



ANNUAL REPORT  
December 2019



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## 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, 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 recognises the need to deliver convenient, accessible, and affordable financial tools to the unbanked and underbanked segments of society and continues steadfast with its unifying mission in introducing cutting edge technology to launch industry-leading products and services.

# Financial Highlights

|   | 31 December<br>2019 | 31 March<br>2019 | Change (%) |
|---|---------------------|------------------|------------|
| <b>Operating results for the period / year (LKR' 000)</b>                           |                     |                  |            |
| Gross income  | 268,091             | 330,588          | (19)       |
| Total operating income  | 219,989             | 243,912          | (10)       |
| Impairment charges for loans and advances   | 105,901             | 133,136          | (20)       |
| Operating expenses  | 257,864             | 238,948          | 8          |
| Operating loss before taxes on financial services                                   | (143,776)           | (128,172)        | 12         |
| Loss for the period / year  | (143,666)           | (129,410)        | 11         |
| <b>Assets and liabilities (LKR' 000)</b>  |                     |                  |            |
| Customer deposits   | 818,869             | 632,209          | 30         |
| Loans and receivables   | 1,023,629           | 991,417          | 3          |
| Total assets  | 2,384,082           | 1,621,468        | 47         |
| Total liabilities   | 930,420             | 787,920          | 18         |
| Shareholders' funds   | 1,453,662           | 833,548          | 74         |
| <b>Profitability ratios (%)</b>   |                     |                  |            |
| Net interest margin   | 8.69                | 9.79             | (1.1)      |
| Return on assets (ROA)  | (8.99)              | (8.96)           | (0.03)     |
| Return on equity (ROE)  | (14.35)             | (20.81)          | (6.46)     |
| <b>Investors' information (LKR)</b>   |                     |                  |            |
| Market price  | 43.00               | 35.50            | 21         |
| Net assets per share  | 15.92               | 11.54            | 38         |
| Earnings per share  | (1.61)              | (1.97)           | 18         |
| <b>Regulatory ratios (%)</b>  |                     |                  |            |
| <b>Capital adequacy ratios</b>  |                     |                  |            |
| Tier I<br>(minimum ratio – 31 December 2019 – 6.5%, 31 March 2019 - 6%)             | 53.67               | 38.10            | 15.57      |
| Tier I + Tier II<br>(minimum ratio – 31 December 2019 – 10.5%, 31 March 2019 - 10%) | 54.78               | 39.19            | 15.59      |
| <b>Other key indicators (%)</b>   |                     |                  |            |
| Non performing loan ratio (gross)   | 34.27               | 23.99            | 10.28      |
| Cost to income ratio  | 117.16              | 98.47            | 18.69      |
| Fitch rating  | AA (lka)            | AA (lka)         |            |



# Chairperson's Message



## **My dear shareholders,**

It gives me great pleasure to present the annual report and financial statements of Dialog Finance PLC ("your company") for the nine month period ended 31 December 2019.

During the 9 month period under review ended 31 December 2019, the Company's operating income grew by 16% Year on Year ("YoY") to Rs. 220Mn while recording a loss of Rs. 143.7Mn, mainly due to an increase in operating expenses arising from new investments in technology and human capital. A detailed discussion of the business and financial performance of your company is presented in the Management Discussion and Analysis Section of the Annual Report.

As we look towards a challenging year ahead, with businesses and communities across Sri Lanka struggling to cope with and recover from the impact of the COVID-19 pandemic, your company feels it is imperative to bring a suite of innovative fintech solutions that will reach and empower the unbanked and underbanked communities in Sri Lanka, and thereby foster inclusive and equitable economic growth at the grassroots level. Your company once again affirms its commitment to working with regulatory agencies to gain approval for a suite of financial services in the unfolding year. We look forward to bringing these solutions to communities that are deprived of financial inclusion while acknowledging the crucial role played by regulation to facilitate accelerated change that will catalyse economic growth and wellbeing.

**"During the 9 month period under review ended 31 December 2019, the Company's operating income grew by 16% Year on Year ('YoY') to Rs. 220Mn while recording a loss of Rs. 143.7Mn, mainly due to an increase in operating expenses arising from new investments in technology and human capital."**

At this important juncture where Sri Lanka's financial services face considerable challenges and immense opportunities, I am truly humbled for being asked to steer Dialog Finance through these tumultuous times and into the exciting new future that lies ahead. I am heartened by the faith placed by the Board of Directors and our outgoing Chairman Dr. Hans Wijayasuriya for the confidence placed in me. I would like to sincerely thank him for his invaluable service to your company and the wider Dialog family over the years.

In closing, I wish to extend my appreciation and gratitude to the Government of Sri Lanka, the Central Bank of Sri Lanka, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and other agencies that have collaborated and supported the efforts of your company. We also

especially thank the health care workers, the armed forces and other essential personnel who have been selfless in their efforts to combat the current pandemic. We are counting on everyone's support as we begin a new chapter in our journey to drive financial technology and further financial inclusiveness, as we emerge into a 'new normal' that is shaping the financial landscape of Sri Lanka.

I would like to take this opportunity to acknowledge and extend my thanks to the team at Dialog Finance PLC for their unwavering efforts in striving to reach the pinnacle of excellence and for going beyond the call of duty by providing uninterrupted service to our loyal customers in these trying times. I also like to thank our valued shareholders, customers, and business partners for their continued support in our journey ahead.



**Ms. Renuka Fernando**  
Chairperson

29 May 2020



# Chief Executive Officer's Review



## **My dear shareholders,**

The period under review has been marked by one of the most challenging periods for the country's economy in our post-war history. The challenging economic conditions cascaded into a slowdown in consumer spending as evident in the modest private sector credit growth, which in turn adversely impacted business performance.

2020 proves to be no less of a challenging year, this time brought about in the form of the COVID-19 pandemic, bringing the world to a standstill. Despite these challenges, I commend the entire team at Dialog Finance for their steadfast resolve amidst difficult circumstances where your company continued to provide services to customers while ensuring the health and safety of all. The financial services are a key component of the Government of Sri Lanka and the Central Bank of Sri Lanka ('CBSL') has formulated a strategy to combat this pandemic by providing relief measures to the individuals and businesses that have been affected across different sectors and geographies. We pledge to support the Government and the CBSL in these endeavours and we sincerely believe that by being united in this effort, we can overcome this challenge and emerge stronger from it.

A silver lining in the changes wrought by the pandemic is that it has encouraged many individuals and businesses to conduct their activities in the digital space. This offers hope that Sri Lanka, which is yet to fully realise the benefits of Financial Technology (FinTech), digital cash and e-commerce will see an acceleration of these trends. In the 'new normal' that is to emerge in the aftermath of COVID-19, the hope is we would emerge into a world of greater digitization and inclusiveness of financial services.

## **Overcoming obstacles to transform into a FinTech organisation**

In our last annual review, we highlighted that the Company had invested extensively in FinTech technologies and human capital during the period as part of our commitment to become a leading digital financial services provider. While we experienced some delays in obtaining the regulatory approvals for some of our planned digital financial solutions, we remain hopeful that we would be able to find common ground with the regulators in introducing these products. We believe that the expansion of FinTech products across the island where it could reach the unbanked and underbanked segments of our society is a significant boon for the economy and society.



## Chief Executive Officer's Review

Additionally, the current pandemic offers opportunities for the financial services to move towards greater digitisation and innovation by delivering more services via digital channels, while at the same time enhancing the experience and providing added convenience to our customers. Dialog Finance will continue to support and work closely with the regulators to assist in this transformation.

### Commendable operating income growth amidst challenging times

To align the Company's financial year with its parent company, Dialog Axiata PLC, the Company's balance sheet date was changed from 31 March to 31 December. Hence, considering our performance during the nine month period ended 31 December 2019, despite the external challenges and weak economic outlook, your company displayed a commendable performance where we recorded an operating income of Rs. 220Mn compared to Rs. 190Mn recorded in the corresponding period in the previous year which represents a 16% Year on Year (YoY) growth. With regard to the bottom-line, your company recorded a loss of Rs. 143.7Mn for the nine month period ended 31 December 2019 on account of higher operating expenses due to costs associated with capacity building for Fin Tech products.

As at September 2019, Fitch Ratings affirmed Dialog Finance PLC's AA (Ika) stable rating and it remains the highest-rated finance company in Sri Lanka.

Given the challenging times ahead of us, lowering operational costs, paying stringent attention to maintaining asset quality, while at the same time delivering innovative products that encourage digitization of our services and providing increased convenience to our customers are some of the areas of key focus in order to enhance the profitability of the organisation.

### Outlook

Our country, as well as the whole world, is currently facing an unprecedented period of uncertainty where we expect general market conditions across

**"The financial services are a key component of the Government of Sri Lanka and the Central Bank of Sri Lanka ('CBSL') has formulated a strategy to combat this pandemic by providing relief measures to the individuals and businesses that have been affected across different sectors and geographies."**

many households and sectors of the economy to deteriorate, potentially adversely impacting the financial performance of your company. However, Your company will continue to remain committed to deliver value enhancing products to our customers and value to all our stakeholders.

As we look to the future and the 'new normal' that is to emerge in a post-COVID world, we will continue to engage with the regulators and other stakeholders to enhance our services by driving digital innovation and financial inclusiveness, to meet the challenges of the future where we believe that with the right application of technology and human ingenuity we can overcome and emerge stronger.

### Appreciation

I extend my heartfelt appreciation to Dr. Hans Wijayasuriya who stepped down as Chairman of your company on 22 May 2020. Since September 2017, when your company began its journey as part of the Dialog Axiata PLC family, Dr. Wijayasuriya's vision of a more digitally inclusive Sri Lanka has been our guiding north star in all endeavors of your company in becoming a truly digital-led financial services firm and a leader in FinTech products. I wish him all the very best in his future endeavors and his vision will continue to guide us into the future.

It gives me great pleasure to welcome Ms. Renuka Fernando as the new chairperson of your Company.

**"A silver lining in the changes wrought by the pandemic is that it has encouraged many individuals and businesses to conduct their activities in the digital space. This offers hope that Sri Lanka, which is yet to fully realise the benefits of Financial Technology (FinTech), digital cash, e-commerce will see an acceleration of these trends."**

She played a pivotal role in Sri Lanka's banking industry. Her global experience, will prove invaluable in taking your company to the next level in its digital transformation. She joins us at a crucial moment amidst many challenges and new opportunities and together with our management team, I look forward to working closely with her in driving your company forward into this new and exciting era for financial services.

I extend my heartfelt appreciation to the Members of the Board of Dialog Finance for their continued guidance and wisdom in steering your company amidst these challenging times. I would also like to take this opportunity to thank the Government of Sri Lanka, the Governor and staff of the CBSL, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and all other stakeholders for their support.

In closing, I wish to commend the Dialog Finance team for their unparalleled dedication, particularly in these past few months, where they have dedicated themselves to enable us to deliver uninterrupted services to our customers within a safe work environment. I extend the same appreciation and gratitude to our customers, business partners and other stakeholders, for their loyalty and trust placed in us amidst these challenging times. To our valued shareholders, we are thankful for your continued support that creates the enabling environment for us to achieve our vision of delivering value to all Sri Lankans. We look forward to an exciting future ahead and another productive year for the Company. Thank you for your support and confidence.



**Asanga Priyadarshana**  
Director / Chief Executive Officer

29 May 2020

# Board of Directors



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



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



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



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



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



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

## Board of Directors

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### **Ms. Renuka Fernando**

**Chairperson / Non-Independent, Non-Executive Director**

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

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

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

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

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

### **Mr. Supun Weerasinghe**

**Non-Independent, Non-Executive Director**

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

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

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

In 2013, he was seconded to Axiata Group Berhad ("Axiata"), in Malaysia as its Group Chief Strategy Officer. At Axiata, he also served as the Head of Network Transformation Strategic Business Unit under which he led Group Technology, Carrier Collaboration and the Axiata Intelligence Unit. From January 2014 to October 2016, he functioned as the CEO and Managing Director of Robi Axiata Limited in Bangladesh, the second largest mobile network provider in Bangladesh 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 a MBA from the University of Western Sydney, Australia and is an alumnus of the Harvard Business School.

## Board of Directors

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

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

Mr. Abeykoon currently serves as the Chief Financial Officer of Axiata Digital Services Sdn Bhd, a wholly owned subsidiary of the Axiata Group Bhd, 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 17 years of work experience spanning various industries including financial services, retail, ICTA, the last 10 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, is a Chartered Management Accountant (CIMA - UK) and a Chartered Financial Analyst (CFA - US). He holds a MBA in Finance from the Wharton School, University of Pennsylvania in the USA.

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

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

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

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

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

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

Mr. Hettiaratchi who was called to the bar in 1999, counts over 20 years' experience as an Attorney-at-Law. He is engaged in an active civil and commercial law practice in both the Original Courts as well as the Appellate Courts. Mr. Hettiaratchi also functions as a retained counsel for a number of private companies.

Mr. Hettiaratchi served as a member of the Board of Directors of State Mortgage & Investment Bank from 2015 to 25th May 2018 and currently serves on the Board of directors of a number of private companies.

He holds a Master's degree in Intellectual Property Law and Information Technology.

### **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 & 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 MBA from The Australian National University, Australia.

# Management Discussion and Analysis

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## Operating Environment

### Macro-Economic overview

The Sri Lanka economy recorded a subdued growth of 2.3% during 2019 compared to 3.3% in 2018. All major sectors of the economy have recorded modest growth rates. Sri Lanka graduated to the upper middle-income country status in terms of per capita Gross National Income (GNI), as per the World Bank's country classification in 2019. The Sri Lankan economy had a slow recovery after series of setbacks. The year 2019 was challenging in view of the devastating terror attack in April 2019 that affected the tourism industry in terms of employment and foreign investments.

Social indicators rank among the highest in South Asia and compare favorably with those in middle-income countries. Extreme poverty is rare and concentrated in some geographical pockets; however, a relatively large share of the population subsists on slightly more than the poverty line.

Both headline and core inflation moved broadly in the range of 4% to 6% during the year resulting from subdued demand growth and well anchored inflation expectations. Sri Lanka's headline inflation measured by the Colombo Consumer Price Index (CCPI) stood at 4.8% in December 2019. Economists believe that the recent increases in inflation are only short-term and connected to domestic supply disruptions. The Central Bank's forecasts showed that the headline inflation would settle around 5 percent during 2020 and would hover around 4 to 6 percent in the medium-term.

The public debt levels are high, and the overall debt portfolio indicate some important challenges. Low fiscal revenue combined with largely non-discretionary expenditure have constrained critical development spending. Government Debt to GDP in Sri Lanka is expected to reach 92.50 percent by the end of 2020, according to the website Trading Economics.

Sri Lanka's external debt increased further by end 2019, stemming from the rise in external debt of the government. The exchange rate remained broadly stable during 2019, supported by a significant improvement in the current account, despite some transient volatility experienced amidst outflows of portfolio investment, responding to domestic and global developments.

Sri Lanka prepares the groundwork for a fresh phase of economic growth and development while focusing on new tools to assess and understand competitiveness; transformative technologies such as artificial intelligence (AI), robotics, and 3D printing – under the banner of the Fourth Industrial Revolution (4IR) – are proving to be invasive, complex and disruptive. Productivity has now become a key driver for future growth for countries with an aging population like Sri Lanka where the need arises to understand the challenges and grasp available opportunities.

Notable improvements in the trade and current account balances were achieved through the curtailment of import expenditure amidst the policy induced contraction in merchandise imports. Along with significant inflows to the financial account, strengthened the gross official reserves and stabilised the exchange rate.

The process of fiscal consolidation faced significant challenges in 2019, amidst a notable decline in government revenue and the rise in government expenditure. In an environment of muted demand driven inflation pressures and well anchored inflation expectations, the CBSL adopted an accommodative monetary policy stance in 2019 to support the revival of economic activity and address the sluggish growth in credit extended to the private sector.

# Management Discussion and Analysis

## Performance of NBFI Sector

The Licensed Finance Companies and Specialised Leasing Companies sector performance deteriorated during the year, with negative credit growth, declining profitability and an increase in NPLs as per CBSL statistics. The slowdown in the sector was mainly attributed to subdued economic activity, prevalent political uncertainties, lack of investor confidence and other security concerns subsequent to the Easter Sunday attacks.

- **Reach** – The sector comprised of 42 Licensed Finance Companies (LFC) and 4 Specialised Leasing Companies (SLC) at the end of year 2019. It's enhanced services to customers and expanded branch network promoted financial inclusion in the country. The industry's extensive branch network consisting of 1,432 branches and 599 other outlets of the LFCs and SLCs demonstrates its reach to the general public. 66% of the aforesaid branches were located outside the Western Province. Introduction of technology-based products/ services by LFCs supported financial inclusivity during the year 2019.
- **Assets Base** – The total asset base of the industry reached Rs. 1,432.7 billion, a marginal increase of 1% during the year. The corresponding rate was 5.6 percent in 2018. 77% of the sector's asset base was made up of loans and advances of which 52.9 percent represents finance leases with the rest comprising other secured loans.
- **Asset Quality and Profitability** – The gross non-performing advances (NPA) ratio increased to 10.6 percent at end-December 2019, from 7.7 percent reported at end-December 2018, as per the statistics of Central Bank of Sri Lanka, reflecting deterioration in the asset quality of the sector. Slowing economic activity due to the Easter Sunday attacks, declining lending activity and spillover effects of the Government Debt Relief Program contributed to the aforesaid deterioration.

Net interest income of the sector was Rs. 117.4 billion in year 2019, an increase of 7.9 percent (Rs. 8.6 billion) over last year. Net interest margin of the sector (net interest income as a percentage of average assets) has recorded an increase to record 7.7 percent from 7.4 percent in 2018. This was due to a combination of increased net interest income (7.9 percent) and increased (gross) average assets (4.3 percent).

- **Minimum Capital Requirement** – The total regulatory capital levels of the industry has improved by Rs. 22.3 billion during the year in comparison to year 2018 due to the enhancement of minimum capital requirement by the Central Bank. The sector's core capital and total RWCAR stood at 11.1 percent and 12.5 percent, respectively, in 2019 an increase of 1.3 percent and 1.4 percent from the reported ratios in 2018.
- **Liquidity** – The sector maintained adequate liquidity buffers well above the regulatory minimum levels. The overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 billion against the stipulated minimum requirement. The liquidity ratio (liquid assets on deposits and borrowing) reported as 11.3 percent at end-December 2019 in comparison to 9.6 percent at end-December 2018.

## Supervisory and Regulatory Developments

Central bank of Sri Lanka has introduced the following policy measures and prudential regulations during 2019 to strengthen the supervisory and regulatory framework of non-bank financial institutions aiming at stability and soundness of the sector.

- LTV Direction issued to LFCs was revised to incorporate the 2019 Budget proposals by allowing higher LTV ratios for light trucks. The earlier 70 percent LTV ratio in respect to light trucks was revised to an increased ratio of 90 percent.
- The Direction on Valuation of Immovable Properties issued to LFCs and SLCs was revised.

# Management Discussion and Analysis

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- A circular was issued in view of mitigating the adverse impact on the tourism sector due to the Easter Sunday attacks.
- A regulation was issued on the priority of claims in a winding up of an LFC, under the Extraordinary Gazette No.2125/58.
- A consultation paper was issued introducing ownership limits to LFCs with the aim of diversifying the ownership of shares in LFCs.
- Issuance of Consultation Paper on credit risk management for LFCs.

## Recent Developments and Outlook

The COVID-19 outbreak exacerbated a challenging macroeconomic environment of low growth and significant fiscal pressure. Growth will be negatively affected as the outbreak dampens export earnings, private consumption and investment. Social-distancing measures will directly impact the services sector and extended travel restrictions will hurt tourism. Sri Lanka is vulnerable to uncertain global financial conditions as the repayment profile requires the country to access financial markets frequently.

Amongst the multiple challenges which faced by LFCs are muted loan growth, margin compression amidst lower interest rates, and rising loan-impairment charges due to asset-quality pressures. LFC sector had been struggling with rising non-performing loans, weakening profitability due to rising credit costs and muted loan growth, even before the coronavirus outbreak.

Reduction of liquid asset requirement for deposits and borrowings could reduce near-term liquidity shocks stemming from non-payment of loans. An extension of one year in the timeline to comply with enhanced minimum core capital and minimum capital-adequacy ratio requirements provides a breathing space to LFCs that have not met the relevant thresholds due to dislocation of the capital markets, while significant near-term earnings pressure may weigh on LFCs' capital buffers.



# Management Discussion and Analysis

## Financial Review

This financial review provides an analysis of the Company's performance for the 9 month period ended 31 December 2019.

## Overview

Dialog Finance PLC changed its balance sheet date from 31 March to 31 December aligning the same with the financial year end of its parent, Dialog Axiata PLC. Change of balance sheet date was approved by the Registrar of Companies (ROC) and no objection from the Central Bank of Sri Lanka was received. Accordingly, the financial statements are presented for the 9 month period ended 31 December 2019 while the comparative financial year remained as '1 April 2018 to 31 March 2019'. The aforementioned change is in line with the LKAS 1 – Presentation of financial statements.

The Company recorded a growth in its loan book during the 9 months up to 31 December 2019. Absolute growth in gross and net loans advances were recorded as Rs. 104.8Mn and Rs. 32.2Mn, recording the growth rates as 8.0% and 3.2% respectively. YoY growth in net loan portfolio as at 31 March 2019 was 16.3%.

The loss for the period of 9 months increased to Rs 143.7Mn from Rs 129.4Mn (an increase of 11%) compared to the preceding year. Decline in total operating income stemmed from reduced fee-based income, the two-fold effect of increased NPA for suspension of income and provision for impairment along with an increase in operating expenses. The increase in share price by Rs. 7.50 from Rs. 35.50 to Rs.43/- from 31 March 2019 to 31 December 2019 has favorably affected the market capitalisation of the Company.

A rights issue was conducted in April 2019 amounting to Rs. 764.1Mn was made to comply with the minimum capital requirement of the CBSL and another rights issue was also made subsequent to the financial year end for the same purpose, increasing the shareholders' funds.

See below for the detailed analysis of the Company's financial performance.

## Income Statement Analysis

### Gross income

Total operating income recorded a decline of 9.8% during the 9 month period despite the marginal growth in gross loans and advances. This is reflected in the reduction of non-interest income by 29.7% to Rs. 69.9Mn from Rs. 99.5Mn during the period under review.

However, the Company's interest income recorded an encouraging growth of 12% for the 9 month period ended 31 December 2019 to Rs. 198Mn from Rs. 178Mn over the figures reported for the corresponding period in year 2018. The Company recorded an operating income of LKR 219.9Mn, a 16% increase over the same period of 2018 (Rs. 189.7Mn).

Net interest income has recorded a growth of 3.9% for the 9 month period, despite the decrease in interest income by 14.3% (by Rs. 32.9Mn) compared to the previous financial year. Growth in other operating income is 16.7 % which increased to Rs. 9.5Mn from Rs. 8.1Mn.

The contribution of non-interest income to total operating income earned for the 9 month period is 31.8% compared to 40.8% in the preceding year. This is attributed to a decline in facilitation fee income earned from device finance stemming from the reduction in business volumes. The significance of fee-based operations of the Company has reduced during the period under review.

### Net interest income (NII)

The Company's NII which stood at Rs. 144.4Mn for the year ended 31 March 2019, grew by Rs. 5.6Mn (3.9%) to touch Rs. 150Mn in the current period. The lending portfolio has recorded growth, mainly due to factoring, revolving business loans, merchant loans and margin trading receivables. The net interest margin of the Company stood at 8.7% for the 9 month period under review.

# Management Discussion and Analysis

Interest expense amounted to 24.3% of the interest income during the 9 month period compared to 37.5% in the previous financial year. The annualised interest expense witnessed a decrease due to the short time lag in repricing of interest-bearing liabilities as against interest earning assets. Customer deposits grew by Rs. 186.7Mn (29.5%) resulting in a deposit base of Rs. 818.9Mn at December 2019. The capital infusion made in April 2019 to raise Tier I Capital of Rs. 764Mn has made the Company less dependent on customer deposits in financing its loans, advances and financial investments during the 9 month period ended 31 December 2019.

## Net fee and commission income

Net fee and commission income decreased, due to scaled down business volume in respect of Device Finance. The contribution of net fee and commission income to total operating income reduced to 27.3% from 37.7% during the period under review.

## Impairment losses

The Company began to experience a growth in gross non-performing advances to 34.9% from 24.8% in March 2019 during the 9 month period under review. This was a challenging year for the key sectors of the economy. The non-performing advances grew despite conservative lending and aggressive recovery actions. Loans and advances portfolio which accounts for 43% of the asset base is significant in the Company's operations. The net NPA ratio as at 31 December 2019 was recorded as 7.7%.

A 20.5% reduction in provision for impairment was recorded for 9 month period ended 31 December 2019 in comparison to previous financial year ended 31 March 2019.

## Operating expenses

Total operating expenses recorded an increase of 7.9% to reach Rs. 257.8Mn from Rs. 238.9Mn in the last financial year. This was consequent to higher personnel expenses triggered by new recruitments and an increase in other expenses due to IT expenses owing to platform developments for the planned FinTech operation, increasing the cost to income ratio.

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.

## Taxation

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

The Company has been prudent in not recognising deferred tax assets in respect of the operating losses incurred as per a management decision. Hence, the deferred tax asset is maintained at the same level. However, such deferred tax assets which are not recognised for tax losses are claimable in the future and would have a positive impact to income statement, when the Company commences earning operating profits.

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

The Company has recorded a loss of Rs. 143.7Mn during the 9 month period under review, against a loss of Rs. 129.4Mn incurred in the preceding year. The reduction in profitability is due to a reduction in total operating income and increased operating expenses which have resulted in a lower the return on assets (ROA) and return on equity (ROE).

## Analysis of Statement of Financial Position

### Total assets

The total asset base of the Company reached Rs. 2.4Bn, growing by 47.0% from 31 March 2019 to 31 December 2019, recording a growth of Rs. 762.6Mn. The growth in the asset base is mainly reflected in investments in repurchase agreements and other financial placements with banks and financial institutions (by Rs. 542.7Mn). This will be utilised for lending in the future. Increase in other assets were due to intercompany receivables which were subsequently realised in the month of February 2020.

# Management Discussion and Analysis

## Loan growth

A slow growth in loans and advances portfolio (gross) was witnessed through the growth of 8.0% (by Rs. 104.8Mn) whereas the net increase is only Rs. 32.2Mn (3.2% increase). The net loan portfolio of Rs. 1.02Bn represents 42.9% of the total assets, the ratio has reduced its significance from 61% in March 2019 due to increased financial investments. The said growth of 8.0% is however higher than the average CAGR of 1.64% over last 5 years. The aforesaid growth was adversely affected due to conscious slowdown of device finance portfolio.

Cumulative impairment provision for loans and advances as a percentage of gross loan portfolio has increased to 27.4% in 31 December 2019 from 24.1% in 31 March 2019.

## Liabilities

Deposits made up 34.3% of the assets base as of 31 December 2019 compared to 39.0% in 31 March 2019. The deposit base reached Rs. 818.9Mn by 31 December 2019 from Rs. 632Mn in 31 March 2019. The gross advances to deposits ratio decreased to 172.2% from 206.5% by end of the period, showing it is less dependent on deposits to fund its loan growth.

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

## Shareholders' funds

The equity base of the Company has recorded a net increase of Rs. 620.1Mn (74.4%) during the period under review due to raising of tier I capital through the rights issue. The capital adequacy ratios of 38.1% for tier I and 39.1% for total as at 31 December 2019 were well above the CBSL's prescribed minimum thresholds. The Company is required to maintain tier I capital adequacy ratio (CAR) at 6.5% and its total CAR at 10.5%.

In order to fall in line with regulatory requirements on minimum core capital, the Company raised Rs. 764Mn worth of tier I capital by way of rights issues in April 2019 and Rs. 701Mn subsequent to the financial year end.

## Liquidity

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

## Net Asset value per share and earnings per share

Net Assets per share reached Rs. 15.92 as at 31 December 2019 (Rs. 11.54 - 31 March 2019) in parallel to the growth in equity and Earnings per share recorded at Rs. 1.61 (negative) for the 9 month period ended 31 December 2019 from Rs. 1.97 (negative) reported for the year ended 31 March 2019.

## Performance of the share

The Company's share price as at 31 December 2019 stood at Rs. 43.00 with an increase of Rs. 7.50 or 21% compared to the closing price of Rs. 35.50 as at 31 March 2019. The share price fluctuation between Rs. 30.00 at the lowest and Rs. 45.90 at the highest during the period under review.

## Future impact of COVID 19 on the financial condition

It is expected that the COVID-19 pandemic would have a negative impact on the general market conditions and the business operations of the Company. As the situation is still evolving, the Company is not in a position to reliably assess/predict the impact. The Board of Directors and Management are in the process of developing strategies to minimise any negative impact on the Company and further the Company is committed to take steps which are deemed necessary to support economic growth whilst ensuring business growth within the applicable regulatory framework of the Government of Sri Lanka.

# Corporate Governance

## Introduction

Corporate Governance refers to the method by which companies operate while promoting corporate fairness, transparency and accountability. The Board of Directors of the Company are responsible for conducting sound corporate governance practices, for the benefit of all stakeholders of the Company.

The following declaration sets out the many aspects of corporate governance applied by the Company during the 9 month period under review.

The extent to which the Company has complied to minimum requirements set out by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Listing Rules of the Colombo Stock Exchange as amended are also included in this report whereas the Board has obtained a fact finding report on the status of compliance stated herein.

## Board of Directors

The Board is responsible for the management and supervision of the Company's business and operations.

Ensuring good governance and overseeing the risk management of the Company; effectively reviewing and constructively challenging management performance in meeting the agreed goals; providing strategic guidance and evaluating, reviewing and approving corporate strategy and the performance objectives of the Company; approving and monitoring financial and other reporting practices adopted by the Company; and monitoring the reporting of performance and ensuring that the necessary financial and human resources are in place for the Company to meet its objectives, are among the key responsibilities entrusted with the Board.

## Composition

The composition of the Board of Directors as at 31 December 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        |

\* Dr. Hans Wijayasuriya resigned with effect from 22 May 2020.

There were no changes to the composition of the Board during the 9 month period under review.

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

The Non-Executive Directors possess a depth of knowledge and the requisite skills gained from their breadth of experience to guide the Company objectively, in the face of issues on strategy, performances and resources.

As at 31 December 2019, the Board comprised of six (6) Directors, of which five (5) are Non-Executive Directors and one (1) 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. The other three (3) Non-Executive

# Corporate Governance

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 Colombo Stock Exchange 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, Nine (9) Board meetings were held during the 9 month period 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    | 7/9        |
| Mr. Supun Weerasinghe    | 8/9        |
| Mr. Roshan Hettiarachchi | 7/9        |
| Mr. Priyan Edirisinghe   | 9/9        |
| Mr. Sheyantha Abeykoon   | 5/9        |
| Mr. Asanga Priyadarshana | 9/9        |

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

The Board Committees operate within the scope of the Terms of Reference approved by the Board whereas the Board Committees submit their proceedings and deliberations to the Board. Any matters which are out of scope of the Terms of Reference of the Board Committee are referred to the Board for due deliberation and approval.

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

The Company has also established several management committees for recoveries, credit, assets and liability management to oversee the specific areas and thereby ensuring that decision-making is on a participatory basis.

## The Management

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

## Access to Information

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

## Financial Disclosure and Transparency

The Company prepares its Financial Statements in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and the directions and rules issued thereunder. The unaudited provisional

# Corporate Governance

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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 period 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 required information is duly provided for examination of 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 Boards, 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 period 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 Shareholders of the Company and their rights thereof are equally safeguarded by the Company at all times. The Company provides its annual financial statements within the mandatory period to all shareholders and the unaudited provisional financial statements are released to the CSE in accordance with the Listing Rules of CSE. All shares carry equal voting rights and the shareholders are informed of the Annual General Meeting before the mandatory period.

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

### 1. Annual General Meeting (AGM)

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

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

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

### 3. Company Website

The Company's website at <https://www.dialogfinance.lk> contain information on the Company's performance, financial information, latest news, key contact details and other important corporate information

### 4. Major Transactions

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

# Corporate Governance

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

| Section  | Guiding Principle   | Compliance/<br>Non-compliance | Status of Compliance   |
|--|---|-------------------------------|--|
| <b>2. The Responsibilities of the Board of Directors</b> |   |                               |  |
| 2 (1) (a)  | Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company   | Complied                      | The Board of Directors ("the Board") has approved strategic objectives of the Company contained in the Business Plan for 2019 and the Board has also approved corporate values which were communicated to the Company  |
| 2 (1) (b)  | Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years                  | Complied                      | The Business Plan for 2019, inclusive of the business strategy for the next three years, was approved by the Board of Directors  |
| 2(1)(c)  | Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently  | Complied                      | The Integrated Risk Management Committee monitors risks in all areas and apprises the Board of the risk status of the Company. The Board ensures that necessary systems are in place to manage risks   |
| 2(1)(d)  | Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers  | Complied                      | The Board has approved a communication policy for the Company.   |
| 2(1)(e)  | Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems   | Complied                      | The Internal Audit carries out regular reviews on the adequacy and integrity of the Company's systems and information. The Audit Committee monitors and assesses the effectiveness of the internal audit, internal control and risk management and financial reporting and reports its findings to the Board |
| 2(1)(f)  | Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management | Complied                      | The Company has duly appointed Key Management Persons (KMP) for the Company  |

## Corporate Governance

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



## Corporate Governance

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

## Corporate Governance

| Section                        | Guiding Principle   | Compliance/<br>Non-compliance | Status of Compliance  |
|--------------------------------|---|-------------------------------|---|
| 2(7)                           | The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with the Corporate Governance Direction  | Complied                      | This report addresses this requirement  |
| 2(8)                           | The Board shall adopt a scheme of self-assessment to be undertaken by each director annually and maintain records of such assessments   | Complied                      | The Company Secretary carried out the self-assessment exercise for the Directors for the year   |
| <b>3. Meeting of the Board</b> |   |                               |   |
| 3(1)                           | The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible   | Complied                      | Board meetings were held at monthly intervals. The Company held 9 board meetings during the 9 month period under review   |
| 3(2)                           | The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the financial company | Complied                      | <p>The Company Secretary facilitates any requests made by the Directors at the meetings or otherwise and ensures that the said matters and proposals are included in the agenda for the next meeting for discussion</p> <p>All members of the Board were given equal opportunities to include matters and proposals in the agenda and the procedures are in place for same</p> <p>Monthly meetings are scheduled and informed to the Board prior to such meetings to enable submission of proposals to the agenda</p> |
| 3(3)                           | A notice of at least 7 days shall be given of a regular Board meeting to provide all directors and opportunity to attend. For all other Board meetings, a reasonable notice shall be given  | Complied                      | Board meetings are scheduled in advance. Agenda and all board papers are shared with the Directors prior to the Board meetings  |

## Corporate Governance

| Section | Guiding Principle   | Compliance/ Non-compliance | Status of Compliance  |
|---------|---|----------------------------|---|
| 3(4)    | A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meeting through an alternate director shall, however, be acceptable as attendance | Non-Complied               | All Directors except Mr Sheyantha Abeykoon have attended at least two-thirds of the meetings held during the period of 12 months immediately preceding December 2019 (being the last date of the period under review) |
| 3(5)    | The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations   | Complied                   | Ms. Viranthi 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)    | If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function  | Complied                   | The Company Secretary prepares the agenda for the meetings and circulates same to the Directors   |
| 3(7)    | All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed   | Complied                   | All directors have access to the Company Secretary  |
| 3(8)    | The company secretary shall maintain the minutes of Board and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director  | Complied                   | The Company Secretary maintains the minutes of the Board meetings, which are available for inspection by any Director   |
| 3(9)    | Minutes of Board meetings shall be recorded in sufficient detail as per the detailed requirements of Paragraph 3(9) of the Corporate Governance Direction   | Complied                   | The Company Secretary records the proceedings of the meetings and the decisions taken thereon in sufficient detail  |

## Corporate Governance

| Section                           | Guiding Principle  | Compliance/<br>Non-compliance | Status of Compliance   |
|-----------------------------------|--|-------------------------------|--|
| <b>4. The Board's Composition</b> |  |                               |  |
| 4(1)                              | The number of directors on the Board shall not be less than 5 and not more than 13   | Complied                      | The Board comprised of six (6) Directors as at 31 December 2019  |
| 4(2)                              | The total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years  | Complied                      | None of the Directors have exceeded nine (9) years of service on the Board   |
| 4(3)                              | An employee of a finance company may be appointed, elected or nominated as a director of the finance company ('executive director') provided that the number of executive directors shall not exceed 1/2 of the number of directors of the Board. One of the executive directors shall be the chief executive officer of the company | Complied                      | The Company has one (01) Executive Director who serves as the CEO of the Company   |
| 4(4)                              | The number of independent non-executive directors of the Board shall be at least 1/4 of the total numbers of directors<br><br>A non-executive director shall only be considered Independent provided that he meets the qualifications set out in 4(4)(a)-(f) of the Corporate Governance Direction                                   | Complied                      | Two (2) out of six (6) Directors are Independent Non-Executive Directors   |
| 4(5)                              | In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director  | Complied                      | No alternate Directors were appointed during the period under review   |
| 4(6)                              | Non-executive directors shall have necessary skills and experience to bring an objective judgement to bear on issues of strategy, performance and resources  | Complied                      | All five (05) Non-Executive Directors possess adequate skills and experience to contribute to the Board in effectively discharging its obligations |

## Corporate Governance

| Section | Guiding Principle   | Compliance/<br>Non-compliance | Status of Compliance   |
|---------|---|-------------------------------|--|
| 4(7)    | A meeting of the Board shall not be duly constituted although the number of directors required to constitute the quorum at such meeting is present, unless at least 1/2 of the number of directors that constitute the quorum at such meeting are non-executive directors   | Complied                      | Five (5) out of the six (6) Directors of the Company are Non-Executive Directors   |
| 4(8)    | The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors in the annual corporate governance report      | Complied                      | The composition of the Board by category of Directors, including the names of the 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)    | There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board  | Complied                      | The Board has approved a policy which includes the formal and transparent procedure to be followed for new appointments and successions to the Board.  |
| 4(10)   | All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment  | Complied                      | There were no casual vacancies to be filled during the period under review   |
| 4(11)   | If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the SNBFI regarding the resignation of the director or removal and research for such resignation or removal, including information relating to the relevant director's disagreement with the Board, if any | Complied                      | There were no resignations during the period under review  |

## Corporate Governance

| Section   | Guiding Principle   | Compliance/ Non-compliance | Status of Compliance  |
|---|---|----------------------------|---|
| <b>5. Criteria to assess the fitness and propriety of Directors</b> |   |                            |   |
| 5(1)  | A person over the age of 70 years shall not serve as a director of a finance company  | Complied                   | All Directors are below the age of 70 years   |
| 5(2)  | A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/ societies/ bodies corporate, including associate companies and subsidiaries of the finance company  | Not Complied               | Other than Dr. Hans Wijayasuriya, none of the Directors hold directorships of more than 20 companies  |
| <b>6. Delegation of Functions</b>                                   |   |                            |   |
| 6(1)  | The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions. | Complied                   | The Board delegates its powers to the Board appointed committees or to any person it deems fit in accordance with the Articles of Association of the Company and Section 186 of the Companies Act No. 7 of 2007 |
| 6(2)  | The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.   | Complied                   | The Board evaluates the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions                           |
| <b>7. The Chairman and Chief Executive Officer</b>                  |   |                            |   |
| 7(1)  | The roles of the Chairman and CEO shall be separated and shall not be performed by the one and the same person.   | Complied                   | The posts of the Chairman and the CEO of the Company are separated in order to ensure the balance of power and authority  |
| 7(2)  | The Chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director   | Complied                   | Chairman is a Non-Independent, Non-Executive Director. Therefore Independent, Non-Executive Director, Mr. Priyan Edirisinghe has been designated as the Senior Director   |

## Corporate Governance

| Section | Guiding Principle   | Compliance/<br>Non-compliance | Status of Compliance   |
|---------|---|-------------------------------|--|
| 7(3)    | The Board shall disclose in its corporate governance report, which shall be an integral part of the Annual Report, the name of the Chairman and CEO and the nature of relationship, if any, between the chairman and the CEO and the relationships among the members of Board | Complied                      | There are no material relationships between the Chairman/CEO and other members of the Board which will impair their respective roles   |
| 7(4)    | The Chairman shall: (a) provide leadership to the Board, (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by Board in a timely manner  | Complied                      | The 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)    | The Chairman shall be primarily responsible for the preparation of the agenda of each Board meeting, The Chairman may delegate the function of preparing the agenda to the company secretary  | Complied                      | The Chairman has delegated the function of preparing the Agenda to the Company Secretary   |
| 7(6)    | The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.  | Complied                      | All Directors were provided adequate notice of the issues arising at each Board meeting  |
| 7(7)    | The Chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the Company  | Complied                      | The 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)    | The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors   | Complied                      | The Chairman facilitates the effective contribution of Non-Executive Directors   |
| 7(9)    | The Chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever  | Complied                      | The Chairman has not engaged in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever   |

| Section | Guiding Principle  | Compliance/ Non-compliance | Status of Compliance   |
|---------|--|----------------------------|--|
| 7(10)   | The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. | Complied                   | The 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)   | The CEO shall function as the apex executive-in-charge of the day-to-day management of the finance company's operations and business   | Complied                   | The CEO functioned as the apex Executive-In-Charge of the day-to-day-management of the Company   |

## 8. Board Appointed Committees

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

### 8. (2) Audit Committee

|        |   |          |  |
|--------|---|----------|--|
| 8.2(a) | The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and / or audit | Complied | Mr. Priyan Edirisinghe, an Independent Non-Executive Director of the Company acts as the Chairman of the Audit Committee. He is a Chartered Accountant and a Fellow Member of Chartered Accountants of Sri Lanka (FCA) |
| 8.2(b) | The Board members appointed to the committee shall be non-executive directors   | Complied | All other members in the Committee are Non-Executive Directors   |



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

## Corporate Governance

| Section | Guiding Principle  | Compliance/ Non-compliance | Status of Compliance   |
|---------|--|----------------------------|--|
| 8.2(h)  | The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel  | Complied                   | Committee met with the external auditors once without the presence of the Key Management during the 9 month period under review  |
| 8.2(i)  | The committee shall review the external auditor's management letter and the management's response thereto.   | Complied                   | Upon receipt of the management letter, the External Auditors are invited to make a presentation to the Audit Committee with the responses of the corporate management to discuss the significant findings which have arisen during the audit and instructions are given to Department Heads to take remedial actions, if necessary |
| 8.2(j)  | <ul style="list-style-type: none"> <li>• Review of the Internal Audit Function</li> <li>• Review scope, function and resources</li> <li>• Review of Internal Audit Programme</li> <li>• Review of Internal Audit Department</li> <li>• Recommendations on Internal Audit functions</li> <li>• Appraise the resignation of senior staff of Internal Audit and any outsourced service providers</li> <li>• Independence of Internal Audit functions</li> </ul> | 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 period  |
| 8.2(l)  | Attendees of Audit Committee meeting with corporate Management and External Auditors   | Complied                   | The Committee met once during the 9 month period under review with the external auditors without the executive director being present  |

| Section   | Guiding Principle  | Compliance/ Non-compliance | Status of Compliance  |
|---|--|----------------------------|---|
| 8.2(m)  | Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary | Complied                   | The committee has : <ul style="list-style-type: none"> <li>• Explicit authority to investigate any matter within its Terms of Reference;</li> <li>• The resources required to do so;</li> <li>• Full access to information; and</li> <li>• The authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary</li> </ul> |
| 8.2(n)  | Regular meetings   | Complied                   | The Committee met 8 times during the period under review  |
| 8.2(o)  | Disclosure in Annual Report  | Complied                   | The Report of the Audit Committee includes the detailed activities, meetings held during the period 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  |
| <b>8.3 Integrated Risk Management Committee</b> |  |                            |   |
| 8.3(a)  | The composition of IRMC  | Complied                   | The Committee comprises of Three (03) Non-Executive Directors and Executive Director/ Chief Executive Officer, Head of Finance and Head of Risk Management  |
| 8.3(b)  | Periodical risk assessment   | Complied                   | The Company has a Board approved Integrated 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   | Complied                   | The Committee met three (3) times during the period under review  |

## Corporate Governance

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

### 9. Related Party Transactions

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

### 10. Disclosures

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

# Corporate Governance

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

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

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

## Corporate Governance Disclosures

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

| Section   | Disclosure Requirement  | Compliance/ Non-compliance | Details  |
|---|---|----------------------------|--|
| <b>10.2 Disclosures made in the Annual Report</b> |   |                            |  |
| 10.2(a)   | A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures   | Complied                   | This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company" appearing on pages 54 to 59 of the Annual Report (Annual Report of the Board of Directors for the 09 months ended 31st December 2019) |
| 10.2(b)   | A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements | Complied                   | Effectiveness of the Company's internal control mechanism has been certified by the Directors on pages 60 and 61 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting                          |
| 10.2(c)   | The external auditors certification on the effectiveness of the internal control mechanism referred to in Paragraph 10.2(b) above in respect of any statements prepared or published from the date of the Direction   | Complied.                  | The Auditors' certification on the effectiveness of the internal control mechanism has been obtained   |
| 10.2(d)   | Details of directors, including names, transactions with the Company  | Complied                   | The names of the Directors are been set out on pages 10 to 11 of the Annual Report   |
| 10.2(e)   | Fees/ remuneration paid by the Company to the directors in aggregate  | Complied                   | The fees and remuneration paid to Directors are been disclosed in Note 40 c) on page 119 of the Annual Report  |
| 10.2(f)   | Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds   | Complied                   | Please refer Note 40 to the Financial Statements   |

## Corporate Governance

| Section | Disclosure Requirement  | Compliance/ Non-compliance | Details   |
|---------|---|----------------------------|---|
| 10.2(g) | Aggregate values of remuneration paid by the Company to its KMPs and the aggregate values of the transactions of the Company with its KMPs during the financial year  | Complied                   | Please refer Note 40 to the Financial Statements  |
| 10.2(h) | A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances  | Complied                   | This Corporate Governance report and checklist addresses this requirement   |
| 10.2(i) | A statement of the regulatory and supervisory concerns on lapses in the Company's risk management, or non-compliance with the Act and rules and directions that have been communicated by the Director DSNBFI, if so directed by the Monetary Board to be disclosed to the Public, together with the measures taken by the Company to address such concerns | Complied                   | All relevant disclosures have been duly made as stipulated under this report  |
| 10.2(j) | The external auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published  | Complied                   | The Board has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Directions |



# Corporate Governance

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

| Section  | Rule   | Reference   |
|----------|--|---|
| 168.1(a) | any change to the Company during the accounting period in the nature of the business of the company or any of its subsidiaries or the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise | Refer page 54   |
| 168.1(b) | include financial statements for the accounting period completed and signed in accordance with section 151   | Refer pages 67 to 135   |
| 168.1(c) | where an auditor has been appointed by the Company, include that auditor's report on the financial statements and any group financial statements   | Refer pages 63 to 66  |
| 168.1(d) | describe any change in accounting policies made during the accounting period   | Refer Note 4 to the Financial Statements given pages 74 to 75   |
| 168.1(e) | state particulars of entries in the interests register made during the accounting period   | The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007.<br><br>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. |
| 168.1(f) | state the remuneration and other benefits of directors during the accounting period  | Refer Note 40 c) to the Financial Statements.   |
| 168.1(g) | state the total amount of donations made by the Company during the accounting period   | Refer page 58   |
| 168.1(h) | state the names of the persons holding office as directors of the Company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the Company during the accounting period                         | Refer page 57   |
| 168.1(i) | state the amounts payable by the Company to the person or firm holding office as auditor of the company as audit fees and as a separate item, fees payable by the Company for other services provided by that person or firm                             | Refer page 59   |
| 168.1(j) | state the particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in, the company or any of its subsidiaries  | Refer page 59   |
| 168.1(k) | The disclosure required by 168.1(j) be signed on behalf of the Board by two directors of the Company   | Refer page 68 of Balance Sheet  |

# Risk Management

## 1. Overview

Risk Management is a key component in the corporate governance strategy of Dialog Finance PLC (the Company). The business strategy is developed taking into consideration the overall risks of the Company. Risks are identified, assessed and mitigation action are taken to control the impact of risk through its robust risk management framework that is based on the “Three Lines of Defence” approach.

An effective risk management framework is essential to protect the interest of the depositors, investors and other stakeholders whilst being critical for the Company’s long-term sustainability and growth.

The period under review from April to December 2019, was considered to be challenging for financial institutions due to the slow economic growth in the country. The credit growth slowed down considerably resulting in an increase in non-performing loans. Further, the Country’s growth slipped due to the currency collapse in the latter part of the year resulting in an increase in inflation and interest rates.

### 1.1 A look at the Global and Domestic Risk Incidents/ Events

An overview of key global and local risk incidents are summarised in the below table. It is important to analyse and monitor such events as they have an impact to the objectives of the Company.

| Global Outlook   | Local Outlook  |
|--|--|
| <ul style="list-style-type: none"> <li>a) Slowdown of global economy in 2019 (3.6% in 2018 to 3% in 2019).</li> <li>b) Trade tensions among many countries (USA- China).</li> <li>c) Oil prices fluctuating between US\$ 50-60.</li> <li>d) Tight global financial condition prompted equity selloffs affecting countries like Sri Lanka with twin deficits and external funding needs.</li> </ul> | <ul style="list-style-type: none"> <li>a) Decline in Credit Growth (growth in credit to private sector decelerated to 6.1% in Sep 2019).</li> <li>b) Decelerating Consumption and Investment demand.</li> <li>c) As a result, increase in Non-performing loans.</li> <li>d) Political and Policy uncertainty.</li> <li>e) Currency depreciation due to foreign capital outflows.</li> <li>f) Fiscal deficit.</li> <li>g) Government external Debt Maturity.</li> </ul> |

Source: CBSL Financial System Stability Report 2019

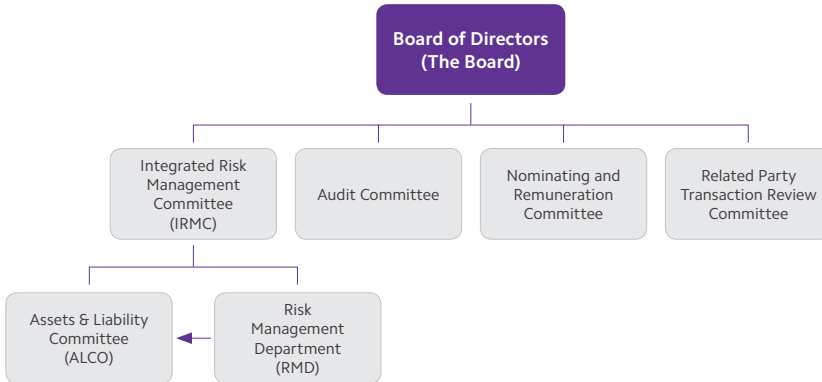
The Company witnessed a marginal increase in its non-performing loan portfolio during the period under review.

# Risk Management

## 2. Risk Governance

### 2.1 Risk Governance Structure

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



The Board of Directors (the Board) will have the oversight responsibility to identify risks and ensuring implementation of appropriate systems to manage the risks prudently. The Board ensures that the Company implements a robust risk management process and mechanism to identify risks and mitigate the impact from such risks affecting the organisation. The Board has entrusted this responsibility to the Integrated Risk Management Committee (IRMC). The IRMC is responsible in ensuring to the Board that the Company had established a risk management policy and a risk management framework.

### 2.2 Integrated Risk Management Committee (IRMC)

The IRMC currently consists of 3 Directors (appointed by the Board), Director/Chief Executive Officer and key management personal from Risk Management, Finance, Compliance and Operations. The committee meets every quarter and there were three (3) meetings held during the period under review.

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

The IRMC along with the Senior Management of the Company will establish other committees within the Company such as the Asset and Liability Committee. Important decisions made through such committees are briefed to IRMC on a periodical basis.

### 2.3 Asset and Liability Committee (ALCO)

The ALCO is established under the 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

# Risk Management

other risks that could have a direct financial impact to the Company. Through the ALCO, investment and credit decisions relating to the Company are also made and the IRMC is appraised accordingly.

## 2.4 Risk Management Department (RMD)

The RMD identifies the key risks for the Company and reports to the IRMC and to the Board. The RMD ensures that identified risks are within the risk appetite/ parameters of the Company and ensures risk

treatment is applied to mitigate the impact of risks. The RMD is the overall responsible function to manage the enterprise wide risks. The RMD implements the Business Continuity Plan of the Company.

## 3. Risk Management Framework and Principles

### 3.1 The Three Lines of Defence Model

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

| Lines of Defence                | Risk Control Function  | Responsible Person   |
|---------------------------------|--|--|
| 1 <sup>st</sup> Line of Defence | Each department within The Company will ensure that identifying, assessing, monitoring and reporting all risks associated within their respective area of responsibility | <ul style="list-style-type: none"> <li>• Department Head / Manager</li> </ul>  |
| 2 <sup>nd</sup> Line of Defence | Developing, implementing risk framework and monitoring activity will be carried out by Risk Management and Compliance Departments  | <ul style="list-style-type: none"> <li>• Head of Risk Management</li> <li>• Head of Legal and Compliance</li> <li>• Integrated Risk Management Committee (IRMC)</li> </ul> |
| 3 <sup>rd</sup> Line of Defence | Ensuring that all internal controls implemented to mitigate risks are functioning accordingly by Internal Audit Function   | <ul style="list-style-type: none"> <li>• Head - Internal Audit (Outsourced)</li> <li>• Audit Committee (AC)</li> </ul>   |

## 3.2 Risk Policy and Risk Management Framework

The risk policy and risk management framework is implemented by the RMD in the Company.

The policy and framework are developed in line with the guidelines provided by ISO 31000 – Risk Management and Axiata Group Enterprise Risk Management Framework. The risk policy and the framework are reviewed and approved by IRMC and the Board annually.

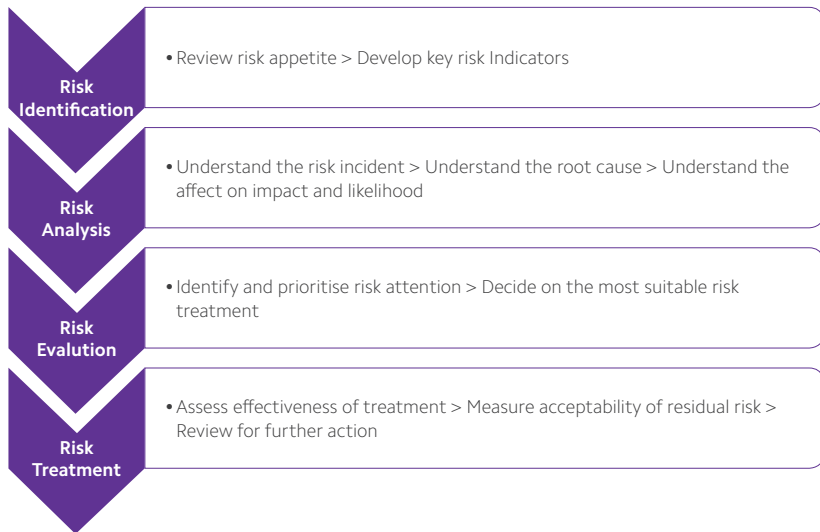
### 3.2.1 Overview of the Risk Management Framework

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

All risk incidents are recorded, monitored and reviewed and are recorded in the risk register. The Company uses the risk register and the risk matrix as the tool to implement its risk management framework. The RMD carries out risk assessment of the Company on a periodical basis.

# Risk Management

Below figure provides an overview of the risk management framework adopted by the Company.



The key risks that were managed by the Company during the period under review are outlined below

## 4. Credit Risk

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

The Company's credit portfolio consists of lending made to the retail consumer segment and corporates. Maintaining the consumer portfolio within the defined exposure limit was the challenging factor for the Company. Primarily due to the economic situation in the country such as slowness in credit growth and increase in non-performing loans resulted in marginal elevated portfolio risk level to the Company during the period under review.

However, the Company was able to manage and mitigate the risk by constantly reviewing the credit models used for granting the lending limits for consumer loans, whilst also tightening the credit criteria for such loan applications.

The corporate portfolio was managed by reviewing the customers on a frequent basis and providing a risk score that is based on exposure to the Company considering past payments, collateral etc. This process enabled the Company to take early measures that prevent high exposure customers from default. Further, all new corporate facilities are evaluated and screened through a stringent credit control process

# Risk Management

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including the credit risk score being assigned to new applicants. High risk customer applications are not entertained and will be declined.

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

## 4.1 Impairment Charges

The Company adopts the IFRS guidelines for impairments 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. In addition to financial losses, operational risk can result in reputational damage to the Company. Operational Risk can be controlled through effective internal controls and adequate training.

During the period under review, the Company's operational risk was controlled and was within acceptable level of the risk appetite.

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

The Company has developed and implemented the Business Continuity Plan and have carried out relevant tests. There is an effective process of backing up of critical systems in place 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.

In addition, the Company engages Moore Stephen Consulting (Pvt) Ltd as their internal auditors, and 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. ALCO monitors the fluctuation in market rates and recommends pricing changes accordingly.

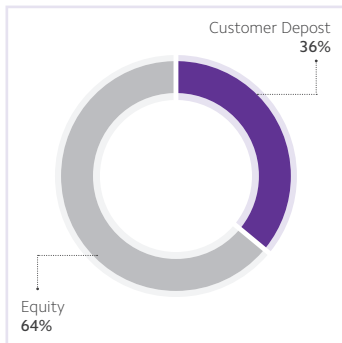
# Risk Management

## 7. Liquidity Risk

Risk associated with maintaining adequate levels of funding is at a reasonable cost for the Company. This risk is mitigated by ALCO decision on managing the liquidity position of the Company effectively.

During the period under review, the Company derived its funding through equity and deposits only. The funding mix of the company as of 31 December 2019 is given below.

**Funding Mix as at 31 December 2019**

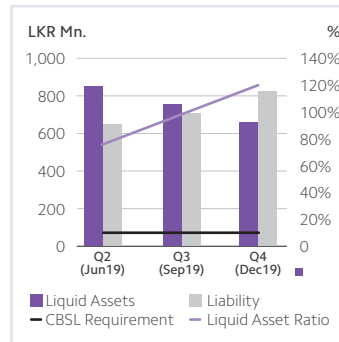


An efficient liquidity risk management is critical to the Company to maintain the confidence of the depositors, counterparties and stakeholders, to manage the cost of funding and to ensure that the Company’s core business revenue generating functions operate even at adverse situations.

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

The Company maintained the liquid assets above the minimum requirement of the Central Bank of Sri Lanka 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.

## Composition of the Committee

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

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

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

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

The Company Secretary functions as the secretary to the Committee.

## Meetings

The Committee held eight (8) meetings during the nine month period ended 31 December 2019. The details of the attendance of the Committee members at these meetings are given below.

| Name of Member                    | Attendance |
|-----------------------------------|------------|
| Mr. Priyan Edirisinghe – Chairman | 8/8        |
| Mr. Roshan Hettiaratchi           | 7/8        |
| Mr. Supun Weerasinghe             | 3/8        |

The representatives of the Company's external auditors, Messrs. PricewaterhouseCoopers participated in three (3) meetings by invitation. The Chief Executive Officer / Director, Head of Finance and Internal

Auditors attended the meetings by invitation. The Senior Management of the Company too participated in the meetings from time to time on need basis.

During the nine month period ended 31 December 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 regularly reviewed to ensure new developments relating to committee functions are addressed. The ToR was revised by the Committee on 17 December 2019.

## 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 general oversight of financial reporting, internal controls and the functions relating to internal and external audits.

## Activities for the nine month period ended 31 December 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.



# Audit Committee Report

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

## 2. Internal Controls over Financial Reporting

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

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

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

## 3. Internal Audit

During the period under review, Moore Stephens Aiyar, Chartered Accountants, were appointed as the internal auditors of the Company on 25 November 2019 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 systematic and disciplined approach to evaluate 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 adequacy of scope and functions of the internal audit prior to commencement of the annual audit plan.

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

## 4. External Audit

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

The following were amongst the activities carried out by the Committee during the nine (9) month period ended 31 December 2019.

- Discussion with external auditors on the scope of the audit, audit approach and procedures
- Review of 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 to the notice of the Committee

# Audit Committee Report

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

Messrs. PricewaterhouseCoopers, Chartered Accountants were re-appointed as the external auditors of the Company at the Annual General Meeting held on 27 September 2019.

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

Having reviewed the effectiveness of the external auditors, the Committee has recommended to the Board, the re-appointment of PricewaterhouseCoopers as the external auditors of the Company for the financial year ending 31 December 2020, subject to the approval of Shareholders at the Annual General Meeting.

## 5. Annual Corporate Governance Report

The Company is required to comply with Section 10 2) j) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 and publish Annual Corporate Governance Report for the nine (9) month period ended 31 December 2019.

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

## 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 period consultations were held with various parties.

## 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

29 May 2020

# Nominating and Remuneration Committee Report

The Nominating and 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.

Further to the decision of the Board to amalgamate the functions of remuneration and the selection, evaluation and recommendation of individuals for the appointment to the Board, to be within the purview of one committee, the Committee was renamed from the 'Remuneration Committee' to the 'Nominating and Remuneration Committee', on 14 October 2019 and the Terms of Reference of the Committee was revised on 14 October 2019 to be in alignment with the above change.

The Company's remuneration policy endeavors 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 period. 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 bonus plans of the Company based on Corporate and Individual Performance. The Committee also reviews salary structures and terms and conditions of services to ensure compatibility with the market.

The Committee also selects, evaluates and recommends to the Board qualified individuals for election or appointment to the Board and further assesses and makes recommendations to the Board on the performance of the existing Directors and the effectiveness of the Board.

## Composition

The Committee comprises of three (3) non-executive directors, of whom a majority are independent directors. The Committee is chaired by Mr. Roshaan Hettiaratchi, who is an Attorney-at-Law and was appointed as the Chairman of the Committee on 29 August 2019. The composition meets the requirements stipulated in the Listing Rules of the Colombo Stock Exchange. The Company Secretary functions as the Secretary to the Committee.

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

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

## Meetings

The Committee had six (6) meetings during the period under review. The meeting attendance of the members is set out in the table below:

| Name of Member                      | Attendance |
|-------------------------------------|------------|
| Mr. Roshaan Hettiaratchi – Chairman | 5/6        |
| Mr. Priyan Edirisinghe              | 6/6        |
| Mr. Supun Weerasinghe               | 4/6        |

The Director/ Chief Executive Officer and Head of Human Resources and Administration attended committee meetings by invitation.

The Board of Directors is apprised of the significant issues discussed, recommended and approved by the Committee 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 Period

- Approval of the employee performance management framework 2019
- Approval of the recruitment policy, learning and development policy, employee exit policy, promotion policy, performance management policy, rewards and remuneration policy and staff loan policy
- Approval of the revised terms of reference of the Committee

## Conclusion

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

On behalf of the Nominating and Remuneration Committee.



## Mr. Roshaan Hettiaratchi

Chairman – Nominating and Remuneration Committee

29 May 2020

# 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 10 to 11. The composition below is in compliance with the provisions of the Rules regarding the composition of the Committee.

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

Mr. Priyan Edirisinghe was appointed as the Chairman of the Committee on 29 August 2019

The Company Secretary functions as the Secretary to the Committee.

## Meetings

The Committee held 6 meetings during the nine month period ended 31 December 2019. Details of attendance of the members at these meetings are given below.

| Name of Member                    | Attendance |
|-----------------------------------|------------|
| Mr. Priyan Edirisinghe – Chairman | 6/6        |
| Mr. Roshaan Hettiaratchi          | 5/6        |
| Mr. Supun Weerasinghe             | 3/6        |

## Terms of Reference

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

## Role and Responsibilities

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

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

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

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

# Related Party Transactions Review Committee Report

## Related Party Transactions for the nine month period ended 31 December 2019

Transactions of related parties (as defined in LKAS 24 - 'Related parties Disclosures') with the Company are set out in note 40 to the financial statements.

## Activities during the nine month period ended 31 December 2019

- Declarations were 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 RPTRC 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.

The Company is satisfied that all RPTs reviewed by the Committee during the nine month period ended 31 December 2019 were in compliance with the Rules.

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

On behalf of the Related Party Transactions Review Committee



**Mr. Priyan Edirisinghe**

Chairman – Related Party Transaction Review Committee

29 May 2020

# 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 through appropriate risk indicators and management information. The Committee reviews the adequacy of management level committees such as the 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 of the Committee, was formulated and approved by the Board.

## Composition

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

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

1. Mr. Roshan Hettiaratchi - Independent, Non - Executive Director (Chairman)
2. Mr. Priyan Edirisinghe - Independent, Non - Executive Director
3. Mr. Supun Weerasinghe – Non-Independent, Non - Executive Director
4. Mr. Asanga Priyadarshana – Non - Independent, Executive Director (Chief Executive Officer)
5. Ms. Hasuni Gayasha – Head of Finance
6. Mr. Thissil Vincent – Head of Risk Management

## Meetings

The Committee had three (3) meetings (quarterly) during the nine (9) month period under review. The meeting attendance of the members is set out in the table below;

| Name of Member           | Attendance |
|--------------------------|------------|
| Mr. Roshan Hettiaratchi  | 3/3        |
| Mr. Priyan Edirisinghe   | 3/3        |
| Mr. Supun Weerasinghe    | 0/3        |
| Mr. Asanga Priyadarshana | 3/3        |
| Ms. Hasuni Gayasha       | 3/3        |
| Mr. Thissil Vincent      | 3/3        |

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

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

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

During the period 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 other risks affecting the Company i.e. Compliance risk, Credit risk, Operations risk and Money Laundering risk, and recommended that Management mitigate the impact of these risks.
- Provided guidance to the Management of the Company to implement proactive credit monitoring processes.
- Directed the Company to initiate the rights issue process in October 2019 in order to obtain the required core capital as per requirements of the Central Bank of Sri Lanka of 2020.

## Integrated Risk Management Committee Report

- Directed the Company to grow the credit portfolio by offering a leasing product to group staff and vendors.
- Reviewed the key decisions taken by the ALCO on a quarterly basis.
- Directed the Company on managing the risk relating to defaults due to the slowness of the economy in 2019.

The following include other key routine activities carried out by the Committee during 2019:

- a) Ensuring the reported risks are within the risk appetite of the Company as per the Risk Policy of the Company
- b) Reviewing the financial performance of the Company
- c) Reviewing the list of top ten depositors and borrowers
- d) Reviewing and approving the amendments to the Terms of Reference

### Conclusion

The Committee is satisfied with the overall Enterprise Risk Management (ERM) framework adopted by the Company in line with the Risk Policy and other financial regulations issued by the Central Bank of Sri Lanka.

On behalf of the Integrated Risk Management Committee.



**Mr. Roshan Hettiaratchi**

Chairman – Integrated Risk Management Committee

29 May 2020

# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

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 9 month period ended 31 December 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.

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

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

## 2. Principal Business 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. Change of Balance Sheet Date

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

## 4. Financial Statements

The financial statements of the Company as set out on pages 67 to 135, 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 LKAs) 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 9 month period ended 31 December 2019 are duly signed by the Chief Executive Officer / Director, Head of Finance and two other Directors of the Company.

## 5. Independent Auditor’s Report

The Independent Auditors of the Company are Messrs. PricewaterhouseCoopers (“PwC”), Chartered Accountants. PwC carried out the audit on the financial statements of the Company for the 9 month period ended 31 December 2019 and their report on the financial statements, is set out on pages 63 to 66.



# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

## 6. Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 71 to 91.

## 7. 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 67 to 135 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act, the Finance Business Act, No.42 of 2011 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

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

## 8. Property, Plant and Equipment (PPE)

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

### 8 [A]. Capital Expenditure

The total capital expenditure made on acquiring property, plant and equipment and intangible assets of the Company amounted to Rs. 75.36 Mn (For the year ended 31 March 2019 – Rs.133.26Mn) and the details are given in Notes 27 and 28 to the financial statements.

### 8 [B]. Capital Commitments

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

## 9. Market Value of Freehold Properties

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

## 10. Reserves

The aggregate value of reserves and their composition are set out in the Statement of Changes in Equity of the Company on page 69 to the financial statements.

### 10 [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.

### 11. Stated Capital

The Stated Capital of the Company as at 31 December 2019 amounted to Rs.1,673,164,541.90 consisting of 91,336,974 ordinary shares (31 March 2019 – Rs.909,038,221.90 consisting of 72,233,816 ordinary shares).

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

### 11 [A]. Issue Of Shares

- 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) new ordinary shares for one hundred and twenty one (121) existing ordinary shares held in the Company and the shares were listed on CSE on 26 April 2019. The Company raised Rs. 764,126,320/- from the rights issue and increased the stated capital of the Company.
- Events after the Balance Sheet Date – The Board of Directors of the Company resolved on 14 October 2019 to issue up to 17,446,388 ordinary shares by way of a right issue subject to obtaining shareholder approval. The purpose of the issue is to increase the core capital in compliance with the Finance business Act (Minimum Core Capital) No.02 of 2017 issued by the Central Bank of Sri Lanka. These ordinary shares are to be issued at a price of Rs.40.20 per share, and the proportion in which the shares are to be issued is 17 (Seventeen) new ordinary shares for every 89 (Eighty Nine) existing ordinary shares held.

# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

## 11 [B]. 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 December 2019. The main shareholders of the Company and corresponding holding percentages are set out below.

| Name of Shareholder   | 31 December 2019  |                |
|---|-------------------|----------------|
|   | No of Shares      | % Holding      |
| 1. Dialog Axiata PLC  | 90,309,767        | 98.88%         |
| 2. J.B.Cocoshell (Pvt) Ltd                                    | 209,496           | 0.23%          |
| 3. Mr. R.C.J. Goonewardene                                    | 146,155           | 0.16%          |
| 4. Mrs. A.A. Raaymakers                                       | 25,000            | 0.03%          |
| 5. Mr. P.S.M. Fernando  | 22,601            | 0.02%          |
| 6. Mr. L.C.Y. Welikala  | 22,600            | 0.02%          |
| 7. Mr. R.E Rambukwella  | 22,262            | 0.02%          |
| 8. Mr. K.N. Nandasiri / T.B. Ratna Sujeeva Tennakoon Banda    | 18,632            | 0.02%          |
| 9. People's Leasing & Finance PLC / C.D. Kohombanwickramage   | 17,820            | 0.02%          |
| 10. Mr. B.C.N. Mendis   | 14,727            | 0.02%          |
| 10. Mr. B.C.V. Mendis   | 13,727            | 0.02%          |
| 12. Mr. S.L. Paranamange                                      | 13,700            | 0.01%          |
| 13. Mr. T. Thiruththanigainathan                              | 12,344            | 0.01%          |
| 14. Mr. R.L.G. Fernando                                       | 12,000            | 0.01%          |
| 15. Mr. N.S. Wijesekera                                       | 11,813            | 0.01%          |
| 16. Mr. O.W.D. Yasapala                                       | 11,000            | 0.01%          |
| 17. Bansei Securities Capital (Pvt) Ltd / R.C.J. Goonewardene | 10,029            | 0.01%          |
| 18. Mr. G.D.M. Ranasinghe / Mr. O.R.K. Ranasinghe             | 10,000            | 0.01%          |
| 19. Mr. H.V.S.M. Navaratne                                    | 10,000            | 0.01%          |
| 20. Mr. T.D. Mahaliyana                                       | 9,940             | 0.01%          |
| Others  | 413,361           | 0.47%          |
| <b>Total</b>  | <b>91,336,974</b> | <b>100.00%</b> |

## 11 [C]. Minimum Public Holding Requirement

The percentage of shares held by the public as at 31 December 2019 was 1.12%, in the hands of 741 public shareholders (31 March 2019 – 1.12% in the hands of 779 public shareholders)

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

## 11 [D]. Equitable Treatment to Shareholders

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

## 12. Board of Directors

The Board of Directors of the Company comprise of 6 Directors (31 March 2019 - 6) with wide financial and commercial knowledge and experience. The names of the Directors as at 31 December 2019 are given below. There were no changes to the Board during the 9 months under review.

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

# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

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

| Name   | Classification (NED/NID/ED) | Remarks (Appointed date, change of directorate to chairman etc) |
|--|-----------------------------|---|
| Dr. Hans Wijayasuriya (Chairman)                   | NID/NED                     | 9 November 2017   |
| Mr. Supun Weerasinghe                              | NID/NED                     | 9 November 2017   |
| Mr. Priyan Edirisinghe                             | IND/NED                     | 19 January 2016   |
| Mr. Roshan Hettiaratchi                            | IND/NED                     | 9 February 2016   |
| Mr. Sheyantha Abeykoon                             | NID/NED                     | 9 November 2017   |
| Mr. Asanga Priyadarshana (Chief Executive Officer) | NID/ED                      | 6 April 2018  |

## 13. Board Subcommittees

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

1. Audit Committee
2. Nominating and Remuneration Committee
3. Integrated Risk Management Committee
4. Related Party Transactions Review Committee

## 14. Directors' Interest in Contracts and Proposed Contracts

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

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

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

## 15. Directors' Remuneration

The details of Directors' emoluments and other benefits paid in respect of the Company during the 9 months period under review are given in Note 40 to the financial statements.

## 16. Related Party Transactions

The Directors have disclosed transactions if, any that could be classified as related party transactions in terms of Sri Lanka Accounting Standards – LKAS 24 (Related Party Disclosure) which is adopted in the preparation of the financial statements. The details of all related party transactions carried out during the period are disclosed in Note 40 to the financial statements.

## 17. 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 37.2 to the financial statements.

# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

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## 18. Statutory Payments

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

## 19. Risk Management and Internal Control

### 19 [A]. Internal Controls

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

### 19 [B]. Corporate Governance

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

## 20. Environmental Protection

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

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

## 21. Donations

The Company has not made any donations during the 9 months ended 31 December 2019. (For the year ended 31 March 2019 – Rs. 4,700/-).

## 22. Taxation

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

## 23. Dividends

The Directors have not recommended a dividend for the period ended 31 December 2019.

## 24. Going Concern

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

# Annual Report of the Board of Directors for the Nine Months ended 31 December 2019

## 25. Auditors

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

The audit fees payable to Messrs. PricewaterhouseCoopers for the 9 months ended 31 December 2019 amounted to Rs. 945,000/- Further, a sum of Rs. 531,000/- 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 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 December 2019, the number of employees on the payroll of the Company was 164 (31 March 2019 – 175).

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

## 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  
2 April 2020

# Directors' Statement on Internal Controls Over Financial Reporting

## 1. Purpose

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

## 2. Responsibility

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

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

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

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

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

- **Scope of Board Appointed Sub Committees** - Board sub committees assist the board in evaluating the effectiveness of the Company's daily operations 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 which was previously outsourced to Messrs. Ernst & Young was transferred to Messrs. Moore Stephens Aiyar in November 2019. The annual audit plan is reviewed and approved by the Audit Committee. The audit procedures are designed in such a way to ensure compliance with policies and procedures using samples and rotational procedures. The internal auditors provide independent and objective audit reports, highlighting significant findings on non-compliance. The frequency of such audits is determined based on the level of risk assessment.
- **Role of Audit Committee**
  - Reviews the significant audit findings by internal and external auditors, regulatory authorities and management of the Company. The comments made by the external auditors in connection with the internal control system over financial reporting in previous years through issue of management letters were reviewed during the period and appropriate steps were taken to address and rectify the concerns raised. The recommendation which will be made by the external auditors for the period ended 31 December 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 infrastructure is placed within the Company and senior officers have been made responsible for collating procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Company.
- Ensures the adequacy and effectiveness of internal audit functions of the Company referring to the scope and required quality. Activities done by the Audit Committee are set out in the Audit Committee Report on pages 46 to 48.

## • Implementation of Accounting Standards and Other Regulatory Changes

- The Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. Based on the feedback received from the external auditors, internal auditors, regulators and the Audit Committee, the aforementioned Accounting Standards were further strengthened during period from 2013 to 2019.
- Necessary steps were taken by the Company to further review the requirements of the Sri Lanka Accounting Standard – SLFRS 9 (Financial Instruments) and SLFRS 15 (Revenue from Contracts with Customers). Designing of processes and controls, implementation of models and training and awareness sessions to stakeholders (including the Board and Senior Management) were made. The Audit Committee continually advises the management on the strengthening of processes and controls required in management information systems to maintain the level of compliance with SLFRS 9 and related disclosures.
- The Company adopted SLFRS 16 – Leases during the previous financial year and necessary steps were taken to assess its impact on the financial statements and to design suitable internal controls.

## • Updation of Procedure Manuals

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

## 4. Confirmation

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

## 5. Review of the Statement by External Auditors

The external auditors, Messrs.

PricewaterhouseCoopers has reviewed the above Directors' Statement of Internal Controls over Financial Reporting included in the Annual Report for the nine month period ended 31 December 2019 and reported to the Board that nothing has come to their attention that causes the Board to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in the design and effectiveness of the Internal Control over Financial Reporting of the Company.

By order of the Board



**Dr. Hans Wijayasuriya**  
Chairman



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

Colombo  
20 April 2020

# Directors' Responsibility for Financial Reporting

The responsibility of Directors in relation to the Financial Statements of Dialog Finance PLC ("the Company") is set out in the following statements. The responsibility of the Independent Auditor in relation to the financial statements prepared in accordance with the Companies Act, No.07 of 2007 ("the Companies Act"), is set out in the Independent Auditor's Report on pages 63 to 66.

## The financial statements comprise of the following :

- The statement of financial position, which presents a true and fair view of the state of affairs of the Company as at 31 December 2019,
- The statement of profit or loss and comprehensive income, which present a true and fair view of the profit or loss and/or other comprehensive income of the Company for the 9 month period ended 31 December 2019;
- Statement of changes in equity, Statement of cash flow and Notes to the financial statements.

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

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

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

The financial statements of the Company have been certified by Head of Finance, the officer responsible for the preparation and the Chief Executive Officer and have been signed by two Directors on 2 April 2020 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  
2 April 2020



# Independent Auditor's Report



## To the Shareholders of Dialog Finance PLC Report on the audit of the financial statements

### Our opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Dialog Finance PLC ("the Company") as at 31 December 2019, and of its financial performance and cash flows for the nine month period ended 31 December 2019 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 nine month period ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the nine month period ended 31 December 2019;
- the statement of cash flows for the nine month period ended 31 December 2019; and
- the notes to the financial statements, which include a summary of significant accounting policies
- 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.

*PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka  
T: +94 (11) 771 9700, 771 9838, F: +94 (11) 230 3197, [www.pwc.com/lk](http://www.pwc.com/lk)*

**D T S H Mudalige FCA, C S Manoharan FCA, Ms S Hadgie FCA, Ms S Perera ACA, N R Gunasekera FCA  
T U Jayasinghe FCA, H P V Lakdeva FCA, M D B Boyagoda ACA**

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# Independent Auditor's Report

To the Shareholders of Dialog Finance PLC (Contd.)

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

| Key audit matter  | How our audit addressed the key audit matter   |
|---|--|
| <p><b>Impairment of loans and advances</b><br/> <b>Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 10 and 21 to the financial statements.</b></p> <p>As at 31 December 2019, total gross amount of loans and advances amounted to LKR 1,410 Million, with a total allowance for impairment of LKR 387 Million. Total net amount of loans and advances contribute 43% to the total assets.</p> <p>The Company uses the Expected Credit Loss model (ECL) to determine the impairment allowance for loans and advances to customers. The impairment of loans and advances using the ECL model was considered as a key audit matter due to factors such as:</p> <ul style="list-style-type: none"> <li>• The ECL model involves complex calculations and requires significant management judgment.</li> <li>• The magnitude of the reported amounts of loans and advances to customers and the impairment allowances thereof.</li> <li>• The determination of loss rates on number of new products being based on limited historical information.</li> </ul> | <p>The audit procedures performed to assess the adequacy of the impairment allowance for credit losses on loans and advances to customers in line with SLFRS 9 adopted, included the following:</p> <ul style="list-style-type: none"> <li>• Understanding, evaluating and testing the design and operating effectiveness of controls in the lending and credit risk mitigation process.</li> <li>• Assessed the appropriateness of the criteria used by management to determine whether the customer credit facility is impaired.</li> <li>• Assessed design and implementation of the ECL model, including significant assumptions made by management and the quality of observable data, which included, cash flow estimates, discount rates and expected recoveries when defaults occur.</li> <li>• Compared the macro-economic and other forward-looking information used by the management, against reliable publicly available information.</li> <li>• Checked the underlying calculations and data on a sample basis for accuracy and completeness.</li> <li>• 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.</li> </ul> <p>Based on the procedures performed as mentioned above, we considered the assumptions and judgments made by the management to be reasonable.</p> |

# Independent Auditor's Report

## Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the nine month period ended 31 December 2019 ("the Annual Report") but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

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

## Auditor's responsibilities for the audit of the financial statements

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

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

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

# Independent Auditor's Report

## To the Shareholders of Dialog Finance PLC (Contd.)

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

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

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

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

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

### Report on other legal and regulatory requirements

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



**CHARTERED ACCOUNTANTS**

CA Sri Lanka membership number: 2857

Colombo  
3 April 2020

# Statement of Profit or Loss and Other Comprehensive Income

| <i>(All amounts in Sri Lanka Rupees thousands)</i>   | Note | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|------|---------------------------------------|--------------------------------|
| Interest income  |      | 198,179                               | 231,115                        |
| Less: Interest expense   |      | (48,102)                              | (86,676)                       |
| <b>Net interest income</b>   | 6    | <b>150,077</b>                        | <b>144,439</b>                 |
| Fee and commission income  |      | 60,043                                | 92,001                         |
| Less: Fee and commission expenses  |      | -                                     | -                              |
| <b>Net fee and commission income</b>   | 7    | <b>60,043</b>                         | <b>92,001</b>                  |
| Net gains / (losses) from trading  | 8    | 379                                   | (662)                          |
| Other operating income   | 9    | 9,490                                 | 8,134                          |
| <b>Total operating income</b>  |      | <b>219,989</b>                        | <b>243,912</b>                 |
| Less: Impairment charges and other losses  | 10   | (105,901)                             | (133,136)                      |
| <b>Net operating income</b>  |      | <b>114,088</b>                        | <b>110,776</b>                 |
| <b>Less: Operating expenses</b>  |      |                                       |                                |
| Personnel expenses   | 11   | (125,902)                             | (130,533)                      |
| Depreciation and amortisation  | 12   | (28,244)                              | (14,833)                       |
| Other expenses   |      | (103,718)                             | (93,582)                       |
| <b>Operating loss before taxes on financial services</b>   | 13   | <b>(143,776)</b>                      | <b>(128,172)</b>               |
| Less: Taxes on financial services  | 14   | -                                     | (823)                          |
| <b>Loss before tax for the period / year</b>   |      | <b>(143,776)</b>                      | <b>(128,995)</b>               |
| Income tax reversal / (expense)  | 15   | 110                                   | (415)                          |
| <b>Loss for the period / year</b>  |      | <b>(143,666)</b>                      | <b>(129,410)</b>               |
| <b>Other comprehensive income</b>  |      |                                       |                                |
| <b>Items that will not be reclassified to profit or loss:</b>                                      |      |                                       |                                |
| - changes in the fair value of equity investments at fair value through other comprehensive income |      | 1,634                                 | -                              |
| - remeasurement of defined benefit obligation  |      | (192)                                 | 1,311                          |
| - deferred tax effect on other comprehensive income  |      | (110)                                 | (367)                          |
| <b>Other comprehensive income, net of tax</b>  |      | <b>1,332</b>                          | <b>944</b>                     |
| <b>Total comprehensive income for the period / year, net of tax</b>                                |      | <b>(142,334)</b>                      | <b>(128,466)</b>               |
| Basic loss per share for losses attributable to the ordinary equity holders of the Company (Rs.)   | 16   | (1.61)                                | (1.97)                         |

The notes on pages 71 to 135 form an integral part of these financial statements.

# Statement of Financial Position

| <i>(All amounts in Sri Lanka Rupees thousands)</i>                | Note | 31 December<br>2019 | 31 March<br>2019 |
|---|------|---------------------|------------------|
| <b>Assets</b>   |      |                     |                  |
| Cash and cash equivalents   | 18   | 129,419             | 91,704           |
| Placements with financial institutions                            | 19   | 647,360             | 163,100          |
| Securities purchased under repurchase agreements                  |      | 76,221              | 17,755           |
| Financial assets at fair value through profit or loss             | 20   | 1,286               | 907              |
| Financial assets at amortised cost - loans and advances           | 21   | 1,023,629           | 991,417          |
| Financial assets at fair value through other comprehensive income | 22   | 1,980               | 346              |
| Financial investments at amortised cost                           | 23   | 2,085               | 66,368           |
| Other assets  | 24   | 256,948             | 55,822           |
| Current tax receivable  |      | 6,255               | 4,904            |
| Right-of-use assets   | 26   | 30,934              | 38,062           |
| Property, plant and equipment                                     | 27   | 88,445              | 66,387           |
| Intangible assets   | 28   | 82,572              | 87,748           |
| Deferred tax asset  | 29   | 36,948              | 36,948           |
| <b>Total assets</b>   |      | <b>2,384,082</b>    | <b>1,621,468</b> |
| <b>Liabilities</b>  |      |                     |                  |
| Financial liabilities at amortised cost – due to customers        | 30   | 818,869             | 632,209          |
| Retirement benefit obligations                                    | 31   | 7,900               | 6,717            |
| Lease liabilities   |      | 29,803              | 38,837           |
| Other liabilities   | 32   | 73,848              | 110,157          |
| <b>Total liabilities</b>  |      | <b>930,420</b>      | <b>787,920</b>   |
| <b>Equity</b>   |      |                     |                  |
| Stated capital  | 33   | 1,673,165           | 909,038          |
| Statutory reserve fund  | 34   | 11,361              | 11,361           |
| Fair value through other comprehensive income                     | 35   | 1,471               | -                |
| Accumulated losses  | 35   | (232,335)           | (86,851)         |
| <b>Total equity</b>   |      | <b>1,453,662</b>    | <b>833,548</b>   |
| <b>Total equity and liabilities</b>                               |      | <b>2,384,082</b>    | <b>1,621,468</b> |
| Net asset per share (Rs.)   |      | <b>15.92</b>        | <b>11.54</b>     |
| Commitments and contingencies                                     | 37   | <b>225,052</b>      | <b>155,964</b>   |

The notes on pages 71 to 135 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  
2 April 2020

# Statement of Changes in Equity

| <i>(All amounts in Sri Lanka Rupees thousands)</i>       | Note | Stated capital   | Statutory reserve fund | General reserve | Retained earnings / (accumulated losses) | Fair value through OCI reserve | Total            |
|--|------|------------------|------------------------|-----------------|--|--------------------------------|------------------|
| Balance at 1 April 2019                                  |      | 909,038          | 11,361                 | -               | (86,851)                                 | -                              | 833,548          |
| Loss for the period                                      |      | -                | -                      | -               | (143,666)                                | -                              | (143,666)        |
| Other comprehensive income, net of tax                   |      | -                | -                      | -               | (139)                                    | 1,471                          | 1,332            |
| <b>Total comprehensive income for the period</b>         |      | -                | -                      | -               | <b>(143,805)</b>                         | <b>1,471</b>                   | <b>(142,334)</b> |
| Rights issue during the period                           | 33   | 764,127          | -                      | -               | -  | -                              | 764,127          |
| Rights issue expense                                     |      | -                | -                      | -               | (1,679)                                  | -                              | (1,679)          |
| Transferred to statutory reserve fund                    | 34   | -                | -                      | -               | -  | -                              | -                |
| <b>Balance at 31 December 2019</b>                       |      | <b>1,673,165</b> | <b>11,361</b>          | <b>-</b>        | <b>(232,335)</b>                         | <b>1,471</b>                   | <b>1,453,662</b> |
| 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            |      | -                | -                      | -               | (45,926)                                 | -                              | (45,926)         |
| <b>Restated balance under SLFRS 9 as at 1 April 2018</b> |      | <b>309,889</b>   | <b>11,361</b>          | <b>60,000</b>   | <b>(17,159)</b>                          | <b>-</b>                       | <b>364,091</b>   |
| Loss for the year  |      | -                | -                      | -               | (129,410)                                | -                              | (129,410)        |
| Other comprehensive income, net of tax                   |      | -                | -                      | -               | 944                                      | -                              | 944              |
| <b>Total comprehensive income for the year</b>           |      | <b>-</b>         | <b>-</b>               | <b>-</b>        | <b>(128,466)</b>                         | <b>-</b>                       | <b>(128,466)</b> |
| Transferred to statutory reserve fund                    | 34   | -                | -                      | -               | -  | -                              | -                |
| Transferred to retained earnings                         |      | -                | -                      | (60,000)        | 60,000                                   | -                              | -                |
| Rights issue during the year                             | 33   | 599,149          | -                      | -               | -  | -                              | 599,149          |
| Rights issue expense                                     |      | -                | -                      | -               | (1,226)                                  | -                              | (1,226)          |
| <b>Balance at 31 March 2019</b>                          |      | <b>909,038</b>   | <b>11,361</b>          | <b>-</b>        | <b>(86,851)</b>                          | <b>-</b>                       | <b>833,548</b>   |

The notes on pages 71 to 135 form an integral part of these financial statements.

# Statement of Cash Flows

| <i>(All amounts in Sri Lanka Rupees thousands)</i>                           | Note | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|------|---------------------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                                  |      |                                       |                                |
| Loss before income tax   |      | (143,776)                             | (128,995)                      |
| <b>Adjustment for,</b>   |      |                                       |                                |
| Interest expenses  | 6.2  | 48,102                                | 86,676                         |
| Impairment charges and other losses  | 10.1 | 105,901                               | 133,136                        |
| Provision for retirement benefits obligation                                 | 11   | 1,700                                 | 1,702                          |
| Depreciation of property plant and equipment                                 | 27   | 12,508                                | 8,517                          |
| Depreciation of right-of-use assets  | 26   | 7,413                                 | 1,685                          |
| Amortisation of intangible assets  | 28   | 8,322                                 | 4,631                          |
| Interest on lease liabilities  |      | 4,013                                 | 2,475                          |
| Intangible assets transferred to a related party                             | 41.3 | 33,699                                | -                              |
| Profit on disposal of fixed assets   |      | -                                     | (400)                          |
| Net (gains) / losses from trading  |      | (379)                                 | 662                            |
| <b>Cash generated from operations before working capital changes</b>         |      | <b>77,503</b>                         | <b>110,089</b>                 |
| <b>Cash used in operations</b>   |      |                                       |                                |
| Increase in loans and advances   |      | (138,109)                             | (336,113)                      |
| Increase in other assets   |      | (202,158)                             | (41,110)                       |
| Increase / (decrease) in amounts due to customers                            |      | 184,869                               | (192,233)                      |
| (Decrease) / increase in other liabilities                                   |      | (32,621)                              | 98,401                         |
| <b>Cash used in operations</b>   |      | <b>(110,516)</b>                      | <b>(360,966)</b>               |
| <b>Net cash used in operating activities</b>                                 |      |                                       |                                |
|  |      | <b>(157,542)</b>                      | <b>(454,237)</b>               |
| <b>Cash flows from investing activities</b>                                  |      |                                       |                                |
| Proceeds from sale of property plant and equipment                           |      | -                                     | 400                            |
| Acquisition of property plant and equipment and intangible assets            |      | (75,358)                              | (133,271)                      |
| Net investment in treasury bills   |      | 64,283                                | (5,900)                        |
| Net placements with financial institutions                                   |      | (484,260)                             | 48,255                         |
| Net cash flows from securities purchased under repurchased agreement         |      | (58,466)                              | 8,859                          |
| <b>Net cash used in investing activities</b>                                 |      | <b>(553,801)</b>                      | <b>(81,657)</b>                |
| <b>Cash flows from financing activities</b>                                  |      |                                       |                                |
| Net cash received from rights issue  |      | 762,448                               | 597,923                        |
| Repayment of lease liabilities   |      | (13,385)                              | (3,385)                        |
| <b>Net cash generated from financing activities</b>                          |      | <b>749,063</b>                        | <b>594,538</b>                 |
| <b>Net increase in cash and cash equivalents</b>                             |      |                                       |                                |
|  |      | <b>37,720</b>                         | <b>58,644</b>                  |
| Cash and cash equivalents at the beginning of the period                     |      | 91,718                                | 33,074                         |
| <b>Cash and cash equivalents at the end of the period / year</b>             |      | <b>129,438</b>                        | <b>91,718</b>                  |
| <b>Analysis of cash and cash equivalents at the end of the period / year</b> |      |                                       |                                |
| Cash and bank balances   |      | 129,438                               | 91,718                         |
| Less: Impairment provision   |      | (19)                                  | (14)                           |
|  |      | <b>129,419</b>                        | <b>91,704</b>                  |

The notes on pages 71 to 135 form an integral part of these financial statements.



# Notes to the Financial Statements

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

## 1. Corporate information

### 1.1 General

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

The registered office of the Company is located at No. 475, Union Place, Colombo 02. The principal place of business is located at 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 parent is Dialog Axiata PLC and the Company's ultimate parent undertaking and controlling party is Axiata Group Berhad.

### 1.4 Number of employees

The staff strength of the Company as at 31 December 2019 is 164 (31 March 2019 - 175).

### 1.5 Approval of financial statements by directors

The financial statements of the Company, for the period ended 31 December 2019, were authorised for issue by the Board of Directors on 2 April 2020. The Directors have the power to amend and reissue the financial statements.

## 2. Basis of preparation

### 2.1 Statement of compliance

The financial statements of the Company, which comprise of the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements are prepared in accordance with the Sri Lanka Accounting Standards (LKASs and SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and in compliance with the requirements of the Companies Act, No. 7 of 2007, and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange.

### 2.2 Responsibility for financial statements

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

### 2.3 Basis of measurement.

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

- Financial assets at fair value through other comprehensive income [Note 22];
- Financial assets at fair value through profit or loss [Note 20];
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation based on actuarial valuation [Note 31].

# Notes to the Financial Statements

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

## 2. Basis of preparation (Contd.)

### 2.4 Functional and presentation currency

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

### 2.5 Presentation of financial statements

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

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

### 2.6 Materiality and aggregation

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

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

### 2.7 Statement of cash flows

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

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

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

## 3. Significant accounting judgements, estimates and assumptions

In preparing the financial statements of the Company in conformity with SLFRSs and LKASs, the management has made judgements, estimates and assumptions which affect the application of Accounting Policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

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

### 3.1 Going concern

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

### 3.2 Impairment losses on loans and advances

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

# Notes to the Financial Statements

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

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

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

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

### 3.3 Fair value of financial instruments

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

### 3.4 Financial assets and financial liabilities classification

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

### 3.5 Taxation

#### (a) Income taxes

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

#### (b) Deferred income tax assets

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

### 3.6 Defined benefit obligation

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

# Notes to the Financial Statements

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

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

### 3.7 Estimated useful lives of PPE

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

### 3.8 Commitment and contingent liabilities

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

### 3.9 Estimation in relation to lease accounting

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

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company become obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

## 4. Changes in accounting policies

### 4.1 New standards and amendments adopted by the Company

The Company has early adopted SLFRS 16 'Leases' with effect from 1 April 2018 in accordance with the transition provisions in the standard.

The Company has applied the following amendments for the first time for their reporting period commencing 1 April 2019.

- (i) IFRIC 23, 'Uncertainty over Income Tax Treatments', explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.
- (ii) Amendments to SLFRS 9, 'Financial Instruments', enable entities to measure certain pre-payable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through comprehensive income.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

- (iii) The amendments to LKAS 19, 'Employee Benefits' clarifies the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must
  - calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change
  - recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling
  - separately recognise any changes in the asset ceiling through other comprehensive income
- (iv) Annual improvements to following SLFRSs;
  - SLFRS 3, 'Business Combinations'
  - SLFRS 11, 'Joint Arrangements',
  - LKAS 12, 'Disclosure of Interests in Other Entities'
  - LKAS 23, 'Borrowing Costs',

The amendments listed above are not expected to significantly affect the financial statements of the Company.

# Notes to the Financial Statements

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

## 4.2 New standards and amendments but not adopted by the Company

- (i) Amendments to LKAS 1, 'Presentation of Financial Statements' and LKAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in LKAS 1 about immaterial information. The amendments to the standards are effective for accounting periods beginning on or after 1 January 2020.
- (ii) The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions. The revised Conceptual Framework is effective for accounting periods beginning on or after 1 January 2020.

The adoption of amendments to published standards are not expected to have a material impact to the financial statements of the Company.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

## 5. Summary of significant accounting policies

The accounting policies set out below have been consistently applied the accounting policies to all periods presented in these financial statements, 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 within the time frame generally established by regulation or convention in the market place.

#### (b) Initial measurement of financial instruments

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

#### (c) Classification and subsequent measurement of financial assets

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

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

#### (i) Financial assets at amortised cost:

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

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

Loans and receivables consist of cash and bank balances, securities purchased under repurchase agreements, factoring receivables, lease receivables, hire purchase receivables, loan receivables and other assets. Placements with financial Institutions include investments in fixed and call deposits.

The details of the above conditions are outlined below.

#### Business model assessment

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

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

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

#### (c) Classification and subsequent measurement of financial assets (Contd.)

##### (i) Financial assets at amortised cost (Contd.)

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

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

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

##### The SPPI test

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

For the purpose of this test,

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

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

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

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

##### (ii) Financial assets at FVOCI

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

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

# Notes to the Financial Statements

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

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 22 to the financial statements.

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

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Income from these financial assets are recognised using the effective interest rate method.

Currently, the Company has recorded its quoted equity investments at fair value through profit or loss. The details of quoted equity instruments are given in Note 20 to the financial statements.

### (d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with banks, loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments. Details of cash and cash equivalents are given in Note 18 to the financial statements

### (e) Classification and subsequent measurement of financial liabilities

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

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

### (f) Reclassifications of financial assets and financial liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Classification of financial liabilities is changed where the business model is changed. The Company did not reclassify any of its financial assets or liabilities in for the financial period ended 31 December 2019.

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

#### (i) Derecognition of financial assets

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

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

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

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

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

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

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

##### (i) Derecognition of financial assets (Contd.)

- The Company 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.



# Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

## 5.3 Impairment of financial assets

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

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

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

### 5.3 Impairment of financial assets (Contd.)

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

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

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

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

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

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

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

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

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

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

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

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

The mechanism of the ECL method are summarised below.

#### Stage 1:

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

#### Stage 2:

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

#### Stage 3:

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

# Notes to the Financial Statements

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

## 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 other comprehensive income

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

## (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.

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

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

## 5.4 Modification of loans

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

If the terms are substantially different, the Company derecognises the original financial asset and recognises a new asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

### 5.4 Modification of loans (Contd.)

in credit risk has occurred. However the Company also assesses whether the new financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on de-recognition.

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

### 5.5 Offsetting financial instruments

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

### 5.6 Repurchase and reverse repurchase agreements

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

life of agreement using the EIR. When the counter party has the right to sell or re-pledge the securities, the Company reclassifies those securities in its statement of financial position to 'Financial 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.

### 5.7 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

#### (a) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

# Notes to the Financial Statements

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

## (b) Lease liabilities

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

- Fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase and extension options if the 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 are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company the lessee's incremental borrowing is used. This is the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU in a similar economic environment with similar term, security and conditions.

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

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

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

## (c) Remeasurement of lease liabilities

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

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

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

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

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

## 5.8 Property, plant and equipment (PPE)

### (a) Measurement

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

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

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

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

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

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

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

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

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

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

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

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

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

#### (b) Asset exchange transaction

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

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

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

#### (c) Repairs and maintenance

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

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

#### (d) Derecognition

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

### 5.9 Intangible assets

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

# Notes to the Financial Statements

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

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.

## 5.10 Impairment of non-financial assets

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

comprehensive income. Any subsequent increase in recoverable amount is recognised in comprehensive income.

## 5.11 Stated capital

### (a) Classification

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

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

### (b) Share issue expenses

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

### (c) Dividends on ordinary shares

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

## 5.12 Employee benefits

### (a) Short term employee benefits

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

### (b) Defined contribution plans

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contribute 12% and 3% respectively, of basic or consolidated wage or salary of each eligible

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

### 5.12 Employee benefits (Contd.)

#### (b) Defined contribution plans (Contd.)

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 period / year. It is recognised in the comprehensive income in employee benefit expense, except where included in the cost of an asset. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in comprehensive income as past service costs.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial

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

#### (d) Termination benefits

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

### 5.13 Statutory reserve fund

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

### 5.14 Provisions

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

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



# Notes to the Financial Statements

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

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

## 5.15 Recognition of income and expenses

### (a) Interest income and interest expense

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

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

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

When a financial asset become credit - impaired (as set out in Note 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 recognised as income over the term of the facility commencing with the month that the facility is executed in proportion to the declining receivable balance, so as to produce a constant periodic rate of return on the net investment.

### (ii) Factoring

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

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

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

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

### (b) Fees and commission income and expenses

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

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

### 5.15 Recognition of income and expenses (Contd.)

#### (b) Fees and commission income and expenses (Contd.)

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

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

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

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

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

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

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

#### (c) Other operating income

##### (i) Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends

are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

##### (ii) Recovery of bad debts written off

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

##### (iii) Other income

Other income is recognised on an accrual basis.

#### (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 period / year.

### 5.16 Taxes

#### (a) Income tax

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it

# Notes to the Financial Statements

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

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.

Current tax receivables consist of economic service charges and withholding taxes paid by the Company.

## (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 recognised 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. NBT has been abolished with effect from 1 December 2019.

## (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% 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.

# Notes to the Financial Statements

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

## 5. Summary of significant accounting policies (Contd.)

### 5.16 Taxes (Contd.)

#### (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; and
- Deposits falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.

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

### 5.17 Earnings per share

#### (a) Basic (loss) / earnings per share

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

#### (b) Diluted earnings per share

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

### 5.18 Operating segments

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

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

# Notes to the Financial Statements

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

Information regarding the results of each reportable segment is included in Note 44. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

## 5.19 Commitments and contingencies

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

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

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

## Undrawn loan commitment

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

# Notes to the Financial Statements

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

## 6. Net interest income

### 6.1 Interest income

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Money market                                     | 10,449                                | 4,825                          |
| Placements with financial institutions           | 29,388                                | 38,996                         |
| Securities purchased under repurchase agreements | 10,645                                | 2,213                          |
| Government securities                            | 2,133                                 | 5,606                          |
| Fixed deposits loan                              | 1,290                                 | 2,202                          |
| Margin trading                                   | 6,717                                 | 11,409                         |
| Cheque discounting                               | -                                     | 7,383                          |
| Device financing                                 | 76,905                                | 83,706                         |
| Merchant loan                                    | 6,596                                 | 328                            |
| Factoring loan                                   | 15,322                                | 5,118                          |
| Finance leases and hire purchase                 | 9,529                                 | 27,512                         |
| Mortgage loan                                    | 6,677                                 | 12,064                         |
| Demand loan                                      | 3,951                                 | 4,369                          |
| Revolving loan                                   | 18,577                                | 25,384                         |
| <b>Total interest income</b>                     | <b>198,179</b>                        | <b>231,115</b>                 |

### 6.2 Interest expense

|                               | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|-------------------------------|---------------------------------------|--------------------------------|
| Deposits from customers       | 48,102                                | 86,676                         |
| <b>Total interest expense</b> | <b>48,102</b>                         | <b>86,676</b>                  |
| <b>Net interest income</b>    | <b>150,077</b>                        | <b>144,439</b>                 |

## 7. Net fee and commission income

### 7.1 Fee and commission income

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Commission income                      | 25                                    | 174                            |
| Facilitation fee on device finance     | 51,169                                | 90,637                         |
| Service charges                        | 1,295                                 | 706                            |
| CEFT income                            | 431                                   | -                              |
| Other charges and income               | 7,123                                 | 484                            |
| <b>Total fee and commission income</b> | <b>60,043</b>                         | <b>92,001</b>                  |

# Notes to the Financial Statements

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

## 7.2 Fee and commission expenses

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Commission expenses                      | -                                     | -                              |
| <b>Total fee and commission expenses</b> | -                                     | -                              |
| <b>Net fee and commission income</b>     | <b>60,043</b>                         | <b>92,001</b>                  |

## 8. Net gains / (losses) from trading

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| <b>Equities</b>   |                                       |                                |
| Net gains / (losses) on financial assets at fair value through profit or loss | 379                                   | (662)                          |
|   | <b>379</b>                            | <b>(662)</b>                   |

## 9. Other operating income

|                                     | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|-------------------------------------|---------------------------------------|--------------------------------|
| Default charges                     | 8,617                                 | 6,854                          |
| Recovery of bad debt written off    | 486                                   | 385                            |
| Gains from disposal of fixed assets | -                                     | 400                            |
| Dividend income                     | 243                                   | 255                            |
| Rental income and other income      | 144                                   | 240                            |
|                                     | <b>9,490</b>                          | <b>8,134</b>                   |

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

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

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

# Notes to the Financial Statements

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

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

|                                      | Year ended 31 March 2019 |               |                |                |
|--------------------------------------|--------------------------|---------------|----------------|----------------|
|                                      | Stage 1                  | Stage 2       | Stage 3        | Total          |
| Cash and cash equivalents            | (29)                     | -             | -              | (29)           |
| Placement with financial institution | (14)                     | -             | -              | (14)           |
| Lease receivable                     | (568)                    | (2,026)       | (380)          | (2,974)        |
| Hire purchase receivable             | (77)                     | (36)          | (3,037)        | (3,150)        |
| Factoring receivable                 | 3,971                    | -             | 41             | 4,012          |
| Other loan receivable                | (2,685)                  | (9,824)       | 49,923         | 37,414         |
| Device finance receivable            | 8,892                    | 27,702        | 61,869         | 98,463         |
| Margin trading receivable            | (586)                    | -             | -              | (586)          |
|                                      | <b>8,904</b>             | <b>15,816</b> | <b>108,416</b> | <b>133,136</b> |

## 11. Personnel expenses

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| Wages, salaries and others                  | 116,694                               | 122,427                        |
| Contributions to defined contribution plans | 7,508                                 | 6,404                          |
| Contributions to defined benefit plans      | 1,700                                 | 1,702                          |
|   | <b>125,902</b>                        | <b>130,533</b>                 |

## 12. Depreciation and amortisation

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| Depreciation of property, plant and equipment (Note 27) | 12,508                                | 8,517                          |
| Amortisation of intangible assets (Note 28)             | 8,322                                 | 4,631                          |
| Depreciation of right-of-use assets (Note 26)           | 7,413                                 | 1,685                          |
|   | <b>28,244</b>                         | <b>14,833</b>                  |

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

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

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| Directors' emoluments                         | 1,800                                 | 2,550                          |
| Audit fees and expenses                       | 945                                   | 900                            |
| Non-audit fees to auditors                    | 531                                   | 528                            |
| Professional and legal expenses               | 652                                   | 2,949                          |
| Depreciation of property, plant and equipment | 12,508                                | 8,518                          |
| Amortisation of intangible assets             | 7,528                                 | 4,632                          |
| Provision for unrecoverable VAT               | 15,292                                | -                              |
| Deposit insurance premium                     | 737                                   | 1,031                          |
| Donations                                     | -                                     | 5                              |
| Finance Cost                                  | 4,013                                 | 2,475                          |



# Notes to the Financial Statements

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

## 14. Taxes on financial services

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| Value added tax on financial services     | -                                     | 125                            |
| Debt repayment levy on financial services | -                                     | 698                            |
|   | -                                     | 823                            |

## 15. Income tax (reversal) / expense

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

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| <b>Current tax expense</b>   |                                       |                                |
| Current tax expense for the period / year                              | 110                                   | -                              |
| Under / (over) provision of current taxes in respect of previous years | -                                     | (415)                          |
|  | 110                                   | (415)                          |
| <b>Deferred tax expense</b>  |                                       |                                |
| Deferred taxation charge (Note 29)                                     | (110)                                 | -                              |
|  | -                                     | (415)                          |
| <b>Effective tax rate</b>  | -                                     | 0.32%                          |

### 15.2 Reconciliation of effective tax rate

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

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Accounting loss before income taxation                       | (143,776)                             | (128,995)                      |
| At the statutory income tax rate of 28%                      | (40,257)                              | (36,119)                       |
| Tax effect of non-deductible expenses                        | 46,028                                | 61,266                         |
| Tax effect of other allowable credits                        | (48,396)                              | (44,818)                       |
| Over provision of current taxes in respect of previous years | -                                     | 415                            |
| Deferred tax reversal / (expense) not recognized             | 42,515                                | 19,671                         |
|  | 110                                   | 415                            |

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

# Notes to the Financial Statements

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

## 16. Loss per share – basic

### 16.1 Loss per share

|   | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|---|---------------------------------------|--------------------------------|
| Loss attributable to the equity holders of the Company                          | (143,666)                             | (129,410)                      |
| Weighted average number of ordinary shares during the period / year (Note 16.2) | 89,330,358                            | 65,805,173                     |
| <b>Basic loss per share (Rs.)</b>   | <b>(1.61)</b>                         | <b>(1.97)</b>                  |

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

### 16.2 Weighted average number of ordinary shares

|   | Number of shares  |                   | Weighted average number of shares |                   |
|---|-------------------|-------------------|-----------------------------------|-------------------|
|   | 31 Dec 2019       | 31 Mar 2019       | 31 Dec 2019                       | 31 Mar 2019       |
| Number of ordinary shares in issue as at 1 April  | 72,233,816        | 46,519,243        | 72,233,816                        | 46,519,243        |
| Number of shares issued under rights issue  | 19,103,158        | 25,714,573        | 17,096,542                        | 19,285,930        |
| Number of shares in issue / weighted average number of ordinary shares as at 31 December / 31 March | <b>91,336,974</b> | <b>72,233,816</b> | <b>89,330,358</b>                 | <b>65,805,173</b> |

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

### 16.3 Diluted earnings per share

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

## 17. Analysis of financial instruments by measurement basis

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

# Notes to the Financial Statements

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

| As at 31 March 2019   | Amortised cost   | Equity instrument - FVTPL | Equity instrument - FVTOCI | Total            |
|---|------------------|---------------------------|----------------------------|------------------|
| <b>Financial assets</b>   |                  |                           |                            |                  |
| 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 advances           | 991,417          | -                         | -                          | 991,417          |
| Financial assets at fair value through other comprehensive income | -                | -                         | 346                        | 346              |
| Financial investments at amortised cost                           | 66,368           | -                         | -                          | 66,368           |
| <b>Total financial assets</b>                                     | <b>1,330,344</b> | <b>907</b>                | <b>346</b>                 | <b>1,331,597</b> |
| <b>Financial liabilities</b>                                      |                  |                           |                            |                  |
| Financial liabilities at amortised cost – due to customers        | 632,209          | -                         | -                          | 632,209          |
| Lease liabilities   | 38,837           | -                         | -                          | 38,837           |
| <b>Total financial liabilities</b>                                | <b>671,046</b>   | <b>-</b>                  | <b>-</b>                   | <b>671,046</b>   |

## 18. Cash and cash equivalents

|  | 31 December 2019 | 31 March 2019 |
|--|------------------|---------------|
| Cash in hand                             | 18               | 19            |
| Cash in eZ cash wallet                   | 6,841            | 1,738         |
| Balances with banks                      | 122,579          | 89,961        |
| Less: Allowance for expected credit loss | (19)             | (14)          |
|  | <b>129,419</b>   | <b>91,704</b> |

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

|   |           |           |
|---|-----------|-----------|
| Balance as at 1 April                                 | 14        | 43        |
| Charge / (reversal) for the period / year             | 5         | (29)      |
| <b>Balance as at 31 December 2019 / 31 March 2019</b> | <b>19</b> | <b>14</b> |

# Notes to the Financial Statements

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

## 19. Placements with financial institutions

|  | 31 December<br>2019 | 31 March<br>2019 |
|--|---------------------|------------------|
| Placement with financial institutions      | 647,504             | 163,134          |
| Less: Allowance for expected credit losses | (144)               | (34)             |
|  | <b>647,360</b>      | <b>163,100</b>   |

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

|   |            |           |
|---|------------|-----------|
| Balance as at 1 April 2019 / 2018                     | 34         | 48        |
| Charge / (reversal) for the period / year             | 110        | (14)      |
| <b>Balance as at 31 December 2019 / 31 March 2019</b> | <b>144</b> | <b>34</b> |

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

|                                  | 31 December<br>2019 | 31 March<br>2019 |
|----------------------------------|---------------------|------------------|
| Quoted equity shares (Note 20.1) | 1,286               | 907              |
|                                  | <b>1,286</b>        | <b>907</b>       |

### 20.1 Quoted equity shares

|                                  | 31 December 2019 |                          | 31 March 2019   |                          |
|----------------------------------|------------------|--------------------------|-----------------|--------------------------|
|                                  | No of<br>Shares  | Carrying /<br>Fair value | No of<br>Shares | Carrying /<br>Fair value |
| Balangoda Plantations PLC        | 22,000           | 264                      | 22,000          | 256                      |
| Tokyo Cement Company (Lanka) PLC | 8,157            | 392                      | 8,157           | 169                      |
| Ceylon Hotels Corporation PLC.   | 4,715            | 56                       | 4,715           | 46                       |
| The Kingsbury PLC                | 15,000           | 197                      | 15,000          | 192                      |
| John Keells Hotels PLC           | 32,584           | 377                      | 32,584          | 244                      |
| <b>Total market value</b>        |                  | <b>1,286</b>             |                 | <b>907</b>               |

## 21. Financial assets at amortised cost - Loans and advances

|                                | 31 December<br>2019 | 31 March<br>2019 |
|--------------------------------|---------------------|------------------|
| Gross loans and advances       | 1,410,310           | 1,305,474        |
| Less: provision for impairment | (386,681)           | (314,057)        |
|                                | <b>1,023,629</b>    | <b>991,417</b>   |

# Notes to the Financial Statements

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

|                            | Notes | 31 December 2019 | 31 March 2019  |
|----------------------------|-------|------------------|----------------|
| Lease receivables          | 21.1  | 50,113           | 88,820         |
| Hire purchase receivables  | 21.2  | -                | 2,533          |
| Factoring receivables      | 21.3  | 137,925          | 91,762         |
| Device finance receivables | 21.4  | 405,248          | 588,115        |
| Other loans and advances   | 21.5  | 333,557          | 169,742        |
| Margin trading receivables | 21.6  | 96,786           | 50,445         |
|                            |       | <b>1,023,629</b> | <b>991,417</b> |

## 21.1 Lease receivable

|                                      | 31 December 2019 | 31 March 2019  |
|--------------------------------------|------------------|----------------|
| <b>At amortised cost</b>             |                  |                |
| Total lease rental receivable        | 89,466           | 159,500        |
| Less: Unearned lease interest income | (10,302)         | (22,216)       |
| Less: VAT suspense                   | (210)            | (184)          |
| Less: Prepaid rentals                | (296)            | (1,026)        |
| <b>Gross lease receivable</b>        | <b>78,658</b>    | <b>136,074</b> |
| Less: Provision for impairment       |                  |                |
| Stage 1                              | (1,380)          | (1,833)        |
| Stage 2                              | (817)            | (2,290)        |
| Stage 3                              | (26,349)         | (43,131)       |
| <b>Net lease receivable</b>          | <b>50,113</b>    | <b>88,820</b>  |

The Company does not have any new lease facilities granted during the period ended 31 December 2019, whereas the existing portfolio is maintained.

No lease receivables as at 31 December 2019 (31 March 2019 - Rs. 93,074,308) have been assigned for funding arrangements.

### (a) Maturity analysis of net lease receivable

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

# Notes to the Financial Statements

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

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

### 21.1 Lease receivable (Contd.)

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

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

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

| As at 31 December 2019                             | Stage 1       | Stage 2       | Stage 3       | Total         |
|--|---------------|---------------|---------------|---------------|
| Individually impaired lease receivable             | -             | -             | 22,499        | 22,499        |
| Lease receivable- subject to collective impairment | 14,457        | 12,533        | 29,169        | 56,159        |
| Allowance for expected credit losses (ECL)         | (1,379)       | (817)         | (26,349)      | (28,545)      |
|  | <b>13,078</b> | <b>11,716</b> | <b>25,319</b> | <b>50,113</b> |

| 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)      |
|  | <b>34,769</b> | <b>36,260</b> | <b>17,791</b> | <b>88,820</b> |

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

|   | Stage 1      | Stage 2    | Stage 3       | Total         |
|---|--------------|------------|---------------|---------------|
| Balance as 1 April 2019                             | 1,833        | 2,290      | 43,131        | 47,254        |
| (Reversal) / Charge to income statement (Note 10.1) | (453)        | (1,473)    | 180           | (1,746)       |
| Write off impact                                    | -            | -          | (16,963)      | (16,963)      |
| <b>Balance as at 31 December 2019</b>               | <b>1,380</b> | <b>817</b> | <b>26,348</b> | <b>28,545</b> |

|   | Stage 1      | Stage 2      | Stage 3       | Total         |
|---|--------------|--------------|---------------|---------------|
| Balance as at 1 April 2018                          | 2,401        | 4,316        | 43,511        | 50,228        |
| (Reversal) / Charge to income statement (Note 10.1) | (568)        | (2,026)      | (380)         | (2,974)       |
| <b>Balance as at March 2019</b>                     | <b>1,833</b> | <b>2,290</b> | <b>43,131</b> | <b>47,254</b> |

# Notes to the Financial Statements

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

## 21.2 Hire purchase receivable

|  | 31 December<br>2019 | 31 March<br>2019 |
|--|---------------------|------------------|
| <b>At amortised cost</b>                     |                     |                  |
| Total hire purchase rental receivable        | 6,017               | 22,751           |
| Less: Unearned hire purchase interest income | -                   | (192)            |
| Less: Prepaid rentals                        | -                   | (42)             |
| <b>Gross hire purchase receivable</b>        | <b>6,017</b>        | <b>22,517</b>    |
| Less: Provision for impairment               |                     |                  |
| Stage 1                                      | -                   | (8)              |
| Stage 2                                      | -                   | (13)             |
| Stage 3                                      | (6,017)             | (19,963)         |
| <b>Net hire purchase receivable</b>          | <b>-</b>            | <b>2,533</b>     |

### (a) Maturity analysis of net hire purchase receivable

| As at 31 December 2019                       | 1 Year       | 1 - 5 Years | More than<br>5 Years | Total        |
|--|--------------|-------------|----------------------|--------------|
| Total hire purchase rental receivable        | 6,017        | -           | -                    | 6,017        |
| Less: Unearned hire purchase interest income | -            | -           | -                    | -            |
| <b>Gross hire purchase receivable</b>        | <b>6,017</b> | <b>-</b>    | <b>-</b>             | <b>6,017</b> |
| Less: Allowance for expected credit losses   | (6,017)      | -           | -                    | (6,017)      |
| <b>Net hire purchase receivable</b>          | <b>-</b>     | <b>-</b>    | <b>-</b>             | <b>-</b>     |

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

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

| As at 31 December 2019                                     | Stage 1 | Stage 2 | Stage 3 | Total   |
|--|---------|---------|---------|---------|
| Individually impaired hire purchase receivable             | -       | -       | 6,017   | 6,017   |
| Hire purchase receivable- subject to collective impairment | -       | -       | -       | -       |
| Allowance for expected credit losses (ECL)                 | -       | -       | (6,017) | (6,017) |
|  | -       | -       | -       | -       |

# Notes to the Financial Statements

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

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

### 21.2 Hire purchase receivable (Contd.)

(b) Analysis of hire purchase receivable on maximum exposure to credit risk (Contd.)

| 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)        | (15)       | (19,963)     | (19,984)     |
|  | <b>450</b> | <b>898</b> | <b>1,185</b> | <b>2,533</b> |

(c) Movement in allowance for expected credit losses

|   | Stage 1  | Stage 2  | Stage 3      | Total        |
|---|----------|----------|--------------|--------------|
| Balance as at 1 April 2019                          | 8        | 13       | 19,963       | 19,984       |
| Charge / (reversal) to income statement [Note 10.1] | (8)      | (13)     | (421)        | (442)        |
| Write off impact                                    | -        | -        | (13,525)     | (13,525)     |
| <b>Balance as at 31 December 2019</b>               | <b>-</b> | <b>-</b> | <b>6,017</b> | <b>6,017</b> |

|   | Stage 1  | Stage 2   | Stage 3       | Total         |
|---|----------|-----------|---------------|---------------|
| Balance as at 1 April 2018                          | 85       | 49        | 23,000        | 23,134        |
| Charge / (reversal) to income statement [Note 10.1] | (77)     | (36)      | (3,037)       | (3,150)       |
| <b>Balance as at 31 March 2019</b>                  | <b>8</b> | <b>13</b> | <b>19,963</b> | <b>19,984</b> |

### 21.3 Factoring receivables

|                                 | 31 December 2019 | 31 March 2019 |
|---------------------------------|------------------|---------------|
| Factoring receivable            | 138,454          | 96,259        |
| Less: Provision for impairment  |                  |               |
| Stage 1                         | (529)            | (4,261)       |
| Stage 3                         | -                | (236)         |
| <b>Net Factoring receivable</b> | <b>137,925</b>   | <b>91,762</b> |

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

| As at 31 December 2019                                  | Stage 1        | Stage 2  | Stage 3  | Total          |
|---|----------------|----------|----------|----------------|
| Individually impaired factoring receivable              | -              | -        | -        | -              |
| Factoring receivable - subject to collective impairment | 138,454        | -        | -        | 138,454        |
| Allowance for expected credit losses (ECL)              | (529)          | -        | -        | (529)          |
|   | <b>137,925</b> | <b>-</b> | <b>-</b> | <b>137,925</b> |

| 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)       |
|   | <b>91,762</b> | <b>-</b> | <b>-</b> | <b>91,762</b> |



# Notes to the Financial Statements

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

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

|   | Stage 1    | Stage 2  | Stage 3    | Total      |
|---|------------|----------|------------|------------|
| Balance as at 1 April 2019                          | 4,261      | -        | 236        | 4,497      |
| (Reversal) / charge to income statement [Note 10.1] | (3,732)    | -        | 112        | (3,620)    |
| Write off impact                                    | -          | -        | (348)      | (348)      |
| <b>Balance as at 31 December 2019</b>               | <b>529</b> | <b>-</b> | <b>348</b> | <b>529</b> |

|   | Stage 1      | Stage 2  | Stage 3    | Total        |
|---|--------------|----------|------------|--------------|
| Balance as at 1 April 2018                          | 290          | -        | 195        | 485          |
| (Reversal) / charge to income statement [Note 10.1] | 3,971        | -        | 41         | 4,012        |
| <b>Balance as at 31 March 2019</b>                  | <b>4,261</b> | <b>-</b> | <b>236</b> | <b>4,497</b> |

## 21.4 Device finance receivables

|   | 31 December 2019 | 31 March 2019  |
|---|------------------|----------------|
| Device finance rental receivable                    | 453,503          | 714,425        |
| Device finance rental in arrears                    | 196,786          | 57,496         |
|   | 650,289          | 771,921        |
| Unearned loan income                                | (31,572)         | (85,343)       |
| Insurance claims received                           | (139)            | -              |
| <b>Gross investment in device finance</b>           | <b>618,578</b>   | <b>686,578</b> |
| Less: Provision for impairment                      |                  |                |
| Stage 1   | (7,342)          | (8,892)        |
| Stage 2   | (19,575)         | (27,702)       |
| Stage 3   | (186,412)        | (61,869)       |
| <b>Net investment in device finance receivables</b> | <b>405,248</b>   | <b>588,115</b> |

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

| As at 31 December 2019                                       | Stage 1        | Stage 2       | Stage 3        | Total          |
|--|----------------|---------------|----------------|----------------|
| Individually impaired device finance receivable              | -              | -             | -              | -              |
| Device finance receivable - subject to collective impairment | 258,487        | 57,400        | 302,691        | 618,578        |
| Allowance for expected credit losses (ECL)                   | (7,343)        | (19,575)      | (186,412)      | (213,330)      |
|  | <b>251,144</b> | <b>37,825</b> | <b>116,279</b> | <b>405,248</b> |

| As at 31 March 2019  | Stage 1        | Stage 2       | Stage 3       | Total          |
|--|----------------|---------------|---------------|----------------|
| Individually impaired device finance receivable              | -              | -             | -             | -              |
| Device finance 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)       |
|  | <b>446,935</b> | <b>48,377</b> | <b>92,803</b> | <b>588,115</b> |

# Notes to the Financial Statements

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

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

### 21.4 Device finance receivables (Contd.)

(b) Movement in allowance for expected credit losses

|   | Stage 1      | Stage 2       | Stage 3        | Total          |
|---|--------------|---------------|----------------|----------------|
| Balance as at 1 April 2019                          | 8,892        | 27,702        | 61,869         | 98,463         |
| Charge / (reversal) to income statement [Note 10.1] | (1,551)      | (8,126)       | 124,544        | 114,867        |
| Write off impact                                    | -            | -             | -              | -              |
| <b>Balance as at 31 December 2019</b>               | <b>7,341</b> | <b>19,576</b> | <b>186,413</b> | <b>213,330</b> |

|   | Stage 1      | Stage 2       | Stage 3       | Total         |
|---|--------------|---------------|---------------|---------------|
| Balance as at 1 April 2018                          | -            | -             | -             | -             |
| Charge / (reversal) to income statement [Note 10.1] | 8,892        | 27,702        | 61,869        | 98,463        |
| <b>Balance as at 31 March 2019</b>                  | <b>8,892</b> | <b>27,702</b> | <b>61,869</b> | <b>98,463</b> |

### 21.5 Other loans and advances

|  | 31 December 2019 | 31 March 2019  |
|--|------------------|----------------|
| Gross investment in other loans and advances                       | 199,759          | 121,691        |
| Other loans and advances in arrears                                | 39,597           | 32,295         |
|  | <b>239,356</b>   | <b>153,986</b> |
| Unearned loan income   | (45,899)         | (21,809)       |
|  | <b>193,457</b>   | <b>132,177</b> |
| Revolving loan   | 146,218          | 81,272         |
| Cheque discounting   | 86,667           | 86,820         |
| Merchant loan  | 43,643           | 9,892          |
| <b>Net investment in other loans and advances</b>                  | <b>469,984</b>   | <b>310,161</b> |
| Less: Provision for impairment                                     |                  |                |
| Stage 1  | (3,927)          | (2,072)        |
| Stage 2  | (3,328)          | (5,709)        |
| Stage 3  | (129,172)        | (132,638)      |
| <b>Net investment in other loans and advances after impairment</b> | <b>333,557</b>   | <b>169,742</b> |

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

| As at 31 December 2019                             | Stage 1        | Stage 2       | Stage 3       | Total          |
|--|----------------|---------------|---------------|----------------|
| Individually impaired loan receivable              | -              | -             | 188,245       | 188,245        |
| Loan receivable - subject to collective impairment | 249,717        | 15,460        | 16,562        | 281,739        |
| Allowance for expected credit losses (ECL)         | (3,927)        | (3,328)       | (129,172)     | (136,427)      |
|  | <b>245,790</b> | <b>12,132</b> | <b>75,635</b> | <b>333,557</b> |

# Notes to the Financial Statements

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

| As at 31 March 2019                                | Stage 1       | Stage 2       | Stage 3       | Total          |
|--|---------------|---------------|---------------|----------------|
| Individually impaired loan receivable              | -             | -             | 86,821        | 86,821         |
| Loan 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)      |
|  | <b>76,552</b> | <b>27,908</b> | <b>65,282</b> | <b>169,742</b> |

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

|   | Stage 1      | Stage 2      | Stage 3        | Total          |
|---|--------------|--------------|----------------|----------------|
| Balance as at 1 April 2019                          | 2,072        | 5,709        | 132,638        | 140,419        |
| (Reversal) / charge to income statement [Note 10.1] | 1,854        | (2,381)      | (3,467)        | (3,993)        |
| Write off   | -            | -            | -              | -              |
| <b>Balance as at 31 December 2019</b>               | <b>3,927</b> | <b>3,328</b> | <b>129,173</b> | <b>136,427</b> |

|   | 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 10.1] | (2,685)      | (9,824)      | 49,923         | 37,414         |
| <b>Balance as at 31 March 2019</b>                | <b>2,072</b> | <b>5,709</b> | <b>132,638</b> | <b>140,419</b> |

## 21.6 Margin trading receivables

|  | 31 December 2019 | 31 March 2019 |
|--|------------------|---------------|
| Opening balance                                      | 53,885           | 131,025       |
| Decrease in net position                             | 1,624            | (57,535)      |
| Net payment and receipts                             | 43,110           | (19,605)      |
| <b>Margin trading receivable</b>                     | <b>98,619</b>    | <b>53,885</b> |
| Less: Provision for impairment                       |                  |               |
| Stage 1  | (1,833)          | (1,113)       |
| Stage 3  | -                | (2,327)       |
| <b>Margin trading receivable (net of provisions)</b> | <b>96,786</b>    | <b>50,445</b> |

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

| As at 31 December 2019                                       | Stage 1       | Stage 2 | Stage 3 | Total         |
|--|---------------|---------|---------|---------------|
| Individually impaired margin trading receivable              | -             | -       | -       | -             |
| Margin trading receivable - subject to collective impairment | 98,619        | -       | -       | 98,619        |
| Allowance for expected credit losses (ECL)                   | (1,833)       | -       | -       | (1,833)       |
|  | <b>96,786</b> | -       | -       | <b>96,786</b> |

| 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)       |
|  | <b>50,445</b> | -       | -       | <b>50,445</b> |

# Notes to the Financial Statements

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

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

### 21.6 Margin trading receivables (Contd.)

(b) Movement in allowance for expected credit losses

|   | Stage 1      | Stage 2  | Stage 3  | Total        |
|---|--------------|----------|----------|--------------|
| Balance as at 1 April 2019                          | 1,113        | -        | 2,327    | 3,440        |
| Charge / (reversal) to income statement [Note 10.1] | 720          | -        | -        | 720          |
| Write off   | -            | -        | (2,327)  | (2,327)      |
| <b>Balance as at 31 December 2019</b>               | <b>1,833</b> | <b>-</b> | <b>-</b> | <b>1,833</b> |

|  | 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 10.1] | (586)        | -        | -            | (586)        |
| <b>Balance as at 31 March 2019</b>     | <b>1,113</b> | <b>-</b> | <b>2,327</b> | <b>3,440</b> |

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

|   | 31 December 2019 | 31 March 2019 |
|---|------------------|---------------|
| Financial assets at fair value through other comprehensive income (FVOCI) | 1,980            | 346           |
|   | <b>1,980</b>     | <b>346</b>    |

(a) Financial assets of fair value through other comprehensive income consist of 100 shares invested in unquoted shares of Credit Information Bureau of Sri Lanka.

(b) During the period ended 31 December 2019, the Company received dividends of Rs. 242,905 (31 March 2019 Rs. 206,400) from unquoted equity investments, and recognised as other operating income.

## 23. Financial investments at amortised cost

|  | 31 December 2019 | 31 March 2019 |
|--|------------------|---------------|
| Financial investment at amortised cost | 2,085            | 66,368        |
|  | <b>2,085</b>     | <b>66,368</b> |

# Notes to the Financial Statements

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

## 24. Other assets

|   | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------------|------------------|
| <b>Other financial assets</b>                 |                     |                  |
| Amounts due from related companies            | 223,026             | 6,842            |
| Device finance client contribution receivable | -                   | 7                |
| Advance received - staff device finance loans | 157                 | 146              |
| eZ cash collection receivable                 | 16                  | 122              |
| Facilitation fee receivable                   | 1,045               | 11,908           |
| <b>Total other financial assets</b>           | <b>224,244</b>      | <b>19,025</b>    |
| <b>Other non-financial assets</b>             |                     |                  |
| Deposits and prepayments                      | 11,629              | 14,644           |
| Inventory                                     | 28                  | 28               |
| Other receivable                              | 11,041              | 7,959            |
| VAT on financial service overpayment          | 9,867               | 9,867            |
| Advances                                      | -                   | 4,160            |
| Deposit insurance overpayment                 | 139                 | 139              |
| <b>Total other non-financial assets</b>       | <b>32,704</b>       | <b>36,797</b>    |
| <b>Total other assets</b>                     | <b>256,948</b>      | <b>55,822</b>    |

## 25. Leases

This note provides information for leases where the Company is a lessee

### 25.1 Amounts recognised in the statement of financial position

|                            | 31 December<br>2019 | 31 March<br>2019 |
|----------------------------|---------------------|------------------|
| <b>Right-of-use assets</b> |                     |                  |
| Buildings                  | 30,934              | 38,062           |
|                            | 30,934              | 38,062           |
| <b>Lease liabilities</b>   |                     |                  |
| Current                    | 12,464              | 9,421            |
| Non-current                | 17,339              | 29,416           |
|                            | <b>29,803</b>       | <b>38,837</b>    |

There were no additions to the right-of-use assets during the period / year.

# Notes to the Financial Statements

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

## 25. Leases (Contd.)

### 25.2 Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Depreciation charge of right-of-use assets | 7,413                                 | 1,685                          |
| Interest expense                           | 4,013                                 | 2,475                          |

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

|                               | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|-------------------------------|---------------------------------------|--------------------------------|
| Total cash outflow for leases | 13,385                                | 3,385                          |

## 26. Right-of-use (ROU) assets

|                                       | 31 December<br>2019 | 31 March<br>2019 |
|---------------------------------------|---------------------|------------------|
| ROU assets                            | 38,062              | 39,747           |
| Remeasurement of ROU asset            | 285                 | -                |
| Depreciation during the period / year | (7,413)             | (1,685)          |
|                                       | 30,934              | 38,062           |

# Notes to the Financial Statements

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

## 27. Property, plant and equipment

|                                      | Land and buildings | Machinery and equipment | Furniture, fittings and other equipment | Computers     | Motor vehicles | Total         |
|--------------------------------------|--------------------|-------------------------|---|---------------|----------------|---------------|
| <b>At 31 December 2019</b>           |                    |                         |   |               |                |               |
| Cost                                 | 23,835             | 8,676                   | 27,550                                  | 65,109        | 240            | 125,410       |
| Accumulated depreciation             | (6,540)            | (3,406)                 | (5,776)                                 | (21,003)      | (240)          | (36,965)      |
| <b>Net book amount</b>               | <b>17,295</b>      | <b>5,270</b>            | <b>21,774</b>                           | <b>44,106</b> | <b>-</b>       | <b>88,445</b> |
| <b>Period ended 31 December 2019</b> |                    |                         |   |               |                |               |
| Opening net book amount              | 17,999             | 5,295                   | 18,608                                  | 24,585        | -              | 66,387        |
| Additions                            | -                  | 1,175                   | 5,489                                   | 27,903        | -              | 34,567        |
| Cost                                 | -                  | -                       | 14                                      | 562           | -              | 576           |
| Accumulated depreciation             | -                  | -                       | (14)                                    | (562)         | -              | (576)         |
| Depreciation charge                  | (604)              | (1,200)                 | (2,322)                                 | (8,382)       | -              | (12,508)      |
| <b>Closing net book amount</b>       | <b>17,295</b>      | <b>5,270</b>            | <b>21,774</b>                           | <b>44,106</b> | <b>-</b>       | <b>88,445</b> |
| <b>Year ended 31 March 2019</b>      |                    |                         |   |               |                |               |
| Opening net book amount              | 18,978             | 285                     | 5,589                                   | 2,825         | -              | 27,677        |
| Additions                            | -                  | 5,309                   | 17,180                                  | 24,738        | -              | 47,227        |
| 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)       |
| <b>Closing net book amount</b>       | <b>17,899</b>      | <b>5,295</b>            | <b>18,608</b>                           | <b>24,585</b> | <b>-</b>       | <b>66,387</b> |
| <b>At 31 March 2019</b>              |                    |                         |   |               |                |               |
| Cost / valuation                     | 23,835             | 7,500                   | 22,062                                  | 37,206        | 240            | 90,843        |
| Accumulated depreciation             | (5,936)            | (2,205)                 | (3,454)                                 | (12,621)      | (240)          | (24,456)      |
| <b>Net book amount</b>               | <b>17,899</b>      | <b>5,295</b>            | <b>18,608</b>                           | <b>24,585</b> | <b>-</b>       | <b>66,387</b> |

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

During the financial period, the Company acquired property, plant and equipment to the aggregate value of Rs. 34.57Mn (31 March 2019 - Rs. 47.2 Mn).

### 27.2 Fully depreciated property, plant and equipment

Cost of fully depreciated property, plant and equipment, which are still in use as at 31 December 2019 is Rs. 11.47Mn. (31 March 2019 - Rs.10.97 Mn)

### 27.3 Information on the freehold land and buildings of the Company

| Address  | Land extent (A-R-P) | Building extent (Sq.Ft.) | No of buildings | Cost  |          | Carrying amount of land and building |             |
|--|---------------------|--------------------------|-----------------|-------|----------|--------------------------------------|-------------|
|  |                     |                          |                 | Land  | Building | 31 Dec 2019                          | 31 Mar 2019 |
| No : 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province | 0A-0R-4.75P         | 3040                     | 1               | 8,313 | 15,856   | 17,295                               | 17,899      |

# Notes to the Financial Statements

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

## 28. Intangible assets

|                                      | Software      | Capital work-in progress (CWIP) | Total         |
|--------------------------------------|---------------|---------------------------------|---------------|
| <b>At 31 December 2019</b>           |               |                                 |               |
| Cost                                 | 102,298       | -                               | 102,298       |
| Accumulated amortisation             | (19,726)      | -                               | (19,726)      |
| <b>Net book amount</b>               | <b>82,572</b> | <b>-</b>                        | <b>82,572</b> |
| <b>Period ended 31 December 2019</b> |               |                                 |               |
| Opening net book amount              | 57,782        | 29,966                          | 87,748        |
| Additions                            | 40,791        | -                               | 40,791        |
| Disposals / transfers                | (7,679)       | (29,966)                        | (37,645)      |
| Amortisation charge                  | (8,322)       | -                               | (8,322)       |
| <b>Closing net book amount</b>       | <b>82,572</b> | <b>-</b>                        | <b>82,572</b> |
| <b>At 31 March 2019</b>              |               |                                 |               |
| Cost / valuation                     | 69,984        | 29,966                          | 99,950        |
| Accumulated amortisation             | (12,202)      | -                               | (12,202)      |
| <b>Net book amount</b>               | <b>57,782</b> | <b>29,966</b>                   | <b>87,748</b> |
| <b>Year ended 31 March 2019</b>      |               |                                 |               |
| Opening net book amount              | 6,336         | -                               | 6,336         |
| Additions                            | 56,077        | 29,966                          | 86,043        |
| Amortisation charge                  | (4,631)       | -                               | (4,631)       |
| <b>Closing net book amount</b>       | <b>57,782</b> | <b>29,966</b>                   | <b>87,748</b> |

### 28.1 Intangible assets acquired during the financial period / year

During the financial period, the Company acquired intangible assets (Computer software) to the aggregate value of Rs. 40.8 Mn. (31 March 2019 - Rs. 56.1 Mn)

### 28.2 Intangible assets transferred during the financial period

During the financial period, the Company transferred intangible assets to the aggregate value of Rs.33.7Mn to Telearc (Private) Limited, which is a subsidiary of parent company's subsidiary Dialog Broadband Networks (Private) Ltd.

### 28.3 Fully amortised intangible assets

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



# Notes to the Financial Statements

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

## 29. Deferred tax asset

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

|                                       | Accelerated depreciation for tax purposes |               | Provision for loan losses | Retirement benefit obligation | Equity securities FVOCI | Tax loss on leasing operation | Total           |
|---------------------------------------|---|---------------|---------------------------|-------------------------------|-------------------------|-------------------------------|-----------------|
|                                       | Property plant and equipment              | Leased assets |                           |                               |                         |                               |                 |
| Balance as at 1 April 2019            | 3,933                                     | 10,289        | (39,871)                  | (1,536)                       | -                       | (9,963)                       | (36,948)        |
| Income statement (Note 15.1)          | 3,468                                     | (5,127)       | 2,819                     | (729)                         | -                       | (321)                         | 110             |
| Other comprehensive income            | -   | -             | -                         | 53                            | (163)                   | -                             | (110)           |
| <b>Balance as at 31 December 2019</b> | <b>7,401</b>                              | <b>5,162</b>  | <b>(36,852)</b>           | <b>(2,212)</b>                | <b>(163)</b>            | <b>(10,284)</b>               | <b>(36,948)</b> |
| Balance as at 31 March 2018           | 2,809                                     | 16,271        | (23,489)                  | (1,903)                       | -                       | (13,143)                      | (19,455)        |
| Impact of adoption of SLFRS 9         | -   | -             | (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 15.1)          | 1,124                                     | (5,982)       | -                         | -                             | -                       | 4,858                         | -               |
| Other comprehensive income            | -   | -             | -                         | 367                           | -                       | -                             | 367             |
| <b>Balance as at 31 March 2019</b>    | <b>3,933</b>                              | <b>10,289</b> | <b>(39,871)</b>           | <b>(1,536)</b>                | <b>-</b>                | <b>(9,963)</b>                | <b>(36,948)</b> |

(b) The total temporary differences arising from tax losses and tax credits amounted to Rs. 364.3Mn has amounted to a deferred tax asset of Rs. 102.0Mn as at 31 December 2019. Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. According to Inland Revenue Act No.24 of 2017, tax losses could be carried forward for a period of six years, to claim against taxable profits. Any carried forward tax losses prior to year of assessment 2018/2019 shall be treated as loss incurred in the year of assessment 2018/2019. Based on the internal assessment carried out by the Management of the Company, the recognition of deferred tax asset has been limited to Rs. 36.95Mn. The unrecognised deferred tax asset as at 31 December 2019 was Rs. 65.1Mn.

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

|  | 31 December 2019 | 31 March 2019  |
|--|------------------|----------------|
| Financial liabilities at amortised cost – due to customers | 811,209          | 626,058        |
| Amortised interest payable                                 | 7,660            | 6,151          |
|  | <b>818,869</b>   | <b>632,209</b> |

# Notes to the Financial Statements

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

## 31. Retirement benefit obligations

### 31.1 Defined benefit obligation

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

|   | 31 December 2019 | 31 March 2019 |
|---|------------------|---------------|
| Defined benefit obligation as of 1 April                      | 6,717            | 6,797         |
| Current service cost  | 1,128            | 954           |
| Interest expense  | 572              | 748           |
| <b>Total amount recognised in profit or loss</b>              | <b>1,700</b>     | <b>1,702</b>  |
| Amount recognised in other comprehensive income               | 192              | (1,311)       |
| Benefits paid   | (710)            | (471)         |
| <b>Defined benefit obligation as of 31 December/ 31 March</b> | <b>7,900</b>     | <b>6,717</b>  |

This obligation is not externally funded.

An actuarial valuation of the gratuity fund was carried out as at 31 December 2019 by Mr. Poopalanathan AIA of Messrs Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuary. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard - LKAs 19 (Employee Benefits).

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

|                              | 31 December 2019             | 31 March 2019                |
|------------------------------|------------------------------|------------------------------|
| Discount rate per annum      | 10.24%                       | 11.35%                       |
| Future salary increment rate | 10.00%                       | 10.00%                       |
| Retirement age (years)       | 55 years                     | 55 years                     |
| Mortality                    | A 1967/70<br>Mortality Table | A 1967/70<br>Mortality Table |

Expected average future working life of the active participants is 8.66 years (31 March 2019 - 8.61 years).

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

|                           | Change in assumption | 31 December 2019       |                        | 31 March 2019          |                        |
|---------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
|                           |                      | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| Discount rate             | 1.00%                | Decrease by 5.83%      | Increase by 6.55%      | Decrease by 5.42%      | Increase by 6.04%      |
| Future salary growth rate | 1.00%                | Increase by 6.69%      | Decrease by 6.06%      | Increase by 6.52%      | Decrease by 5.92%      |

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

# Notes to the Financial Statements

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

## 32. Other liabilities

|  | 31 December<br>2019 | 31 March<br>2019 |
|--|---------------------|------------------|
| <b>Financial liabilities</b>                 |                     |                  |
| Other financial liabilities                  | 42,814              | 31,216           |
| Amounts due to related companies             | 11,056              | 2,823            |
| Vendor payable                               | 11,497              | 74,597           |
| Payable to margin trading customers          | 416                 | 1,178            |
| <b>Total financial liabilities</b>           | <b>65,783</b>       | <b>109,814</b>   |
| <b>Other non-financial liabilities</b>       |                     |                  |
| Other payable                                | 7,945               | 309              |
| Advances received from repossessed assets    | 34                  | 34               |
| Sports club payable                          | 86                  | -                |
| <b>Total other non-financial liabilities</b> | <b>8,065</b>        | <b>343</b>       |
| <b>Total other liabilities</b>               | <b>73,848</b>       | <b>110,157</b>   |

## 33. Stated capital

|   | 31 December 2019    |                  | 31 March 2019       |                |
|---|---------------------|------------------|---------------------|----------------|
|   | Number of<br>shares | Amount           | Number of<br>shares | Amount         |
| <b>Issued and fully paid ordinary shares</b>        |                     |                  |                     |                |
| Ordinary shares as at 1 April                       | 72,233,816          | 909,038          | 46,519,243          | 309,889        |
| Rights issue (Note a)                               | 19,103,158          | 764,127          | 25,714,573          | 599,149        |
| <b>Ordinary shares as at 31 December / 31 March</b> | <b>91,336,974</b>   | <b>1,673,165</b> | <b>72,233,816</b>   | <b>909,038</b> |

### (a) Rights issue

During the period, 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.

During the prior year, 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 allotment of shares was finalised 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.909,038,221.90 representing 72,233,816 shares.

# Notes to the Financial Statements

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

## 34. Statutory reserve funds

|   | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------------|------------------|
| Balance as at 1 April                       | 11,361              | 11,361           |
| Transfers during the period / year          | -                   | -                |
| <b>Balance as at 31 December / 31 March</b> | <b>11,361</b>       | <b>11,361</b>    |

The statutory reserve fund is maintained by Finance Companies (Capital Funds) Direction No. 1 of 2003 as per Finance Companies Act (amended) issued to Registered Finance Companies. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. 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<br>reserve | Fair value<br>through other<br>comprehensive<br>income | Retained<br>earnings/<br>(accumulated<br>losses) | Total            |
|--|--------------------|--|--|------------------|
| <b>Balance at 1 April 2019</b>                           | -                  | -  | (86,851)   | (86,851)         |
| Loss for the period                                      | -                  | -  | (143,666)  | (143,666)        |
| Other comprehensive income, net of tax                   | -                  | 1,471  | (139)  | 1,332            |
| Total comprehensive income for the period                | -                  | 1,471  | (143,805)  | (142,334)        |
| Rights issue expense                                     | -                  | -  | (1,679)  | (1,679)          |
| <b>Balance as at 31 December 2019</b>                    | -                  | <b>1,471</b>   | <b>(232,335)</b>                                 | <b>(230,864)</b> |
| <b>Balance at 1 April 2018</b>                           | <b>60,000</b>      | -  | <b>28,767</b>                                    | <b>88,767</b>    |
| Impact of adopting SLFRS 9 as at 1 April 2018            | -                  | -  | (45,926)   | (45,926)         |
| <b>Restated balance under SLFRS 9 as at 1 April 2018</b> | <b>60,000</b>      | -  | <b>(17,159)</b>                                  | <b>42,841</b>    |
| 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)          |
| <b>Balance as at 31 March 2019</b>                       | -                  | -  | <b>(86,851)</b>                                  | <b>(86,851)</b>  |

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

## 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.

# Notes to the Financial Statements

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

## Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income primarily consist of unquoted equity securities. Determination of the fair value of unquoted equity is detailed in Note 36.2.

## Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices.

## Variable rate financial instruments

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

## 36.1 Assets and liabilities measured at fair value and fair value hierarchy

The following table represents the fair value level of the financial assets and liabilities that are measured at fair value at the end of the reporting period.

|                               | Level 1      |             | Level 3      |             | Total        |              |
|-------------------------------|--------------|-------------|--------------|-------------|--------------|--------------|
|                               | 31 Dec 2019  | 31 Mar 2019 | 31 Dec 2019  | 31 Mar 2019 | 31 Dec 2019  | 31 Mar 2019  |
| <b>As at 31 December 2019</b> |              |             |              |             |              |              |
| <b>Financial Assets</b>       |              |             |              |             |              |              |
| Financial assets at FVTPL     | 1,286        | 907         | -            | -           | 1,286        | 907          |
| Financial assets at FVTOCI    | -            | -           | 1,980        | 346         | 1,980        | 346          |
|                               | <b>1,286</b> | <b>907</b>  | <b>1,980</b> | <b>346</b>  | <b>3,266</b> | <b>1,253</b> |

## 36.2 Financial instruments not measured at fair value

The following table summaries the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

| Description                | Fair value  |             | Unobservable input                  | Range of inputs |             | Relationship of unobservable inputs to fair value   |
|----------------------------|-------------|-------------|-------------------------------------|-----------------|-------------|---|
|                            | 31 Dec 2019 | 31 Mar 2019 |                                     | 31 Dec 2019     | 31 Mar 2019 |   |
| Unlisted equity securities | 1,980       | 346         | Adjusted net assets value per share | 20              | 3           | 31 March 2019: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 17,300.<br><br>31 December 2019: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 99,000. |

# Notes to the Financial Statements

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

## 36. Fair value of asset and liabilities (Contd.)

### 36.3 Financial instruments not measured at fair value and fair value hierarchy

The following table sets out the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy used:

|  | Carrying value   | Quoted prices in active markets | Significant observable input | Significant unobservable inputs | Total            |
|--|------------------|---------------------------------|------------------------------|---------------------------------|------------------|
|  |                  | Level 1                         | Level 2                      | Level 3                         |                  |
| <b>As at 31 December 2019</b>                            |                  |                                 |                              |                                 |                  |
| <b>Financial assets</b>                                  |                  |                                 |                              |                                 |                  |
| Financial assets at amortised cost -                     |                  |                                 |                              |                                 |                  |
| Loans and advances                                       | 1,023,629        | -                               | 1,023,629                    | -                               | 1,023,629        |
| Financial investments at amortised cost (Treasury bonds) | 2,085            | -                               | 2,085                        | -                               | 2,085            |
| <b>Total financial assets</b>                            | <b>1,025,714</b> | <b>-</b>                        | <b>1,025,714</b>             | <b>-</b>                        | <b>1,025,714</b> |
| <b>As at 31 March 2019</b>                               |                  |                                 |                              |                                 |                  |
| <b>Financial assets</b>                                  |                  |                                 |                              |                                 |                  |
| Financial assets at amortised cost -                     |                  |                                 |                              |                                 |                  |
| Loans and advances                                       | 991,417          | -                               | 1,117,759                    | -                               | 1,117,759        |
| Financial investments at amortised cost (Treasury bonds) | 2,021            | -                               | 1,991                        | -                               | 1,991            |
| <b>Total financial assets</b>                            | <b>993,438</b>   | <b>-</b>                        | <b>1,119,750</b>             | <b>-</b>                        | <b>1,119,750</b> |

The following table lists those financial instruments for which their carrying amounts are a reasonable approximation of fair values since, they are short term in nature or re-priced to current market rates frequently.

#### Assets

Cash and bank balances  
 Securities purchased under repurchase agreements  
 Placements with financial institutions  
 Financial investments at amortised cost (Treasury Bills)  
 Other assets

#### Liabilities

Other payables

# Notes to the Financial Statements

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

## 37. Commitments and contingencies

|   | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------------|------------------|
| <b>Commitments</b>                          |                     |                  |
| <b>Commitment for unutilised facilities</b> |                     |                  |
| - Factoring                                 | 198,589             | 60,666           |
| Capital commitments                         | 26,463              | 95,298           |
|   | 225,052             | 155,964          |
| <b>Contingent liabilities</b>               |                     |                  |
| Guarantees                                  | -                   | -                |
|   | -                   | -                |
| <b>Total commitments and contingencies</b>  | <b>225,052</b>      | <b>155,964</b>   |

### 37.1 Commitment and contingencies

| As at 31 December 2019                      | On demand      | Within 01<br>year | 1 - 5 years | More than<br>5 years | Total          |
|---|----------------|-------------------|-------------|----------------------|----------------|
| <b>Commitments</b>                          |                |                   |             |                      |                |
| <b>Commitment for unutilised facilities</b> |                |                   |             |                      |                |
| - Factoring                                 | 198,589        | -                 | -           | -                    | 198,589        |
| Capital commitments                         | -              | 26,463            | -           | -                    | 26,463         |
|   | 198,589        | 26,463            | -           | -                    | 225,052        |
| <b>Contingent liabilities</b>               |                |                   |             |                      |                |
| Guarantees                                  | -              | -                 | -           | -                    | -              |
| <b>Total commitments and contingencies</b>  | <b>198,589</b> | <b>26,463</b>     | <b>-</b>    | <b>-</b>             | <b>225,052</b> |

| As at 31 March 2019                         | On demand     | Within 01<br>year | 1 - 5 years | More than<br>5 years | Total          |
|---|---------------|-------------------|-------------|----------------------|----------------|
| <b>Commitments</b>                          |               |                   |             |                      |                |
| <b>Commitment for unutilised facilities</b> |               |                   |             |                      |                |
| - Factoring                                 | 60,666        | -                 | -           | -                    | 60,666         |
| Capital commitments                         | -             | 95,298            | -           | -                    | 95,298         |
|   | 60,666        | 95,298            | -           | -                    | 155,964        |
| <b>Contingent liabilities</b>               |               |                   |             |                      |                |
| Guarantees                                  | -             | -                 | -           | -                    | -              |
| <b>Total commitments and contingencies</b>  | <b>60,666</b> | <b>95,298</b>     | <b>-</b>    | <b>-</b>             | <b>155,964</b> |

### 37.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigations against the Company as at 31 December 2019 which would have a material impact on the financial statements.

# Notes to the Financial Statements

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

## 38. Events after the reporting period

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

### (a) Proposed Rights Issue

The Board of the Directors of the Company resolved on 14 October 2019 to issue up to 17,446,388 shares by way of a Rights Issue for which shareholder approval was obtained at an Extraordinary General Meeting held on 2 March 2020. The purpose of the Rights Issue is to increase the core capital in compliance with the Finance Business Act (Minimum Core Capital) No 02 of 2017 issued by the Central Bank of Sri Lanka. These shares are to be issued at an issue price of Rs. 40.20 per ordinary voting share, and the proportion in which shares are to be issued is 17 (Seventeen) new ordinary shares for every 89 (Eighty Nine) ordinary voting shares held.

The Rights Issue was scheduled to be completed during March 2020. The Company received Rights Issue subscription funds amounted to Rs. 701 million from its shareholders in March 2020. However, the Colombo Stock Exchange (CSE) halted trading in view of the COVID -19 outbreak and has affected the Company's timeline to conclude the Rights Issue. The formalities pertaining to the conclusion of the Rights Issue shall duly reconvene upon the CSE opening the market for trading.

### (b) The Finance Business Act (Minimum Core Capital) Direction No.02 of 2017

The Company has not complied with Section 1.1 of the Finance Business Act (Minimum Core Capital) Direction No. 02 of 2017 which requires the Company to maintain a Rs.2 billion unimpaired core capital by 1 January 2020. An extension was granted by the Central Bank of Sri Lanka (CBSL) to complete the proposed rights issue by 25 March 2020. Subsequently the Colombo Stock Exchange (CSE) halted trading in view of the series of curfew imposed by the Government as a measure to curb the COVID -19 outbreak which directly affects the Company's timeline to conclude the Rights Issue, whereas CBSL has granted the Company a further extension of the deadline until the prevailing situation returns to normalcy and CSE resumes trading. However, a cap of Rs. 1 billion on total deposits including accrued interest payable was imposed on 28 January 2020 until the Company meets the minimum core capital requirement as per the above direction.

Notwithstanding the above, as a relief measure granted to LFCs to support COVID - 19 affected segments, CBSL by Circular No. 24/01/015/0004/016 dated 31 March 2020, deferred the enhancement of minimum core capital requirement for LFC of Rs. 2 billion as at 1 January 2020 until 31 December 2020, provided that the LFCs maintain a minimum core capital above Rs. 1 billion. The Company as at date of the said Circular, is above the Rs.1 billion threshold and therefore is currently compliant with the captioned Direction.

### (c) Minimum Public Holding Requirement

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

### (d) Device finance portfolio transfer

On 21 February 2020, Board of directors resolved to transfer the Company's device finance portfolio to Telecard (Private) Limited, which is a fully owned subsidiary of Dialog Broadband Network (Private) Limited, subject to obtaining approval of the Central Bank of Sri Lanka. Net portfolio value of device finance was Rs.343,005,060/- as at 31 January 2020.



# Notes to the Financial Statements

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

## (e) COVID - 19 Impact on business

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

The outbreak and the associated developments impacted the business, our customers and staff due to restrictions on movement and economic slowdown. The Company remains committed to support the personal and corporate customers, in accordance with the relief measures in the form of debt moratoriums, published by the CBSL to assist businesses and individuals affected by COVID - 19.

The current unprecedented situation is yet evolving and the future impact will heavily depend on the duration of current restrictive environment and time taken for economic activity to rebound to pre COVID - 19 levels. Lower lending and transaction volumes due to volatility or weakness in the capital market, will also be key determinants of the future impact on our business. Based on present trends, we expect an adverse impact on expected credit losses resulting from weakening economic growth and related macroeconomic factors. The Board of Directors and management are in the process of developing strategies to minimize the negative impact on the Company and is committed to take steps which are deemed necessary to support economic growth whilst ensuring business growth within the applicable regulatory framework.

The Company does not consider it practical to provide a quantitative estimate of the potential impact in the current context.

## 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.
- (c) **Transactions with Key Management Personnel**

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

|  | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--|---------------------------------------|--------------------------------|
| Directors' fees and short-term employee benefits | 16,746                                | 47,097                         |
|  | <b>16,746</b>                         | <b>47,097</b>                  |

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

# Notes to the Financial Statements

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

## 40. Related party transactions (Contd.)

### 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 Managerial Personnel and their close family members during the period.

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

No borrowing through debt instruments were made or no investments were made by key management personnel during the period.

### 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

|   | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------------|------------------|
| Opening balance 1 April                                       | 423,914             | 294,143          |
| Deposit received during the period / year                     | 26,962              | 93,446           |
| Interest accrued / (paid) during the period year              | (190)               | 36,325           |
| <b>Closing balance as at 31 December 2019 / 31 March 2019</b> | <b>450,686</b>      | <b>423,914</b>   |

Fixed deposits placed by Dialog Axiata PLC carries interest at market value.

#### (b) In addition to the above, the Company had the following receivable / payable balances with Dialog Axiata

|            | 31 December<br>2019 | 31 March<br>2019 |
|------------|---------------------|------------------|
| Receivable | 195,729             | 66,844           |
| Payable    | 461,662             | 58,264           |

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

|                                      | 9 months ended<br>31 December<br>2019 | Year ended<br>31 March<br>2019 |
|--------------------------------------|---------------------------------------|--------------------------------|
| <b>Expenses</b>                      |                                       |                                |
| Interest paid                        | 26,962                                | 38,198                         |
| Secondment staff cost                | 41,325                                | 54,836                         |
| Collection commission fee            | 3,649                                 | 3,860                          |
| Telephone expense                    | 656                                   | 1,463                          |
| <b>Issue of shares</b>               |                                       |                                |
| Proceeds from rights issue of shares | 764,127                               | 592,468                        |

# Notes to the Financial Statements

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

## (d) Outstanding loans and advances - WSO2 Telco (Private) Limited (Associate of ultimate parent company)

|  | 31 December<br>2019 | 31 March<br>2019 |
|--|---------------------|------------------|
| Opening balance as at 1 April                      | -                   | 20,264           |
| Granted during the period / year                   | 66,000              | 30,000           |
| Interest income                                    | 1,919               | 1,813            |
| Less: Repayment                                    | (37,479)            | (52,077)         |
| <b>Closing balance</b>                             | <b>30,440</b>       | -                |
| Net accommodation as a percentage of Capital Funds | 0.03                | -                |

## (e) Telecard (Private) Limited (Sub- subsidiary of parent company)

During the period, the Company transferred intangible assets to the aggregate value of Rs. 33,699,198/- to Telecard (Private) Limited. During the period, Telecard (Private) Limited, opened a savings account with the Company. Balance of the savings account is Rs. 1,358,133/- .as at 31 December 2019.

## (f) Outstanding payable balances with other Group companies

|   | Relationship  | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------|---------------------|------------------|
| Dialog Device Trading (Private) Limited     | Group company | 7                   | 121              |
| Dialog Broadband Networks (Private) Limited | Group company | 2,091               | 2,198            |
| Dialog Business Services (Private) Limited  | Group company | -                   | 39               |
| Digital Commerce Lanka (Pvt) Ltd            | Group company | -                   | 465              |
|   |               | <b>2,098</b>        | <b>2,823</b>     |

## 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.

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.1 Introduction (Contd.)

#### (a) Risk Governance

The Board of Directors have overall responsibility to ensure that an effective Risk Management framework is developed and implemented across the Company and the Board have delegated this responsibility to the Board Integrated Risk Management Committee (BIRMC). The BIRMC was set up to fulfil the requirements set out in the Finance companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No.42 of 2011. This subcommittee will be primarily responsible for the following,

- Assess all credit, market, liquidity, operation and strategic risk.
- Review the adequacy and effectiveness of all management level committees and ALCO.
- Adequacy of the Company's capital.
- Risk exposures and risk profiles of the Company are within the Risk Appetite and to make recommendations to the Board of Directors on any action required.
- Ensure the Company is compliant with relevant laws, regulations and standards.

The BIRMC Committee currently consists membership of 3 Directors (appointed by the Board), Director/Chief Executive Officer and key management personal from Risk Management, Finance and Operations.

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

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

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

#### (i) 1st Line of Defence

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

#### (ii) 2nd Line of Defence

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

# Notes to the Financial Statements

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

## (iii) 3rd Line of Defence

Oversight by Internal Audit and Board Audit Committee

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

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

## 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 fulfil its financial obligations in a timely manner. It is therefore a function of the following: the value of the position exposed to default (the credit or credit risk exposure); the proportion of this value that would be recovered in the event of a default; and the probability of default. The risk is primarily that of the lender and includes lost capital and interest, disruption to cash flows, and results in accelerated recovery costs.

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

### Managing Credit Risk

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

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

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

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

#### (i) Definition of default and cure

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

# Notes to the Financial Statements

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

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## 41. Risk management (Contd.)

### 41.2 Credit Risk (Contd.)

#### (a) Impairment Assessment (Policy applicable from 1 April 2018) (Contd.)

##### (i) Definition of default and cure (Contd.)

- Internal assessment of the borrower indicating default and near-default
- The borrower requesting emergency funding from the Company
- The borrower having past due liabilities to public creditors
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived off by the Company
- The debtor (or any legal entity within debtor's group) filing for bankruptcy
- Debtor's listed debt or equity is suspended at the primary exchange because of rumors or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

##### (ii) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. The Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition.

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.2 Credit Risk (Contd.)

#### (b) Credit quality by class of financial assets

|   | Note | At 31 December 2019                        |  |                       |                  | At 31 March 2019                           |  |                       |                  |                |
|---|------|--|--|-----------------------|------------------|--|--|-----------------------|------------------|----------------|
|   |      | 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            | %              |
| <b>Assets</b>   |      |  |  |                       |                  |  |  |                       |                  |                |
| Cash and cash equivalents   | 18   | 129,438                                    | -                                      | -                     | 129,438          | 91,718                                     | -                                      | -                     | 91,718           | 5.19%          |
| Placements with financial institutions                            | 19   | 647,504                                    | -                                      | -                     | 647,504          | 163,134                                    | -                                      | -                     | 163,134          | 25.97%         |
| Securities purchased under repurchase agreements                  |      | 76,221                                     | -                                      | -                     | 76,221           | 17,755                                     | -                                      | -                     | 17,755           | 3.06%          |
| Financial assets at fair value through profit or loss             | 20   | 1,286                                      | -                                      | -                     | 1,286            | 907  | -                                      | -                     | 907              | 0.05%          |
| Lease receivable  | 21.1 | 9,791                                      | 46,368                                 | 22,499                | 78,658           | 27,323                                     | 69,512                                 | 39,239                | 136,074          | 3.16%          |
| Hire purchase rental receivable                                   | 21.2 | -  | -                                      | 6,017                 | 6,017            | 212  | 1,845                                  | 20,460                | 22,517           | 0.24%          |
| Factoring receivable  | 21.3 | 136,855                                    | 1,599                                  | -                     | 138,454          | 96,023                                     | 115                                    | 121                   | 96,259           | 5.55%          |
| Device finance receivable   | 21.4 | 191,891                                    | 426,687                                | -                     | 618,578          | 374,342                                    | 312,236                                | -                     | 686,578          | 24.81%         |
| Other loans and advances  | 21.5 | 151,839                                    | 129,901                                | 188,245               | 469,985          | 61,882                                     | 83,313                                 | 164,967               | 310,161          | 18.85%         |
| Margin trading receivable   | 21.6 | 98,619                                     | -                                      | -                     | 98,619           | 51,558                                     | -                                      | 2,327                 | 53,885           | 3.96%          |
| Financial assets at fair value through other comprehensive income | 20   | 1,980                                      | -                                      | -                     | 1,980            | 346  | -                                      | -                     | 346              | 0.08%          |
| Financial investment at amortised cost                            | 23   | 2,085                                      | -                                      | -                     | 2,085            | 66,368                                     | -                                      | -                     | 66,368           | 0.08%          |
| Other financial assets  | 27   | 224,244                                    | -                                      | -                     | 224,244          | 19,025                                     | -                                      | -                     | 19,025           | 8.99%          |
| <b>Total</b>  |      | <b>1,671,753</b>                           | <b>604,555</b>                         | <b>216,761</b>        | <b>2,493,069</b> | <b>970,594</b>                             | <b>467,021</b>                         | <b>227,115</b>        | <b>1,664,727</b> | <b>100.00%</b> |

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.2 Credit Risk (Contd.)

#### (b) Credit quality by class of financial assets (Contd.)

(i) Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans, by class of financial assets

|                                 | At 31 December 2019 |               |               |                   |                | At 31 March 2019  |               |               |                   |                |
|---------------------------------|---------------------|---------------|---------------|-------------------|----------------|-------------------|---------------|---------------|-------------------|----------------|
|                                 | Less than 30 days   | 31 to 60 days | 61 to 90 days | More than 91 days | Total          | Less than 30 days | 31 to 60 days | 61 to 90 days | More than 91 days | Total          |
| Lease receivable                | 4,666               | 3,971         | 8,562         | 29,169            | 46,368         | 9,308             | 11,146        | 27,404        | 21,654            | 69,512         |
| Hire purchase rental receivable | -                   | -             | -             | -                 | -              | 246               | 725           | 186           | 688               | 1,845          |
| Factoring receivable            | 1,599               | -             | -             | -                 | 1,599          | -                 | -             | -             | 115               | 115            |
| Device finance receivable       | 66,596              | 25,264        | 32,136        | 302,691           | 426,687        | 81,485            | 45,116        | 30,963        | 154,672           | 312,236        |
| Other loans and advances        | 97,879              | 7,772         | 7,688         | 16,562            | 129,901        | 16,743            | 25,099        | 8,518         | 32,953            | 83,313         |
| <b>Total</b>                    | <b>170,740</b>      | <b>37,007</b> | <b>48,386</b> | <b>348,422</b>    | <b>604,555</b> | <b>107,782</b>    | <b>82,086</b> | <b>67,071</b> | <b>210,083</b>    | <b>467,021</b> |

#### (c) Maximum exposure to credit risk

|   | At 31 December 2019             |                  | At 31 March 2019                |                  |
|---|---------------------------------|------------------|---------------------------------|------------------|
|   | Maximum exposure to credit risk | Net exposure     | Maximum exposure to credit risk | Net exposure     |
| <b>Financial assets</b>   |                                 |                  |                                 |                  |
| Cash and bank balances  | 129,438                         | 129,419          | 91,718                          | 91,704           |
| Placements with financial institutions                            | 647,504                         | 647,360          | 163,134                         | 163,100          |
| Securities purchased under repurchase agreements                  | 76,221                          | 76,221           | 17,755                          | 17,755           |
| Financial assets at fair value through profit or loss             | 1,286                           | 1,286            | 907                             | 907              |
| Lease receivable  | 78,658                          | 50,113           | 136,074                         | 88,820           |
| Hire purchase rental receivable                                   | 6,017                           | -                | 22,517                          | 2,533            |
| Factoring receivable  | 138,454                         | 137,925          | 96,259                          | 91,762           |
| Device finance receivable   | 618,578                         | 405,248          | 686,578                         | 588,115          |
| Other loans and advances  | 469,985                         | 333,557          | 310,161                         | 169,742          |
| Margin trading receivable   | 98,619                          | 96,786           | 53,885                          | 50,445           |
| Financial assets at fair value through other comprehensive income | 1,980                           | 1,980            | 346                             | 346              |
| Financial investments at amortised cost                           | 2,085                           | 2,085            | 66,368                          | 66,368           |
| Other financial assets  | 224,244                         | 224,244          | 19,025                          | 19,025           |
| <b>Total financial assets</b>                                     | <b>2,493,069</b>                | <b>2,106,224</b> | <b>1,664,727</b>                | <b>1,350,622</b> |



# Notes to the Financial Statements

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

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

| As at 31 December 2019  | Manu-<br>facturing | Tourism  | Agri-<br>culture | Trade          | Cons-<br>truction | Transport     | Services       | Gover-<br>nment | Financial<br>Institutions | Con-<br>sumption | Others         | Total            |
|---|--------------------|----------|------------------|----------------|-------------------|---------------|----------------|-----------------|---------------------------|------------------|----------------|------------------|
| Cash and bank balances  | -                  | -        | -                | -              | -                 | -             | -              | -               | 129,419                   | -                | -              | 129,419          |
| Placements with financial institutions                            | -                  | -        | -                | -              | -                 | -             | -              | -               | 647,360                   | -                | -              | 647,360          |
| Securities purchased under repurchase agreements                  | -                  | -        | -                | -              | -                 | -             | -              | -               | 76,221                    | -                | -              | 76,221           |
| Financial assets at fair value through profit or loss             | -                  | -        | -                | -              | -                 | -             | -              | -               | -                         | -                | 1,286          | 1,286            |
| Lease receivable  | 274                | -        | -                | -              | 839               | 17,368        | 595            | -               | -                         | 31,037           | -              | 50,113           |
| Factoring receivable  | -                  | -        | -                | 1,956          | 85,501            | 31,312        | 19,156         | -               | -                         | -                | -              | 137,925          |
| Device finance receivable   | -                  | -        | -                | -              | -                 | -             | -              | -               | -                         | 405,248          | -              | 405,248          |
| Other loans and advances  | 55,384             | -        | -                | 62,649         | 55,654            | 17,327        | 114,960        | -               | -                         | 27,583           | -              | 333,558          |
| Margin trading receivable   | -                  | -        | -                | 96,786         | -                 | -             | -              | -               | -                         | -                | -              | 96,786           |
| Financial assets at fair value through other comprehensive income | -                  | -        | -                | -              | -                 | -             | -              | -               | -                         | -                | 1,980          | 1,980            |
| Financial investments at amortised cost                           | -                  | -        | -                | -              | -                 | -             | -              | 2,085           | -                         | -                | -              | 2,085            |
| Other assets  | -                  | -        | -                | -              | -                 | -             | -              | -               | -                         | -                | 224,244        | 224,244          |
| <b>Total</b>  | <b>55,658</b>      | <b>-</b> | <b>-</b>         | <b>161,391</b> | <b>141,994</b>    | <b>66,007</b> | <b>134,711</b> | <b>2,085</b>    | <b>853,000</b>            | <b>463,868</b>   | <b>227,510</b> | <b>2,106,224</b> |

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.2 Credit Risk (Contd.)

#### (d) Analysis of risk concentration (Contd.)

| As at 31 March 2019                                      | Manu-<br>facturing | Tourism  | Agri-<br>culture | Trade          | Con-<br>struction | Transport     | Services      | Gover-<br>nment | Financial<br>Institutions | Con-<br>sumption | Others        | Total            |
|--|--------------------|----------|------------------|----------------|-------------------|---------------|---------------|-----------------|---------------------------|------------------|---------------|------------------|
| Cash and bank balances                                   | -                  | -        | -                | -              | -                 | -             | -             | -               | 91,704                    | -                | -             | 91,704           |
| Placements with banks                                    | -                  | -        | -                | -              | -                 | -             | -             | -               | 163,100                   | -                | -             | 163,100          |
| Securities purchased under<br>repurchase agreements      | -                  | -        | -                | -              | -                 | -             | -             | -               | 17,755                    | -                | -             | 17,755           |
| Financial assets at fair value<br>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            |
| Device finance receivable                                | -                  | -        | -                | -              | -                 | -             | -             | -               | -                         | 588,115          | -             | 588,115          |
| Factoring receivable                                     | -                  | -        | -                | 4,152          | 55,160            | 22,391        | 10,059        | -               | -                         | -                | -             | 91,762           |
| 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 investments -<br>Available-for-sale            | -                  | -        | -                | -              | -                 | -             | -             | -               | -                         | -                | 346           | 346              |
| Financial investments - held to<br>maturity              | -                  | -        | -                | -              | -                 | -             | -             | 66,368          | -                         | -                | -             | 66,368           |
| Other assets   | -                  | -        | -                | -              | -                 | -             | -             | -               | -                         | -                | 19,025        | 19,025           |
| <b>Total</b>   | <b>56,949</b>      | <b>-</b> | <b>9</b>         | <b>108,422</b> | <b>67,822</b>     | <b>62,690</b> | <b>21,709</b> | <b>66,368</b>   | <b>272,559</b>            | <b>673,816</b>   | <b>20,278</b> | <b>1,350,622</b> |

### 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 organization.

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

Interest Rate Risk (IRR) is the loss of net interest income to the Company due to changes in the market interest rates as the Company is involved in lending to borrowers from the funds obtained as deposits from customers. It refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

# Notes to the Financial Statements

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

## Managing interest rate risk

Interest rate risk is managed principally through interest rate gaps and by having pre-approved limits for re-pricing products. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the arising from the maturity and re-pricing.

## Interest Rate Risk Exposure on Non-Trading Financial Assets and Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual reprising or maturity dates.

| As at 31 December 2019  | Up to 03 Months  | 03-12 Months   | 01-03 Years   | 03-05 Years   | Over 05 Years | Non Interest Bearing | Total            |
|---|------------------|----------------|---------------|---------------|---------------|----------------------|------------------|
| <b>Financial assets</b>   |                  |                |               |               |               |                      |                  |
| Cash and cash equivalents   | 129,419          | -              | -             | -             | -             | -                    | 129,419          |
| Placements with financial institution                             | 647,360          | -              | -             | -             | -             | -                    | 647,360          |
| Securities purchased under repurchase agreements                  | 76,221           | -              | -             | -             | -             | -                    | 76,221           |
| Financial assets at fair value through profit or loss             | -                | -              | -             | -             | -             | 1,286                | 1,286            |
| Lease receivables   | 18,817           | 8,047          | 22,086        | 1,163         | -             | -                    | 50,113           |
| Hire purchase receivables   | -                | -              | -             | -             | -             | -                    | -                |
| Factoring receivables   | 137,925          | -              | -             | -             | -             | -                    | 137,925          |
| Device finance receivables  | 139,694          | 262,831        | 2,723         | -             | -             | -                    | 405,248          |
| Other loans and advance receivables                               | 210,788          | 15,374         | 34,143        | 73,252        | -             | -                    | 333,557          |
| Margin trading receivables  | 96,786           | -              | -             | -             | -             | -                    | 96,786           |
| Financial assets at fair value through other comprehensive income | -                | -              | -             | -             | -             | 1,980                | 1,980            |
| Financial investments at amortised cost                           | -                | 120            | 1,965         | -             | -             | -                    | 2,085            |
| Other assets  | -                | -              | -             | -             | -             | 224,244              | 224,244          |
| <b>Total financial assets</b>                                     | <b>1,457,010</b> | <b>286,372</b> | <b>60,917</b> | <b>74,415</b> | <b>-</b>      | <b>227,510</b>       | <b>2,106,224</b> |
| <b>Financial liabilities</b>                                      |                  |                |               |               |               |                      |                  |
| Financial liabilities at amortised cost – due to customers        | 645,113          | 133,237        | 32,520        | 8,000         | -             | -                    | 818,870          |
| Lease liabilities   | 1,863            | 5,588          | 14,901        | 7,451         | -             | -                    | 29,803           |
| Other financial liabilities                                       | -                | -              | -             | -             | -             | 65,784               | 65,784           |
| <b>Total financial liabilities</b>                                | <b>647,976</b>   | <b>138,825</b> | <b>47,421</b> | <b>15,451</b> | <b>-</b>      | <b>65,784</b>        | <b>914,457</b>   |
| <b>Interest sensitivity gap</b>                                   | <b>810,034</b>   | <b>147,547</b> | <b>13,495</b> | <b>58,965</b> | <b>-</b>      | <b>161,726</b>       | <b>1,191,767</b> |

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.3 Market Risk (Contd.)

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

| 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            |
|---|-----------------|----------------|----------------|----------------|---------------|----------------------|------------------|
| <b>Financial assets</b>   |                 |                |                |                |               |                      |                  |
| 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 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           |
| Equity instruments 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           |
| <b>Total financial assets</b>                                       | <b>762,782</b>  | <b>364,555</b> | <b>195,654</b> | <b>7,353</b>   | <b>-</b>      | <b>20,278</b>        | <b>1,350,622</b> |
| <b>Financial liabilities</b>  |                 |                |                |                |               |                      |                  |
| Financial liabilities at amortised cost – due to customers          | 580,294         | 26,256         | 25,186         | 475            | -             | -                    | 632,210          |
| Lease liabilities   | 2,427           | 7,282          | 19,418         | 9,709          | -             | -                    | 38,836           |
| Other liabilities   | -               | -              | -              | -              | -             | 109,816              | 109,816          |
| <b>Total financial liabilities</b>                                  | <b>582,721</b>  | <b>32,538</b>  | <b>44,604</b>  | <b>10,184</b>  | <b>-</b>      | <b>109,816</b>       | <b>780,863</b>   |
| <b>Interest sensitivity gap</b>                                     | <b>180,061</b>  | <b>331,017</b> | <b>151,052</b> | <b>(2,831)</b> | <b>-</b>      | <b>(89,538)</b>      | <b>569,759</b>   |

### 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 period. 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.

# Notes to the Financial Statements

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

## Managing liquidity risk

Liquidity Risk is monitored and managed by ALCO and Finance Department. ALCO provides the necessary guidance to ensure that this risk is avoided by the Company. The Company ensures that it always manages the liquidity risk by having sufficient liquidity to meet its liability obligations.

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

### 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 summarises the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2019.

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

| As at 31 December 2019  | Up to 03 Months  | 03-12 Months   | 01-03 Years    | 03-05 Years    | Over 05 Years | Total            |
|---|------------------|----------------|----------------|----------------|---------------|------------------|
| <b>Financial assets</b>   |                  |                |                |                |               |                  |
| Cash and cash equivalents   | 129,419          | -              | -              | -              | -             | 129,419          |
| Placements with financial institutions                            | 647,360          | -              | -              | -              | -             | 647,360          |
| Securities purchased under repurchase agreements                  | 76,221           | -              | -              | -              | -             | 76,221           |
| Financial assets at fair value through profit or loss             | 1,286            | -              | -              | -              | -             | 1,286            |
| Lease receivables   | 31,593           | 13,082         | 43,421         | 3,544          | -             | 91,640           |
| Hire purchase receivables   | 7,063            | -              | -              | -              | -             | 7,063            |
| Factoring receivables   | 138,454          | -              | -              | -              | -             | 138,454          |
| Device finance receivables  | 221,724          | 429,062        | 4,837          | -              | -             | 655,623          |
| Other loans and advance receivables                               | 331,744          | 16,539         | 50,302         | 136,532        | -             | 535,117          |
| Margin trading receivables  | 98,619           | -              | -              | -              | -             | 98,619           |
| Financial assets at fair value through other comprehensive income | -                | -              | -              | -              | 1,980         | 1,980            |
| Financial investments at amortised cost                           | -                | 120            | 1,965          | -              | -             | 2,085            |
| Other financial assets  | 224,244          | -              | -              | -              | -             | 224,244          |
| <b>Total financial assets</b>                                     | <b>1,907,727</b> | <b>458,803</b> | <b>100,525</b> | <b>140,076</b> | <b>1,980</b>  | <b>2,609,111</b> |
| <b>Financial liabilities</b>                                      |                  |                |                |                |               |                  |
| Financial liabilities at amortised cost – due to depositors       | 650,107          | 143,575        | 33,742         | 8,000          | -             | 835,424          |
| Lease liabilities   | 3,209            | 9,624          | 23,526         | -              | -             | 36,359           |
| Other liabilities   | 42,153           | 23,631         | -              | -              | -             | 65,784           |
| <b>Total financial liabilities</b>                                | <b>695,469</b>   | <b>176,830</b> | <b>57,268</b>  | <b>8,000</b>   | <b>-</b>      | <b>937,567</b>   |
| <b>Net financial assets / liabilities</b>                         | <b>1,212,258</b> | <b>281,973</b> | <b>43,257</b>  | <b>132,076</b> | <b>1,980</b>  | <b>1,671,544</b> |

# Notes to the Financial Statements

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

## 41. Risk management (Contd.)

### 41.4 Liquidity risk (Contd.)

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

| As at 31 March 2019   | Up to 03 Months  | 03-12 Months   | 01-03 Years    | 03-05 Years    | Over 05 Years | Total            |
|---|------------------|----------------|----------------|----------------|---------------|------------------|
| <b>Financial assets</b>   |                  |                |                |                |               |                  |
| Cash and cash equivalents   | 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 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-available for sale                          | 64,347           | 75             | 1,946          | -              | -             | 66,368           |
| Financial investments-held to maturity                            | 19,025           | -              | -              | -              | -             | 19,025           |
| <b>Total financial assets</b>                                     | <b>1,013,336</b> | <b>510,479</b> | <b>273,732</b> | <b>13,302</b>  | <b>346</b>    | <b>1,811,195</b> |
| <b>Financial liabilities</b>                                      |                  |                |                |                |               |                  |
| 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          |
| <b>Total financial liabilities</b>                                | <b>682,196</b>   | <b>54,277</b>  | <b>48,755</b>  | <b>20,710</b>  | <b>-</b>      | <b>805,938</b>   |
| <b>Net financial assets / liabilities</b>                         | <b>331,140</b>   | <b>456,202</b> | <b>224,977</b> | <b>(7,408)</b> | <b>346</b>    | <b>1,005,257</b> |

## 42. Capital management

The Company manages its capital to ensure that it will be able to conclude as going concern while maximising the return to standards through optimisation of the debt and equity balances. In addition, the Company is requested to maintain minimum capital as per the regulations. The Company's covered strategy remained unchanged from prior year. Extended capital requests are enforced and regulated by the Central Bank of Sri Lanka. These requests are established to ensure sufficient capital and reserves are maintained. The Company maintained capital and reserves of Rs. 1,453,660,658/- as at 31 December 2019 which was below the minimum capital request of Rs 2,000,000,000/- as at that date.

Please see Note 38 a) for the details of the proposed rights issue to comply with the Finance Act Direction No.02 of 2017 on 'Minimum Core Capital'.

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

## 43. Maturity analysis

| As at 31 December 2019   | Up to 03 Months  | 03-12 Months   | 01-03 Years   | 03-05 Years   | No contractual maturity | Total            |
|--|------------------|----------------|---------------|---------------|-------------------------|------------------|
| <b>Assets</b>  |                  |                |               |               |                         |                  |
| Cash and cash equivalents  | 129,419          | -              | -             | -             | -                       | 129,419          |
| Placements with financial institutions                           | 647,360          | -              | -             | -             | -                       | 647,360          |
| Securities purchased under repurchase agreements                 | 76,221           | -              | -             | -             | -                       | 76,221           |
| Financial assets at fair value through profit or loss            | 1,286            | -              | -             | -             | -                       | 1,286            |
| Lease receivables  | 18,817           | 8,047          | 22,086        | 1,163         | -                       | 50,113           |
| Hire purchase receivables  | -                | -              | -             | -             | -                       | -                |
| Factoring receivables  | 137,925          | -              | -             | -             | -                       | 137,925          |
| Device finance receivables                                       | 139,694          | 262,831        | 2,723         | -             | -                       | 405,248          |
| Other loans and advance receivables                              | 210,788          | 15,374         | 34,143        | 73,252        | -                       | 333,557          |
| Margin trading receivables                                       | 96,786           | -              | -             | -             | -                       | 96,786           |
| Financial asset at fair value through other comprehensive income | -                | -              | -             | -             | 1,980                   | 1,980            |
| Financial investments at amortised cost                          | -                | 120            | 1,965         | -             | -                       | 2,085            |
| Other assets   | 237,030          | 19,918         | -             | -             | -                       | 256,948          |
| Income tax receivable  | 6,255            | -              | -             | -             | -                       | 6,255            |
| Right-of-use assets  | -                | -              | -             | -             | 30,934                  | 30,934           |
| Property, plant and equipment                                    | -                | -              | -             | -             | 88,445                  | 88,445           |
| Intangible assets  | -                | -              | -             | -             | 82,572                  | 82,572           |
| Deferred tax assets  | -                | -              | 36,948        | -             | -                       | 36,948           |
| <b>Total assets</b>  | <b>1,701,581</b> | <b>306,290</b> | <b>97,865</b> | <b>74,415</b> | <b>203,931</b>          | <b>2,384,082</b> |
| <b>Liabilities</b>   |                  |                |               |               |                         |                  |
| Financial liabilities at amortised cost                          |                  |                |               |               |                         |                  |
| Financial liabilities at amortised cost—due to customers         | 645,113          | 133,237        | 32,520        | 8,000         | -                       | 818,870          |
| Retirement benefit obligations                                   | -                | -              | -             | -             | 7,900                   | 7,900            |
| Lease liabilities  | 1,863            | 5,588          | 14,901        | 7,451         | -                       | 29,803           |
| Other liabilities  | 50,216           | 23,631         | -             | -             | -                       | 73,847           |
| <b>Total liabilities</b>   | <b>697,192</b>   | <b>162,456</b> | <b>47,421</b> | <b>15,451</b> | <b>7,900</b>            | <b>930,420</b>   |
| <b>Equity</b>  |                  |                |               |               |                         |                  |
| Stated capital   | -                | -              | -             | -             | 1,673,165               | 1,673,165        |
| Statutory reserve fund   | -                | -              | -             | -             | 11,361                  | 11,361           |
| Fair value through other comprehensive income                    | -                | -              | -             | -             | 1,471                   | 1,471            |
| Retained earnings  | -                | -              | -             | -             | (232,335)               | (232,335)        |
| <b>Total equity</b>  | <b>-</b>         | <b>-</b>       | <b>-</b>      | <b>-</b>      | <b>1,453,662</b>        | <b>1,453,662</b> |
| <b>Total liabilities and equity</b>                              | <b>697,192</b>   | <b>162,456</b> | <b>47,421</b> | <b>15,451</b> | <b>1,461,562</b>        | <b>2,384,082</b> |

# Notes to the Financial Statements

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

## 43. Maturity analysis (Contd.)

| As at 31 March 2019   | Up to 03 Months | 03-12 Months   | 01-03 Years    | 03-05 Years   | No contractual maturity | Total            |
|---|-----------------|----------------|----------------|---------------|-------------------------|------------------|
| <b>Assets</b>   |                 |                |                |               |                         |                  |
| 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 receivables   | 34,524          | 19,861         | 31,201         | 3,234         | -                       | 88,820           |
| Hire purchase receivables   | 2,440           | 50             | 44             | -             | -                       | 2,534            |
| Factoring receivables   | 91,763          | -              | -              | -             | -                       | 91,763           |
| Device finance receivables  | 143,179         | 313,021        | 131,916        | -             | -                       | 588,116          |
| Other loans and advance receivables                                 | 103,526         | 31,548         | 30,549         | 4,118         | -                       | 169,741          |
| Margin trading receivables  | 50,446          | -              | -              | -             | -                       | 50,446           |
| Equity instruments at fair value through other comprehensive income | -               | -              | -              | -             | 346                     | 346              |
| Debt instruments at amortised cost                                  | 64,347          | 75             | 1,946          | -             | -                       | 66,368           |
| Financial investments-held to maturity                              | -               | -              | -              | -             | -                       | -                |
| Other assets  | 32,468          | 23,353         | -              | -             | -                       | 55,821           |
| Income tax receivable   | 4,904           | -              | -              | -             | -                       | 4,904            |
| Right-of-use assets   | -               | -              | -              | -             | 38,061                  | 38,061           |
| Property, plant and equipment                                       | -               | -              | -              | -             | 66,385                  | 66,385           |
| Intangible assets   | -               | -              | -              | -             | 87,749                  | 87,749           |
| Deferred tax assets   | -               | -              | 36,948         | -             | -                       | 36,948           |
| <b>Total assets</b>   | <b>801,063</b>  | <b>387,908</b> | <b>232,604</b> | <b>7,352</b>  | <b>192,541</b>          | <b>1,621,468</b> |
| <b>Liabilities</b>  |                 |                |                |               |                         |                  |
| 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          |
| <b>Total liabilities</b>  | <b>674,125</b>  | <b>52,291</b>  | <b>44,604</b>  | <b>10,183</b> | <b>6,717</b>            | <b>787,920</b>   |
| <b>Equity</b>   |                 |                |                |               |                         |                  |
| Stated capital  | -               | -              | -              | -             | -                       | -                |
| Statutory reserve fund  | -               | -              | -              | -             | 909,038                 | 909,038          |
| Other reserves  | -               | -              | -              | -             | 11,361                  | 11,361           |
| Retained earnings   | -               | -              | -              | -             | (86,851)                | (86,851)         |
| <b>Total equity</b>   | <b>-</b>        | <b>-</b>       | <b>-</b>       | <b>-</b>      | <b>833,548</b>          | <b>833,548</b>   |
| <b>Total liabilities and equity</b>                                 | <b>674,125</b>  | <b>52,291</b>  | <b>44,604</b>  | <b>10,183</b> | <b>840,265</b>          | <b>1,621,468</b> |



# Notes to the Financial Statements

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

## 44. Financial reporting by segment

| For the period / year ended                       | Leasing and Hire purchase |               | Treasury/ Investments |                | Margin Trading |               | Other loan and advances |                 | Device Financing |                | Unallocated |                | Total            |                  |
|---|---------------------------|---------------|-----------------------|----------------|----------------|---------------|-------------------------|-----------------|------------------|----------------|-------------|----------------|------------------|------------------|
|   | 31 Dec 2019               | 31 Mar 2019   | 31 Dec 2019           | 31 Mar 2019    | 31 Dec 2019    | 31 Mar 2019   | 31 Dec 2019             | 31 Mar 2019     | 31 Dec 2019      | 31 Mar 2019    | 31 Dec 2019 | 31 Mar 2019    | 31 Dec 2019      | 31 Mar 2019      |
| Net interest income                               | 7,218                     | 15,595        | 43,026                | 30,934         | 4,208          | 7,467         | 36,115                  | 32,770          | 59,510           | 57,673         | -           | -              | 150,077          | 144,439          |
| Net Fees and commission income                    | 25                        | -             | -                     | -              | -              | -             | 1,799                   | 710             | 58,219           | 90,863         | -           | 428            | 60,043           | 92,001           |
| Other income                                      | 1,848                     | 3,184         | 622                   | (407)          | -              | -             | 7,273                   | 2,348           | -                | 1,772          | 126         | 575            | 9,869            | 7,472            |
| <b>Operating income by segment</b>                | <b>9,091</b>              | <b>18,779</b> | <b>43,648</b>         | <b>30,527</b>  | <b>4,208</b>   | <b>7,467</b>  | <b>45,187</b>           | <b>35,828</b>   | <b>117,729</b>   | <b>150,308</b> | <b>126</b>  | <b>1,003</b>   | <b>219,989</b>   | <b>243,912</b>   |
| <b>Total operating income</b>                     | <b>9,091</b>              | <b>18,779</b> | <b>43,648</b>         | <b>30,527</b>  | <b>4,208</b>   | <b>7,467</b>  | <b>45,187</b>           | <b>35,828</b>   | <b>117,729</b>   | <b>150,308</b> | <b>126</b>  | <b>1,003</b>   | <b>219,989</b>   | <b>243,912</b>   |
| Impairment reversals / (charges) and other losses | 2,188                     | 6,124         | (115)                 | 43             | (721)          | 586           | 7,614                   | (41,428)        | (114,867)        | (98,461)       | -           | -              | (105,901)        | (133,136)        |
| Net operating income                              | 11,279                    | 24,903        | 43,533                | 30,570         | 3,487          | 8,053         | 52,801                  | (5,600)         | 2,862            | 51,847         | 126         | 1,003          | 114,088          | 110,776          |
| Operating expenses                                | (5,078)                   | (6,444)       | -                     | (2,365)        | (9,807)        | (3,558)       | (47,772)                | (18,445)        | (41,061)         | (41,483)       | -           | -              | (103,718)        | (93,582)         |
| Depreciation and amortisation                     | (1,383)                   | (1,021)       | -                     | (3,749)        | (2,671)        | (564)         | (13,009)                | (2,924)         | (11,181)         | (6,575)        | -           | -              | (28,244)         | (14,833)         |
| <b>Segment result</b>                             | <b>4,818</b>              | <b>17,438</b> | <b>43,533</b>         | <b>3,169</b>   | <b>(8,991)</b> | <b>3,931</b>  | <b>(7,980)</b>          | <b>(26,969)</b> | <b>(49,380)</b>  | <b>3,789</b>   | <b>126</b>  | <b>1,003</b>   | <b>(17,874)</b>  | <b>2,361</b>     |
| Personnel expenses                                |                           |               |                       |                |                |               |                         |                 |                  |                |             |                | (125,902)        | (130,533)        |
| <b>Loss from operations</b>                       |                           |               |                       |                |                |               |                         |                 |                  |                |             |                | <b>(143,776)</b> | <b>(128,172)</b> |
| VAT on Financial services                         |                           |               |                       |                |                |               |                         |                 |                  |                |             |                | -                | (823)            |
| Income tax reversal / (expense)                   |                           |               |                       |                |                |               |                         |                 |                  |                |             |                | 110              | (415)            |
| <b>Net loss for the period / year</b>             |                           |               |                       |                |                |               |                         |                 |                  |                |             |                | <b>(143,666)</b> | <b>(129,410)</b> |
| <b>Other information</b>                          |                           |               |                       |                |                |               |                         |                 |                  |                |             |                |                  |                  |
| Segment assets                                    | 50,114                    | 91,353        | 757,327               | 335,322        | 96,786         | 50,445        | 471,480                 | 262,504         | 405,249          | 588,115        | -           | 294,729        | 2,384,082        | 1,621,468        |
| <b>Total assets</b>                               | <b>50,114</b>             | <b>91,353</b> | <b>757,327</b>        | <b>335,322</b> | <b>96,786</b>  | <b>50,445</b> | <b>471,480</b>          | <b>262,504</b>  | <b>405,249</b>   | <b>588,115</b> | <b>-</b>    | <b>294,729</b> | <b>2,384,082</b> | <b>1,621,468</b> |
| Segment liabilities                               | 45,551                    | 54,253        | -                     | 199,140        | 87,973         | 29,958        | 428,549                 | 155,301         | 368,348          | 349,268        | -           | -              | 930,420          | 787,920          |
| <b>Total liabilities</b>                          | <b>45,551</b>             | <b>54,253</b> | <b>-</b>              | <b>199,140</b> | <b>87,973</b>  | <b>29,958</b> | <b>428,549</b>          | <b>155,301</b>  | <b>368,348</b>   | <b>349,268</b> | <b>-</b>    | <b>-</b>       | <b>930,420</b>   | <b>787,920</b>   |

# Five Year Summary

## Income Statements

|  | 9 months ended 31 December 2019 | Year ended 31 March |                 |              |                |
|--|---------------------------------|---------------------|-----------------|--------------|----------------|
|  |                                 | 2019                | 2018            | 2017         | 2016           |
| Interest income                                  | 198,179                         | 231,115             | 204,822         | 172,195      | 163,872        |
| Interest expense                                 | (48,102)                        | (86,676)            | (93,775)        | (75,481)     | (72,246)       |
| Net interest income                              | 150,077                         | 144,439             | 111,047         | 96,714       | 91,626         |
| Other income                                     | 69,912                          | 99,473              | 10,262          | 8,360        | 10,727         |
| Total operating income                           | 219,989                         | 243,912             | 121,309         | 105,074      | 102,353        |
| Impairment charges and other losses              | (105,901)                       | (133,136)           | (54,117)        | (143)        | (22,893)       |
| Net operating income                             | 114,088                         | 110,776             | 67,192          | 104,931      | 79,460         |
| Operating expenses                               | (257,864)                       | (238,948)           | (95,707)        | (89,256)     | (82,129)       |
| Operating profit                                 | (143,776)                       | (128,172)           | (28,515)        | 15,675       | (2,669)        |
| Taxes on financial service                       | -                               | (823)               | (3,248)         | (6,678)      | (3,321)        |
| (Loss) / profit before tax for the period / year | (143,776)                       | (128,995)           | (31,763)        | 8,997        | (5,990)        |
| Income tax reversal / (expense)                  | 110                             | (415)               | 9,238           | (4,252)      | 2,896          |
| <b>(Loss) / profit for the period / year</b>     | <b>(143,666)</b>                | <b>(129,410)</b>    | <b>(22,525)</b> | <b>4,745</b> | <b>(3,094)</b> |

## Statements of Financial Position

|  | 31 December 2019 | 31 March         |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|------------------|
|  |                  | 2019             | 2018             | 2017 (Restated)  | 2016             |
| <b>Assets</b>  |                  |                  |                  |                  |                  |
| Cash and cash equivalents and short-term funds             | 853,000          | 272,559          | 271,078          | 48,093           | 71,395           |
| Financial assets at amortised cost-loan and advances       | 1,023,629        | 991,417          | 852,178          | 1,127,386        | 916,689          |
| Financial investment at amortised cost                     | 2,085            | 66,368           | 60,468           | 43,534           | 40,137           |
| Property, plant and equipment and intangible assets        | 171,017          | 154,135          | 34,013           | 38,366           | 55,274           |
| Other assets   | 334,351          | 136,989          | 41,399           | 26,210           | 35,103           |
| <b>Total assets</b>  | <b>2,384,082</b> | <b>1,621,468</b> | <b>1,259,136</b> | <b>1,283,589</b> | <b>1,118,598</b> |
| <b>Liabilities and shareholders' funds</b>                 |                  |                  |                  |                  |                  |
| Financial liabilities at amortised cost - due to customers | 818,869          | 632,209          | 830,565          | 577,660          | 617,229          |
| Borrowings   | -                | -                | -                | 254,143          | 25,658           |
| Other liabilities  | 111,551          | 155,711          | 18,554           | 18,788           | 33,366           |
| Shareholders' funds  | 1,453,662        | 833,548          | 410,017          | 432,998          | 442,345          |
| <b>Total liabilities and shareholders' funds</b>           | <b>2,384,082</b> | <b>1,621,468</b> | <b>1,259,136</b> | <b>1,283,589</b> | <b>1,118,598</b> |
| <b>Ratios</b>  |                  |                  |                  |                  |                  |
| Return on average assets                                   | -9.0%            | -9.0%            | -2.5%            | 0.4%             | -0.50%           |
| Return on equity   | -14.4%           | -20.8%           | -5.1%            | 1.0%             | -1.0%            |
| Net interest margin  | 8.7%             | 9.8%             | 8.7%             | 8.0%             | 8.0%             |
| (Loss) / earnings per share (Rs.)                          | -1.61            | -1.97            | -0.48            | 0.10             | -0.07            |
| Net asset per share (Rs.)                                  | 15.92            | 11.54            | 8.81             | 9.31             | 9.51             |

# Share Information

## Information on Ordinary Shares of the Company

Market price per share

| For the period / year ended | 31 December 2019<br>Rs. | 31 March 2019<br>Rs. |
|-----------------------------|-------------------------|----------------------|
| Highest price               | 49.90                   | 78.70                |
| Lowest price                | 30.00                   | 28.60                |
| Last traded price           | 43.00                   | 35.50                |

## Shareholders' Information

Twenty largest shareholders of the Company

|    | Name of shareholders                                      | 31 December 2019  |                | 31 March 2019     |                |
|----|---|-------------------|----------------|-------------------|----------------|
|    |   | No. of shares     | % Holding      | No. of shares     | % Holding      |
| 1  | Dialog Axiata PLC   | 90,309,767        | 98.88%         | 71,421,450        | 98.88%         |
| 2  | J.B.Cocoshell (Pvt) Ltd                                   | 209,496           | 0.23%          | N/Q               | N/Q            |
| 3  | Mr.R.C.J Goonewardene                                     | 146,155           | 0.16%          | 106,589           | 0.15%          |
| 4  | Mrs.A.A.Raaymakers  | 25,000            | 0.03%          | 19,802            | 0.03%          |
| 5  | Mr.P.S.M Fernando   | 22,601            | 0.02%          | 22,173            | 0.03%          |
| 6  | Mr.L.C.Y Welikala   | 22,600            | 0.02%          | 22,600            | 0.03%          |
| 7  | Mr. R.E Rambukwella                                       | 22,262            | 0.02%          | 20,647            | 0.03%          |
| 8  | Mr.K.N.Nandasiri / T.B.Ratna Sujeewa                      | 18,632            | 0.02%          | 18,632            | 0.03%          |
| 9  | People's Leasing & Finance PLC / C.D.Kohombanwickramage   | 17,820            | 0.02%          | 16,066            | 0.02%          |
| 10 | Mr.B.C.N Mendis   | 14,727            | 0.02%          | 15,727            | 0.02%          |
| 11 | Mr. B.C.V Mendis  | 13,727            | 0.02%          | 15,727            | 0.02%          |
| 12 | Mr. S.L Paranamange                                       | 13,700            | 0.01%          | 13,700            | 0.02%          |
| 13 | Mr.T Thiruthanigainathan                                  | 12,344            | 0.01%          | 9,763             | 0.01%          |
| 14 | Mr. R.L.G. Fernando                                       | 12,000            | 0.01%          | 12,000            | 0.02%          |
| 15 | Mr. N.S. Wijesekara                                       | 11,813            | 0.01%          | 11,813            | 0.02%          |
| 16 | Mr. O.W.D Yasapala  | 11,000            | 0.01%          | 11,000            | 0.02%          |
| 17 | Bansei Securities Capital (Pvt) Ltd / R.C.J. Goonewardene | 10,029            | 0.01%          | N/Q               | N/Q            |
| 18 | Mr.G.D.M Ranasinghe/ Mr.O.R.K Ranasinghe                  | 10,000            | 0.01%          | 10,000            | 0.01%          |
| 19 | Mr.H.V.S.M Navaratne                                      | 10,000            | 0.01%          | 10,000            | 0.01%          |
| 20 | Mr.T.D Mahaliyana   | 9,940             | 0.01%          | 9,940             | 0.01%          |
|    |   | <b>90,923,613</b> | <b>99.53%</b>  | <b>71,767,629</b> | <b>99.35%</b>  |
|    | Others  | 413,361           | 0.47%          | 466,187           | 0.65%          |
|    | <b>Total</b>  | <b>91,336,974</b> | <b>100.00%</b> | <b>72,233,816</b> | <b>100.00%</b> |

N/Q- Not qualify for top 20 shareholders as at 31 March 2019

## Share Information

### Directors' shareholdings

| Directors'/ CEO's holding in shares as at | 31 December 2019 | 31 March 2019 |
|---|------------------|---------------|
| 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           |

### Public shareholdings

Information pertaining to public shareholding is as follows:

|                               | 31 December 2019 | 31 March 2019 |
|-------------------------------|------------------|---------------|
| Public holding percentage     | 1.12%            | 1.12%         |
| Number of public shareholders | 741              | 779           |

(a) Float adjusted market capitalisation as at 31 December 2019 was Rs. 43,987,887/-.  
(31 March 2019 - 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). Accordingly, the Company was transferred to the Second Board on 10 February 2020.

### Utilisation of proceeds from the rights issue as at 31 December 2019

#### Rights issue – April 2019

| Objective number | Objective as per Circular      | Amount allocated as per Circular Rs. | Proposed date of utilisation as per Circular | Amount allocated from proceeds Rs. (A) | % of total proceeds | Amounts utilised Rs. (B) | % of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested |
|------------------|--------------------------------|--------------------------------------|--|--|---------------------|--------------------------|---|--|
| 1                | To utilise for lending purpose | 762,586,320                          | Financial year 2019/20                       | 762,446,843                            | 99.78%              | 45,371,164               | 6%  | Remaining funds are placed with banks and Financial Institutes             |
| 2                | Expenses relating to the R/I   | 1,540,000                            | Financial year 2019/20                       | 1,679,477                              | 0.22%               | 1,679,477                | 100%                                      | -  |

## Share Information

### Rights issue – June 2018

| Objective number | Objective as per Circular      | Amount allocated as per Circular Rs. | Proposed date of utilisation as per Circular | Amount allocated from proceeds Rs. (A) | % of total proceeds | Amounts utilised Rs. (B) | % of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested |
|------------------|--------------------------------|--------------------------------------|--|--|---------------------|--------------------------|---|--|
| 1                | To utilise for lending purpose | 597,609,551                          | Financial year 2018/19                       | 597,923,694                            | 99.80%              | 597,923,694              | 100%                                      | -  |
| 2                | Expenses relating to the R/I   | 1,540,000                            | Financial year 2018/19                       | 1,225,857                              | 0.22%               | 1,225,857                | 100%                                      | -  |

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

### Distribution of shareholders

| Description              | Resident               |                   |              | Non Resident           |               |             | Total                  |                   |            |
|--------------------------|------------------------|-------------------|--------------|------------------------|---------------|-------------|------------------------|-------------------|------------|
|                          | Number of shareholders | No. of shares     | (%)          | Number of shareholders | No. of shares | (%)         | Number of shareholders | No. of shares     | (%)        |
| 1 to 1000 Shares         | 602                    | 91,196            | 0.10         | 5                      | 1,645         | 0.00        | 607                    | 92,841            | 0.15       |
| 1001 to 10000 Shares     | 109                    | 318,386           | 0.35         | 9                      | 32,074        | 0.04        | 118                    | 350,460           | 0.51       |
| 10001 to 100000 Shares   | 14                     | 228,255           | 0.25         | -                      | -             | -           | 14                     | 228,255           | 0.32       |
| 100001 to 1000000 Shares | 2                      | 355,651           | 0.39         | -                      | -             | -           | 2                      | 355,651           | 0.15       |
| Over 1000000 Shares      | 1                      | 90,309,767        | 98.88        | -                      | -             | -           | 1                      | 90,309,767        | 98.88      |
| <b>Total</b>             | <b>728</b>             | <b>91,303,255</b> | <b>99.96</b> | <b>14</b>              | <b>33,719</b> | <b>0.04</b> | <b>742</b>             | <b>91,336,974</b> | <b>100</b> |

| Categories of shareholders | No. of shareholders | No. of shares     |
|----------------------------|---------------------|-------------------|
| Individual                 | 705                 | 753,781           |
| Institutional              | 37                  | 90,583,193        |
| <b>Total</b>               | <b>742</b>          | <b>91,336,974</b> |

# Related Party Transactions

## Declaration

The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

## Non - Recurrent Related Party Transactions exceeding 10% of the Equity or 5% of the Total assets of the Company (Disclosure as per section 9 of the CSE Listing Rules)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholders' equity of the Company or 5% of the Total Assets of the Company as at 31 December 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 period | Aggregate value of related party transactions as a % of net revenue/ income | Terms and conditions of the related party transactions |
|---------------------------|----------------|--|--|---|--|
| Dialog Axiata PLC         | Parent Company | Fixed Deposit  | Deposits received – 26,962 (Rs.'000)   | 12.26%  | 1 Month (renewable) (7.25% - 10%)                      |
| Dialog Axiata PLC         | Parent Company | Fixed Deposit  | Interest accrued / (paid) – (190) (Rs.'000)                                  | -0.09%  | Rate of Interest (7.25% - 10%)                         |
| Dialog Axiata PLC         | Parent Company | Receivable – Rental collections on behalf of the Company | 188,889 (Rs.'000)  | 88.97%  | Collection Commission (2% of charged)                  |
|                           |                | Balance - eZ Cash Wallet                                 | 6,840 (Rs.'000)  |   |  |
| Dialog Axiata PLC         | Parent Company | Payables in respect of seconded staff                    | 7,357 (Rs.'000)  |   | Reimbursement of actual expense                        |
|                           |                | Collection commission payable                            | 3,619 (Rs.'000)  | 4.99%   | 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 are deemed as irrecoverable.

# Value Added Statement

(All amounts in Sri Lanka Rupees thousands)

| For the period / year ended             | 31 December<br>2019 | 31 March<br>2019 |
|---|---------------------|------------------|
| <b>Direct economic value generated</b>  |                     |                  |
| Interest income                         | 198,179             | 231,115          |
| Fee and commission income               | 60,043              | 92,001           |
| Other income                            | 9,869               | 8,134            |
|   | <b>268,091</b>      | <b>331,250</b>   |
| <b>Economic value distributed</b>       |                     |                  |
| <b>To depositors and lenders</b>        |                     |                  |
| Interest expense                        | 48,102              | 86,676           |
|   | <b>48,102</b>       | <b>86,676</b>    |
| <b>Operating costs</b>                  |                     |                  |
| Depreciation and amortisation           | 28,244              | 14,833           |
| Fee and commission expenses             | -                   | -                |
| Other expenses                          | 103,718             | 93,528           |
|   | <b>131,962</b>      | <b>108,361</b>   |
| <b>To employees</b>                     |                     |                  |
| Salary and bonus                        | 112,838             | 116,588          |
| Other benefits                          | 13,064              | 13,945           |
|   | <b>125,902</b>      | <b>130,533</b>   |
| <b>Payments to government</b>           |                     |                  |
| Income tax (reversal) / expense         | (110)               | 415              |
| Taxes on financial services             | -                   | 823              |
| Crop insurance levy                     | -                   | 54               |
|   | <b>(110)</b>        | <b>1,292</b>     |
| <b>Payments to providers of capital</b> |                     |                  |
| Dividends to shareholders               | -                   | -                |
|   | <b>-</b>            | <b>-</b>         |
| Economic value distributed              | 305,856             | 326,862          |
| Economic value retained                 | (37,765)            | 4,388            |
|   | <b>268,091</b>      | <b>331,250</b>   |

# Glossary of Financial Terms

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## Accounting policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

## Accrual basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

## Actuarial assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

## Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

## Amortised cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

## Asset and liability committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

## Available-for-sale financial assets

Non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

## Capital adequacy ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

## Cash

Cash on hand and demand deposits.

## Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Cash flows

Inflows and outflows of cash and cash equivalents.

## Capital funds

Capital funds shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.

## Collectively assessed impairment

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

## Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.



# Glossary of Financial Terms

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## **Compounded annual growth rate (CAGR)**

The rate at which a variable would have grown if it grew at an even rate compounded annually.

## **Contingencies**

A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

## **Contract**

An agreement between two or more parties that creates enforceable rights and obligations.

## **Control**

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## **Corporate governance**

The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

## **Cost to income ratio**

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

## **Credit ratings**

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

## **Credit risk**

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

## **Credit risk mitigation**

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

## **Customer deposits**

Money deposited by account holders. Such funds are recorded as liabilities.

## **Deferred tax**

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

## **Delinquency**

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

## **Depreciation**

The systematic allocation of the depreciable amount of an asset over its useful asset.

## **Derecognition**

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

## **Discount rate**

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

## **Dividend cover**

Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

# Glossary of Financial Terms

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## **Dividend pay-out ratio**

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

## **Dividend per share (DPS)**

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

## **Dividend yield**

Dividend earned per share as a percentage of its market value.

## **Earnings per share (EPS)**

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

## **Effective interest rate (EIR)**

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

## **Effective tax rate (EPR)**

Provision for taxation expressed as a percentage of Profit Before Tax.

## **Equity method**

A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

## **Events after the reporting period**

Events, favourable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

## **Expected credit loss (ECL)**

Probability weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period use as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

## **Exposure at default (EAD)**

This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns of committed facilities.

## **Exposure**

A claim, contingent claim or position which carries a risk of financial loss.

## **Factoring**

A time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

## **Fair value**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## **Fair value through profit or loss**

A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

# Glossary of Financial Terms

## Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

## Financial asset

Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

## Financial instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

## Financial liability

A contractual obligation to deliver cash or another financial asset to another entity.

## Functional and presentation currency

These Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

## Going concern

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

## Group

A parent of all its subsidiaries.

## Gearing

Long term borrowings divided by the total funds available for shareholders.

## Gross dividend

The portion of profits distributed to the shareholders including the tax withheld.

## Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

## Held for trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

## Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

## Held to maturity (HTM)

Investments Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

## High quality liquid assets (HQLA)

Assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

## International financial reporting standards (IFRS)

set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

# Glossary of Financial Terms

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## **Intangible assets**

An intangible asset is an identifiable non-monetary asset without physical substance.

## **Interest cover**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

## **Interest margin**

Net Interest income expressed as a percentage of average interest earning assets.

## **Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## **Interest spread**

Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

## **Interest in suspense**

Interest suspended on non-performing leases, hire purchases and other advances.

## **Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

## **Impaired loans**

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

## **Impairment allowances**

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

## **Impairment provisions**

Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

## **Individually assessed impairment**

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

## **Individually significant loan impairment provision (Specific impairment provision)**

Impairment is measured individually for assets that are individually significant to the Group.

## **Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

## **Investment properties**

Investment property is a property (land or building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

## **Investment securities**

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

## **Key management personnel**

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

# Glossary of Financial Terms

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## Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

## Lifetime expected credit losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

## Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

## Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

## Loan/credit losses and provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

## Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

## Loan to value ratio (LTV)

A mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

## Loss given default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

## Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## Market capitalisation

The value of a Company obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

## Market risk

The possibility of loss arising from changes in a value

of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

## Net assets value per share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

## Non controlling interest

Non Controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

## Net interest income (NII)

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

## Net interest margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

# Glossary of Financial Terms

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## **Non - performing advances**

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Nonperforming advances are reclassified as performing when all arrears rentals are settled in full.

## **NPA ratio**

The total non-performing leases hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

## **Off- balance sheet items**

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

## **Offsetting of financial statements**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable

right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

## **Operational risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## **Parent company**

A parent is an entity that has one or more subsidiaries.

## **Past due**

A financial asset is past due when a counter party has failed to make a payment when contractually due.

## **Power**

The existing rights that give the current ability to direct the relevant activities.

## **Price earnings ratio (P/E ratio)**

The current market price of the share is divided by the earnings per share of the Company.

## **Probability of default (PD)**

The probability that an obligor will default within a one-year time horizon.

## **Projected unit credit method (PUC)**

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## **Provision cover**

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

## **Prudence**

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, so that asset or income are not overstated and liabilities or expenses are not understated.

# Glossary of Financial Terms

## Related parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

## Residual value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

## Repurchase agreements

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

## Return on average assets (ROA)

Profit after tax expressed as a percentage of average assets

## Return on equity (ROE)

Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

## Revenue reserves

Reserves set aside for future distribution and investment.

## Reverse repurchase agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

## Right-of-use asset (ROU asset)

Right-of-use asset is lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payment made to the lessor before the lease commencement date, plus any initial direct cost incurred, minus any lease incentives received.

## Rights issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

## Risk weighted assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

## Segment analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

## Shareholders' funds

The total of stated capital and capital and revenue reserves.

## Single borrower limit

Maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower shall not exceed 15% of the capital funds of such finance company as shown in the last audited balance sheet.

## Statutory reserve fund

A capital reserve created as per the provisions of the Finance Companies (Capital Funds) Direction No.1 of 2003.

## Sri Lanka financial reporting standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS); Sri Lanka Accounting Standards (LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

# Glossary of Financial Terms

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## **Stated capital**

All amounts received by the Company or due and payable to the Company – (a) in respect of the issue of shares, (b) in respect of calls on shares. Statutory Reserve Fund A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

## **Substance over form**

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## **Subsidiary company**

An entity, including an unincorporated entity which is controlled by another entity called parent.

## **Tier I capital (Core capital)**

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

## **Tier II capital (Supplementary capital)**

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base) Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

## **Transaction costs**

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## **Twelve month expected credit losses (12m ECL)**

The portion of lifetime expected credit losses that represent the expected credit losses that result from default event on a financial instrument that are possible within the 12 months after the reporting date.

## **Useful life**

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

## **Value added**

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

## **Yield**

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.







# Corporate Information

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## 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 4317335

**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

- Ms. Renuka Fernando - Chairperson
- Mr. Supun Weerasinghe
- Mr. Priyan Edirisinghe
- Mr. Roshan Hettiaratchi
- Mr. Sheyantha Abeykoon
- Mr. Asanga Priyadarshana - Chief Executive Officer

## Company Secretary

Ms. Viranthi Attygalle

## Compliance Officer

Ms. Mallika Medagedara

## Registrars

SSP Corporate Services (Private) Limited  
No. 101, Inner Flower Road,  
Colombo 03.

**Tel** : + 94 11 2573894

**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
- National Development Bank PLC

## Credit Rating

AA (Ika) was affirmed by Fitch Ratings Lanka Ltd

Designed & Produced by :





2nd Floor, Parkland 01,  
No.33, Park Street, Colombo 02, Sri Lanka.  
**Tel :** 011 4317317 **Fax :** 011 4317335  
**Email :** [financialservice@dialog.lk](mailto:financialservice@dialog.lk) **Web :** [www.dialogfinance.lk](http://www.dialogfinance.lk)