the reliability of financial reporting and 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 assurance and not absolute assurance against the occurrence of any material misstatement and loss. The management of the Company formulates required policies and procedures on risk and control to identify and assess risks faced, and in the design, operation and monitoring of suitable internal control to mitigate and control these risks.

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 Internal Audit function of the Company is outsourced to Messers. Ernst and Young. The annual audit plan is reviewed and approved by the Audit Committee. Their audit procedures are designed in such a way that compliance with policies and procedures is ensured by using samples and rotational procedures. They 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 year and appropriate steps were taken to address and rectify the concerns raised. The recommendation which will be made by the External Auditors for the year ended 31 March 2019, 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 infrastrure is placed within the Company and senior officers are 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 37 to 38. Minutes of committee meetings are periodically forwarded to the Board.

Implementation of Accounting Standards and Other Regulatory Changes

The Company has adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. Based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Audit Committee, the aforementioned Accounting Standards were further strengthened during 2013 to 2019.

Necessary steps were taken by the Company to implement the requirements of Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) and SLFRS 15 (Revenue from Contracts with Customers). Designing of processes and controls, implementation of models and training and awareness sessions to stakeholders (including Board and Senior Team members) were made. The Audit Committee continually advices the management on the strengthening of processes and controls required in management information systems to maintain the level of compliance with SLFRS 9 and related disclosures.

The Company has early adopted SLFRS 16 – Leases and necessary steps were taken to assess its impact on the financial statements and to design suitable internal controls.

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

Confirmation

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

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 March 2019 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in the design and effectiveness of the Internal Control Over Financial Reporting of the Company.

By order of the Board

Dr. Hans Wijayasuriya
Chairman

Mr. Priyan Edirisinghe
Chairman – Audit Committee

Colombo
19 June 2019

Directors' Responsibility for Financial Reporting

The responsibility of Directors in relation to the financial statements of Dialog Finance PLC ('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 page 53 to 56.

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 March 2019;
- The statement of profit or loss and other comprehensive income, which present a true and fair view of the profit or loss and other comprehensive income of the Company for the financial year ended 31 March 2019;
- Statement of changes in equity, Statement of cash flows 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 a 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 justifies applying the going concern principle in the preparation of the financial statements.

The financial statements of the Company have been certified by the Head of Finance, the officer responsible for the preparation and the Chief Executive Officer and have been signed by two Directors on 19 June 2019 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
19 June 2019

Independent Auditor's Report

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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 March 2019, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

What we have audited

The financial statements of the Company, which comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 March 2019.
- the statement of financial position as at 31 March 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Key audit matters

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

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Partners **D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, S. Gajendran FCA, Ms. S. Hadgie FCA, N.R. Gunasekera FCA, Ms. S. Perera ACA, T.U. Jayasinghe FCA**

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
Impairment of loans and advances **Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 6, 11 and 22 to the financial statements.**	
The Company has adopted SLFRS 9 for the first time during the financial year ended 31 March 2019. A key change of the current standard from the previously used LKAS 39 is the use of the Expected Credit Loss model (ECL) approach in determining the impairment allowance for loans and advances to customers as opposed to Incurred Loss approach used in previous years. The impairment of loans and advances under the ECL model in the current year was considered as a key audit matter due to factors such as; • The determination of impairment allowance through the ECL model requires significant judgments in key variables of the computation such as the Loss Given Default ratio (LGD), Probability of Default (PD) and the calculation of forward looking element: Economic Factor Adjustment (EFA). • The significance of the reported amounts of loans and advances to customers and the impairment allowances thereof. • New products in the form of device financing launched by the Company, where the loss rates were determined based on limited historical information available.	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 : • Understanding, evaluating and testing the design and operating effectiveness of controls in the lending and credit risk mitigation process. Based on the work performed, we concluded that, to the extent relevant to our audit, we could rely on these controls for the purpose of our audit. • Assessed the appropriateness of the criteria used by management to determine whether customer credit is impaired. • Assessed reasonableness of the significant assumptions made by management, which included, cash flow estimates, discount rates and expected recoveries when defaults occur. • Compared the macro-economic and other forward-looking information used by the management, against reliable publicly available information. • Checked the underlying calculations and data on a sample basis for accuracy and completeness. • Assessed the adequacy of the Company's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 6. This included testing of the quantitative impact of the transition. • Assessed the accuracy and sufficiency of disclosures relating to impairment allowance for credit losses on loans and advances to customers as at the period end. Based on the procedures performed as mentioned above, we considered the assumptions and judgments made by the management to be reasonable.

Other matter
The financial statements of the Company for the year ended 31 March 2018 were audited by another firm of auditors whose report, dated 25 June 2018, expressed an unmodified opinion on those statements.

Other information
Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

To the Shareholders of Dialog Finance PLC (Contd.)

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

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

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

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

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

Report on other legal and regulatory requirements

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

CHARTERED ACCOUNTANTS
CA Sri Lanka membership number: 2857

Colombo
19 June 2019

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March, *(All amounts in Sri Lanka Rupees thousands)*	Note	2019	2018
Interest income		231,115	204,822
Less : Interest expense		(86,676)	(93,775)
Net interest income	7	**144,439**	**111,047**
Fee and commission income		92,001	1,811
Less: Fee and commission expenses		-	(25)
Net fee and commission income	8	**92,001**	**1,786**
Net (losses)/gains from trading	9	(662)	225
Other operating income	10	8,134	8,251
Total operating income		**243,912**	**121,309**
Less: Impairment charges and other losses	11	(133,136)	(54,117)
Net operating income		**110,776**	**67,192**
Less: Operating expenses			
Personnel expenses	12	(130,533)	(51,113)
Depreciation and amortisation	13	(14,833)	(5,465)
Other expenses		(93,582)	(39,129)
Operating loss before taxes on financial services	14	**(128,172)**	**(28,515)**
Less: Taxes on financial services	15	(823)	(3,248)
Loss before tax for the year		**(128,995)**	**(31,763)**
Income tax (expense) / reversal	16	(415)	9,238
Loss for the year		**(129,410)**	**(22,525)**
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
- Actuarial gain / (loss) on defined benefit plans	31	1,311	(635)
- Deferred tax effect on actuarial (gain) / loss		(367)	178
Other comprehensive income, net of tax		944	(457)
Total comprehensive income for the year, net of tax		**(128,466)**	**(22,982)**
Basic loss per share for losses attributable to the ordinary equity holders of the Company (Rs.)	17	**(1.97)**	**(0.48)**

The notes on pages 61 to 128 form an integral part of these financial statements.

Statement of Financial Position

As at 31 March, *(All amounts in Sri Lanka Rupees thousands)*	Note	2019	2018
Assets			
Cash and cash equivalents	19	91,704	33,074
Placements with financial institutions	20	163,100	211,390
Securities purchased under repurchase agreements		17,755	26,614
Financial assets at fair value through profit or loss	21	907	1,568
Financial assets at amortised cost - loans and advance	22	991,417	852,178
Financial investments - available-for-sale	23	-	346
Financial assets at fair value through other comprehensive income	23	346	-
Financial investments - held to maturity	24	-	60,468
Financial investments at amortised cost	24	66,368	-
Other assets	25	55,822	16,108
Current tax receivable		4,904	3,922
Right-of-use assets	26	38,062	-
Property, plant and equipment	27	66,387	27,677
Intangible assets	28	87,748	6,336
Deferred tax asset	29	36,948	19,455
Total assets		**1,621,468**	**1,259,136**
Liabilities			
Financial liabilities at amortised cost – due to customers	30	632,209	830,565
Retirement benefit obligations	31	6,717	6,797
Lease liabilities		38,837	-
Other liabilities	32	110,157	11,757
Total liabilities		**787,920**	**849,119**
Equity			
Stated capital	33	909,038	309,889
Statutory reserve fund	34	11,361	11,361
Other reserves	35	-	60,000
Retained earnings	35	(86,851)	28,767
Total equity		**833,548**	**410,017**
Total equity and liabilities		**1,621,468**	**1,259,136**
Net asset per share (Rs.)		**11.54**	**8.81**
Commitments and contingencies	37	**206,552**	**38,032**

The notes on pages 61 to 128 form an integral part of these financial statements.

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
Hasuni Gayasha

Director / Chief Executive Officer
Asanga Priyadarshana

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.

Director
Priyan Edirisinghe

Director
Supun Weerasinghe

Colombo
19 June 2019

Statement of Changes in Equity

For the year ended 31 March, *(All amounts in Sri Lanka Rupees thousands)*	Note	Stated capital	Statutory reserve fund	General reserve	Retained earnings	Total
Balance at 1 April 2018		309,889	11,361	60,000	28,767	410,017
Impact of adopting SLFRS 9 as at 1 April 2018	6.1	-	-	-	(45,926)	(45,926)
Restated balance under SLFRS 9 as at 1 April 2018		**309,889**	**11,361**	**60,000**	**(17,159)**	**364,091**
Loss for the year		-	-	-	(129,410)	(129,410)
Other comprehensive income, net of tax		-	-	-	944	944
Total comprehensive income for the year		**-**	**-**	**-**	**(128,466)**	**(128,466)**
Rights issue during the year		599,149	-	-	-	599,149
Rights issue expense		-	-	-	(1,226)	(1,226)
Transferred to retained earnings		-	-	(60,000)	60,000	-
Transferred to statutory reserve fund		-	-	-	-	-
Balance at 31 March 2019		**909,038**	**11,361**	**-**	**(86,851)**	**833,548**
Balance at 1 April 2017		309,889	11,361	60,000	51,749	432,999
Loss for the year		-	-	-	(22,525)	(22,525)
Other comprehensive income, net of tax		-	-	-	(457)	(457)
Total comprehensive income for the year		**-**	**-**	**-**	**(22,982)**	**(22,982)**
Transferred to statutory reserve fund		-	-	-	-	-
Balance at 31 March 2018		**309,889**	**11,361**	**60,000**	**28,767**	**410,017**

The notes on pages 61 to 128 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 March, *(All amounts in Sri Lanka Rupees thousands)*	Note	2019	2018
Cash flows from operating activities			
Loss before income tax		(128,995)	(31,761)
Adjustment for,			
Interest expenses	7.2	86,676	93,775
Impairment charges and other losses	11	133,136	54,117
Provision for retirement benefits obligation	31.1	1,702	1,782
Depreciation of property plant and equipment	27	8,517	3,747
Depreciation of right-of-use assets	26	1,685	-
Amortisation of intangible assets	28	4,631	1,718
Interest on lease liabilities		2,475	-
Profit on disposal of fixed assets		(400)	(1,079)
Net gains / (losses) from trading		662	(225)
Operating profit before working capital changes		**110,089**	**122,074**
(Increase) / decrease in loans and advances		(336,113)	222,331
Increase in other assets		(41,111)	(8,957)
(Decrease) / increase in amounts due to customers		(192,233)	250,412
Increase / (decrease) in other liabilities		98,401	(1,182)
Cash (used in) / generated from operations		**(360,967)**	**584,678**
Interest paid		(92,799)	(91,283)
Payment of retirement gratuity		(472)	-
Net cash (used in) / generated from operating activities		**(454,238)**	**493,395**
Cash flows from investing activities			
Proceeds from sale of property plant and equipment		400	200
Acquisition of property plant and equipment and intangible assets		(133,271)	(1,112)
Proceeds from sale of assets held for sale		-	1,575
Net investment in treasury bills		(5,900)	(16,934)
Net placement with financial institutions		48,255	(211,390)
Net cash flows from securities purchased under repurchased agreement		8,859	4,926
Net cash used in investing activities		**(81,657)**	**(222,735)**
Cash flows from financing activities			
Net cash received on rights issue		597,923	-
Repayment of lease liabilities		(3,385)	-
Net cash generated from financing activities		**594,538**	**-**
Net increase in cash and cash equivalents		**58,644**	**270,660**
Cash and cash equivalents at the beginning of the year		33,074	16,557
Bank overdraft at the beginning of the year		-	(254,143)
Cash and cash equivalents at the end of the year		**91,718**	**33,074**
Analysis of cash and cash equivalents at the end of the year			
Cash and bank balances		91,718	33,074
Less: Impairment provision		(14)	-
		91,704	**33,074**

The notes on pages 61 to 128 form an integral part of these financial statements.

Notes to the Financial Statement

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

1. Corporate information

1.1 General

Dialog Finance PLC ('The Company'), formerly known as Colombo Trust Finance PLC is a public limited liability company incorporated and domiciled in Sri Lanka, incorporated under the Companies Act No. 17 of 1982 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 2nd floor, Parkland 1, No.33, Park Street, Colombo 02.

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 / ultimate parent undertaking and controlling party is Dialog Axiata PLC

1.4 No of employees

The staff strength of the Company as at 31 March 2019 is 175 (2018 - 38).

1.5 Approval of financial statements by directors

The financial statements of the Company, for the year ended 31 March 2019, were authorised for issue by the Board of Directors on 19 June 2019.

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 (CBSL) and Listing Rules of the Colombo Stock Exchange (CSE).

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, the requirements of the Companies Act No.7 of 2007,and provide appropriate disclosures as required by the CBSL and the listing rules of the CSE. 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 the following material items in the statement of financial position;

- Financial assets at fair value through other comprehensive income (applicable from 1 April 2018) at fair value [Note 23];
- Available-for-sale financial assets (applicable before 1 April 2018) are measured at fair value [Note 23].
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation based on actuarial valuation. [Note 31].

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

2. Basis of preparation (Contd.)

2.5 Presentation of financial statements (Contd.)

settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non – current) is presented in Note 42.

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 recognized.

Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The cash and cash equivalents include cash in-hand, balances with banks, short term deposits with banks (less than 03 months) and securities purchased under repurchase agreements (less than 03 months).

3. Significant accounting judgments, estimates and assumptions

In preparing the financial statements of the Company in conformity with SLFRSs and LKASs, the management has made judgments, 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 judgments, assumptions and estimation uncertainty, in applying Accounting Policies that have most significant effects on the amounts recognised in the Financial Statements of the Company are as follows:

3.1 Going concern

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

3.2 Impairment losses on loans and advances

The measurement of impairment losses under SLFRS 9 'financial instruments' and LKAS 39 'financial instruments: recognition and measurement' across all categories of financial assets require judgment, 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.

(a) Applicable after 1 April 2018

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 judgments and estimates include,

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

(b) Applicable before 1 April 2018

The Company reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions on a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found to be impaired have been provided for impairment. All individually not insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made for incurred loss events for which there is objective evidence but who's effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.),and judgments to the effect of concentrations of risks and economic data (include in levels of unemployment, consumer price indices, interest rates, exchange rates). Impairment of loans and advances is discussed in detail under Notes 11 and 22 to the financial statements.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary.

3.3 Fair value of financial instruments

The determination of fair value of financial assets and financial liabilities recorded in the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instrument is described in Note 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 to the financial statements.

3.4 Financial assets and financial liabilities classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at the inception in to different accounting categories. The classification of financial instrument is disclosed in Note 18.

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 recognises liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred income tax provisions in the period in which such determination is made.

(b) Deferred income tax assets

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

3.6 Defined benefit obligation

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost

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

3.6 Defined benefit obligation (Contd.)

(income) for the 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 the defined benefit plan. The Company determines the appropriate discount rate at the end of each financial reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows, expected to be required to settle the defined benefit plan. In determining the appropriate discount rate, the Company considers the interest yield of long-term Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for the 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 PPE

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

3.8 Commitment and contingent liabilities

Determination of the treatment of contingent liabilities in the financial statements is based on the management's view of the expected outcome of the applicable contingency. The Company 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

The Company has adopted SLFRS 9 'Financial Instruments', SLFRS 7 (Revised) 'Financial Instruments Disclosures', SLFRS 15 'Revenue from Contracts with Customers' with effect from 1 January 2018.

The Company has early adopted SLFRS 16 'Leases' which applies to accounting periods beginning on or after 1 January 2019, with effect from 1 January 2019.

4.1 SLFRS 9 - Financial instruments

The Company has initially adopted SLFRS 9 with the date of transition as 1 April 2018. The Company has not early adopted this standard in previous periods. The adoption of SLFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. SLFRS 9 significantly amends the other standards dealing with financial instruments such as SLFRS 7 'Financial Instruments: Disclosure'.

As permitted by the transitional provisions of SLFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities, at the date of transition were recognised in retained earnings as at 1 April 2018. Accordingly, the information presented for year ended 31 March 2018, does not reflect the requirements of SLFRS 9 and therefore are not comparable to the information presented for the year ended 31 March 2019.

SLFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities. This standard replaces LKAS 39, 'Financial Instruments: Recognition and Measurement'. The requirements of SLFRS 9 represents a significant change from LKAS 39. This new standard brings fundamental changes to the accounting for financial assets and to certain aspects of accounting for financial liabilities.

Additionally, the Company has adopted consequential amendments to SLFRS 7, that are applied to disclosures for the year ended 31 March 2019. but have not been applied to the comparative period.

The key changes to the Company's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting SLFRS 9 is set out in Note 6.1 to the financial statements

(A) classification of financial assets and financial liabilities
SLFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The LKAS 39 measurement categories of financial assets (fair value through profit or loss (FVPTL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Financial investments at amortised cost
- Financial assets at FVOCI, with gains or losses recycled to profit or loss on derecognition
- Financial assets at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPTL

SLFRS 9 largely retains the existing requirements in LKAS 39 for classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows.

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss.

  The Company's classification of its financial assets and liabilities is explained in Note18 to the financial statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 6.1 to the Financial Statements.

(b) Impairment of financial assets
The adoption of SLFRS 9 has fundamentally changed the Company's accounting for loan loss impairments by replacing LKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. SLFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

Details of the Company's impairment method are disclosed in Note 5.3.(a) to the financial statements. The quantitative impact of applying SLFRS 9 as at 1 April 2018 is disclosed in Note 6.1to the Financial Statements.

To reflect the differences between SLFRS 9 and LKAS 39' financial instruments: Disclosures', was updated, and the Company has adopted it, together with SLFRS 7, for the year beginning 1 April 2018.Changes include transition disclosures as shown in Note 6.1, detailed information about the ECL calculations such as assumptions and inputs are set out in Note 5.3.(a) to the financial statements.

4.2 SLFRS 15 – Revenue from contracts with customers

The Company has adopted SLFRS 15 with effect from 1 April 2018. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Company. Accordingly, the impact of comparative information is limited to new disclosure requirements.

4.3 SLFRS 16 – Leases

The Company has early adopted SLFRS 16 with effect from 1 April 2018 in accordance with the transition provisions in the Standard, the Company adopted the

4. Changes in accounting policies (Contd.)

4.3 SLFRS 16 – Leases (Contd.)

new rules under the modified retrospective approach, where the cumulative effect of implementing the Standard shall be recognised at the date of initial application.

The Company has applied the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1 April 2018 and identified as leases in accordance with LKAS 17.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these financial statements.

5. General accounting policies

The accounting policies set out below have been consistently applied to all periods presented in these financial statements, except for the changes mentioned in Note 4 to the Financial Statements.

5.1 Financial instruments – initial recognition, classification and subsequent measurement

(a) Date of recognition

All financial assets and liabilities are initially recognised on the trade date which is the date that the Company becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets with in the time frame generally established by regulation or convention in the market place.

(b) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value plus or minus transaction costs. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for "Day 1 profit or loss", as described below.

(c) 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of profit and loss over the tenor of the financial instrument using the effective interest rate method. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the statement of profit and loss when the inputs become observable, or when the instrument is derecognised.

(d) Classification and subsequent measurement of financial assets

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

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

(i) Financial assets at amortised cost:

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

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

Loans and receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables, gold 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 reflects 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 judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms 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.

5. General accounting policies (Contd.)

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

(d) Classification and subsequent measurement of financial assets (Contd.)

(iii) Debt issued and other borrowed funds
Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans, debentures, commercial papers and securitisations.

(e) Policy applicable before 1 April 2018
The Company classified its financial assets into one of the following categories, as per Sri Lanka Accounting Standard LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

- Financial assets at fair value through profit or loss (FVTPL);
- Loans and receivables (L&R)
- Held to maturity (HTM) financial assets
- Financial assets available for sale

The Company determines the classification of its financial assets at recognition. The classification depends on the purpose for which the investments were acquired or originated and based on the Company's ability to hold.

Subsequent measurement of financial assets depends on their classification.

(i) Financial assets and liabilities designated at fair value through profit or loss (FVTPL)
Financial assets and liabilities classified in this category are those that have been designated by management on initial recognition. Management designates an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of financial assets, financial liabilities or both which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded under 'Net gain or loss on financial assets and liabilities designated at fair value through profit or losses'. Interest earned or incurred is recognised under 'Interest Income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

(ii) Available-for-sale financial investments
Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. The Company has not designated any loans or receivables as available- for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognized in the profit or loss under 'Other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first- out basis. Dividends earned whilst holding available-for-sale financial investments are recognized in the profit or loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the profit or loss in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

The Company has recorded its non- quoted equity investments classified as available for sale financial instruments at cost less impairment if any. The details of available for sale financial assets are given in Note 23 to the financial statements.

(iii) Financial assets or liabilities held-for- trading

Financial assets or liabilities held–for–trading are recorded in the statement of financial position at fair value. Changes in fair value are recognized in 'Net operating income'. Interest and dividend income or expense is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities, equities and short positions.

The details of held for trading financial assets are given in Note 21 to the Financial Statements.

(iv) Held-to-maturity financial investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognized in the income statement line 'Impairment for loans and other losses'. If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years. Included in this classification is Government securities (Treasury Bills and Treasury Bonds).

The details of Held to Maturity financial investments are given in note 24 to financial statements.

(v) Loans and advances to customers (Loans and receivable)

Loans and advances to customers include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company intends to sell immediately or in the near term and those that the Company upon initial recognition designates as at fair value through profit or loss.
- Those that the Company, upon initial recognition, designates as available for sale.
- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Loans and advances to customers' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the comprehensive income. The losses arising from impairment are recognized in the comprehensive income in 'Impairment expenses for loans and advances and other losses Included in this classification are leases, hire purchase, margin trading receivable, factoring and other loans and advances.

(vi) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and cash equivalents are given in Note 19 to the financial statements.

(f) Debt issued and other borrowed fund

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.

5. General accounting policies (Contd.)

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

(f) Debt issued and other borrowed fund (Contd.)

After initial measurement, debt issued, and other borrowings are subsequently measured at amortised cost using the 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.

(g) Reclassifications of financial assets and financial liabilities

From 1 April 2018, 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 March 2018.

(h) 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 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 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

5. General accounting policies (Contd.)

5.3 Impairment of financial assets

(a) Policy applicable from 1 April 2018

(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 and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

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

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

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

The Company established a policy to perform as 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 on12mECLs. 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 as credit-impaired. The Company records an allowance for the LTECLs.

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

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

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

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

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

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

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

The mechanism of the ECL method are summarised below.

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:
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 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.

Financial Guarantee contracts:
The Company's liability under each guarantee is measured at the higher of the initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the ECL provision. For this purpose, the Company estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability – weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

(iii) Debt instruments measured at fair value through OCI
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.

(iv) 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.

5. General accounting policies (Contd.)

5.3 Impairment of financial assets (Contd.)

(a) Policy applicable from 1 April 2018 (Contd.)

(v) 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, or
- Unemployment rate
- Central Bank rates
- Inflation

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 and 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.

(b) Policy applicable before 1 April 2018

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset(an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

Individually assessed loans and receivables

For financial assets carried at amortised cost (such as loans and advances to customers as well as held–to–maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- significant downgrading in credit rating by an external credit rating agency

For those loans where objective evidence of impairment exists, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the reporting date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Collectively assessed loans and receivables

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that are not considered individually significant.

Homogeneous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

When the group of loan by nature is short term, the Company uses the net flow rate method. Under this methodology the movement in the outstanding balance of customers into bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the balance sheet date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under the methodology, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- recent loan portfolio growth and product mix,
- unemployment rates,
- gross domestic production growth,
- inflation
- exchange rates,
- interest rates
- changes in government laws and regulations

(ii) Available-for-sale financial investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available for sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss. Future income is based on the reduced carrying amount and is accrued using the rate of return used to discount the future cashflows for the purpose of measuring the impairment loss.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence

5. General accounting policies (Contd.)

5.3 Impairment of financial assets (Contd.)

(b) Policy applicable before 1 April 2018 (Contd.)

of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from equity and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in the fair value after impairment are recognised in other comprehensive income.

(iii) Held to maturity financial assets
An impairment loss in respect of held to maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of future cash flows discounted at the asset's original EIR and is recognised in profit or loss. Interest on impaired asset continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iv) Reversals of impairment
If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the statement of profit or loss.

(v) Renegotiated loans
The Company makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the credit risk department. Renegotiated loans may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of the terms. It is the Company's policy to monitor renegotiated loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 renegotiated asset until it as collected or written off.

From 1 April 2018, when the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 41.2 The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 5.1.(h). i

(vi) Write-off of financial assets at amortised cost
The Company's accounting policy under SLFRS 9 remains the same as it was under LKAS 39. Financial assets (and the related impairment allowance) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

(vii) Collateral Valuation
The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, gold, securities, letter of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers, audited financial statements and other independent sources

5.4 Offsetting financial instruments

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

5.5 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 assets held–for– trading pledged as collateral' or to 'Financial investments available for sale pledged as collateral', as appropriate. 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.

5.6 Leases

(a) Policy applicable from 1 April 2018 – Leases

Until 31 March 2018, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment 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 option if the company 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 to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Where the company is exposed to potential future increases in variable lease payments based 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 reassessed and adjusted against the right-of-use asset.

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.

5. General accounting policies (Contd.)

5.6 Leases (Contd.)

Right-of-use assets are 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 incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use 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 right-of-use asset is depreciated over the underlying asset's useful life. While the company revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the company.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. 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 equipment and furniture.

(b) Policy applicable before 1 April 2018 - Finance and operating leases
The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(a) Finance leases

(i) Finance leases - company as a lessee
Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item, but not necessarily legal title, are classified as finance lease.

When the Company is a lessee under finance lease, the leased assets are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. and its corresponding liability to the lessor is including 'Other liabilities'. Finance charges payable are recognized in 'Net interest income' over the periods of leases so as to give a constant rate of return on net investment in the lease.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

(ii) Finance leases - company as a lessor
When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease receivable'. The finance income receivable is recognised in 'Interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

(b) Operating leases

(i) Operating leases - company as a lessor
Leases that do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rent income.

Contingent rents are recognised as revenue in the period in which they are earned.

Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

(ii) Operating leases - company as a lessee
Leases that do not transfer to the Company substantially all risks and benefits incidental to ownership of the leased assets are operating

leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term and leased assets are not recognised on the statement of financial position.

Contingent rental payable is recognized as an expense in the period in which they are incurred.

5.7 Property, plant and equipment

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

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

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

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

	Years
Buildings	25
Computer equipment	4
Office furniture	8
Office equipment	12.5
Motor vehicles	4
Plant, machinery and other equipment	4

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

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

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

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

(b) Asset exchange transaction

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

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

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.

5. General accounting policies (Contd.)

5.7 Property, plant and equipment (Contd.)

(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.

5.8 Intangible assets

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

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

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

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

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Costs recognised as intangible assets are amortised over their estimated useful lives, which do not exceed 8 years.

5.9 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.

5.10 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 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.

5.11 Employee benefits

(a) Short term employee benefits

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

(b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contribute 12% and 3% respectively, of basic or consolidated wage or salary of each eligible employee. The contributions are recognised as employee benefit expense when they are due. The Company have no further payment obligation once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

(c) Defined benefit plan - gratuity

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

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

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

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

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

(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

5. General accounting policies (Contd.)

5.11 Employee benefits (Contd.)

(d) Termination benefits (Contd.)

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.

5.12 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.

5.13 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.

5.14 Recognition of income and expenses

(a) Interest income and interest expense

Under both SLFRS 9 and LKAS 39, interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at fair value through other comprehensive income (FVTOCI) under SLFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under LKAS 39 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 41.2.(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, If 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.

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

(ii) Factoring
Revenue is derived from two sources, funding and providing sales ledger related services.

Funding - Discount income relating to factoring transactions is recognized at the end of a given accounting month. In computing this discount, a fixed rate agreed upon at the commencement of the factoring agreement is applied on the daily balance in the Client's current Account.

Sales Ledger Related Services – A service charge is levied as stipulated in the factoring agreement.

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

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

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

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

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

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

(i) Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period.

(ii) Fee income earned from services that are provided over a certain period of time
Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

(c) Other operating income

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

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

(iii) Other income
Other income is recognised on an accrual basis.

5. General accounting policies (Contd.)

5.14 Recognition of income and expenses (Contd.)

(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.

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

5.15 Taxes

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable comprehensive income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

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

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

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

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

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

(c) Nation Building Tax on financial services (NBT)
With effect from 1 January 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. NBT is chargeable on the same base used for calculation of VAT on financial services.

(d) Debt repayment levy
As per the provisions of the Finance Act No.35 of 2018, Debt repayment levy has been imposed for a limited period from 1 October 2018 to 31 December 2021.

A levy of 7% is charged monthly on the value addition attributable to the supply of financial services as specified in section 36 of Finance Act No. 35 of 2018 along with section 25C of the Value Added Tax (VAT) Act No. 14 of 2002.

(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 14% (Up to 31 March 2018 – 10%) is deducted at source.

(f) Economic Service Charge (ESC)
As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

(g) 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

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

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

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

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

5.16 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.

5. General accounting policies (Contd.)

5.17 Operating segments

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

The Company has five reportable segments, leases and hire purchases, margin trading, device financing, loans and treasury, which are the Company's strategic products / divisions. Those offer different products 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 43. 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.

5.18 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. Similar to financial guarantee contracts, under LKAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirement.

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

6. Transition disclosure

6.1 SLFRS 9 - Financial instruments

The following set out the impact of adopting SLFRS 9 on the statement of financial position and retained earnings including the effect of replacing LKAS 39 incurred loss calculation with SLFRS 9 expected credit loss.

		LKAS 39 Measurement				SLFRS 9 Measurement	
	Note	Category	Amount	Re-classification	Re-measurement expected credit losses	Amount	Category
Assets							
Cash and cash equivalents		Loans and receivables	33,074	-	(43)	33,031	Amortised cost
Placements with financial institutions		Loans and receivables	211,390	-	(48)	211,342	Amortised cost
Securities purchased under repurchase agreements		Loans and receivables	26,614	-	-	26,614	Amortised cost
Financial assets at fair value through profit or loss		Fair value through profit or loss	1,568	-	-	1,568	Fair value through profit or loss
Financial assets at amortised cost - loans and advance		Loans and receivables	852,178	-	(63,695)	788,483	Amortised cost
Financial investments - available-for-sale	(a)	Available for sale	346	(346)	-	-	
Financial assets at fair value through other comprehensive income	(a)			346		346	Fair value through other comprehensive income
Financial investments - held to maturity	(b)	Held to maturity	60,468	(60,468)	-	-	
Financial investments at amotised cost	(b)			60,468		60,468	Amortised cost
Other assets			16,108	-	-	16,108	
Income tax receivable			3,922			3,922	
Property, plant and equipment			27,677	-	-	27,677	
Intangible assets			6,336	-	-	6,336	
Deferred tax asset	(c)		19,455	-	17,860	37,315	
Total assets			**1,259,136**	**-**	**(45,926)**	**1,213,210**	
Liabilities							
Financial liabilities at amortised cost – due to customers		Amortised cost	830,565	-	-	830,565	Amortised cost
Retirement benefit obligations		Amortised cost	6,797	-	-	6,797	Amortised cost
Other liabilities		Amortised cost	11,757	-	-	11,757	Amortised cost
Total liabilities			**849,119**		**-**	**849,119**	
Equity							
Stated capital			309,889	-	-	309,889	
Statutory reserve fund			11,361	-	-	11,361	
Other reserves			60,000	-	-	60,000	
Retained earnings	6.1.(d)		28,767	-	(45,926)	(17,159)	
Total equity			**410,017**	**-**	**(45,926)**	**364,091**	
Total equity and liabilities			**1,259,136**	**-**	**(45,926)**	**1,213,210**	

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

6. Transition disclosure (Contd.)

6.1 SLFRS 9 - Financial instruments (Contd.)

(a) Financial assets previously classified under available for sale category have been reclassified as financial assets fair value through other comprehensive income (FVOCI) upon adoption of SLFRS 9.

(b) As of 1 April 2018, the Company elected to classify its previous held to maturity financial investment as financial investment measured at amortised cost since these instruments met the 'Solely payments of principal and interest' (SPPI) criterion and are held to collect its contractual cash flows.

(c) The impact of adopting SLFRS 9 on deferred tax is set out under Note 6.1 to the financial statements.

(d) The impact of transition to SLFRS 9 on retained earnings, is as follows.

	Retained earnings
Closing balance under LKAS 39 as at 31 March 2018	**28,767**
Remeasurement adjustment on adoption of SLFRS 9	
Impact of expected credit losses under SLFRS 9 (Note 6.1 (e))	(63,786)
Deferred tax impact on above	17,860
Impact of adopting SLFRS 9 to retained earnings at 1 April 2018	**(45,926)**
Opening balance under SLFRS 9 as at 1 April 2018	**(17,159)**

(e) The following table reconciles the aggregate opening loan loss provision allowance under LKAS 39 with the ECL allowance under SLFRS 9

	Note	Loan loss provision under LKAS 39 as at 31 March 2018	Re - measurement	ECL under SLFR 9 as at 1 April 2018
Cash and cash equivalents	19.1	-	43	43
Placement with financial institution	20.1	-	48	48
Lease receivable	22.1	35,281	14,947	50,228
Hire purchase	22.2	22,393	741	23,134
Factoring	22.3	215	270	485
Other loan receivable	22.5	62,898	40,107	103,005
Margin trading	22.6	2,390	1,636	4,026
Total		**123,177**	**57,792**	**180,969**

6.2 SLFRS 16 – Leases

The Company early adopted SLFRS 16, 'Leases', with effect from 1 April 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in the Standard, the Company adopted the new rules under the modified retrospective approach, where the cumulative effect of implementing the Standard shall be recognised at the date of initial application. The Company had no ongoing long-term lease contracts at 31 March 2018. Accordingly, no cumulative effect at the initial date of application.

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

The following table shows the adjustments recognised for each individual line item affected with the adoption of SLFRS 16 during the year.

		31 March 2019		
	Note	**Before SLFRS 16 adjustments**	**Impact from SLFRS 16**	**After SLFRS 16 adjustments**
Assets				
Right-of-use assets	**(a)**	-	38,062	38,062
Liabilities				
Lease liabilities	**(b)**	-	(38,837)	(38,837)
Other payables		(112,295)	2,138	110,157
Equity				
Retained earnings		(85,488)	(1,363)	(86,851)

(a) Right-of-use assets

Right-of-use assets are recognised 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 incentives received
- Any initial costs, and
- Restoration costs.

The right-of-use assets is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

(b) Lease liabilities

In accordance with provisions of SLFRS 16, lease liabilities were recognised and measured at the present value of the remaining lease payments, discounted using the lessee's increment at borrowing rate. Each lease payment is allocated between the lease liability and the finance cost. The finance cost is charged to profit or loss over the lease period at a constant periodic rate of interest on the remaining balance of the liability for each period.

(c) Practical expedients applied

In applying SLFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases, and
- Apply the Standard to contracts that were previously identified as leases applying LKAS 17, ‘Leases’ and IFRIC 4, ‘Determining whether an Arrangement contains a Lease’.

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

7. Net interest income

7.1 Interest income

	Year ended 31 March	
	2019	2018
Money market	4,825	444
Placements with financial institutions	38,996	7,100
Securities purchased under repurchase agreements	2,213	2,059
Sri Lanka government securities	5,606	5,865
Fixed deposits loan	2,202	3,367
Margin trading	11,409	24,654
Cheque discounting	7,383	36,783
Device financing	83,706	-
Merchant loan	328	-
Factoring loan	5,118	6,516
Hire purchase	1,266	6,090
Finance leases	26,246	49,746
Mortgage loan	12,064	20,597
Demand loan	4,369	11,482
Revolving loan	25,384	30,119
Total interest income	**231,115**	**204,822**

7.2 Interest expenses

	Year ended 31 March	
	2019	2018
Deposits from customers	86,676	79,722
Other borrowings	-	14,053
Total interest expense	**86,676**	**93,775**
Net interest income	**144,439**	**111,047**

8. Net fee and commission income

8.1 Fee and commission income

	Year ended 31 March	
	2019	2018
Insurance commission	174	427
Facilitation fee on device finance	90,637	-
Service charges -loan and advance	706	378
Vendor- commission device finance	226	-
Transfer fees	254	851
Other charges	4	155
Total fee and commission income	**92,001**	**1,811**

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

8.2 Fee and commission expenses

	Year ended 31 March	
	2019	2018
Commission expenses	-	25
Total fee and commission expenses	**-**	**25**
Net fee and commission income	**92,001**	**1,786**

9. Net (losses) / gains from trading

	Year ended 31 March	
	2019	2018
Equities		
Net mark - to - market (losses) / gains	(662)	225
	(662)	**225**

10. Other operating income

	Year ended 31 March	
	2019	2018
Overdue charges	6,854	5,768
Recovery loans written off	385	660
Gains from disposal of fixed assets	400	200
Dividend income	255	218
Gains from assets held for sale	-	879
Rental income and other income	65	506
Sundry income	175	20
	8,134	**8,251**

11. Impairment charges and other losses

11.1 The table below shows the expected credit loss (ECL) charges/ (reversals) for financial instruments for the year ended 31 March 2019 recorded in the statement of profit or loss.

	Year ended 31 March			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	(29)	-	-	(29)
Placements with financial institution	(14)	-	-	(14)
Lease receivables	(568)	(2,026)	(380)	(2,974)
Hire purchase receivables	(77)	(36)	(3,037)	(3,150)
Factoring receivables	3,971	-	41	4,012
Other loan receivables	(2,685)	(9,824)	49,923	37,414
Device finance receivables	8,892	27,702	61,869	98,463
Margin trading receivables	(586)	-	-	(586)
	8,904	**15,816**	**108,416**	**133,136**

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

11. Impairment charges and other losses (Contd.)

11.2 The following shows the impairment charges recorded in the income statement under LKAS 39 for the year ended 31 March 2018.

	Year ended 31 March 2018		
	Individual	**Collective**	**Total**
Lease receivables	(498)	(546)	(1,044)
Hire purchase receivables	(900)	(1,737)	(2,637)
Factoring receivables	35	(7)	28
Other loan receivables	56,704	1,180	57,884
Margin trading receivables	-	(114)	(114)
	55,341	**(1,224)**	**54,117**

12. Personnel expenses

	Year ended 31 March	
	2019	**2018**
Salaries and bonus	61,752	41,958
Seconded staff cost	54,836	-
Defined contribution plans	6,404	4,891
Defined benefit plans	1,702	1,783
Other expenses	5,839	2,481
	130,533	**51,113**

13. Depreciation and amortisation

	Year ended 31 March	
	2019	**2018**
Depreciation of property, plant and equipment (Note 27)	8,517	3,747
Amortisation of computer software (Note 28)	4,631	1,718
Amortisation of leasehold property (Note 26)	1,685	-
	14,833	**5,465**

14. Operating profit /(loss) before taxes on financial services

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

	Year ended 31 March	
	2019	**2018**
Directors' emoluments	2,550	2,343
Independent auditor's remuneration		
- Audit fees	900	565
- Other assurance and related services fees	528	1,378
Fee for professional and legal services	2,949	3,350
Depreciation on property, plant and equipment	8,518	3,747
Amortisation of intangible assets	4,632	1,718
Deposit insurance premium	1,031	1,001
Donations	5	10
Operating lease expenses	8,316	8,391

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

15. Taxes on financial services

	Year ended 31 March	
	2019	**2018**
Value added tax on financial services	125	2,866
Nations building tax on financial services	-	382
Debt repayment levy on financial services	698	-
	823	**3,248**

16. Income tax (reversal) / expense

16.1 The major components of income tax expense for the years ended are as follows:

	Year ended 31 March	
	2019	**2018**
Current tax expense		
Current tax expense for the year	-	(3,810)
Under / (over) provision of current taxes in respect of previous years	(415)	720
	(415)	**(3,090)**
Deferred tax expense		
Deferred taxation charge (Refer note 29.1)	-	12,328
	(415)	**9,238**
Effective tax rate	**0.32%**	**29.09%**

16.2 Reconciliation of effective tax rate

A reconciliation of the accounting profit / (loss) to current tax expense is as follows.

	Year ended 31 March	
	2019	**2018**
Accounting profit / (loss) before income taxation		
At the statutory income tax rate of 28%	(36,119)	(8,894)
Tax effect of non-deductible expenses	51	15,817
Tax effect of disallowable income	(1,012)	(430)
Tax effect of losses claimed	-	(2,684)
Under /(over) provision of current taxes in respect of previous years	415	(719)
Deferred Tax expense	-	(12,328)
Temporary differences for which differed tax assets were not recognized	37,080	-
	415	**(9,238)**

The Company's income is taxed at the rate of 28% during the years ended 31 March 2019 and 2018.

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

17. Earnings / (loss) per share – basic

17.1 Basic earnings / (loss) per share

	Year ended 31 March	
	2019	2018
Loss attributable to the equity holders of the Company	(129,410)	(22,525)
Weighted average number of ordinary shares during the year (Note 17.2)	65,805,173	46,519,243
Basic earnings per share (Rs.)	**(1.97)**	**(0.48)**

17.2 Weighted average number of ordinary shares

	Number of shares		Weighted average number of shares	
	2019	2018	2019	2018
Number of ordinary shares in issue as at 1 April	46,519,243	46,519,243	46,519,243	46,519,243
Number of shares issued under rights issue - 2018/19	25,714,573	-	19,285,930	-
Number of shares in issue / weighted average number of ordinary shares as at 31 March	**72,233,816**	**46,519,243**	**65,805,173**	**46,519,243**

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

17.3 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.

18. Analysis of financial instruments by measurement basis

As at 31 March 2019	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
Financial assets				
Cash and cash equivalents	91,704	-	-	91,704
Placements with banks and financial institutions	163,100	-	-	163,100
Securities purchased under repurchase agreements	17,755	-	-	17,755
Financial assets at fair value through profit or loss	-	907		907
Financial assets at amortised cost - loans and advance	991,417	-	-	991,417
Financial assets at fair value through other comprehensive income	-	-	346	346
Financial investments at amortised cost	66,368			66,368
Total financial assets	**1,330,344**	**907**	**346**	**1,331,597**
Financial liabilities				
Financial liabilities at amortised cost – due to customers	632,209			632,209
Lease liabilities	38,837			38,837
Total financial liabilities	**671,046**	**-**	**-**	**671,046**

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

As at 31 March 2018	Amortised cost	Held to maturity	Available for sale	Equity instrument - FVTOCI	Total
Financial assets					
Cash and cash equivalents	33,074	-	-	-	33,074
Placements with banks and financial institutions	211,390	-	-	-	211,390
Securities purchased under repurchase agreements	26,614	-	-	-	26,614
Financial assets at fair value through profit or loss	-	-	-	1,568	1,568
Financial investments available for sale	-	-	346	-	346
Financial assets at amortised cost - Loans and advance	852,178	-	-	-	852,178
Financial investments held to maturity	-	60,468	-	-	60,468
Total financial assets	**1,123,256**	**60,468**	**346**	**1,568**	**1,185,638**
Financial liabilities					
Financial liabilities at amortised cost – due to customers	830,565	-	-	-	830,565
Total financial liabilities	**830,565**	**-**	**-**	**-**	**830,565**

19. Cash and cash equivalents

	31 March 2019	31 March 2018
Cash in hand	19	125
Cash in eZ cash wallet	1,738	-
Balances with banks	89,961	32,949
	91,718	33,074
Less: Allowance for expected credit loss	(14)	-
	91,704	**33,074**

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

Balance as at 1 April 2018	43
Reversal for the year	(29)
Balance as at 31 March 2019	**14**

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

20. Placements with financial institutions

	31 March 2019	31 March 2018
Placements with financial institutions	163,134	211,390
Less: Allowance for expected credit losses	(34)	-
	163,100	**211,390**

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

Balance as at 1 April 2018	48
Reversal for the year	(14)
Balance as at 31 March 2019	**34**

21. Financial assets at fair value through profit or loss

	31 March 2019	31 March 2018
Quoted equity shares (Note 21.1)	907	1,568
	907	**1,568**

21.1 Quoted equity shares

	31 March			
	2019		2018	
	No of Shares	Carrying / Fair value	No of Shares	Carrying / Fair value
Balangoda Plantations PLC	22,000	256	22,000	483
Tokyo Cement Company (Lanka) PLC	8,157	169	8,157	441
Ceylon Hotels Corporation PLC.	4,715	46	4,715	71
The Kingsbury PLC	15,000	192	15,000	270
John Keells Hotels PLC	32,584	244	32,584	303
Total market value		**907**		**1,568**

22. Financial assets at amortised cost - loans and advance

	Notes	31 March 2019	31 March 2018
Lease receivables	22.1	88,820	225,076
Hire purchase receivables	22.2	2,533	15,213
Factoring receivables	22.3	91,762	39,740
Device finance receivables	22.4	588,115	-
Other loans and advances	22.5	169,742	443,514
Margin trading receivables	22.6	50,445	128,635
		991,417	**852,178**

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

22.1 Lease receivable

	31 March	
	2019	**2018**
Total lease rental receivable	159,500	320,788
Less: Unearned lease interest income	(22,216)	(59,304)
Less: VAT suspense	(184)	(220)
Less: Prepaid rentals	(1,026)	(907)
Gross lease receivable	**136,074**	**260,357**
Less: Provision for impairment		
Stage 1	(1,833)	-
Stage 2	(2,290)	-
Stage 3	(43,131)	-
Individual impairment (Note 22.1.(d))	-	(33,482)
Collective impairment (Note 22.1.(e))	-	(1,799)
Net lease receivable	**88,820**	**225,076**

Lease receivables include receivables amounting to Rs. 93,074,308 (31 March 2018 - Rs. 93,074,308) that have been assigned for funding arrangements.

(a) Maturity analysis of net lease receivable

As at 31 March 2019	**More than 1 Year**	**More than 1 - 5 Year**	**More than 5 Year**	**Total**
Total lease rental receivable	95,895	62,395	-	158,290
Less: Unearned lease interest income	(12,471)	(9,745)	-	(22,216)
Gross lease receivable	**83,424**	**52,650**	**-**	**136,074**
Less: Allowance for expected credit losses	(29,046)	(18,208)	-	(47,254)
Net lease receivable	**54,378**	**34,442**	**-**	**88,820**

As at 31 March 2018	**More than 1 Year**	**More than 1 - 5 Year**	**More than 5 Year**	**Total**
Total lease rental receivable	154,770	164,891	-	319,661
Less: Unearned lease interest income	(29,016)	(30,288)	-	(59,304)
Gross lease receivable	**125,754**	**134,603**	**-**	**260,357**
Less: Provision for impairment	(17,046)	(18,235)	-	(35,281)
Net lease receivable	**108,708**	**116,368**	**-**	**225,076**

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

22. Financial assets at amortised cost - loans and advance (Contd.)

22.1 Lease receivable (Contd.)

(b) Analysis of lease receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired lease receivable	-	-	39,239	39,239
Lease receivable- subject to collective impairment	36,602	38,550	21,683	96,835
Allowance for expected credit losses (ECL)	(1,833)	(2,290)	(43,131)	(47,254)
	34,769	**36,260**	**17,791**	**88,820**

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	2,401	4,316	43,511	50,228
Charge / (reversal) to profit or loss (Note 11.1)	(568)	(2,026)	(380)	(2,974)
Balance as at 31 March 2019	**1,833**	**2,290**	**43,131**	**47,254**

(d) Individually impaired lease receivable

Balance as at 1 April 2017	33,980
Reversal to profit or loss	(498)
Balance as at 31 March 2018	**33,482**

(e) Collectively impaired lease receivables

Balance as at 1 April 2017	2,345
Reversal to profit or loss	(546)
Balance as at 31 March 2018	**1,799**

22.2 Hire purchase receivable

	31 March	
	2019	2018
Total hire purchase rental receivable	22,751	39,534
Less: Unearned hire purchase interest income	(192)	(1,802)
Less: Prepaid rentals	(42)	(126)
Gross hire purchase receivable	**22,517**	**37,606**
Less: Provision for impairment		
Stage 1	(8)	-
Stage 2	(13)	-
Stage 3	(19,963)	-
Individual impairment (Note 22.2.(d))	-	(21,664)
Collective impairment (Note 22.2.(e))	-	(729)
Net hire purchase receivable	**2,533**	**15,213**

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

(a) Maturity analysis of net hire purchase receivable

As at 31 March 2019	More than 1 Year	More than 1 - 5 Year	More than 5 Year	Total
Total hire purchase rental receivable	22,332	377	-	22,709
Less: Unearned hire purchase interest income	(170)	(22)	-	(192)
Gross hire purchase receivable	**22,162**	**355**	**-**	**22,517**
Less: Allowance for expected credit losses	(19,672)	(312)	-	(19,984)
Net hire purchase receivable	**2,490**	**43**	**-**	**2,533**

As at 31 March 2018	More than 1 Year	More than 1 - 5 Year	More than 5 Year	Total
Total hire purchase rental receivable	35,830	3,578	-	39,408
Less: Unearned hire purchase interest income	(1,542)	(260)	-	(1,802)
Gross hire purchase receivable	**34,288**	**3,318**	**-**	**37,606**
Less: Provision for impairment	(20,360)	(2,033)	-	(22,393)
Net hire purchase receivable	**13,928**	**1,285**	**-**	**15,213**

(b) Analysis of hire purchase receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired hire purchase receivable	-	-	20,460	20,460
Hire purchase receivable- subject to collective impairment	458	911	688	2,057
Allowance for expected credit losses (ECL)	(8)	(13)	(19,963)	(19,984)
	450	**898**	**1,185**	**2,533**

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	85	49	23,000	23,134
Reversal to profit or loss [Note 11.1]	(77)	(36)	(3,037)	(3,150)
Balance as at 31 March 2019	**8**	**13**	**19,963**	**19,984**

(d) Individually impaired hire purchase receivables

Balance as at 1 April 2017	22,564
Reversal to profit or loss	(900)
Balance as at 31 March 2018	**21,664**

(e) Collectively impaired hire purchase receivables

Balance as at 1 April 2017	2,466
Reversal to profit or loss	(1,737)
Balance as at 31 March 2018	**729**

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

22. Financial assets at amortised cost - loans and advance (Contd.)

22.3 Factoring receivables

	31 March	
	2019	2018
Factoring receivable	96,259	39,955
Less: Provision for impairment		
Stage 1	(4,261)	-
Stage 3	(236)	-
Individual impairment [Note 22.3.(c)]	-	(195)
Collective impairment [Note 22.3.(d)]	-	(20)
Net Factoring receivable	**91,762**	**39,740**

(a) Analysis of Factoring receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired factoring receivable	-	-	121	121
Factoring receivable - subject to collective impairment	96,023	-	115	96,138
Allowance for expected credit losses (ECL)	(4,261)	-	(236)	(4,497)
	91,762	**-**	**-**	**91,762**

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	290	-	195	485
Charge to profit or loss [Note 11.1]	3,971	-	41	4,012
Balance as at 31 March 2019	**4,261**	**-**	**236**	**4,497**

(c) Individually impaired factoring receivables

Balance as at 1 April 2017	160
Charge to profit or loss	35
Balance as at 31 March 2018	**195**

(d) Collectively impaired factoring receivables

Balance as at 1 April 2017	27
Reversal to profit or loss	(7)
Balance as at 31 March 2018	**20**

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

22.4 Device finance receivables

	31 March 2019	2018
Device finance rental receivable	714,425	-
Device finance rental in arrears	57,496	-
	771,921	-
Unearned loan income	(85,343)	-
Gross device finance	**686,578**	**-**
Less: Provision for impairment		
Stage 1	(8,892)	-
Stage 2	(27,702)	-
Stage 3	(61,869)	-
Net device finance receivables	**588,115**	**-**

(a) Analysis of loan receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired device finance receivables	-	-	-	-
Factoring receivable - subject to collective impairment	455,827	76,079	154,672	686,578
Allowance for expected credit losses (ECL)	(8,892)	(27,702)	(61,869)	(98,463)
	446,935	**48,377**	**92,803**	**588,115**

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	-	-	-	-
Charge to profit or loss [Note 11.1]	8,892	27,702	61,869	98,463
Balance as at 31 March 2019	**8,892**	**27,702**	**61,869**	**98,463**

(c) Allowance for expected credit losses / impairment loan subject to collective impairment

	2019	2018
Opening Balance as at 1 April	-	-
Impact of adoption of SLFRS 9 as at 1 April 2018	-	-
Adjusted Balance as at 1 April	-	-
Charge to profit or loss	98,463	-
Balance as at 31 March	**98,463**	**-**

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

22. Financial assets at amortised cost - loans and advance (Contd.)

22.5 Other loans and advances

	31 March	
	2019	2018
Gross investment in other loans and advances	121,691	197,174
Other loans and advances in arrears	32,295	24,913
	153,986	**222,087**
Unearned loan income	(21,809)	(39,596)
	132,177	**182,491**
Revolving loan	81,272	175,165
Cheque discounting	86,820	148,755
Merchant loan	9,892	-
Net investment in other loans and advances	**310,161**	**506,411**
Less: Provision for impairment		
Stage 1	(2,072)	-
Stage 2	(5,709)	-
Stage 3	(132,638)	-
Individual impairment [Note 22.5.(c)]	-	(59,429)
Collective impairment [Note 22.5.(d)]	-	(3,468)
Net investment in other loans and advances after impairment	**169,742**	**443,514**

(a) Analysis of loan receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired other loans and advances receivable	-	-	86,821	86,821
Other loans and advances receivable - subject to collective impairment	78,624	33,617	111,099	223,340
Allowance for expected credit losses (ECL)	(2,072)	(5,709)	(132,638)	(140,419)
	76,552	**27,908**	**65,282**	**169,742**

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	4,757	15,533	82,715	103,005
(Reversal) / charge to profit or loss [Note 11.1]	(2,685)	(9,824)	49,923	37,414
Balance as at 31 March 2019	**2,072**	**5,709**	**132,638**	**140,419**

(c) Individually impaired loans

Balance as at 1 April 2017	2,725
Charge to profit or loss	56,704
Balance as at 31 March 2018	**59,429**

(d) Collectively impaired loans

Balance as at 1 April 2017	2,289
Charge to profit or loss	1,180
Balance as at 31 March 2018	**3,469**

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

22.6 Margin trading receivables

	31 March	
	2019	**2018**
Opening balance	131,025	173,933
Decrease in net position	(57,535)	(116,467)
Net payment and receipts	(19,605)	73,559
Margin trading receivable	**53,885**	**131,025**
Less: Provision for impairment		
Stage 1	(1,113)	-
Stage 3	(2,327)	-
Individual impairment [Note 22.6.(c)]	-	(2,327)
Collective impairment [Note 22.6.(d)]	-	(63)
Margin trading receivable	**50,445**	**128,635**

(a) Analysis of loan receivable on maximum exposure to credit risk as at 31 March 2019

	Stage 1	Stage 2	Stage 3	Total
Individually impaired margin trading receivable	-	-	2,327	2,327
Margin trading receivable - subject to collective impairment	51,558	-	-	51,558
Allowance for expected credit losses (ECL)	(1,113)	-	(2,327)	(3,440)
	50,445	**-**	**-**	**50,445**

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 April 2018	1,699	-	2,327	4,026
Reversal to profit or loss [Note 11.1]	(586)	-	-	(586)
Balance as at 31 March 2019	**1,113**	**-**	**2,327**	**3,440**

(c) Individually impaired marging trading receivables

Balance as at 1 April 2017	2,327
Charge / (reversal) to income statement	-
Balance as at 31 March 2018	**2,327**

(d) Collective impaired margin trading receivables

Balance as at 1 April 2017	177
Reversal to profit or loss	(114)
Balance as at 31 March 2018	**63**

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

23. Financial assets fair value through other comprehensive income / available-for-sale

	31 March	
	2019	**2018**
Financial investments - available-for-sale	-	346
Financial assets at fair value through other comprehensive income (FVOCI)	346	-
	346	**346**

(a) Fair value of the unquoted available for sale investments / equity instrument at FVOCI approximate to its cost.

(b) During the year ended 31 March 2019, the Company received dividends of Rs.206,400 from unquoted equity investments, and recognised as other operating income.

24. Financial investments held to maturity / financial investments at amortised cost

	31 March	
	2019	**2018**
Financial investments held to maturity	-	60,468
Financial investment at amortised cost	66,368	-
	66,368	**60,468**

The Company has classified its investments in government debt securities - Treasury bonds and Treasury bills previously classified as financial investment held to maturity as financial investment at amortised cost.

25. Other assets

	31 March	
	2019	**2018**
Other financial assets		
Amount due from related companies	6,842	-
eZ cash collection receivable	122	-
Facilitation fee receivable	11,908	-
Other financial receivables	153	
Total other financial assets	**19,025**	**-**
Other non-financial assets		
Deposits and prepayments	14,644	8,234
Inventory	28	8
Other receivable	7,959	2,398
VAT on financial service overpayment	9,867	5,468
Advances	4,160	-
Deposit insurance overpayment	139	-
Total other non-financial assets	**36,797**	**16,108**
Total other assets	**55,822**	**16,108**

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

26. Right of use (ROU) assets

	31 March	
	2019	**2018**
Right-of-use asset - Cost	39,747	-
Amortisation during the year	(1,685)	-
Total carrying amount of right of use assets	38,062	-

27. Property, plant and equipment

	Land and Buildings	Machinery and equipment	Furniture, fittings and other equipment	Computers	Motor vehicles	Total
At 31 March 2019						
Cost	23,835	7,500	22,062	37,206	240	90,843
Accumulated depreciation	(5,936)	(2,205)	(3,454)	(12,621)	(240)	(24,456)
Net book amount	**17,899**	**5,295**	**18,608**	**24,585**	**-**	**66,387**
Year ended 31 March 2019						
Opening net book amount	18,978	285	5,589	2,825	-	27,677
Additions	-	5,309	17,180	24,738	-	47,227
Disposals	-	-	-	-	-	-
Cost	334	250	6,804	138	-	7,526
Accumulated depreciation	(334)	(250)	(6,804)	(138)	-	(7,526)
Depreciation charge	(1,079)	(299)	(4,161)	(2,978)	-	(8,517)
Closing net book amount	**17,899**	**5,295**	**18,608**	**24,585**	**-**	**66,387**
Year ended 31 March 2018						
Opening net book amount	19,797	178	6,764	3,723	-	30,462
Additions	-	206	4	752	-	962
Disposals	-	-	-	-	-	-
Cost	-	-	-	-	469	469
Accumulated depreciation	-	-	-	-	(469)	(469)
Depreciation charge	(819)	(99)	(1,179)	(1,650)	-	(3,747)
Closing net book amount	**18,978**	**285**	**5,589**	**2,825**	**-**	**27,677**
At 31 March 2018						
Cost	24,167	2,441	11,686	12,607	240	51,141
Accumulated depreciation	(5,189)	(2,156)	(6,097)	(9,782)	(240)	(23,464)
Net book amount	**18,978**	**285**	**5,589**	**2,825**	**-**	**27,677**

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

27. Property, plant and equipment (Contd.)

(a) During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs.47.2Mn. (2018 - Rs.0.96Mn).

(b) Cost of fully-depreciated property, plant and equipment, which are still in use as at 31 March 2019 is Rs. 10.97Mn (31 March 2018 - Rs.10.42Mn)

(c) Information on the freehold land and buildings of the Company

	Land	Building	Cost		Carrying amount of land and building	
Address	Extent (A-R-P)	Extent (Sq.Ft.)	Land	Building	2019	2018
No : 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province	0A-0R-4.75P	3040	8,313	15,856	17,899	18,979

28. Intangible assets

	Software	Capital work-in progress (CWIP)	Total
At 31 March 2019			
Cost	69,984	29,966	99,950
Accumulated amortisation	(12,202)	-	(12,202)
Net book amount	**57,782**	**29,966**	**87,748**
Year ended 31 March 2019			
Opening net book amount	6,336	-	6,336
Additions	56,077	29,966	86,043
Amortisation charge	(4,631)	-	(4,631)
Closing net book amount	**57,782**	**29,966**	**87,748**
At 31 March 2018			
Cost	13,906	-	13,906
Accumulated amortisation	(7,570)	-	(7,570)
Net book amount	**6,336**	**-**	**6,336**
Year ended 31 March 2018			
Opening net book amount	7,904	-	7,904
Additions	150	-	150
Amortisation charge	(1,718)	-	(1,718)
Closing net book amount	**6,336**	**-**	**6,336**

(a) During the financial year, the Company acquired intangible assets (computer software) to the aggregate value of Rs.56.1Mn (31 March 2018 - Rs.0.15Mn).

(b) There were no fully amortised intangible assets of the Company as at 31 March 2019.

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

29. Deferred tax asset

29.1 Deferred tax (asset), liabilities and income tax relate to the following.

(a) The movement on the deferred income tax asset account is as follows:

	Accelerated depreciation for tax purposes					
	Property plant and equipment	Leased assets	Provision for loan losses	Retirement benefit obligation	Tax loss	Total
Balance as at 31 March 2018	2,809	16,271	(23,489)	(1,903)	(13,143)	(19,455)
Impact of adoption of SLFRS 9 [Note 6.1]	-	-	(16,182)	-	(1,678)	(17,860)
Balance as at 1 April 2018	2,809	16,271	(39,671)	(1,903)	(14,821)	(37,315)
Income statement [Note 16.1]	1,124	(5,982)	-	-	4,858	-
Other comprehensive income	-	-	-	367	-	367
Balance as at 31 March 2019	**3,933**	**10,289**	**(39,671)**	**(1,536)**	**(9,963)**	**(36,948)**
Balance as at 1 April 2017	5,219	17,674	(11,130)	(1,226)	(17,486)	(6,949)
Income statement [Note 16.1]	(2,410)	(1,403)	(12,359)	(499)	4,343	(12,328)
Other comprehensive income	-	-	-	(178)	-	(178)
Balance as at 31 March 2018	**2,809**	**16,271**	**(23,489)**	**(1,903)**	**(13,143)**	**(19,455)**

(b) The total temporary differences arising from tax losses and tax credits amounted to Rs. 316.5Mn has amounted to a deferred tax asset of Rs. 88.6Mn as at 31 March 2019. Based on the internal assessment carried out by the Management of the Company, the recognition of deferred tax asset has been limited to Rs. 51Mn. The unrecognised deferred tax asset as at 31 March 2019 was Rs 37.1Mn.

30. Financial liabilities at amortised cost – due to customers

	31 March	
	2019	2018
Financial liabilities at amortised cost – due to customers	626,058	818,291
Amortised interest payable	6,151	12,274
	632,209	830,565

31. Retirement benefit obligations

31.1 Defined benefit obligation

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

	31 March	
	2019	2018
Defined benefit obligation as of 1 April	6,797	4,380
Current service cost	954	1,256
Interest expense	748	526
Total amount recognised in profit or loss	**1,702**	**1,782**
Actuarial (gain) / loss recognised in other comprehensive income	(1,311)	635
Benefits paid	(471)	-
Defined benefit obligation as at 31 March	**6,717**	**6,797**

An actuarial valuation of the gratuity fund was carried out as at 31 March 2019 by Messrs Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuary. This obligation is not externally funded.

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

31. Retirement benefit obligation (Contd.)

31.2 Key assumptions used in the above valuation are as follows:

	2019	2018
Discount rate per annum	11.35%	11.00%
Future salary increment rate	10.00%	10.00%
Retirement age (years)	55 years	55 years
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table

Expected average future working life of the active participants is 8.61 years (2018 - 8.83 years).

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

		Year ended 31 March			
		2019		2018	
	Change in assumption	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 5.42%	Increase by 6.04%	Decrease by 6.09%	Increase by 6.81%
Future salary growth rate	1.00%	Increase by 6.52%	Decrease by 5.92%	Increase by 7.19%	Decrease by 6.52%

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.

32. Other liabilities

	31 March	
	2019	2018
Financial liabilities		
Accruals and other payables	31,216	8,316
Intercompany payables	2,823	-
Vendor payable	62,769	-
Payable to margin trading customers	1,178	2,818
Vendor payable	11,828	-
Total financial liabilities	**109,814**	**11,134**
Other non-financial liabilities		
Advance received - Others	-	37
Other payable	309	434
Advances received from repossessed assets	34	34
Sports club payable	-	118
Total other non-financial liabilities	**343**	**623**
Total other liabilities	**110,157**	**11,757**

33. Stated capital

	2019		2018	
	Number of Shares	Amount Rs. '000	Number of Shares	Amount Rs. '000
Issued and fully paid ordinary shares				
Ordinary shares as at 1 April	46,519,243	309,889	46,519,243	309,889
Rights issue (Note a)	25,714,573	599,149	-	-
Ordinary Shares as at 31 March	**72,233,816**	**909,038**	**46,519,243**	**309,889**

(a) The Company issued during the year 25,714,573 ordinary shares by way of a Rights Issue in the proportion of three hundred and nine (309) Ordinary Shares for five hundred and fifty-nine (559) Ordinary shares held in the capital of the Company and allotment of shares was finalized on 6 July 2018. The Company raised Rs. 599,149,551 from the Rights Issue and increased the Stated Capital of the Company from Rs.309,888,671 representing 46,519,243 shares to Rs.909,038,222 representing 72,233,816 shares.

34. Statutory reserve funds

	2019	2018
Balance as at 1 April	11,361	11,361
Transfers during the year	-	-
Balance as at 31 March	**11,361**	**11,361**

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly, 5% of the net profit for the year transferred to Reserve fund as long as the capital funds are not less than 25% of total deposit liabilities.

35. Other reserves

The movement of the reserves is as follows :

	General reserve	Retained earnings	Total
Balance at 1 April 2018	**60,000**	**28,767**	**88,767**
Impact of adopting SLFRS 9 as at 1 April 2018 (Note 6.1)	-	-	(45,926)
Restated balance under SLFRS 9 as at 1 April 2018	**60,000**	**(17,159)**	**42,841**
Loss for the year	-	(129,410)	(129,410)
Other comprehensive income, net of tax	-	944	944
Total comprehensive income for the year	-	(128,466)	(128,466)
Transferred to retained earnings (Note a)	(60,000)	60,000	-
Rights issue expense	-	(1,226)	(1,226)
Balance as at 31 March 2019	**-**	**(86,851)**	**(86,851)**
Balance at 1 April 2017	**60,000**	**51,749**	**111,749**
Loss for the year	-	(22,525)	(22,525)
Other comprehensive income, net of tax	-	(457)	(457)
Total comprehensive income for the year	-	(22,982)	(22,982)
Balance as at 31 March 2018	**60,000**	**28,767**	**88,767**

(a) During the year, the Management decided to transfer the general reserve to retained earnings.

(All amounts in the notes are in Sri Lanka Rupees thousands unless other wise 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-available for sale

Financial assets at fair value through OCI / Available for sale financial assets primarily consist of unquoted equity securities. The fair value of unquoted equity is assumed to approximate its cost.

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	
	2019	2018	2019	2018	2019	2018
As at 31 March 2019						
Financial Assets						
Financial assets at FVTPL	907	1,568	-	-	907	1,568
Financial assets at FVTOCI		-	346		346	-
Financial investments Available - for-Sale (Note a)	-	-		346	-	346
	907	**1,568**	**346**	**346**	**1,253**	**1,914**

(a) Value of unquoted shares of Rs. 0.34Mn as at end of the 31 March 2019 (Rs.0.34Mn as at end of 31 March 2018) categorized under financial investments available for sale, whose fair value cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

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

36.2 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 inactive markets Level 1	Significant observable input Level 2	Significant unobservable inputs Level 3	Total
As at 31 March 2019					
Financial assets					
Financial assets at amortised cost - Loans and advance	991,417	-	1,117,759	-	1,117,759
Financial investments at amortised cost (Treasury bonds)	2,021	-	1,991	-	1,991
Total financial assets	**993,438**	**-**	**1,119,750**	**-**	**1,119,750**
As at 31 March 2018					
Financial assets					
Financial assets at amortised cost - Loans and advance	852,178	-	924,906	-	924,906
Financial investments at amortised cost (Treasury bonds)	1,995	-	1,972	-	1,972
Total financial assets	**854,173**	**-**	**926,878**	**-**	**926,878**

Cash and cash equivalents, securities purchased under repurchase agreements, placements with financial institutions, financial investment at amortised cost (treasury bills), other assets and other payables carrying amounts are a reasonable approximation of fair values because, for example, they are short term in nature or re-priced to current market rates frequently.

37. Commitments and contingencies

	31 March 2019	2018
Commitments		
Commitment for unutilised facilities		
- Factoring	60,666	38,032
Lease commitments		
- Company as a lessee	50,588	-
Capital commitments	95,298	-
	206,552	**38,032**
Contingent liabilities		
Guarantees	-	-
Total commitments and contingencies	**206,552**	**38,032**

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

37. Commitments and contingencies (Contd.)

37.1 Commitment and contingencies as at 31 March 2019

	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
Commitments					
Commitment for unutilised facilities					
- Factoring	60,666	-	-	-	60,666
Lease commitments					
- Company as a lessee	-	13,541	37,047	-	50,588
Capital commitments	-	95,298	-	-	95,298
	60,666	**108,839**	**37,047**	**-**	**206,552**
Contingent liabilities					
Guarantees	-	-	-	-	-
Total commitments and contingencies	**60,666**	**108,839**	**37,047**	**-**	**206,552**

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 March 2019 which would have a material impact on the financial statements.

38. Events after the reporting period

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the financial statements other than disclosed in note 38.1.

38.1 Rights issue

During the period under review, the Company issued 19,103,158 ordinary shares by way of a Rights Issue in the proportion of thirty-two (32) Ordinary Shares for one hundred and twenty-one (121) Ordinary shares held in the capital of the Company and shares were listed on 26 April 2019. The Company raised Rs. 764,126,320 from the Rights Issue and increased the Stated Capital of the Company from Rs. 909,038,222 representing 72,233,816 shares to Rs.1,673,164,542 representing 91,336,974 shares.

39. Comparative information

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

40. Related party transactions

(a) All related party transactions were entered into in the normal course of business and at prices available at negotiated terms. The names of these related parties, nature of these transactions and their total value have been set out in accordance with the provisions of LKAS 24, 'Related Party Disclosure'.

(b) Dialog Axiata PLC owns 98.88% of the total number of shares in issue of the Company. The remaining 1.12% of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.

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

(c) Transactions with key management personnel

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 and KMP of the Company.

	Year ended 31 March	
	2019	2018
Directors' fees and short-term employee benefits	47,097	18,268
	47,097	**18,268**

In addition to the above, the Company has also paid for fuel and medical benefits to KMPs who are employees of the Company in line with the approved benefit plans of the Company.

40.1 Transactions, arrangements and agreements involving KMP and their close family members (CFMs)

(a) Loans and advances granted

No loans or advances were given to Key management personnel and their close family members during the year.

(b) Deposits and borrowings from KMPs are detailed below.

No borrowing through debt instruments were made or no investments were made by key management personnel during the year ended 31 March 2019.

40.2 Transactions, arrangements and agreements involving with related entities of KMPs.

(a) Loans and advances

There were no loan and advances granted to related companies of the KMPs of the Company.

40.3 Transactions with group companies

(a) Dialog Axiata PLC- Parent Company

The Company has not obtained any loans or facilities from parent company except as disclosed below.

Fixed deposit liability

	2019	2018
Opening balance 1 April	294,143	-
Deposit received during the year	93,446	286,265
Interest accrued during the year	36,325	7,878
Closing balance 31 March	**423,914**	**294,143**

(b) The company had the following receivable/payable balances with Dialog Axiata PLC

	31 March	
	2019	2018
Receivable	66,844	-
Payable	58,264	-

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

40. Related party transactions (Contd.)

40.3 Transactions with group companies (Contd.)

(c) Transactions during the year in the ordinary course of business with Dialog Axiata PLC, are set out below.

	Year ended 31 March	
	2019	2018
Expenses		
Interest paid	38,198	7,686
Secondment staff cost	54,836	-
Collection commission fee	3,860	-
Telephone expense	1,463	1,101
Issue of shares		
Proceeds from rights issue of shares	592,468	-

(d) Outstanding loans and advances - WSO2 Telco (Private) Limited. (Affiliate company)

	Year ended 31 March	
	2019	2018
Opening balance	20,264	-
Granted during the year	30,000	20,000
Interest income	1,813	323
Less: Repayment	(52,077)	(59)
Closing balance	**-**	**20,264**
Net accommodation as a percentage of Capital Funds	-	4.94%

(e) Outstanding payable balances with other group companies

	At 31 March	
	2019	2018
Dialog Device Trading (Private) Limited	121	-
Dialog Broadband Networks (Private) Limited	2,198	-
Dialog Business Services (Private) Limited	39	-
Digital Commerce Lanka (Private) Limited	465	-
	2,823	**-**

41. Risk management

41.1 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 Integrated Risk Management Committee (IRMC). The IRMC 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, liquidly, operation and strategic risk.
- Review the adequacy and effectiveness of all management level committees and ALCO.
- Adequacy of the Company's capital.
- Risk exposures and risk profiles of the Company are within the Risk Appetite and to make recommendations to the Board of Directors on any action required.
- Ensure the Company is compliant with relevant laws, regulations and standards.

The IRMC currently consists membership of 3 Directors (appointed by the Board).

The Assets and Liability Committee (ALCO) of the Company meets every month to asses and discuss the Risk relating to Market, Liquidity, Assets and liabilities. Credit and Investment related risks are also reviewed. Significant decisions made by ALCO is updated to the Integrated Risk Management Committee and to the Board of Directors on a quarterly basis.

Board approved Risk management policy provides the guidelines to identify, analyse and manage the risks faced by the Company and to ensure the risks are maintained within the risk appetite of the Company through necessary controls and setting of limits. The policy also stipulates the process of ongoing monitoring of the identified risks. Risk policy and Risk Management framework are reviewed regularly to reflect changes in the market conditions, products and services offered. Employees of the Company are constantly provided with updates and are enlightened of their roles and responsibilities through training, procedures and disciplined control environment maintained by the Company.

The Company adopts the Three Lines of Defence model in managing risks. The oversight responsibilities are outlined below,

(i) 1st Line of Defence

Department Head / Manager should identify, assess, monitoring and reporting risks

(ii) 2nd Line of Defence

Head Risk Management, Head Legal and Compliance, ALCO and IRMC will develop, implement and monitor effective Enterprise Risk Management Framework to ensure risks are within the risk appetite of the Company

(iii) 3rd Line of Defence

Oversight by Internal Audit and Audit Committee

41. Risk management (Contd.)

41.1 Introduction (Contd.)

In addition to the IRMC and ALCO, the Enterprise Risk Management function in the Company is carried out by Risk Management Department (RMD). RMD is responsible for implementing and maintaining the risk management framework including, implementing the risk policy, maintaining the risk registers and ensuring risk mitigating actions are taken by closely working with the relevant departments in the Company. This unit submits a monthly report to Board on identified key risks to the Company.

Based on the above the Company is exposed to Credit Risk, Market Risk- Interest Rate Risk, Liquidity Risk, Regulatory and Compliance Risk, Operations Risk and Reputation Risk.

41.2 Credit Risk

Credit risk, or default risk, is the risk that a financial loss will be incurred if a counterparty to a (derivatives) transaction does not fulfill its financial obligations in a timely manner. It is therefore a function of the following: the value of the position exposed to default (the credit or credit risk exposure); the proportion of this value that would be recovered in the event of a default; and the probability of default. The risk is primarily that of the lender and includes lost capital and interest, disruption to cash flows, and results in accelerated recovery costs.

The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Managing Credit Risk

The Company manages its credit risk through a robust credit model that considers the behavioural pattern of individual customers. In addition, the Company also carries out rigorous screening and review process of facilities granted to corporates and their loan limits are assigned considering the collateral, the repayment ability, Guarantors and financial position of the borrower.

Post disbursement of the facility, ongoing monitoring is carried out by Credit Risk Management Department whilst also carrying out monthly performance review of Corporate clients to identify potential warning signs of default and taking corrective action such as reporting to the relevant relationship managers.

(a) Impairment Assessment (Policy applicable from 1 April 2018)

The model of impairment assessment has been explained in Note 5.3.(a) under Accounting policies. The references below should be read in conjunction with those Accounting policies.

(i) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- 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 when the SLFRS 9 lifetime PD has doubled since initial recognition.

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

41. Risk management (Contd.)

41.2 Credit Risk (Contd.)

(b) Credit quality by class of financial assets

	Note	At 31 March 2019					At 31 March 2018				
		Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	%	Neither past due nor individually impaired	Past due but not individually impaired	Individually impaired	Total	%
Assets											
Cash and cash equivalents	19	91,718	-	-	91,718	5.51%	33,074	-	-	33,074	2.53%
Placements with financial institutions	20	163,134	-	-	163,134	9.80%	211,390	-	-	211,390	16.15%
Securities purchased under repurchase agreements		17,755	-	-	17,755	1.07%	26,614	-	-	26,614	2.03%
Financial assets at fair value through profit or loss	21	907	-	-	907	0.05%	1,568	-	-	1,568	0.12%
Lease receivable	22.1	27,323	69,512	39,239	136,074	8.17%	62,218	157,789	40,350	260,357	19.89%
Hire purchase rental receivable	22.2	212	1,845	20,460	22,517	1.35%	3,995	9,918	23,693	37,606	2.87%
Factoring receivable	22.3	96,023	115	121	96,259	5.78%	39,760	-	195	39,955	3.05%
Device finance receivable	22.4	374,342	312,236	-	686,578	41.24%	-	-	-	-	-
Other loans and advances	22.5	61,882	83,313	164,967	310,161	18.63%	349,351	78,036	79,024	506,411	38.69%
Margin trading receivable	22.6	51,558	-	2,327	53,885	3.24%	128,698	-	2,327	131,025	10.01%
Financial investments - available-for-sale	23	-	-	-	-	-	346	-	-	346	0.03%
Financial assets at fair value through other comprehensive income	23	346	-	-	346	0.02%	-	-	-	-	
Financial investments - held to maturity	24	-	-	-	-		60,468	-	-	60,468	4.62%
Financial investment at amortised cost	24	66,368	-	-	66,368	3.99%	-	-	-	-	-
Other financial assets	25	19,025	-	-	19,025	1.14%	-	-	-	-	-
Total		970,593	467,021	227,114	1,664,727	100.00%	917,481	245,743	145,588	1,308,814	100.00%

(All amounts in the notes are in Sri Lanka Rupees thousands unless other wise 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

	At 31 March 2019					At 31 March 2018				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Lease receivable	9,308	11,146	27,404	21,654	69,512	45,046	28,659	38,035	46,049	157,789
Hire purchase rental receivable	246	725	186	688	1,845	3,450	660	1,913	3,895	9,918
Factoring receivable	-	-	-	115	115	-	-	-	-	-
Device finance receivable	81,485	45,116	30,963	154,672	312,236	-	-	-	-	-
Other loans and advances	16,743	25,099	8,518	32,953	83,313	12,868	16,696	10,653	37,819	78,036
Total	**107,782**	**82,086**	**67,071**	**210,082**	**467,021**	**61,364**	**46,015**	**50,601**	**87,763**	**245,743**

(c) Maximum exposure to credit risk

	At 31 March 2019		At 31 March 2018	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
Financial assets				
Cash and cash equivalents	91,718	91,704	33,074	33,074
Placements with financial institutions	163,134	163,100	211,390	211,390
Securities purchased under repurchase agreements	17,755	17,755	26,614	26,614
Financial assets at fair value through profit or loss	907	907	1,568	1,568
Lease receivable	136,074	88,820	260,357	225,076
Hire purchase rental receivable	22,517	2,533	37,606	15,213
Factoring receivable	96,259	91,762	39,955	39,740
Device finance receivable	686,578	588,115		
Other loans and advances	310,161	169,742	506,411	443,514
Margin trading receivable	53,885	50,445	131,025	128,635
Financial investments - available-for-sale	-	-	346	346
Financial assets at fair value through other comprehensive income	346	346	-	-
Financial investments - held to maturity	-	-	60,468	60,468
Financial investments at amortised cost	66,368	66,368	-	-
Other financial assets	19,025	19,025	-	-
Total financial assets	**1,664,727**	**1,350,622**	**1,308,814**	**1,185,638**

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

41. Risk management (Contd.)

41.2 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 March 2019	Manu-facturing	Tourism	Agri-culture	Trade	Cons-truction	Transport	Services	Gover-nment	Financial Institutions	Con-sumption	Others	Total
Cash and cash equivalents	-	-	-	-	-	-	-	-	91,704	-	-	91,704
Placements with financial institutions	-	-	-	-	-	-	-	-	163,100	-	-	163,100
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	17,755	-	-	17,755
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	907	907
Lease receivable	650	-	-	-	1,239	32,742	2,564	-	-	51,625	-	88,820
Hire purchase rental receivable	-	-	-	-	-	-	-	-	-	2,533	-	2,533
Factoring receivable	-	-	-	4,152	55,160	22,391	10,059	-	-	-	-	91,762
Device finance receivable	-	-	-	-	-	-	-	-	-	588,115	-	588,115
Other loans and advances	56,299	-	9	53,825	11,423	7,557	9,086	-	-	31,543	-	169,742
Margin trading receivable	-	-	-	50,445	-	-	-	-	-	-	-	50,445
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	346	346
Financial investments at amortised cost	-	-	-	-	-	-	-	66,368	-	-	-	66,368
Other financial assets	-	-	-	-	-	-	-	-	-	-	19,025	19,025
Total	**56,949**	**-**	**9**	**108,422**	**67,822**	**62,690**	**21,709**	**66,368**	**272,559**	**673,816**	**20,278**	**1,350,622**

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

As at 31 March 2018	Manu-facturing	Tourism	Agri-culture	Trade	Cons-truction	Transport	Services	Gover-nment	Financial Institutions	Con-sumption	Others	Total
Cash and cash equivalents	-	-	-	-	-	-	-	-	33,074	-	-	33,074
Placements with financial institutions	-	-	-	-	-	-	-	-	211,390	-	-	211,390
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	26,614	-	-	26,614
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	1,568	1,568
Lease receivable	6,260	-	-	-	1,594	76,783	6,245	-	-	134,194	-	225,076
Hire purchase rental receivable	-	-	-	-	-	5,204	-	-	-	10,009	-	15,213
Factoring receivable	-	-	-	39,740	-	-	-	-	-	-	-	39,740
Other loans and advances	133,565	-	12,937	121,176	40,758	219	48,223	-	-	86,636	-	443,514
Margin trading receivable	-	-	-	128,635	-	-	-	-	-	-	-	128,635
Financial investments - Available-for-sale	-	-	-	-	-	-	-	-	-	-	346	346
Financial investments - held to maturity	-	-	-	-	-	-	-	60,468	-	-	-	60,468
Total	**139,825**	**-**	**12,937**	**289,551**	**42,352**	**82,206**	**54,468**	**60,468**	**271,078**	**230,839**	**1,914**	**1,185,638**

41.3 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.

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

41. Risk management (Contd.)

41.3 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 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 categorized by the earlier of contractual reprising or maturity dates.

As at 31 March 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	91,704	-	-	-	-		91,704
Placements with financial institution	163,100	-	-	-	-		163,100
Securities purchased under repurchase agreements	17,755	-	-	-	-		17,755
Financial assets at fair value through profit or loss	-	-	-	-	-	907	907
Lease receivables	34,524	19,861	31,201	3,234	-	-	88,820
Hire purchase receivables	2,440	50	43	-	-	-	2,533
Factoring receivables	91,762	-	-	-	-	-	91,762
Device finance receivables	143,179	313,021	131,915	-	-	-	588,115
Other loans and advance receivables	103,526	31,548	30,549	4,119	-	-	169,742
Margin trading receivables	50,445	-	-	-	-		50,445
Financial assets at fair value through other comprehensive income	-	-	-	-	-	346	346
Financial investments at amortised cost	64,347	75	1,946	-	-	-	66,368
Other assets	-	-	-	-	-	19,025	19,025
Total financial assets	**762,782**	**364,555**	**195,654**	**7,353**	**-**	**20,278**	**1,350,622**
Financial liabilities							
Financial liabilities at amortised cost – due to customers	580,294	26,256	25,185	474	-	-	632,209
Lease liabilities	2,427	7,282	19,419	9,709	-	-	38,837
Other financial liabilities	-	-	-	-	-	109,816	109,816
Total financial liabilities	**582,721**	**32,538**	**44,604**	**10,183**	**-**	**109,816**	**780,862**
Interest sensitivity gap	**180,061**	**331,017**	**151,050**	**(2,830)**	**-**	**(89,538)**	**569,760**

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

As at 31 March 2018	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	33,074	-	-	-	-	-	33,074
Placements with financial institution	-	211,390	-	-	-	-	211,390
Securities purchased under repurchase agreements	26,614	-	-	-	-	-	26,614
Financial assets at fair value through profit or loss	-	-	-	-	-	1,568	1,568
Lease receivables	66,269	42,473	90,576	24,675	1,083	-	225,076
Hire purchase receivables	11,361	2,603	1,249	-	-	-	15,213
Factoring receivables	39,740	-	-	-	-	-	39,740
Device finance receivables	-	-	-	-	-	-	-
Other loans and advance receivables	269,573	88,542	70,084	15,315	-	-	443,514
Margin trading receivables	128,635	-	-	-	-	-	128,635
Financial Investments-available for sale	-	-	-	-	-	346	346
Financial Investments-held to maturity	-	-	-	-	-	60,468	60,468
Total financial assets	**575,266**	**345,008**	**161,909**	**39,990**	**1,083**	**62,382**	**1,185,638**
Financial liabilities							
Financial liabilities at amortised cost – due to customers	474,061	339,393	16,691	420	-	-	830,565
Other liabilities	-	-	-	-	-	11,134	11,134
Total financial liabilities	**474,061**	**339,393**	**16,691**	**420**	**-**	**11,134**	**841,699**
Interest sensitivity gap	**101,205**	**5,615**	**145,218**	**39,570**	**1,083**	**51,248**	**343,939**

41.4 Liquidity risk

The risk of an organization not having funds to meet its payment obligations is defined as liquidity risk. The Company has maintained sufficient levels during the financial year. Liquidity risk can provide serious threats to the existence of a finance company, this was evident in the recent past in some finance companies.

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 developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required. A key element of these systems is monitoring and assessing the firm's current and future fund requirement including debt obligations and planning for any unexpected funding needs, regardless of whether they arise from firm-specific factors, or from systemic (economy-wide) factors.

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

41. Risk management (Contd.)

41.4 Liquidity risk (Contd.)

41.4.1 Statutory liquid asset ratio

Statutory liquid asset calculation is performed based on the following calculations as prescribed in section 2, 3 and 4 of the finance companies (liquid assets) direction No.04 of 2013.

The Company's liquid asset ratio is 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction). Liquid assets are maintained with Sri Lanka Government securities.

41.4.2 Contractual maturities of undiscounted cash flows of financial assets and financial liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 March 2019.

As at 31 March 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Financial assets						
Cash and cash equivalents	91,704	-	-	-	-	91,704
Placements with Financial Institution	163,100	-	-	-	-	163,100
Securities purchased under repurchase agreements	17,755	-	-	-	-	17,755
Financial assets at fair value through profit or loss	907	-	-	-	-	907
Lease receivables	58,255	41,135	56,858	5,442	-	161,690
Hire purchase receivables	22,723	1,031	377	-	-	24,131
Factoring receivables	96,260	-	-	-	-	96,260
Device finance receivables	198,638	415,616	159,270	-	-	773,524
Other loans and advance receivables	226,736	52,622	55,281	7,860	-	342,499
Margin trading receivables	53,886	-	-	-	-	53,886
Financial assets at fair value through other comprehensive income	-	-	-	-	346	346
Financial investments at amortised cost	64,347	75	1,946	-	-	66,368
Other financial assets	19,025	-	-	-	-	19,025
Total financial assets	**1,013,336**	**510,479**	**273,732**	**13,302**	**346**	**1,811,195**
Financial liabilities						
Financial liabilities at amortised cost – due to depositors	588,603	27,937	28,520	475	-	645,535
Lease liabilities	2,529	7,588	20,235	20,235	-	50,587
Other liabilities	91,064	18,752	-	-	-	109,816
Total financial liabilities	**673,785**	**52,290**	**44,604**	**10,183**	**-**	**780,862**
Net financial assets / liabilities	**339,551**	**458,189**	**229,128**	**3,119**	**346**	**1,030,333**

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

As at 31 March 2018	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Financial assets						
Cash and cash equivalents	33,074	-	-	-	-	33,074
Placements with financial institution	-	211,390	-	-	-	211,390
Securities purchased under repurchase agreements	26,614	-	-	-	-	26,614
Financial assets at fair value through profit or loss	1,568	-	-	-	-	1,568
Lease receivables	82,461	70,905	131,772	31,640	1,346	318,124
Hire purchase receivables	27,490	8,253	3,536	-	-	39,279
Factoring receivables	39,955	-	-	-	-	39,955
Device finance receivables	-	-	-	-	-	-
Other loans and advance receivables	331,178	104,591	91,307	18,107	-	545,183
Margin trading receivables	131,026	-	-	-	-	131,026
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-
Financial investments-available for sale	-	-	-	-	346	346
Financial investments-held to maturity	75	58,473	-	1,920	-	60,468
Total financial assets	**673,441**	**453,612**	**226,615**	**51,667**	**1,692**	**1,407,027**
Financial liabilities						
Financial liabilities at amortised cost – due to customers	484,672	345,660	18,023	432	-	848,787
Other financial liabilities	9,470	1,664	-	-	-	11,134
Total financial liabilities	**494,142**	**347,324**	**18,023**	**432**	**-**	**859,921**
Net financial assets / liabilities	**179,299**	**106,288**	**208,592**	**51,235**	**1,692**	**547,106**

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

42. Maturity analysis

As at 31 March 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	No contractual maturity	Total
Assets						
Cash and cash equivalents	91,704	-	-	-	-	91,704
Placements with financial institution	163,100	-	-	-	-	163,100
Securities purchased under repurchase agreements	17,755	-	-	-	-	17,755
Financial assets at fair value through profit or loss	907	-	-	-	-	907
Lease receivables	34,524	19,861	31,201	3,234	-	88,820
Hire purchase receivables	2,440	50	43	-	-	2,533
Factoring receivables	91,763	-	-	-	-	91,762
Device finance receivables	143,179	313,021	131,915	-	-	588,115
Other loans and advance receivables	103,526	31,548	30,549	4,119	-	169,742
Margin trading receivables	50,445	-	-	-	-	50,445
Financial asset at fair value through other comprehensive income	-	-	-	-	346	346
Financial investments at amortised cost	64,347	75	1,946	-	-	66,368
Other assets	32,468	23,354	-	-	-	55,822
Income tax receivable	4,904					4,904
Right-of-use assets	-	-	-	-	38,062	38,062
Property, plant and equipment	-	-	-	-	66,387	66,387
Intangible assets	-	-	-	-	87,748	87,748
Deferred tax assets	-	-	36,948	-	-	36,948
Total assets	**801,062**	**387,909**	**232,602**	**7,353**	**192,543**	**1,621,468**
Liabilities						
Financial liabilities at amortised cost						
Financial liabilities at amortised cost–due to customers	580,294	26,256	25,185	474	-	632,209
Retirement benefit obligations	-	-	-	-	6,717	6,717
Lease liabilities	2,427	7,282	19,419	9,709	-	38,837
Other liabilities	91,404	18,753	-	-	-	110,157
Total liabilities	**674,125**	**52,291**	**44,604**	**10,183**	**6,717**	**787,920**
Equity						
Stated capital	-	-	-	-	909,038	909,038
Statutory reserve fund	-	-	-	-	11,361	11,361
Retained earnings	-	-	-	-	(86,851)	(86,851)
Total equity	**-**	**-**	**-**	**-**	**833,548**	**833,548**
Total liabilities and equity	**674,125**	**52,291**	**44,604**	**10,183**	**840,265**	**1,621,468**

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

As at 31 March 2018	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	No contractual maturity	Total
Assets						
Cash and cash equivalents	33,074	-	-	-	-	33,074
Placements with financial institution	-	211,390	-	-	-	211,390
Securities purchased under repurchase agreements	26,614	-	-	-	-	26,614
Financial assets at fair value through profit or loss	1,568	-	-	-	-	1,568
Lease receivables	66,269	42,473	90,576	24,675	1,083	225,076
Hire purchase receivables	11,361	2,603	1,249	-	-	15,213
Factoring receivables	39,740	-	-	-	-	39,740
Device finance receivables	-	-	-	-	-	-
Other loans and advance receivables	269,573	88,542	70,084	15,315	-	443,514
Margin trading receivables	128,635	-	-	-	-	128,635
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	-
Financial investments-available for sale	-	-	-	-	346	346
Debt instruments at amortised cost	-	-	-	-	-	-
Financial investments-held to maturity	75	58,473	-	1,920	-	60,468
Other assets	1,806	13,542	760	-	-	16,108
Income tax receivable	3,922					3,922
Right-of-use assets	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	27,677	27,677
Intangible assets	-	-	-	-	6,336	6,336
Deferred tax assets	-	-	19,455	-	-	19,455
Total assets	**582,637**	**417,023**	**182,124**	**41,910**	**35,442**	**1,259,136**
Liabilities						
Financial liabilities at amortised cost–due to customers	474,061	339,393	16,691	420	-	830,565
Retirement benefit obligations	-	-	-	-	6,797	6,797
Other liabilities	9,623	2,134	-	-	-	11,757
Total liabilities	**483,684**	**341,527**	**16,691**	**420**	**6,797**	**849,119**
Equity						
Stated capital	-	-	-	-	309,889	309,889
Statutory reserve fund	-	-	-	-	11,361	11,361
Other reserves	-	-	-	-	60,000	60,000
Retained earnings	-	-	-	-	28,767	28,767
Total equity	**-**	**-**	**-**	**-**	**410,017**	**410,017**
Total liabilities and equity	**483,684**	**341,526**	**16,691**	**420**	**416,815**	**1,259,136**

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

43. Financial reporting by segment

	Leasing and Hire purchase		Treasury/ Investments		Margin Trading		Other loan and advance		Device Financing		Unallocated		Total	
For the year ended 31 March	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net interest income	15,595	32,070	30,934	2,166	7,467	13,076	32,770	63,735	57,673	-	-	-	144,439	111,047
Net Fees and commission income	-	209	-	-	-	-	710	324	90,863	-	428	1,253	92,001	1,786
Other income	3,184	3,999	(407)	225	-	-	2,348	1,782	1,772	-	575	2,470	7,472	8,476
Operating income by segment	**18,779**	**36,278**	**30,527**	**2,391**	**7,467**	**13,076**	**35,828**	**65,841**	**150,308**	**-**	**1,003**	**3,723**	**243,912**	**121,309**
Total operating income	**18,779**	**36,278**	**30,527**	**2,391**	**7,467**	**13,076**	**35,828**	**65,841**	**150,308**	**-**	**1,003**	**3,723**	**243,912**	**121,309**
Impairment (charges) / reversals and other losses	6,124	3,683	43	-	586	113	(41,428)	(57,913)	(98,461)	-	-	-	(133,136)	(54,117)
Net operating income	**24,903**	**39,961**	**30,570**	**2,391**	**8,053**	**13,189**	**(5,600)**	**7,928**	**51,847**	**-**	**1,003**	**3,723**	**110,776**	**67,192**
Operating expenses	(6,444)	(7,954)	(23,652)	(10,917)	(3,558)	(4,258)	(18,445)	(15,998)	(41,483)	-	-	-	(93,582)	(39,127)
Depreciation and amortisation	(1,021)	(1,109)	(3,749)	(1,526)	(564)	(595)	(2,924)	(2,235)	(6,575)	-	-	-	(14,833)	(5,465)
Segment result	**17,438**	**30,898**	**3,169**	**(10,052)**	**3,931**	**8,336**	**(26,969)**	**(10,305)**	**3,789**	**-**	**1,003**	**3,723**	**2,361**	**22,600**
Personnel expenses													(130,533)	(51,113)
Loss from operations													**(128,172)**	**(28,513)**
VAT on Financial services													(823)	(3,248)
Income tax (expense)/reversal													(415)	9,238
Net loss for the year													**(129,410)**	**(22,523)**
Other information														
Segment assets	91,353	240,289	335,322	329,772	50,445	128,635	261,504	483,254	588,115	-	294,729	77,186	1,621,468	1,259,136
Total assets	**91,353**	**240,289**	**335,322**	**329,772**	**50,445**	**128,635**	**261,504**	**483,254**	**588,115**	**-**	**294,729**	**77,182**	**1,621,468**	**1,259,136**
Segment liabilities	54,253	172,625	199,140	236,910	29,958	92,412	155,301	347,172	349,268	-	-	-	787,920	849,119
Total liabilities	**54,253**	**172,625**	**199,140**	**236,910**	**29,958**	**92,412**	**155,301**	**347,172**	**349,268**	**-**	**-**	**-**	**787,920**	**849,119**

Five Year Summary

Income Statements

Year ended 31 March	2019	2018	2017	2016	2015
Interest income	231,115	204,822	172,195	163,872	173,414
Interest expense	(86,676)	(93,775)	(75,481)	(72,246)	(87,048)
Net interest income	144,439	111,047	96,714	91,626	86,366
Other income	99,473	10,262	8,360	10,727	15,934
Total operating income	243,912	121,309	105,074	102,353	102,300
Impairment charges and other losses	(133,136)	(54,117)	(143)	(22,893)	(19,669)
Net operating income	110,776	67,192	104,931	79,460	82,631
Operating expenses	(238,948)	(95,707)	(89,256)	(82,129)	(82,041)
Operating profit	(128,172)	(28,515)	15,675	(2,669)	590
Taxes on financial service	(823)	(3,248)	(6,678)	(3,321)	(2,672)
Profit/(loss) before tax for the year	(128,995)	(31,763)	8,997	(5,990)	(2,082)
Income tax (expense)/reversal	(415)	9,238	(4,252)	2,896	10,848
Profit/(loss) for the year	**(129,410)**	**(22,525)**	**4,745**	**(3,094)**	**8,766**

Statements of Financial Position

As at 31 March	2019	2018	2017 (Restated)	2016	2015
Assets					
Cash and cash equivalents and short-term funds	272,559	271,078	48,093	71,395	72,118
Financial assets at amortised cost-loan and advance	991,417	852,178	1,127,386	916,689	943,618
Financial investment at amortised cost	66,368	60,468	43,534	40,137	40,565
Property, plant and equipment and intangible assets	154,135	34,013	38.366	55,274	60,337
Other assets	136,989	41,399	26,210	35,103	34,379
Total assets	**1,621,468**	**1,259,136**	**1,283,589**	**1,118,598**	**1,151,017**
Liabilities and Shareholders' Funds					
Financial liabilities at amortised cost - due to customers	632,209	830,565	577,660	617,229	680,439
Borrowings	-	-	254,143	25,658	104,991
Other liabilities	155,711	18,554	18,788	33,366	36,062
Shareholders' funds	833,548	410,017	432,998	442,345	329,526
Total liabilities and shareholders' funds	**1,621,468**	**1,259,136**	**1,283,589**	**1,118,598**	**1,151,017**
Ratios					
Return on average assets	-9.0%	-2.5%	0.4%	-0.5%	1.0%
Return on equity	-20.8%	-5.1%	1.0%	-1.0%	3.0%
Net interest margin	9.8%	8.7%	8.0%	8.0%	7.0%

Share Information

Information on Ordinary Shares of the Company

Market price per share

For the year ended 31 March	2019 Rs.	2018 Rs.
Highest price	78.70	39.00
Lowest price	28.60	22.00
Last traded price	35.50	25.00

Shareholders' Information

Twenty largest shareholders of the Company

	Name of Shareholders	No. of shares	% Holding
1	Dialog Axiata PLC	71,421,450	98.88%
2	Mr. R.C.J Goonewardene	106,589	0.15%
3	Mr. L.C.Y Welikala	22,600	0.03%
4	Mr. P.S.M. Fernando	22,173	0.03%
5	Mr. R.E. Rambukwella	20,647	0.03%
6	Mrs. A.A. Raaymakers	19,802	0.03%
7	Mr. K.N.R.L.W. Nandasiri / Mr. T.B.Ratna Sujeewa	18,632	0.03%
8	Mr. K.A.D.R.N. Gunawardena	16,080	0.02%
9	People's Leasing & Finance PLC /C.D. Kohombanwickramage	16,066	0.02%
10	Mr. B.C.V Mendis	15,727	0.02%
10	Mr. B.C.N Mendis	15,727	0.02%
12	Mr. S.L Paranamange	13,700	0.02%
13	Mr. W.S Perera / MRS. H.M.C.M. Perera	12,911	0.02%
14	Mr. R.L.G. Fernando	12,000	0.02%
15	Mr. N.S. Wijesekara	11,813	0.02%
16	Mr. O.W.D Yasapala	11,000	0.02%
17	Mr. G.D.M Ranasinghe/ Mr. O.R.K Ranasinghe	10,000	0.01%
18	Mr. H.V.S.M Navaratne	10,000	0.01%
19	Mr. T.D Mahaliyana	9,940	0.01%
20	Mr. T. Thiruthtanigainathan	9,763	0.01%
		71,796,620	**99.39%**
	Others	437,196	0.61%
	Total	**72,233,816**	**100.00%**

Directors' shareholdings

Directors'/ CEO's Holding in Shares as at 31 March	2019	2018
Dr. Hans Wijayasuriya	Nil	Nil
Mr. Supun Weerasinghe	Nil	Nil
Mr. Sheyantha Abeykoon	Nil	Nil
Mr. Priyan Edirisinghe	Nil	Nil
Mr. Roshaan Hettiaratchi	Nil	Nil
Mr. Asanga Priyadarshana	Nil	Nil

Share Information

Public shareholdings

Information pertaining to public shareholding is as follows:

	31 March 2019	31 March 2018
Public holding percentage	1.12%	1.13%
Number of public shareholders	779	544

(a) Float Adjusted Market Capitalization as at 31 March 2019 was - Rs. 28,720,165

(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"). However, in terms of Listing Rule 7.13.3 (iii), the CSE has granted an exemption to the Company up to 2 August 2019 to comply with the minimum public holding requirement, subject to the Company making appropriate disclosures to the market in this regard.

Utilisation of proceeds from the rights issue as at 31 March 2019

Objective number	Objective as per Circular	Amount allocated as per Circular Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds Rs. (A)	% of total proceeds	Amounts utilised Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To expand the lending portfolio of the company	597,609,551	Financial year 2018/19	597,923,694	99.80%	434,823,824	73%	Remaining funds are placed with Banks and Financial Institutes
2	Expenses relating to the R/I	1,540,000	Financial year 2018/19	1,225,857	0.20%	1,225,8578	100%	-

The proceeds of the rights issue was utilised only for the objectives specified in the circular to shareholders in respect of the issue.

Distribution of Shareholders

Description	Resident			Non Resident			Total		
	Number of Share-holders	No. of Shares	(%)	Number of Share-holders	No. of Shares	(%)	Number of Share-holders	No. of Shares	(%)
1 to 1000 Shares	630	105,253	0.15	7	2,745	0	637	107,998	0.15
1001 to 10000 Shares	119	337,003	0.47	8	31,898	0.04	127	368,901	0.51
10001 to 100000 Shares	14	228,878	0.32	-	-	0	14	228,878	0.32
100001 to 1000000 Shares	1	106,589	0.15	-	-	0	1	106,589	0.15
Over 1000000 Shares	1	71,421,450	98.87	-	-	0	1	71,421,450	98.87
Total	**765**	**72,199,173**	**99.96**	**15**	**34,643**	**0.04**	**780**	**72,233,816**	**100**

Categories of Shareholders	No. of Shareholders	No. of Shares
Individual	742	756,942
Institutional	38	71,476,874
Total	**780**	**72,233,816**

Related Party Transactions

Declaration

The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

Non - Recurrent Related Party Transactions exceeding 10% of the Equity or 5% of the Total assets of the Company (Disclosure as per section 9 of the CSE Listing Rules)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholders' equity of the Company or 5% of the Total Assets of the Company as at 31 March 2019.

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

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate value of Related Party Transactions entered into during the financial year	Aggregate value of Related Party Transactions as a % of Net Revenue/ Income	Terms and conditions of the Related Party Transactions
Dialog Axiata PLC	Parent Company	Fixed Deposit	Deposits received – 93,446 (Rs.'000)	38.31%	- 1 Month (renewable)
Dialog Axiata PLC	Parent Company	Fixed Deposit	Interests accrued – 36,325 (Rs.'000)	14.89%	- Rate of Interest - 10%
Dialog Axiata PLC	Parent Company	Receivable – Rental collections on behalf of the Company	65,106 (Rs.'000)	27.40%	Collection Commission – 2% of charged.
		Balance - eZ Cash Wallet	1,738 (Rs.'000)		
Dialog Axiata PLC	Parent Company	Payables in respect of seconded staff	54,044 (Rs.'000)	23.89%	Reimbursement of actual expense
		Telephone bill payable	359 (Rs.'000)		Accrued telephone expenses
		Collection commission payable	3,860 (Rs.'000)		Accrued collection commission for rental collection

Other Disclosures pertaining to Related Party Transactions

Further to the disclosures of RPT made in Note 40 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 deem as irrecoverable.

Value Added Statement

(All amounts in Sri Lanka Rupees thousands)

For the year ended 31 March	2019	2018
Direct Economic Value Generated		
Interest income	231,115	204,822
Fee and commission income	92,001	1,811
Other income	7,472	8,476
	330,588	**215,109**
Economic Value Distributed		
To Depositors and Lenders		
Interest expense	86,676	93,775
	86,676	**93,775**
Operating Costs		
Depreciation and amortisation	14,833	5,465
Fee and commission expenses	-	25
Other expenses	93,528	39,048
	108,361	**44,538**
To Employees		
Salary and Bonus	116,588	41,958
Other Benefits	13,945	9,155
	130,533	**51,113**
Payments to Government		
Income tax expense / (reversal)	415	(9,238)
Taxes on financial services	823	3,248
Crop insurance levy	54	81
	1,292	**(5,909)**
Payments to Providers of Capital		
Dividends to shareholders	-	-
	-	**-**
Economic value distributed	326,862	183,517
Economic value retained	3,726	31,592
	330,588	**215,109**

Glossary of Financial Terms

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial assumptions
An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Amortisation
The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised cost
The amount at which the financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Asset and liability committee (ALCO)
A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Available -for -sale financial assets
Non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Capital adequacy ratio
The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash
Cash on hand and demand deposits.

Cash equivalents
Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows
Inflows and outflows of cash and cash equivalents.

Capital funds
Capital funds shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.

Collectively assessed impairment
Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commitments
Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Glossary of Financial Terms

Compounded annual growth rate (CAGR)
The rate at which a variable would have grown if it grew at an even rate compounded annually

Contingencies
A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contract
An agreement between two or more parties that creates enforceable rights and obligations.

Control
An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate governance
The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Cost to income ratio
Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk
Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit risk mitigation
A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits
Money deposited by account holders. Such funds are recorded as liabilities.

Deferred tax
Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency
A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful asset.

Derecognition
Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Discount rate
A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend cover
Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Glossary of Financial Terms

Dividend pay-out ratio
Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)
Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend yield
Dividend earned per share as a percentage of its market value.

Earnings per share
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
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
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 & interest and expected drawdowns of committed facilities.

Exposure
A claim, contingent claim or position which carries a risk of financial loss.

Factoring
A time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss
A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Glossary of Financial Terms

Finance lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial asset
Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability
A contractual obligation to deliver cash or another financial asset to another entity.

Functional and presentation currency
These Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

Going concern
An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group
A parent of all its subsidiaries.

Gearing
Long term borrowings divided by the total funds available for shareholders.

Gross dividend
The portion of profits distributed to the shareholders including the tax withheld.

Guarantees
A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

Held for trading
Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Hire purchase
A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

Held to maturity (HTM)
Investments Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

High quality liquid assets (HQLA)
Assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e.., without legal, regulatory or operational impediments.

International financial reporting standards (IFRS)
A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Glossary of Financial Terms

Intangible assets
An intangible asset is an identifiable non-monetary asset without physical substance.

Interest cover
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest margin
Net Interest income expressed as a percentage of average interest earning assets.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread
Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in suspense
Interest suspended on non- performing leases, hire purchases and other advances.

Impairment
This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired loans
Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment allowances
Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment provisions
Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually assessed impairment
Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually significant loan impairment provision (Specific impairment provision)
Impairment is measured individually for assets that are individually significant to the Group.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment properties
Investment property is a property (land or building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

Investment securities
Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

Key management personnel
Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Glossary of Financial Terms

Lending portfolio
Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime expected credit losses
The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/credit losses and provisions
Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and receivables
Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)
A mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss given default (LGD)
The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Market capitalisation
The value of a Company obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

Market risk
The possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Net assets value per share
Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Non controlling interest
Non Controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

Net interest income (NII)
The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net interest margin (NIM)
Net interest income expressed as a percentage of average interest earning assets.

Glossary of Financial Terms

Non - performing advances
A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Nonperforming advances are reclassified as performing when all arrears rentals are settled in full.

NPA ratio
The total non-performing leases hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

Off- balance sheet items
Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational risk
Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

Parent company
A parent is an entity that has one or more subsidiaries.

Past due
A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power
The existing rights that give the current ability to direct the relevant activities.

Price earnings ratio (P/E ratio)
The current market price of the share is divided by the earnings per share of the Company.

Probability of default (PD)
The probability that an obligor will default within a one-year time horizon.

Projected unit credit method (PUC)
An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.(sometimes known as the accrued benefit method pro- rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision cover
Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence
Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, so that asset or income are not overstated and liabilities or expenses are not understated.

Glossary of Financial Terms

Related parties
Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual value
The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Repurchase agreements
This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

Return on average assets
Profit after tax expressed as a percentage of average assets

Return on equity
Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

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.

Rights issue
Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk weighted assets
The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

Segment analysis
Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' funds
The total of stated capital and capital and revenue reserves.

Single borrower limit
Maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower shall not exceed 15% of the capital funds of such finance company as shown in the last audited balance sheet.

Statutory reserve fund
A capital reserve created as per the provisions of the Finance Companies (Capital Funds) Direction No.1 of 2003.

Sri lanka financial reporting standards (SLFRSs)
Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS);Sri Lanka Accounting Standards (LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Glossary of Financial Terms

Stated capital
All amounts received by the Company or due and payable to the Company – (a) in respect of the issue of shares, (b) in respect of calls on shares. Statutory Reserve Fund A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Substance over form
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary company
An entity, including an unincorporated entity which is controlled by another entity called parent.

Tier I capital (Core capital)
Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II capital (Supplementary capital)
Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base) Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction costs
Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve month expected credit losses (12m ECL)
The portion of lifetime expected credit losses that represent the expected credit losses that result from default event on a financial instrument that are possible within the 12 months after the reporting date.

Useful life
Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

Value added
Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Yield
Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT **THE THIRTY EIGHTH ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON FRIDAY, 27 SEPTEMBER 2019 AT 4:00 PM** AT THE SRI LANKA FOUNDATION INSTITUTE, NO. 100, PADANAMA MAWATHA, INDEPENDENCE SQUARE, COLOMBO 7.

1. Ordinary Resolution 1

To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 March 2019 and the Auditors' Report thereon.

2. Ordinary Resolution 2

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

3. Ordinary Resolution 3

To authorise the Directors to determine and make donations.

By Order of the Board

Viranthi Attygalle
Company Secretary

31 July 2019
Colombo

Notes:

i) Only persons who are shareholders of the Company and whose names appear on the Share Register as at the AGM date will be entitled to attend the above meeting.

ii) A shareholder entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his/her place by completing the Form of Proxy enclosed herewith.

iii) A proxy need not be a shareholder of the Company. However the proxy must be above 18 years of age.

iv) Shareholders / Proxy holders are kindly advised to bring along with them their National Identity Card or a similar form of acceptable identity when attending the meeting.

Notes

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Notes

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: (Name of proxy) ....

.... (holder of NIC/Passport No/s ....)

of (address of proxy) .... OR failing him/her.

Dr. Hans Wijayasuriya	of Colombo failing him
Mr. Supun Weerasinghe	of Colombo failing him
Mr. Sheyantha Abeykoon	of Colombo failing him
Mr. Priyan Edirisinghe	of Colombo failing him
Mr. Roshaan Hettiaratchi	of Colombo failing him
Mr. Asanga Priyadarshana	of Colombo

as my/our proxy to represent me/us and vote on my/our behalf in accordance with the preference as indicated below at the Thirty Eighth Annual General Meeting of the Company to be held on 27 September 2019 at 4:00 PM and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

RESOLUTIONS	FOR	AGAINST
Ordinary Business:		
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		

(Please indicate with a 'X' in the space provided how your proxy is to vote on each resolution. If you do not do so, the proxy will vote or abstain from voting at his discretion.)

Signature(s) of Shareholder(s)	Contact No. 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 attend and vote at the meeting but is unable to attend the meeting, can appoint not more than one proxy to attend and vote at the AGM instead of him/her, by completing the Form of Proxy.
2. Please complete the Form of Proxy by filling in legibly, your full name, address and contact number 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, 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 4:00 PM on 25 September 2019.
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 attend and vote on your behalf at the meeting in the event you are unable to attend the meeting, and should not be used to confirm participation at the AGM.
7. If a shareholder has submitted a Form of Proxy prior to the meeting and subsequently decides to attend the meeting him/herself, he/she should take immediate steps to revoke the appointment of proxy.

Corporate Information

Name of the Company
Dialog Finance PLC

Company Registration No.
PB 765 PQ

Date of Incorporation
25 November 1981

Registered Address
No. 475, Union Place, Colombo 02.

Principal Office
2nd Floor, Parkland 01,
No. 33, Park Street,
Colombo 02.
Tel : + 94 11 4317317
Fax : + 94 11 7694350
E-mail : financialservice@dialog.lk

Legal Form
A public quoted company with limited liability shares which were quoted on the Diri Savi Board of the Colombo Stock Exchange on 4 October 2011.

Board of Directors
- Dr. Hans Wijayasuriya - Chairman
- Mr. Supun Weerasinghe
- Mr. Priyan Edirisinghe
- Mr. Roshaan Hettiaratchi
- Mr. Sheyantha Abeykoon
- Mr. Asanga Priyadarshana - Chief Executive Officer

Company Secretary
Ms. Viranthi Attygalle

Compliance Officer
Ms. Pamodha Subasinghe

Registrars
SSP Corporate Services (Private) Limited
No. 101, Inner Flower Road,
Colombo 03.
Tel : + 94 11 4369778
Fax : + 94 11 2573609

Auditors
Messrs. PricewaterhouseCoopers
Chartered Accountants
100, Braybrooke Place,
Colombo 02.

Bankers
- Seylan Bank PLC
- Commercial Bank of Ceylon PLC
- Nations Trust Bank PLC
- Bank of Ceylon
- Cargills Bank Ltd
- People's Bank
- Hatton National Bank PLC

Credit Rating
AA (lka) was affirmed by Fitch Ratings Lanka Ltd

Designed & Produced by : SKILLS

Dialog
FINANCE

2nd Floor, Parkland 01,
No.33, Park Street, Colombo 02, Sri Lanka.
Tel : 011 4317317 **Fax :** 011 7694350
Email : financialservice@dialog.lk **Web :** www.dialogfinance.lk