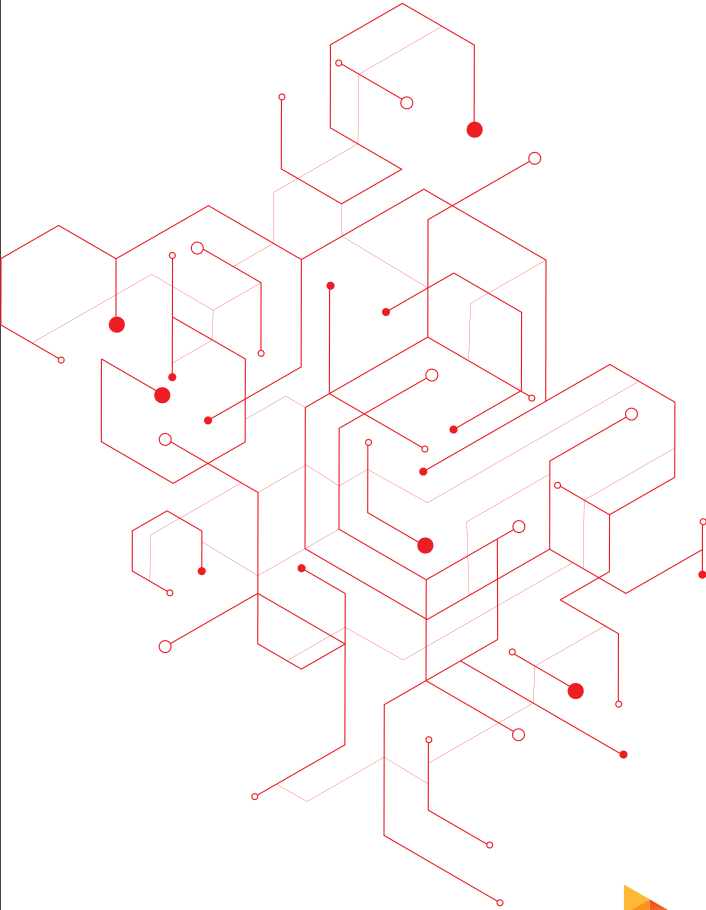


INCLUSIVE FINANCE

EMPOWERING LIVES



ANNUAL REPORT 2023

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Our Vision

To be Sri Lanka's No.1 Fintech Company

Our Mission

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

Our Core Values

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

About Us

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

Registered by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011, Dialog Finance PLC offers an array of financial products tailored to meet the needs of diverse customer segments, including consumers, retailers & merchants, and SMEs.

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

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

Financial Highlights

	Year ended 31 December 2023	Year ended 31 December 2022	Change (%)
Operating results for the year (Rs. '000)			
Gross income	1,161,153	1,029,898	13
Total operating income	756,674	667,580	13
Impairment charges for loans and advances	21,816	84,884	(74)
Operating expenses	631,969	467,423	35
Operating profit / (loss) before taxes on financial services	44,742	67,096	(33)
Profit / (loss) for the year	39,438	67,096	(41)
Assets and liabilities (Rs. '000)			
Customer deposits	2,616,766	3,786,922	(31)
Loans and receivables	3,042,903	3,056,448	(0)
Total assets	5,953,048	6,584,626	(10)
Total liabilities	3,308,283	3,980,857	(17)
Shareholders' funds	2,644,765	2,603,769	2
Profitability ratios (%)			
Net interest margin	12.68	10.99	1.69
Return on assets (ROA)	0.78	1.03	-0.25
Return on equity (ROE)	1.49	2.61	-1.12
Investors' information (Rs.)			
Market price	53.20	63.00	(16)
Net assets per share	22.53	22.18	2
Earnings per share	0.34	0.57	(40)
Regulatory ratios (%)			
Capital adequacy ratios			
Tier I capital (Minimum requirement – 8.5%)	40.30	46.36	-6.06
Total capital (Minimum requirement – 12.5%)	40.30	46.36	-6.06
Other key indicators (%)			
Non performing loan ratio (gross)	5.37	1.32	4.05
Cost to income ratio	83.52	70.02	13.50
Fitch rating	AA (lka)	AA (lka)	



Chairperson's Message



My dear shareholders,

In 2023, the Sri Lankan economy showed signs of stabilization as the Government's economic reforms and recovery initiatives began to take effect. There were notable improvements in our economic landscape compared to 2022. The reduction in peak inflation levels and the easing of foreign currency liquidity issues were significant. These improvements were supported by an increase in worker remittances and higher tourism earnings, further aided by import restrictions and subdued demand for imports. Despite these gains however, the major challenges persisted for the Nation and our people. The financial well-being of Sri Lankans remained under pressure with disposable incomes continuing to suffer, large numbers falling below the poverty line, dampened consumer spending and weak credit demand.

At Dialog Finance, we embraced these challenges, using them as a catalyst to transform our approach towards meeting our customers' needs. We embarked on a strategic shift to better understand and serve our clients, developing more relevant and resilient financial products. This strategic focus not only helped address the immediate difficulties faced by our customers but also reinforced our position as an innovator and leader in the fintech sector.

We remain committed to this path of innovation and customer-centric service, confident that it will not only lead to greater customer satisfaction but also secure our place at the forefront of the evolving financial landscape.

A Relevant and Dynamic Suite of Financial Solutions

In a year marked by a shifting economic landscape, Dialog Finance has strategically honed its offerings to benefit a broader populace. We have focused our efforts towards segmenting our customers to specific sectors, namely Consumers, Retailers & Merchants, and SMEs, with tailored financial services designed to meet the unique demands of each group.

Our vision to transition the Sri Lankan populace and MSMEs towards a digitally driven environment, continued to be our core objective in these sectors, while ensuring we remain responsive to their evolving financial needs and aspirations amidst these challenging times.

The economic environment this year has compelled both consumers and businesses to navigate higher taxes, diminished disposable incomes and stagnant business turnovers. These conditions have necessitated

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more precise financial management and compelled many to explore new avenues for business growth, such as expanding into new customer segments to maintain their sustainability. In response, our products and services tailored to these needs have seen strong uptake across our target markets.

We have fortified our consumer offerings by introducing a suite of financial management products, which facilitate prudent financial planning and encourage income generation through micro-investments. Additionally, our loan offerings have been reviewed to broaden their accessibility across the income pyramid, empowering customers by meeting their short-term funding needs.

In 2023, with the issuance of our Payment Acquiring license by the Central Bank of Sri Lanka, we commenced our strategy to support and grow the small and medium-sized retail and service enterprises across Sri Lanka. Our aim is to enhance their competitiveness in a fast-evolving marketplace by integrating them into the digital payment landscape. This year, we introduced Genie Business, a comprehensive business application designed to offer a suite of financial tools that enable seamless digital transactions, whether in-store, online, or remotely managed. Genie Business not only simplifies entry into e-commerce with features like e-shops and multi-currency payment capabilities but also provides these enterprises with crucial microenterprise loans to bolster growth and sustain working capital.

Expanding our scope, the Genie Business platform also caters to larger corporations by delivering tailored payment collection solutions that integrate directly with their core billing and financial systems through advanced, API-based technology.

A significant milestone was achieved this year through our collaboration with Ceylon Biscuits PLC and the International Finance Corporation, marking the launch of a pioneering digital solution for Sri Lanka's market - the digitization of the distribution value chain via Genie Business. This innovative platform allows manufacturers and distributors to digitally manage retailer invoicing and payments, and streamline the reconciliation process, thereby replacing the outdated, labor-intensive, and costly manual methods prevalent in the industry.

In 2023, we took a significant step towards integrating small and medium-sized enterprises (SMEs) into the digital landscape with the launch of our SME internet banking platform. This initiative is designed to facilitate the digital management of payments and collections, thereby improving the efficiency of cash flow management among SMEs.

Dialog Finance has also expanded into supply chain financing and invoice factoring, specifically targeting the SME manufacturing and export sectors. Our goal is to digitize supplier payments and enhance the management of working capital cycles. This not only allows businesses to maintain better control over their finances but also ensures that their suppliers have access to necessary financing during critical times. This strategic move helps in keeping supply chains robust and efficient, underpinning the economic stability and growth of the SME sector.

We firmly believe that to achieve Sri Lanka's digital goals, it is crucial to digitize various components of the commercial payment streams across the supply value chain. This should occur in tandem with encouraging a shift from cash to digital payments among consumers. Such synchronized efforts are essential for realizing the full potential of Sri Lanka's digital transformation.

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A Trusted Fintech

During this year, we have significantly increased our investments in technology to better serve our customers and deliver superior user experiences across all segments. Recognizing the need to make technology accessible and understandable, we have taken steps to simplify our digital offerings, encouraging broader participation in the digital ecosystem. A key focus has been on streamlining the customer journey to ensure a seamless service experience.

Additionally, we have enhanced our technology infrastructure to support the substantial increase in transaction volumes on our digital platforms. Alongside these improvements, we have prioritized the strengthening of our cybersecurity and fraud management protocols. This is essential not only for maintaining high data security standards but also for preserving the trust and confidence our customers place in our systems.

Creating Financial Strength

The company adeptly navigated a complex operational environment, adhering to its fintech vision and commitment to providing predominantly digital financial products and services to deliver a total operating income of Rs. 756.7 Mn for the year ended December 31, 2023, recording a YoY growth of 13.3%.

Apart from the high interest rate environment in the first half of the year coupled with subdued credit demand, our decision to continue strengthening our underwriting frameworks to manage risks associated with our key customer groups, especially in the current economic climate had the impact of limiting the growth in our loans and advances. Additionally, the company continued to adhere to a conservative risk strategy, concentrating solely on core digital lending products and avoiding more traditional high value lending. We firmly believe that such an approach is key to building future ready underwriting and credit risk management models which will set the right platform for us to scale such lending in the years to come.

Consequently, the lending book remained stable year-on-year to record gross loans and advances of Rs. 3.2 Bn as at 31 December 2023. Furthermore, our proactive risk management and strong collection efforts kept non-performing asset (NPA) levels well within our risk tolerance and below industry norms.

On the expenditure side, the company faced increased operating costs that exceeded the income growth, driven by inflation, higher indirect taxes, and significant investments in hiring expertise across various functions, including credit, risk management, and technology. Despite these cost pressures, we implemented stringent cost-management and process optimization measures to maintain service excellence and an efficient cost structure.

Accordingly, the Company recorded a net profit of Rs. 39.4 Mn for the year ended 31 December 2023 relative to the net profit of Rs. 67.1 Mn recorded for the previous financial year. Further, the company maintained healthy capital and liquidity levels, well

Chairperson's Message

above the statutory minimum requirements. We are optimistic that our ongoing business growth will gradually improve our profitability and cost-to-income ratio in the medium term.

Risk Management and Governance

As we expand our operations into new customer segments and scale our business, our commitment to excellence remains steadfast. We consistently continue to review and refine our credit underwriting models, collection strategies, and credit risk management policies. Utilizing advanced data analytics, we strive to stay relevant to our customers' needs especially in the unbanked and underbanked segments, while being responsive to emerging risks and maintaining credit quality across all our lending portfolios. Our investment in technology and personnel, supports these strategic enhancements, driving our operational excellence.

This year, our strong governance frameworks have proven indispensable as we navigated the complexities of the current operating environment. The Board has been vigilant in monitoring macro-economic, regulatory, political, and social developments. This proactive approach has allowed us to swiftly adapt and respond effectively, safeguarding the interests of our stakeholders.

We strictly adhere to all regulatory requirements set forth by esteemed bodies including the Central Bank of Sri Lanka (CBSL), the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission (SEC).

I am pleased to confirm that there have been no violations of the company's code of conduct by either our directors or employees throughout the year. This adherence to ethical standards underscores our commitment to integrity and transparency in all our operations.

As we look to the future, we are confident in our ability to continue delivering value to our shareholders and customers, building on the solid foundation we have established.

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Embedding Sustainability

Our business model is rooted in sustainability and inclusivity, aiming to drive societal advancement through our digital financial products. As a responsible corporate entity, we are committed to fostering financial inclusion among unbanked and underbanked segments of society, while also enhancing literacy levels in digital finance to support the nation's transition to a digital economy.

We believe that our products and services, accessible through our innovative tech-driven platforms, will meet the evolving financial needs of our customers, enhancing their quality of life and aiding in their recovery from the economic downturn.

We stand together in solidarity with the Dialog Group's overall sustainability agenda by adhering to sustainable practices whilst upholding principles of good corporate governance through stewardship, accountability, transparency and integrity.

The Way Forward

As the economy continues its forward momentum, showing promising signs of recovery with the stabilization of key indicators such as interest rates, exchange rates and inflation, we remain optimistic about the future. The relaxation of monetary policy

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has stimulated increased demand for private sector credit. Amidst the ongoing digital transformation of the financial services sector, Dialog Finance is well positioned to leverage its capabilities and expand its market share, while also playing a pivotal role in fostering financial inclusivity and promoting financial literacy in Sri Lanka.

Appreciations

I take this opportunity to convey my sincere appreciation to my colleagues on the Board for their continued wise counsel as we navigated a year of extraordinary challenges. My gratitude goes out to the Central Bank of Sri Lanka and other regulatory bodies for the vital role they play and their contributions to the industry. I wish to thank all our stakeholders and customers for their loyalty as they encourage and provide us the impetus to redefine the digital ecosystem with ahead of the curve products and services.

I extend my sincere appreciation to the Dialog Finance Team, led by the Chief Executive Officer and the senior management team for their exceptional commitment and dedication during times of challenge. The team's passion, resilience, creativity and teamwork truly embody the spirit of our organization.



Ms. Renuka Fernando
Chairperson

06 May 2024



Chief Executive Officer's Review



My dear shareholders,

In the financial year 2023, the Sri Lankan economy began its journey towards recovery and stabilization. Timely economic reforms which were implemented during the year, yielded positive results which enabled the country to return to the path to recovery in the second half of 2023. The appetite for credit remained subdued throughout the year due to the tight monetary policy stance adopted. However, signs of improvement were observed towards the fourth quarter of the year as credit growth marked a gradual increase with the easing of policy rates by the CBSL from June 2023.

Navigating Through Challenges

The Company navigated against this backdrop, by developing its strategic path to create a solid platform for the business to thrive as the economy follows its course towards recovery and revival.

For Dialog Finance, this was an opportune time to reflect on the progress achieved thus far and calibrate its strategies to serve the emerging needs of the core customer segments. Consequently, the Company endeavored to develop a range of robust financial offerings tailored for specific customer segments,

namely Consumer, Retail & Merchant and SMEs. Our consolidation efforts during the first half of 2023, laid a solid foundation for growth positioning the Company well to capitalise on increasing business momentum.

Driving Financial Inclusivity

Extending financial services to unbanked and underbanked segments is a key strategic objective of Dialog Finance, aligned with its commitment to fostering sustainable 'inclusive growth' whilst supporting the nation's digital priorities. Embracing a distinctive approach, the Company endeavors to offer financial services to the bottom-of-the-pyramid (BOP) and mass affluent consumers and MSME segments focusing on digital innovation and collaborative partnerships. Our strategic aim is to deliver a connected and tech-driven future, facilitating financial inclusion through convenient and secure digital - first financial services.

During the year under review, the Company strengthened its product offering by launching new products and services across all business segments. The consumer segment saw the introduction of several innovative, first of their kind products namely

"As a pioneer in the fintech landscape in Sri Lanka, Dialog Finance has forged a distinctive identity. We aim to play a pivotal role in advancing digitally-led, innovative financial solutions to bolster Sri Lanka's National Digital Strategy. We firmly believe that secure and reliable digital platforms will empower individuals and businesses to embrace digital transactions, laying the groundwork for an inclusive, transparent, and efficient digital economy."

digital fixed deposits, digital savings pockets, and digital loans against fixed deposits, all of which proved popular, as evidenced by strong uptake and increased transaction volumes.

In the year under review, Dialog Finance obtained a license from the Central Bank of Sri Lanka to operate as a Financial Acquirer of Payment Cards. This license allowed us to offer the MSME segment a range of innovative payment methods, enhancing the scale and driving turnover growth in our clients' revenue streams. Our offerings, including tap-to-pay, LankaPay QR payments, multi-currency transactions, payment link generation, and e-store creation, have increased visibility for the MSME segment. These services empower businesses to expand by tapping into the digital ecosystem.

Additionally, we also offer working capital financial solutions, which have a significant impact across SME segment by fostering a dynamic digital ecosystem, delivering substantial benefits to all stakeholders within the system.

As a pioneer in the fintech landscape in Sri Lanka, Dialog Finance has forged a unique identity. We aim to play a pivotal role in advancing digitally-led, innovative financial solutions to bolster Sri Lanka's National Digital Strategy. We firmly believe that secure and reliable digital platforms will empower individuals and businesses to embrace digital transactions, laying the groundwork for an inclusive, transparent, and efficient digital economy. To achieve this goal, we recognize that enhancing digital financial literacy and fostering awareness are critical drivers of success in driving adoption rates.

We remain committed to refining user experiences and the Company is making significant investments in our human resources and IT capabilities to develop and deliver cutting-edge products and services. Our objective is to earn the trust and confidence of our customers by staying ahead of the curve.

Achieving a Resilient Financial Performance

Despite the challenges encountered throughout the year, the Company exercised prudent financial management to bolster resilience across all key performance indicators. Driven by the growth in net interest income and fee-based income, total operating income grew by 13.3% to reach Rs. 756.7 Mn for the year ended 31 December 2023 compared to total operating income of Rs. 667.6 Mn recorded for the previous year.

The bottom-line performance performance was impacted by higher operating expenses which outpaced the growth in operating income. Accordingly, the Company recorded a net profit of Rs. 39.4 Mn for the year ended 31 December 2023 against the net profit of Rs. 67.1 Mn recorded for the previous financial year.

Cost to income ratio increased to 83.5% in 2023 from 70.0% in 2022 due to multiple factors including the impact of inflation, the depreciation of the Sri Lanka Rupee and increase in indirect taxes. Increase in operating expenses was further driven by significant investment made on human capital to facilitate business growth, alongside an increase in direct expenses in line with the expansion of our operations.

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Notwithstanding the same, the Company continued to adopt a cautious approach towards costs by implementing cost management and rationalisation initiatives along with streamlining processes to deliver both service excellence and a leaner cost structure.

Our lending performance in 2023 mainly impacted by the lackluster credit environment due to slow business growth and high lending rates prevalent during the first half of the year. Additionally, the Company continued to adhere to a conservative risk strategy, concentrating on core digital lending products, while avoiding more traditional high value lending.

Consequently, the Company recorded gross loans and advances of LKR 3.2 Bn as of 31st December 2023 and the lending book remained stable on a YoY basis. the Gross Non-Performing Advances (NPA) ratio recorded at 5.37% as at end of December 2023 which is significantly lower than the industry benchmark and well within the risk appetite of the Company. We have implemented targeted recovery strategies and maintain ongoing monitoring of settlements to effectively manage our non-performing asset (NPA) position.

As of December 31, 2023, both the Tier I capital adequacy ratio (CAR) and total CAR stood at 40.30%, which were well above the minimum statutory thresholds of 8.5% for Tier I CAR and 12.5% for total CAR as of the end of December 2023. During the year, excess liquidity was maintained while meeting statutory liquid asset requirements and ratios prescribed by the CBSL. The Company's core capital as at the year-end stood at Rs. 2.6 Bn, well above the CBSL's minimum threshold of Rs. 2.5 Bn.

Dialog Finance has achieved a national long-term rating of 'AA(lka)' with a Stable Outlook, from Fitch Ratings Lanka marking the highest rating awarded in the industry to date.

Awards and Accolades

I am proud to announce that Dialog Finance received a multitude of awards and accolades during the recent LankaPay Technnovation Awards 2024. The Company was recognised with the Gold award as the 'Financial Institution of the Year for Best Digital Payment Strategy', Silver awards for 'Excellence in Digital Payments', Silver award for 'Excellence in Customer Convenience' and Merit award for 'Financial Inclusivity'.

These four awards reflect our collective commitment to excellence in all aspects of our operations and our relentless quest to redefine the digital financial landscape of Sri Lanka to create greater financial inclusivity.

Building a Future-fit Team

At Dialog Finance, performance, innovation and integrity are valued above all. Our committed Dialog Finance Team is always geared to provide exceptional service levels to our valued customers. With the backing of state-of-the-art technology and highly skilled professionals, we have managed to carve a specific niche within the financial industry landscape in Sri Lanka. We strive to empower our team with a winning mindset to redefine the financial services sector with innovative and future-fit solutions.

"The Sri Lankan economy has exhibited encouraging signs of recovery, characterized by the stabilization of key economic indicators. These signs of economic revival bolster the Company's ambitious plans and strategies. We envisage to launch new innovative products while improving and refining our existing product portfolio to support and uplift the MSME segments, which is a critical and vital link of the economy."

The Way Forward

The Sri Lankan economy has exhibited encouraging signs of recovery, characterized by the stabilization of key economic indicators including interest rates, exchange rates, and inflation. These improvements pave the way towards the path of recovery. The impact of monetary policy easing initiatives are showing positive and encouraging results which is evident in the upward momentum in private sector credit witnessed during the last quarter of 2023. With tourism and worker remittances showing a positive upward trajectory we believe that Sri Lanka has positioned itself for economic progress. In this path to recovery, Dialog Finance aspires to be a key driver of progress by accelerating its digital initiatives in driving financial inclusivity and supporting the consumer and MSME segments to broaden their horizons of growth through inclusive products and services.

These signs of economic revival bolster the Company's ambitious plans and strategies. We envisage to launch new innovative products while improving and refining our existing product portfolio to support and uplift the MSME segments, which is a critical and vital link of the economy

A Note of Appreciation

I take this opportunity to extend my sincere appreciation to the Chairperson and the Board of Directors for their unstinted support and strategic direction. I am grateful to our committed Dialog Finance team who have continuously demonstrated their unwavering resolve and dedication to perform exceptionally amidst a multitude of challenges faced over the years to deliver on our strategic objectives.

I extend my sincere appreciation to the Government of Sri Lanka, Governor and staff of the CBSL, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange for their invaluable support and cooperation extended. I wish to thank our valued customers, business partners and other stakeholders for their continued loyalty.

As Dialog Finance traverses through yet another year with many milestones of progress, we look forward to being at the forefront of Sri Lanka's digital economy by serving the dynamic needs of our stakeholders whilst creating new benchmarks of progress.



Nazeem Mohamed
Director / Chief Executive Officer

06 May 2024

Board of Directors



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



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



Mr. Priyan Edirisinghe
Independent,
Non-Executive Director



Mr. Roshan Hettiaratchi
Independent,
Non-Executive Director



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

Board of Directors

Ms. Renuka Fernando

Chairperson / Non-Independent, Non-Executive Director

Ms. Renuka Fernando was appointed as the Chairperson and a member of the Board of the Company on 22 May 2020.

Ms. Fernando who currently serves as the Group Chief Digital Services Officer of Dialog Axiata PLC (Dialog), is a highly experienced, successful and well-regarded business leader who has very significant business experience spanning 40 years in the banking sector and vast expertise in growing and developing banking with a special focus on Digital Banking.

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

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

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

Mr. Supun Weerasinghe

Non-Independent, Non-Executive Director

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

Mr. Weerasinghe is the Group Chief Executive/ Executive Director of Dialog Axiata PLC (Dialog). He 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, in Malaysia as its Group Chief Strategy Officer. From January 2014 to October 2016, he functioned as the CEO and Managing Director of Robi Axiata Limited in Bangladesh, the second largest mobile network provider in Bangladesh.

Mr. Weerasinghe serves on the Board of The Ceylon Chamber of Commerce and UNGC Network Sri Lanka.

Mr. Weerasinghe is a Fellow Certified Management Accountant, Sri Lanka, 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. Mr. Weerasinghe also holds an MBA from the University of Western Sydney, Australia, and is an alumnus of the Harvard Business School.

Board of Directors

Mr. Priyan Edirisinghe Independent, Non-Executive Director

Mr. Priyan Edirisinghe was appointed to the Board of the Company on 19 January 2016. He currently serves as the Senior Independent Director of the Company.

As a Chartered Accountant with over 20 years of experience in the private sector and professional practice, Mr. Edirisinghe brings a wealth of expertise to the Board. He is currently the Senior Partner of Baker Tilly Edirisinghe & Co., Chartered Accountants, one of the top audit, tax and consulting firms in Sri Lanka. Additionally, Mr. Edirisinghe currently serves as a Non-Executive Directors on the boards of CT Land Development PLC, PE Management Consultants (Private) Limited and V&L Wealthfund (Private) Limited.

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

Mr. Roshan Hettiaratchi Independent, Non-Executive Director

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

Mr. Hettiaratchi is a leading legal professional in Sri Lanka having a wide Civil Law practice in the Original Courts and Appellate Courts, with a focus on Commercial Law. Mr. Hettiaratchi also specializes in providing FDI Advisory services.

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

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

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

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

Mr. Mohamed also serves as the Chief Executive Officer of the Company since 1 February 2021.

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

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

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

Management Discussion and Analysis

EXTERNAL ENVIRONMENT

The global economy

The global economy remained resilient during 2023, despite facing several challenges which include continuing recovery from the COVID-19 pandemic, international conflicts, and significant cost-of-living pressures. Global inflation, both headline and underlying core are gradually being brought under control during the year under review by the positive effects of global monetary policy tightening.

Due to the disruption in energy and food markets caused by the war, and the unprecedented tightening of global monetary conditions to combat decades-high inflation, the global economic growth is expected to slow from 3.5% in 2022 to 3.0% in 2023 which is well below the historical average of 3.8%. Global inflation continues to decelerate and is expected to reduce from 8.7% in 2022, on a year-on-year basis, to 6.9% in 2023.

(Source: IMF World Economic Outlook – October 2023)

The local economy

The Sri Lankan economy demonstrates positive developments in 2023, marking a significant turnaround from the challenges stemming from the COVID-19 pandemic and the unprecedented economic and political crisis. Supported by the vital measures, including financial assistance from the International Monetary Fund (IMF) program, the Sri Lankan economy demonstrates clear signs of recovery and a notable degree of macroeconomic stability.

Economic Growth: The trickle-down effects of the economic slowdown, social, political, and economic uncertainties and a shrinkage in aggregate demand due to high inflation, monetary tightening and fiscal tightening experienced in 2022 resulted in a contraction of the economy in the first two quarters of 2023. However, signs of gradual recovery were evident during the latter part of 2023 with all three key sectors recording growth in Q3 and Q4. As per the National Accounts Estimates published by the Department of Census and Statistics, the Sri Lankan economy recorded an annual contraction of 2.3% in 2023 due to the significant contraction reported in Q1 and Q2 of 2023.

Inflation: Inflation showed a sharp downward momentum from the highs witnessed in 2022 owing to the tight monetary policy, appreciation of the domestic currency and falling of global commodity prices. Accordingly, the Headline inflation measured by the year-on-year change in the Colombo Consumer Price Index (CCPI) reached single digits in July 2023 after peaking at 69.8% in September 2022 to remain stable towards the end of the year. Headline inflation measured by the year-on-year change in the CCPI was recorded at 4.0% in December 2023 compared to 57.2% in December 2022. Headline inflation measured by the year-on-year change in the National Consumer Price Index (CCPI) was recorded at 4.2% in December 2023 compared to 59.2% in December 2022.

Exchange Rate: The foreign exchange liquidity crisis witnessed in 2022 eased in 2023 with the finalization of the International Monetary Fund (IMF) Extended Fund Facility and increased inflows through workers' remittances and improved tourist earnings. Restrictions on imports also helped in preserving liquidity. On this backdrop, exchange rate stabilised, and the Sri Lankan Rupee appreciated against the USD during the year to record Rs. 324 by the end of 2023 compared to Rs. 363 by the end of 2022.

External Sector: The cumulative deficit in the trade account in 2023 narrowed to the lowest since 2010 to USD 4.9 Bn from USD 5.2 Bn in 2022. Earnings from merchandise exports declined by 9.1% YoY in 2023 which was mainly contributed by the decline in industrial exports led by garments. Meanwhile, expenditure on merchandise imports recorded a YoY decline of 8.1% in 2023 resulted due to restrictions on non-urgent imports, lower activities of the economy, lower spending capacity of the public due to tight monetary conditions.

Interest Rates: The Central Bank of Sri Lanka initiated easing of its monetary policy starting from June 2023 with the view of providing an impetus for the economy to rebound from the significant contraction of the economic activities witnessed in 2022 and easing pressures in the financial markets. Accordingly, market interest rates continue to decline significantly which was further supported by the reduction in risk premiums following the finalisation of the Domestic Debt Optimisation (DDO) program.

Management Discussion and Analysis

Sri Lanka's Non-Bank Financial Institution (NBFI) Sector

NBFI sector comprising of 34 Licensed Finance Companies (LFCs) and 1 Specialised Leasing Company (SLCs) encountered numerous challenges during the year, primarily stemming from a reduced demand for their core business. Prolonged restrictions on importation of motor vehicles and adverse macroeconomic conditions continued to affect the core business of the sector. Consequently, NBFIs have been compelled to shift away from their traditional focus towards a more diversified loan portfolio to navigate these challenges.

Asset base: Despite decline in loans and advances portfolio, the total asset base grew by 5.1% YoY to record Rs. 1,693.1 Bn as at end of 2023 driven by growth in the investment portfolio. Loans and advances contracted by 3.2% YoY to reach Rs. 1,161.1 Bn as at 31 December 2023 compared to Rs. 1,199.2 Bn recorded as at end of 2022. With the import restrictions in effect, the LFCs and SLCs sector diversified its credit portfolio to other product categories away from leasing and hire purchase resulting in an increased concentration on pawning and gold loan products since 2022. However, in 2023, there was a noticeable deceleration in the growth of pawning advances due to the base effect. Further, the increased exposure to pawning advances is emerging as a risk to the sector due to the inherent volatility of gold prices in the global market.

Asset quality: The sector experienced a deterioration in credit quality during the first half of the year. However, this trend was reversed during the second half of the year supported by gradual recovery in the economy. Accordingly, the Gross and Net Non-Performing Loans (NPL) Ratios recorded at 17.8% and 12.0% respectively as at end of December 2023 compared to 17.5% and 12.3% recorded respectively as at end of December 2022.

Profitability: Despite facing significant challenges, the NBFI sector managed to demonstrate a growth in profitability during the year. Profit after tax grew by 8.7% YoY in 2023 and Net Interest Margin of the sector improved to 7.7% as at end December 2023 compared to 6.6% as at end of December 2022.

Improved profitability was mainly contributed by growth in asset base in terms of investment portfolio, increase in net interest margin coupled with increase in non-interest income.

Capital adequacy: Capital of the LFCs and SLCs sector improved during the year under review mainly due to higher growth of regulatory capital against subdued growth of risk weighted assets. Contraction of loans and advances and increase in investments mainly contributed to subdued growth of risk weighted assets. Consequently, Tier 1 Capital Adequacy Ratio (CAR) and Total CAR of the sector increased to 21.2% and 22.4%, respectively, by the end December 2023 compared to 20.6% and 22.0% respectively, recorded as at end of December 2022.

Liquidity: The liquidity position of the sector remained above the minimum regulatory requirement with the Regulatory Liquid Assets to Total Assets recorded a significant increase to 14.1% as at the end of December 2023 from 10.7% recorded in December 2022. This was mainly due to increased investments in Government securities.

Looking Forward

In 2023, Sri Lanka's economy shows signs of recovery, marked by significant positive developments. Following six consecutive quarters of negative growth, GDP recorded positive expansion in the third and fourth quarters of 2023. Additionally, domestic inflation experienced a notable decline, dropping to single digits in July 2023 after reaching historically high levels in 2022. Furthermore, the easing of foreign exchange liquidity pressures was observed following the approval of the International Monetary Fund's Extended Fund Facility (IMF-EFF) in March 2023. The progress achieved by Sri Lanka thus far is commendable. However, sustaining this momentum is crucial for instilling stakeholder confidence necessary to transition from stabilization to widespread and sustainable growth.

In this backdrop, the financial services sector is poised to evolve and move ahead with cautious optimism while acknowledging the inherent challenges within the operating landscape. Digital transformation stands out as a pivotal strategic pillar across the financial

Management Discussion and Analysis

sector. With encouraging adoption rates in digital transacting, the uptake and the potential for digitally driven financial solutions holds much promise for the future. Dialog Finance is well positioned within the fintech arena with its distinctive product suite to harness opportunities.

OUR PRODUCT PORTFOLIO

Dialog Finance, as a pioneer in digital financial services in Sri Lanka, remains committed to introducing cutting-edge digital financial products aimed at promoting financial inclusion and encouraging customers to embrace digital banking across the nation.

During the year under review, the Company focused on developing relevant and customer-centric product propositions tailored to meet the financial needs of consumers and MSMEs. The Company reaches out to these segments predominantly via customized digital platforms.

The Company's strategic emphasis and segmented approach to developing its diverse range of products and services has enabled it to capture substantial market share while fostering a deeper embrace of digital banking. This strategic direction has enabled the company to establish a meaningful presence, assisting both consumers and MSMEs in advancing their financial goals.

Consumer segment is primarily catered through Genie, a platform owned and operated by Dialog Axiata PLC, that has transformed Sri Lanka's fintech industry. Throughout the year, numerous new products and features were introduced through the Genie platform to broaden the product offering and improve functionality, prioritizing ease of use, convenience, and transparency for our customers.

Some of the innovative products introduced during the year are as follows:

Digital Fixed Deposit

Launched in March 2023, Dialog Finance unveiled a groundbreaking digital fixed deposit, accessible with an initial investment as low as Rs 5000/-. This product aims to foster micro savings within the bottom of the pyramid segments, offering them a previously unavailable opportunity.

Customers can place a digital fixed deposit via the genie app using a digital KYC process, eliminating the need to visit physical branches. All information such as applicable FD rates, tenure and investment amount is readily accessible within the app. Customers also have the opportunity to obtain a loan against the fixed deposit.

Savings Pockets

Inculcating the behavior of saving for future needs or emergencies, Dialog Finance has introduced "Savings Pockets" within the Genie app, where customers can create up to five pockets to initiate savings while earning interest. These funds can be seamlessly transferred back to the savings account whenever needed.

Quick Loans

The digital quick loan facility which was introduced in 2022 underwent significant refinements with several feature enhancements during the year under review. The Quick Loan facility offers easy access to customers to conveniently obtain a short-term loan digitally, using the Genie platform. Utilising a digital KYC process, the service ensures reduced processing times, eliminates paper usage, and streamlines regulatory compliance.

This product enables customers to fulfill their short-term funding requirements by obtaining small ticket value loans conveniently without visiting a branch.

Genie Business

During the year under review, Dialog Finance successfully obtained the license to operate as a Financial Acquirer of Payment Cards from the Central Bank of Sri Lanka. This has positioned the Company to provide a diverse array of digital payment solutions to the MSME segment.

Management Discussion and Analysis

Genie Business, all-in-one digital payment acceptance solution was introduced with the aim of supporting and empowering the retailer and merchant segment. This comprehensive solution facilitates payments from any card, bank, or app, thereby enabling customers to broaden their reach.

The Genie Business platform hosts the following facilities:

Tap-to-Pay

This cost-effective solution enables small retailers to accept contact-less credit and debit card payments by tapping or hovering their customer's card over a NFC (Near Field Communication) enabled devices.

QR Code

Utilizing Lanka Pay's QR code for payments offers small businesses the added convenience of accepting payments made through QR codes.

Generating payment links

Genie Business can provide merchants with an IPG solution to facilitate both domestic and cross-boarder online credit card and debit card transactions.

Internet Payment Gateway (IPG)

Dialog Finance's merchant acquiring license enables the Company to collect the cash on the behalf of its customers and make arrangement to remit payments in both LKR and USD terms tailored to the client's preferences.

Multi – currency pricing

Businesses have the option of selling their goods and services in foreign currency and receiving the payments in LKR or in foreign currency.

E-Store

Small businesses lacking a website presence can now exhibit their products via their own E-store. This E-store link can be widely distributed through platforms like WhatsApp to enhance visibility of the business and its offerings.

This broad array of digital payment options enhances the competitive position of small businesses fostering greater opportunities for growth. By embracing the digital ecosystem, small and home-based enterprises can broaden their reach and establish a stronger market presence, thereby enhancing visibility.

Further, with the improved visibility to their cash flows, businesses can unlock opportunities for accessing loan facilities from the Company to support business expansion, facilitating growth to the next level. These financial solutions empower micro-businesses lacking access to traditional banking services to meet their financing requirements through the Dialog Finance Platform.

During the year, the Company placed greater emphasis on expanding its presence in the SME segment through innovative financial offerings.

Leading the way in innovation, the Company launched a pioneering digital payment solution for Sri Lanka's market – the digitization of the retail and distribution value chain of Ceylon Biscuits Limited via Genie Business. This innovative solution which was launched in collaboration with Ceylon Biscuits Limited and the International Finance Corporation, has streamlined payments and invoice reconciliation processes, representing a notable milestone.

Further, the Company offers financing solutions tailored to the SME segment to promote financial inclusivity and affordability. These solutions empower SMEs to navigate challenging economic conditions and stimulate business growth. Offerings include invoice factoring, supply chain financing, cash flow-based lending, and other tailored solutions.

SME Internet banking solution

The Company introduced an internet banking facility tailored for SMEs to conduct financial transactions digitally. The online banking features offered by this platform allow SMEs to execute bulk transactions, such as salary payments and other payments, real-time. This is achieved by assigning appropriate access and authority limits to different user categories within their respective organizations.

Recognitions and accolades

In recognition of the Company's achievements and its efforts in advancing financial inclusivity through innovative digital solution in 2023 Company was recognised at the recent LankaPay Technnovation Awards 2024.

Management Discussion and Analysis

The awards received by the Company are as follows:

- Gold award for 'Financial Institution of the Year for Best Digital Payment Strategy',
- Silver award for 'Excellence in Digital Payments'
- Silver award for 'Excellence in Customer Convenience'
- Merit award for 'Financial Inclusivity'

Future Focus

With a comprehensive suite of financial solutions on digital platforms, the Company is well placed to penetrate the market by reaching out to the unbanked and underbanked segments of the country. The Company aims to play a pivotal role in supporting these segments with inclusive banking solutions which empower the consumer and MSME segments and thereby contribute positively to the revival of the economy of Sri Lanka whilst spearheading a digitally driven economy.

CUSTOMER-CENTRICITY

As a customer-centric fintech Company, Dialog Finance is cognisant of the evolving needs, preferences, of its customer base. This is prioritised at every stage of product development, service delivery, and interaction. In a highly competitive landscape of financial technology, focusing on customer centricity is a key differentiator for fintech companies. Thus strengthening relationships and building customer loyalty are key focus areas of the Company.

Enhancing value propositions

Dialog Finance continued to expand its offerings across its key target segments to cater to the evolving needs even more closely. The Company has launched the wider array of product offerings during the year to serve the consumers and MSMEs in Sri Lanka. With all of these enhanced product offerings, the Company

offers simplified digitally based financial solutions across a wider portfolio of customers by driving financial inclusivity across a wider segment through curated product offerings which are designed to meet the financial and business needs and aspirations.

Improving customer service

Customer experience is a key focus point, and we have a dedicated, fully resourced customer service call center. The center offers 24x7x365 service following strong customer service, governance policies and protocols. To enhance customer experience and satisfaction, and understand customer concerns better, we took steps to enhance and further personalise our customer interactions and simplify customer journeys during the year.

We used our social media presence not only to engage with customers but also as a platform for brand advocacy and for grievance communications. Information regarding customer experience was gathered from all these contact points and necessary actions were taken immediately for improvement. Product responsibility and marketing integrity is a vital aspect to gaining customer trust.

We ensure that our products and services comply with applicable laws and regulations and meet our ethical standards. Product related information is readily available on our corporate website and information on fees and charges, product features, terms and conditions are clearly communicated through the relevant platforms.

Improving the service platforms

The Genie App, Genie Business App and SME internet banking platforms are the main service delivery channels of the Company. During the year we focused on UI/UX design enhancements to refine the customer experience level and to deliver a frictionless service to our customers. User intuitive interfaces, clear navigation and design elements enable users to guide through the app seamlessly.

Management Discussion and Analysis

We focused on the usability, functionality, security and overall satisfaction for users which will ultimately build confidence on the digital platforms of the Company to create greater levels of customer adoption and retention.

Future Focus

By embracing a customer-centric approach, Dialog Finance focus to garner the confidence and trust as a reliable entity in the finance industry landscape in Sri Lanka. This confidence will help the Company foster enduring relationships whilst positioning itself for sustained success. Therefore, the Company places considerable emphasis on developing, relevant product propositions and responsive customer support whilst refining the customer journeys with a frictionless service. These factors pave the way for a long-term relationship built on trust, reliability and transparency.

DIGITAL PROGRESS

The Company's digital strategy roadmap aligns with its vision to be Sri Lanka's No.1 Fintech Company. Accordingly, our digital services continue to be enhanced in keeping with the Company's expansion to serve the needs of a wide customer base from the consumer and MSME segments. In our quest to enhance our product offerings we continuously refine and develop our product offerings. This continuous cycle of innovation, collaboration and adaptation ensures that we keep up with the latest technological developments and regulatory changes.

IT governance

The Information Technology function of the Company is managed by a dedicated IT team who is in charge of implementing the Company's digital strategy. IT operations at Dialog Finance are governed by a robust framework of IT policies, clear demarcation of responsibilities and a highly skilled IT team ensures that IT risks are identified and managed in a systematic manner.

With the expansion of the Company's investment in digital infrastructure, the IT governance structure of the Company has been further strengthened in line with the business and regulatory requirements. A periodic Information System (IS) audit takes place to ensure the Company's adherence to standards and established IT policies/ procedures as well as other global best practices.

Risk-based IS audit plans are formulated annually considering the observations made during the executed IS audits and annual audit review of the prior year. The annual IS audit plan covers critical IT infrastructure, critical systems, supporting IT operational processes, cyber security and information security aspects.

Key IT strategies

Investment in digital technology plays a pivotal role in the Company's growth plan as it continues to expand its customer base from consumer and MSME segments. The Company launched the SME internet banking solution during the year targeting to serve its MSME customers digitally. The core banking systems were further enhanced during the year to meet growing customer needs and business requirements.

Increased traction in adoption of digital channels for financial transactions has given a greater impetus for Dialog Finance. This has resulted in a significant increase in the digital customer base along with an exponential increase in digital transactions. In order to support this growth, the Company has enhanced its services by refining the UI/UX features of the digital interfaces and creating a seamless and frictionless customer journey.

During the year under review, we continued to invest significantly in upgrading our digital value proposition by scaling up on our system capabilities and strengthening security controls.

In line with our corporate agenda, our focus is directed towards:

- Continuing to invest in digital distribution channels and integration with other interfaces to reach wider array of customers

Management Discussion and Analysis

- Further digitalisation of operational processes to drive efficiencies.
- Continuing to enhancing all our systems including the core banking systems as well as other supporting systems to meet the consumer and business requirements
- Fine-tuning our cyber security protocols to ensure the highest level of data security
- Building a sound IT resource team with a strong backup layer for each operational area

Future Focus

Dialog Finance continue to focus on serving consumer and MSME segments by providing access to finance and driving digital innovation. It also envisages to foster collaboration within the financial ecosystem, by enhancing data analytics capabilities, strengthening cybersecurity measures and promoting financial inclusion. These efforts aim to empower underserved consumers and businesses in Sri Lanka to thrive in an increasingly digital and interconnected world.

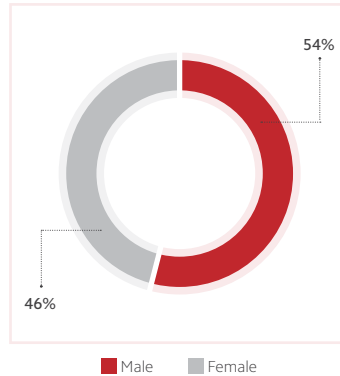
NURTURING TALENT

Being a fintech company, Our HR strategy is designed to attract, develop, and retain top-tier talent, foster a culture of continuous learning and innovation, and promote diversity and inclusion at every level. We have dedicated our efforts to foster a learning culture within the company that attracts and retains competent and skilled individuals who are passionate about their career with us.

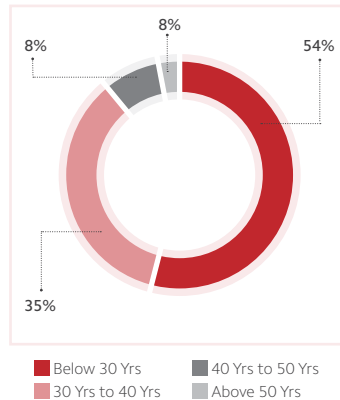
Talent strength

Dialog Finance PLC is equipped with a talent pool of 97 staff members as of 31 December 2023. The Company employs a young and dynamic workforce which comprises of 54% below the age of 30 years. 79 new talents were onboarded to the team who brought in multitude industry expertise, an innovative new generation from the academic and professional bodies to strengthen the team in steering company performance. We reiterate that Dialog Finance is an equal opportunity employer with commitment to gender diversity and equality in the workplace.

Employee Composition by Gender



Employee Composition by Age



Talent retention

Our focus was on upskilling our existing talents to face the talent challenges in the country such as skill shortage due to increasing skill migration, increasing employee expectations due to inflation and talent disruption in acquiring talents. The company took necessary measures providing avenues for skill development, job upgrades and internal hirings as much as possible to fill the openings in diversified business areas offering meaningful and progressive career pathways that will navigate the evolving future of work.

Management Discussion and Analysis

During the year, the Company also focused on supporting the critical needs of its employees impacted due to increased taxes and rising inflation along with higher cost-of-living. The Company sought various means to compensate its employees by equitable compensation and benefits to retain its talent pool.

Life at Dialog Finance

We are strong as one team and as a part of "Api Dialog" family that ensures great corporate culture with open communication, respect, growth and equitability at all levels. Positive employee experience always helped the organization to navigate difficult periods with resilience. We believe in building employee loyalty through empowerment, engagement, learning and development attaining improved work life for them.

Talent Development

A learning culture would provide the competitive advantage of future-ready work force. During the year under review, the investment on training was increased by 138% compared to the previous year. Training hours per employee was increased significantly enhancing the e-learning platforms such as Zenlife and LinkedIn-Learning. Training Needs Analysis (TNA) is conducted on an annual basis to identify the talent gaps and needs. Compliance, legal and regulatory training were emphasized as mandatory training requirements, encouraging All-staff training sessions during workdays via online platforms and external training programs were conducted with specialized resources to upskill our talents with real-time knowledge.

Talent Engagement

The Company organizes several engagement activities in order to create stronger bonds and foster team synergy amongst employees. Engagement events also provide them greater breaks during their busy work schedules. Monthly employee engagement events are organized following different themes, giving values for different cultural priorities yet, gluing as one team. Happy hour with fun games are organized giving a happy and shorter break to boost energy and morale in a collaborative working environment.

Gender parity and diversity

Diversity and inclusion is valued to improve equal opportunities. We are proud of the significant strides we have taken to ensure a conducive work environment for our female colleagues wherein the Company has been able to maintain a balanced gender profile. The company is represented by 46% of female talents out of the total cadre and 50% the leadership was comprised with women in management.

Performance management

A scorecard-based performance evaluation which is being cascaded across the group is practiced in the Company. The performance management process ensures equitable and fair evaluations followed by a transparent reward system.

Grievance handling and whistle blowing

The Company places significant emphasis on maintaining open communication and an open-door policy at all levels, where Management members are accessible through all ways of communication. This encourages employees to feel comfortable, secured and work with contentment. The whistleblowing policy promotes transparency, trust and accessibility within the organization. The Company conducts an Employee Satisfaction Survey annually where employees are encouraged to rate the company, management and the leadership that provides greater insights to develop as a great place to work year on year.

Compensation & benefits

Dialog Finance employees are offered compensation packages which are on par with industry standards. Furthermore, employees are entitled to several benefits which includes surgical and hospitalization covers for family, OPD reimbursements and personal loan schemes.

Health and well-being

A supportive culture that emphasizes work-life balance helps employees maintain a healthy equilibrium between their professional and personal lives. Embracing everyone's uniqueness contributes to overall employee satisfaction and reduces the likelihood of burnout or dissatisfaction.

Management Discussion and Analysis

Future Focus

In essence, Company's talent focus will be on retaining and developing its highly skilled and critical talents who will lead and fuel the growth and sustainability of the company whilst catering its customer base with service from heart to become the leader of fintech landscape. Looking ahead, we will continue to adapt to changing needs and challenges, ensuring that our workforce remains engaged, empowered, and positioned for success.

VALUE CREATED FOR OUR INVESTORS

With the economy showing signs of recovery and revival, particularly towards the end of 2023, Dialog Finance made steady in-roads in achieving progressive strides in its financial performance. The sound strategies in place, created a solid platform for the Company to record a positive financial performance amidst a challenging operating environment. Strategic emphasis was placed on expanding fund and fee-based income, optimizing costs, and ensuring portfolio quality management.

Income statement analysis

Gross income

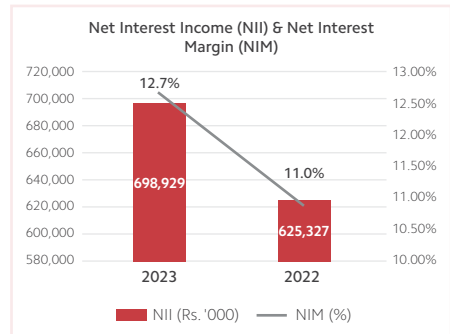
The Company recorded a total gross income of Rs. 1,161.2 Mn for the year ended 31 December 2023, demonstrating a growth of 12.7% compared to Rs. 1,029.9 Mn recorded for the year ended 31 December 2022, driven by the contribution made by fund-based income and fee-based income.

Interest income and net interest income (NII)

Total interest income grew by 11.0% to record Rs. 1,093.2 Mn for 2023 compared to Rs. 984.9 Mn recorded for 2022. This increase was primarily driven by the increase in the rate of interest on average interest earning assets by 3.1% with the positive impact coming from loans and advances reprised, granted at the higher interest rates and reinvestment of surplus funds at high yield investments.

Interest expense, comprising 36.1% of the interest income during the year under review (2022 – 36.5%), increased by 9.7% to record Rs. 394.2 Mn for 2023 compared to Rs. 359.5 Mn recorded for 2022. This increase was mainly due to the increase in the cost of funds by 3.4% consequent to the mobilization of high-cost new customer deposits along with the repricing of the existing customer deposits in line with the market interest rates.

Net interest income stood at Rs. 698.9 Mn for the year ended 31 December 2023, recorded a growth of 11.8% compared to the corresponding financial year. This performance was supported by the improvement in net interest margin which was increased by 1.7% to record at 12.7% in 2023 from 11.0% in 2022.



Fee based income

Total fee and commission income reached to Rs. 60.8 Mn for 2023 compared to Rs. 17.9 Mn recorded for 2022, marking an improvement of 239.5% year-on-year, mainly driven by income from savings, debit card related services and loan fee income.

Total fee and commission expenses, primarily associated with the saving and debit card related services rose to Rs. 10.3 Mn for the year ended 31 December 2023 from Rs. 2.8 Mn recorded for 2022, reflecting a growth of 267.2%.

Consequently, net fee and commission income increased by 234.4% to record Rs. 50.6 Mn for the year ended 31 December 2023. This income accounted for 6.7% of the total operating income for 2023, recording an increase of 4.4% YoY.

Management Discussion and Analysis

Other income

Total other income which comprises of net gains and losses from trading and net other operating income recorded at Rs. 7.2 Mn for 2023 compared to Rs. 27.1 Mn recorded for 2022. Significant increase in operating income in 2022 was attributed to recording of a one-off income related to the debit card business of the Company.

Total operating income

Further to the growth in net interest income and fee-based income, total operating income grew by 13.3% to reach Rs. 756.7 Mn for the year ended 31 December 2023 compared to total operating income of Rs. 667.6 Mn recorded for the previous year.

Impairment charges

Impairment charges for the year ended 31 December 2023 decreased significantly by Rs. 63.1 Mn to record Rs. 21.8 Mn for 2023 compared to Rs. 84.9 Mn for 2022.

The Company has made higher impairment provision during the previous year contributed by impairment provision of Rs. 20.7 Mn on account of the investment portfolio consequent to the downgrading of the sovereign rating and the bank ratings, along with the individual and collective impairment provisions for loans and advances portfolio. Further, this provision made in 2022 addressed the expected credit losses by way of management overlays considering the adverse economic conditions and uncertainties in the market.

Impairment provision for 2023 inclusive of Rs. 42.0 Mn for loans and advances and impairment reversal of Rs. 20.2 Mn related to the investment portfolio which was made in 2022 by way of management overlays considering the downgrading of the sovereign rating and the bank ratings.

Operating expenses

Total operating expenses amounted to Rs. 632.0 Mn for the year ended 2023 compared to Rs. 467.4 Mn for the year ended 2022, recording an increase of 35.2% year-on-year, driven by both personnel expenses

and other operating expenses. Personnel expenses increased by 20.5% to record Rs. 251.2 Mn for 2023 from Rs. 208.4 Mn for 2022 due to salary increments, other staff related expenses and increase in workforce to support the business growth.

Further, other operating expenses also recorded an increase of 47.0%, to reach Rs. 380.7 Mn for 2023 from Rs. 259.0 Mn for 2022, driven by inflation impact in relation to all the operating expenses categories, increase in indirect taxes, increase in foreign currency denominated operating payment in line with the depreciation of the Sri Lanka Rupee. Increase in other operating expenses further contributed by growth in direct expenses in line with the business growth.

As a result, cost to income ratio increased to 83.5% in 2023 from 70.0% in 2022. However, the Company continued to drive the aggressive cost management and rationalization initiatives along with the streamlining of processes which expected to deliver both service excellence and a leaner cost profile. Further, intended increase in income with the business growth will enable the Company to further reduce its cost to income ratio.

Operating profit before taxes on Financial Services and taxes of Financial Services

Due to the increase in operating expenses outpacing the growth in operating income, profit before tax on financial services declined by 10.7% to reach Rs. 102.9 Mn for the year ended 31 December 2023, compared to the profit before taxes on financial services of Rs. 115.3 Mn recorded for the previous financial year.

Taxes on financial services which comprise of value added tax and social security contribution levy increased to Rs. 58.1 Mn for 2023 compared to value added tax on financial services of Rs. 48.2 Mn recorded for 2022. This increase was due to the introduction of the Social Security Levy of 2.5% with effective from 1st October 2022 and the increase in value addition under supply of financial services which liable for value added tax and social security contribution levy.

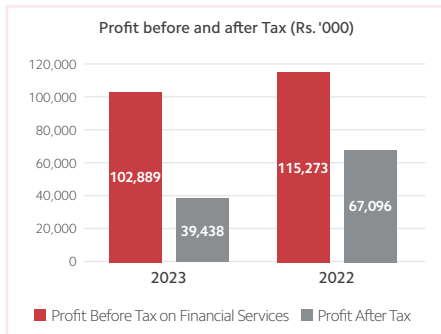
Management Discussion and Analysis

Profit before and after taxes

With the increase in operating expenses and taxes of financial services which outpacing the growth in operating income, the profit before taxes recorded a negative growth of 33.3% YoY to reach Rs. 44.7 Mn for 2023 compared to Rs. 67.1 Mn recorded for 2022.

Further, the Company recorded a deferred tax asset reversal of Rs. 5.3 Mn for 2023. This reversal was due to the decrease in deferred tax asset resulted from the reduction of carried forward tax losses with the set off against taxable profit reported for the year under review.

Accordingly, the Company recorded a net profit of Rs. 39.4 Mn for the year ended 31 December 2023 relative to the net profit of Rs. 67.1Mn recorded for the previous financial year.



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

Due to the decline in profitability, both Return on Assets (ROA) and Return on Equity (ROE) decreased to 0.78% and 1.49% respectively in 2023, compared to the Return on Assets (ROA) and Return on Equity (ROE) of 1.03% and 2.61% reported respectively in 2022.

Analysis of Statement of Financial Position

Total assets

The total asset base of the Company contracted by 9.6% to reach to Rs. 6.0 Bn as at end of December 2023 compared to Rs. 6.6 Bn reported as at end of December 2022. The decline in asset base mainly attributed to the decrease in investment portfolio

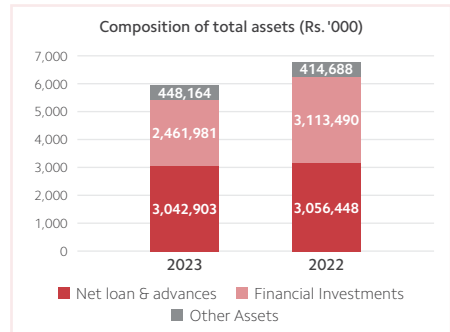
with the withdrawal of a significant fixed deposit investment of LKR 2.2 Bn made by a related party company in 2022.

Loans and advances

The lending book remained stable on a year-on-year to record gross loans and advances of Rs. 3.2 Bn as at 31 December 2023. Loan book performance during the first half of the year impacted by the adverse macroeconomic conditions and the slowdown in domestic economic activities. The Company has carried out its lending activities cautiously during the first half of the year considering the higher credit risk prevailed in the market. However, the Company increased its lending activities during the second half of the year in line with the gradual recovery of the economy.

Accordingly, the net loans and advances stood at Rs. 3.0 Bn as at 31 December 2023, demonstrating a marginal contraction of 0.4% from Rs. 3.1 Bn recorded as at 31 December 2022.

The net loans and advances portfolio as at 31 December 2023, accounted for 51.1% of the total assets. The ratio increased by 4.7% Year-on-year with the decline in the investment portfolio.



Asset quality

Due to the adverse macro-economic conditions and the subdued lending growth, Gross Non-Performing Advances (NPA) ratio increased to 5.37% as at end of December 2023 from 1.32% as at end of December 2022. However, this ratio remained significantly below the industry benchmarks/ averages and also remained within the risk appetite of the Company.

Management Discussion and Analysis

The net NPA ratio was 1.61% as at 31 December 2023. Total impairment provision for loans and advances as a percentage of gross loan portfolio was at 4.5% as at end of December 2023. (2022 – 3.9%)

Despite challenging macro-economic situation, the Company maintained the proactive risk management framework, moderate risk appetite and the efficient recovery efforts which resulted in maintaining NPA at the acceptable levels within the risk appetite of the Company.

Customer deposits & Borrowings

The deposit base contracted by Rs. 1.2 Bn reaching Rs. 2.6 Bn as at 31 December 2023, compared to Rs. 3.8 Bn recorded as at 31 December 2022. Contribution from deposits to the total asset base reduced to 44.0% as at 31 December 2023 from 57.5% as at 31 December 2022. This reduction in the deposit base was due to the withdrawal of a significant fixed deposit investment of LKR 2.2 Bn during the year which was made by a related party company in 2022.

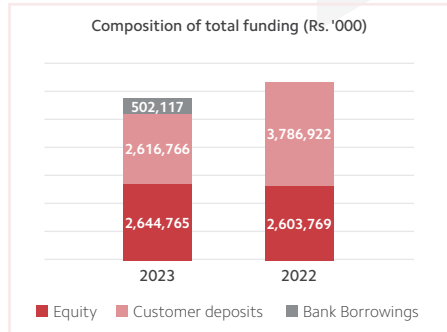
The Company has carried out deposit mobilization during the year under review with due consideration given to the funding strategy formulated based on the fund requirements in both short and long term.

The Company has obtained a short-term bank funding line amounted to LKR 500.0 Mn in 2023. This funding line was utilized during the year for short-term working capital requirements in terms of lending and investments.

Shareholders' funds

The equity base of the Company increased by 1.6% YoY to reach Rs. 2,644.8 Mn as at 31 December 2023 with the net profit of the year. The Tier I CAR and Total CAR stood at 40.3% as at 31 December 2023, which were well above the CBSL's prescribed minimum thresholds of 8.5% for Tier I CAR and 12.5% for Total CAR.

Core capital which is the total equity of the Company stood at Rs. 2,644.8 Mn as at 31 December 2023 which was well above the CBSL's prescribed minimum threshold of Rs. 2,500 Mn.



Liquidity

During the year, The Company maintained the statutory liquid asset requirements and ratios well above the minimum levels prescribed by the Central Bank of Sri Lanka. Adequate liquidity in the high-quality liquid assets is always maintained to meet foreseeable events while managing adverse effects on profitability arising from excess liquidity.

	At 31 December 2023		At 31 December 2022	
	Actual	CBSL minimum requirement	Actual	CBSL minimum requirement
Total liquid assets	1,444,062	346,142	3,068,055	395,858
Approved government securities	1,254,388	242,515	535,348	85,427

Net asset value per share and earnings per share

Net assets per share increased to Rs. 22.53 as at 31 December 2023 from Rs. 22.18 as at 31 December 2022. Earnings per share recorded at Rs. 0.34 (Positive) for the year ended 31 December 2023 compared to Rs. 0.57 (Positive) reported for the year ended 31 December 2022.

Performance of the share

The Company's share price as at 31 December 2023 stood at Rs. 53.20 marking a decrease of 15.6% compared to the closing price of Rs. 63.00 as at 31 December 2022. The share price fluctuated between Rs. 85.00 at the highest and Rs. 50.00 at the lowest during the year under review.

Corporate Governance

Introduction

Corporate Governance is the intricate framework of rules, practices, and processes that ensure a company's accountability, transparency, and fairness to all stakeholders, from shareholders to employees to the broader society. It steers the Company toward sustainable growth, ethical conduct, and long-term success. In essence, corporate governance serves as the guardian of a company's integrity, fostering trust and confidence among investors and society at large.

The Board of Directors (the Board) play a pivotal role in ensuring robust corporate governance within an organization. Tasked with oversight and strategic direction, they serve as custodians of the company's values and interests.

The Corporate Governance Direction No. 05 of 2021 issued by the Central Bank of Sri Lanka (CBSL) as well as Section 9 of the Listing Rules of the Colombo Stock Exchange (CSE) are key regulations which strengthen the Corporate Governance practices within the Company.

The following report sets out the extent of which the Company has complied with the minimum requirements set out in the aforementioned regulations during the year under review whereas the Board has obtained an assurance statement from the external auditors of the Company of the compliance with the said Direction.

Board of Directors

The Board holds a critical responsibility in upholding and advancing Corporate Governance within the Company. They establish the ethical tone, governance structures, and oversight mechanisms necessary for fostering integrity and transparency throughout the Company. Responsibilities include appointing and monitoring management, overseeing risk and financial matters, engaging with stakeholders, and ensuring compliance with laws and ethical standards, continuously evaluating their own performance and governance practices to drive ongoing improvement.

In summary, the Board of Directors serves as the guardian of Corporate Governance, overseeing strategic direction, risk management, stakeholder engagement, and ethical conduct within the Company. Through their leadership, diligence, and commitment to best practices, Board Members safeguard the interests of stakeholders and contribute to the long-term success and sustainability of the Company.

Composition

The composition of the Board of Directors as at 31st December 2023 was as follows:

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

The profiles of each Director are given on pages 13 to 15.

As at 31 December 2023, the Board comprised of five (5) Directors, 4 of which were Non-Executive Directors and 1 Executive Director. The Non-Executive Directors possess industry knowledge, financial expertise, and governance experience. They maintain integrity while communicating effectively and promoting ethical leadership. These skills enable them to provide unbiased oversight and strategic guidance within the organization.

Corporate Governance

The Board has determined that two (2) of the Non-Executive Directors are 'independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and the Corporate Governance Directions issued by CBSL. The other two (2) Non-Executive Directors are considered Non-Independent as they are nominees of Dialog Axiata PLC, the major shareholder of the Company.

Board Meeting and Attendance

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

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

Name of Director	Attendance
Ms. Renuka Fernando	11/12
Mr. Supun Weerasinghe	11/12
Mr. Roshan Hettiarachchi	12/12
Mr. Priyan Edirisinghe	12/12
Mr. Nazeem Mohamed	12/12

Delegation of Authority and Board Committees

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

In compliance with the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 as amended by the Central Bank of Sri Lanka and the Listing Rules of the CSE, the Board is supported by the following Board Committees:

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

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

The reports of the above Committees for the year under review are set out in pages 95 to 102.

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

The Senior Management

The Senior Management lead by the Chief Executive Officer, is responsible for executing the Company's strategic vision, overseeing day-to-day operations, and ensuring efficient resource allocation. They provide leadership, mentorship, and direction to teams, manage financial resources, and cultivate relationships with stakeholders. Additionally, they mitigate risks, foster innovation, and uphold ethical standards within the organization. In summary, senior management plays a critical role in driving the Company's success and sustainability across various fronts.

Access to Information

Access to information is paramount for the Board in the decision-making processes. It enables them to gain insights, assess risks, and make informed strategic choices. By having comprehensive information, the Board can effectively fulfill their oversight responsibilities, enhance transparency, and steer the Company toward sustainable growth and success.

All Board Members have access to the advice and services of the Company Secretary. Furthermore, should the need arise, the members of the Board have access to independent professional advice at any juncture during the course of fulfilling their responsibilities, at the expense of the Company.

Corporate Governance

Financial Disclosure and Transparency

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

During the year, the external auditors, PricewaterhouseCoopers Sri Lanka announced that they have exited PricewaterhouseCoopers network and have joined the Deloitte network with effect from 28 October 2023. Pursuant to the change, the name of the firm was changed from PricewaterhouseCoopers Sri Lanka to Deloitte Partners.

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

Ethical Standards

Ensuring compliance with ethical standards is essential for the Company to maintain trust, reputation, and sustainability. Key strategies deployed by the Company in achieving ethical compliance include establishing a robust Code of Conduct that outlines expected behavior, implementing comprehensive training programs to educate employees on ethical practices, fostering a culture of accountability and transparency, conducting regular audits and assessments to identify and address ethical risks, and empowering employees to report unethical behavior through confidential channels as set out in the Company's Whistle Blowing Policy and Procedure.

The Company has further adopted and implemented the Dialog Axiata Group Policy on Anti-Bribery and Anti-Corruption ("ABAC Policy"). The objective of the ABAC Policy is to ensure that the Company conducts

business with zero tolerance of any forms of bribery and corruption in line with the Company's core value of Uncompromising Integrity.

By prioritizing ethics and integrity in all aspects of operations, the Company demonstrate its commitment to ethical standards which foster stakeholder trust.

Remuneration

The remuneration of non-executive directors comprises a monthly fixed allowance and meeting allowances paid in accordance with the number of meetings attended during the period.

Statutory Payments

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

Compliance with Central Bank Regulations

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

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

Accountability and Disclosure

In the year under review, the members of the Board of Directors have reviewed in detail the Annual Financial Statements in order to satisfy themselves that they present a true and fair view of the affairs of the Company. A summary of Directors' Responsibilities in respect of the Annual Finance Statements are given on page 108.

Corporate Governance

Respect for the Rights of Shareholders

The Company recognizes that safeguarding and respecting the rights of shareholders is crucial for maintaining trust, transparency, and accountability within a Company. Key steps taken by the Company to achieve this includes providing timely and accurate information to shareholders, ensuring equitable treatment of all shareholders regardless of size or ownership percentage, facilitating shareholder engagement through annual meetings and other communication channels, implementing effective corporate governance structures and practices, including independent Board oversight and shareholder voting rights, and adhering to regulatory requirements related to shareholder rights and protections. By prioritizing shareholder rights and actively involving them in the decision-making processes, the Company fosters a culture of trust and accountability while enhancing long-term shareholder value.

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

1. Annual General Meeting (AGM)

The AGM is a key event where shareholders gather to discuss Company performance, vote on important matters such as Board elections and executive compensation, and receive updates on financial results and strategic plans. It provides an opportunity for shareholders to engage with company management, ask questions, and voice concerns. The AGM is essential for transparency, accountability, and shareholder participation in corporate decision-making. The AGM is also attended by the External Auditors of the Company.

2. Announcements to the Colombo Stock Exchange (CSE)

Announcements of quarterly interim financial results and various announcements on corporate actions are disclosed to the CSE in a prompt and timely manner in compliance with the Listing Rules of the CSE.

3. Company Website

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

Major Transactions

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

Corporate Governance

The Compliance Report on the adherence with the requirements of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 (the 'Direction') effective 01st July 2022 subject to the specific transitional provisions, are tabulated below. During the transitional provision the Company is required to comply with the relevant requirements under the Finance Business Act (Corporate Governance) Direction No. 03 of 2018 as amended ('Revoked Direction').

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

Section	Requirement	Status of Compliance	Comments
7.9	For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on short notice, participation through electronic means is acceptable	Complied	
8. Company Secretary			
8.1			
8.1.a	The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations	Complied	The Board has appointed Ms. Viranthi Attygalle who functions as the Company Secretary of the Company.
8.1.b	The Board shall appoint its company secretary, subject to transitional provisions in the Directions, a person who possesses such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No7 of 2007 on being appointed the company secretary, such person shall become and employee of the Company and shall not an employee of any other institution	N/A	Transitional Provision w.e.f. 01.07.2024
8.2	All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures laws, directions, rules and regulations are followed.	Complied	
8.3	The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function	Complied	
8.4	The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings for a minimum period of 6 years	Complied	
8.5	The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the Company.	Complied	

Corporate Governance

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

Corporate Governance

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

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

Corporate Governance

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

Corporate Governance

Section	Requirement	Status of Compliance	Comments
10.2.f	The BAC shall ensure that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the Company	Complied	
10.2.g Internal Audit Function			
10.2.g.i	The committee shall establish an independent internal audit function that provides an objective assurance to the committee on the quality and effectiveness of the FC's internal control, risk management, governance systems and processes	Complied	The Company has appointed Ernst & Young audit firm as the internal auditors of the Company during the period under review.
10.2.g.ii	The internal audit function shall have a clear mandate, be accountable to the BAC, and be independent and shall have sufficient expertise and authority within the FC to carry out their assignments effectively and objectively.	Complied	
10.2.g.iii	The BAC shall take the steps morefully detailed in the Direction with regard to the internal audit function of the Company.	Complied	
10.2.h	The BAC shall review the statutory examination reports of the CBSL and ensure necessary corrective actions are taken on a timely manner and monitor the progress of implementing the time bound action plan quarterly.	Complied	
10.2.i Meetings of the Committee			
10.2.i.i	The BAC shall meet as specified in the Directions with due notice of its issues to be discussed and shall record its conclusions in discharging its duties and responsibilities	Complied	
10.2.i.ii	Other Board members, senior management or any other employee may attend Board meetings upon the invitation of the committee when discussing matters under their purview	Complied	
10.2.i.iii	BAC shall meet at least twice a year with the external auditors without any other directors/ senior management/ employees being present	Complied	

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

Corporate Governance

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

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

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

Corporate Governance

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

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

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Section	Requirement	Status of Compliance	Comments
16. Disclosures			
16.1	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that the disclosures as required in the Direction are made in the Annual Report;	Complied	Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards and such statements are published in the newspapers in Sinhala, Tamil and English.
16.1. i	<p>Financial Statements</p> <p>In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include;</p> <ul style="list-style-type: none"> • 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. • A statement of responsibility of the Board in preparation and presentation of financial statements. 	Complied	This is disclosed in the 'Annual Report of the Board of Directors' and 'Directors' Responsibility for Financial Reporting' in page 103 and page 108 of the Annual Report.

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Section	Requirement	Status of Compliance	Comments
16.1.ii	<p>Chairperson, CEO and Board related disclosures</p> <ul style="list-style-type: none"> • Name, qualification, and a brief profile. • Whether executive, non-executive and/or independent director. • Details of the director who is serving as the senior director, if any. • The nature of expertise in relevant functional areas. • Relatives and/or any business transaction relationships with other directors of the company. • Names of other companies in which the Director/CEO concerned serves as a director and whether in an executive or non-executive capacity. • Number/percentage of board meetings of the FC attended during the year; and Names of board committees in which the director serves as the chairperson or a member. 	Complied	<p>Please refer profiles of the Board of Directors in pages 13 to 15 which discloses the names, qualifications, brief profiles including the nature of expertise in relevant function areas. The profiles of the Board of Directors also specifies whether the board member is an executive/ non executive and/or independent director.</p> <p>The names of other companies in which the Director/CEO concerned serves as a director and whether in an executive or non-executive capacity has also been disclosed in the profiles of the Board of Directors.</p> <p>Details of the director serving as a Senior Director is disclosed under section 6.2 and 6.3 of this report.</p> <p>The Board members have declared in their annual self assessments that they have no relatives and/ or any business transaction relationships with other directors of the company.</p> <p>Please refer page 29 of this report which specifies the Number/ percentage of board meetings of the Company attended during the year; and refer committee reports in pages 95 to 102 where names of board committees in which the director serves as the chairperson or a member has been duly disclosed.</p>

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Section	Requirement	Status of Compliance	Comments
16.1.iii	<p>Appraisal of Board Performance</p> <ul style="list-style-type: none">An overview of how the performance evaluations of the Board and its committees have been conducted		<p>A process is in place to conduct annual self-assessments by each director on individual performance, of its Board as a whole and that of its committees.</p> <p>The Board assessment process includes Self-Assessments conducted by each Board Member on their own performance as well as the assessment of the performance of the Board Members independently conducted by the Chairperson. The evaluation entails key criteria such as Diligence and Participation, Knowledge & Skill, Managing Relationships and Ethical Standards through an evaluation form.</p> <p>Similarly, the Chairperson's performance is assessed by the non-executive directors against key criteria such as Strategic Leadership, Diligence and Participation.</p> <p>The records of such assessments are maintained by the Company Secretary.</p>

Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.iv	<p>Remuneration</p> <ul style="list-style-type: none"> A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation) The aggregate values of remuneration paid by the Company to its directors and senior management. 	Complied	<p>The procedure for setting the remuneration at all levels is based on individual achievement, performance level against the set Key Performance Indicators during the performance year which are deriving from Annual Business Strategy, budgeting process and company scorecard. The procedure for remuneration for the Board, Senior Management and employees shall also be in relation with the long-term strategic focus, performance objectives, values and cost structure of the organization while following a market-based approach to ensure equitable and fair pay for everyone.</p> <p>The aggregate values of remuneration paid by the Company to the Board of Directors are disclosed in financial Note 42.</p> <p>The aggregate values of remuneration paid by the Company to the Senior Management was Rs. 64.1 Mn for the financial year ended 31 December 2023</p> <p>Customer Deposits maintained by the Senior Management as at 31 December 2023 amounted to Rs. 9.9 Mn</p> <p>The aggregate values of interest paid by the Company to the Senior Management for Customer Deposits was Rs. 2.3 Mn for the financial year ended 31 December 2023</p> <p>**The CEO was redesignated as the CEO/Executive Director of the Company wef 24 June 2022 and the aggregate remuneration as CEO and Board member commencing has been disclosed in financial Note 42.</p>

Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.v	<p>Related Party Transactions</p> <ul style="list-style-type: none"> The nature of any relationship [including financial, business, family, or other material/ relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. Total net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's core capital. The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the Company. 	Complied	<p>Declaration was obtained from the Board of Directors of the Company that there is no relationships with other Directors of the Company.</p> <p>Please refer Note 42 for net accommodation granted in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's core capital.</p> <p>The aggregate values of the transactions of the Company with its senior management during the financial year provided below.</p> <p>Net accommodation granted – Nil Deposits – Rs. 9.9 Mn Investments - Nil</p> <p>The aggregate values of remuneration paid by the Company – Rs. 64.1 Mn</p> <p>The aggregate values of interest by the Company for Deposits – Rs. 2.3 Mn</p>
16.1.vi	<p>Board appointed committees</p> <ul style="list-style-type: none"> The details of the chairperson and members of the board committees and attendance at such meetings. 	Complied	Please refer committee reports in pages 95 to 102.
16.1.vii	<p>Group Structure</p> <ul style="list-style-type: none"> The group structure of the Company within which it operates. The group governance framework. 	Complied	<p>The Company is 99.05% owned subsidiary of Dialog Axiata PLC.</p> <p>The Company fulfills its own governing obligations.</p>

Corporate Governance

Section	Requirement	Status of Compliance	Comments
16.1.viii	<p>Director's report</p> <p>A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> • The Company has not engaged in any activity, which contravenes laws and regulations. • The directors have declared all related party transactions with the Company and abstained from voting on matters in which they were materially interested. • The Company has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. • The business is a going concern with supporting assumptions; and • The Board has conducted a review of internal controls covering material risks to the Company and have obtained reasonable assurance of their effectiveness. 	Complied	Disclosed in the "Directors' Statement on Internal Controls over Financial Reporting" in pages 109 to 110 in the Annual Report.
16.1.ix	<p>Statement on Internal Control</p> <ul style="list-style-type: none"> • A report by the Board on the Company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. • The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. • A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. • 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 	Complied	Disclosed in the 'Directors' Statement on Internal Controls over Financial Reporting' in page 109 to 110 in the Annual Report.

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Section	Requirement	Status of Compliance	Comments
16.1.x	<p>Corporate Governance report</p> <ul style="list-style-type: none"> • Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction. 	Complied	This report covers this requirement.
16.1.xi	<p>Code of Conduct</p> <ul style="list-style-type: none"> • The Company's code of business conduct and ethics for directors, senior management and employees. • The Chairperson shall certify that the company has no violations of any of the provisions of this code. 	Complied	<p>A Board approved Code of Conduct for directors and for all employees are in place.</p> <p>Please refer the Chairperson's message on pages 4 to 8 which certify that the company has no violations of any of the provisions of this code.</p>
16.1.xii	<p>Management Report</p> <ul style="list-style-type: none"> • Industry structure and developments • Opportunities and threats • Risks and concerns • Sustainable finance activities carried out by the Company • Prospects for the future 	Complied	Please refer the Management Discussion and Analysis in pages 16 to 27.
16.1.xiii	<p>Communication with Stakeholders</p> <ul style="list-style-type: none"> • The policy and methodology for communication with shareholders. • The contact person for such communication. 	Complied	<p>The key communication method and general policy with regard to communication with shareholders are disclosed in page 31 of this report.</p> <p>Ms. Viranthi Attygalle, the Company Secretary of the Company is the contact person for shareholder communications.</p>

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The Compliance Report on the adherence with the requirements of the Listing Rules of the Colombo Stock Exchange (the 'Listing Rules') effective 01st October 2023 subject to the specific transitional provisions, are tabulated below. During the transitional provision the Company is required to comply with the relevant requirements under the previous Listing Rules ('Revoked Rules').

Section	Requirement	Status of Compliance	Comments
9.2	Policies		Transitional Provision w.e.f. 01.10.2024.
9.2.1	<p>The Company shall establish and maintain the following policies and disclose the fact of existence of such policies together with the details relating to the implementation of such policies by the Company on its website;</p> <p>(a) Policy on the matters relating to the Board of Directors</p> <p>(b) Policy on Board Committees</p> <p>(c) Policy on Corporate Governance, Nominations and Re-election</p> <p>(d) Policy on Remuneration</p> <p>(e) Policy on Internal Code of Business conduct and Ethics for all Directors and employees, including policies on trading in the Entity's listed securities</p> <p>(f) Policy on Risk management and Internal controls</p> <p>(g) Policy on Relations with Shareholders and Investors</p> <p>(h) Policy on Environmental, Social and Governance Sustainability</p> <p>(i) Policy on Control and Management of Company Assets and Shareholder Investments</p> <p>(j) Policy on Corporate Disclosures</p> <p>(k) Policy on Whistleblowing</p> <p>(l) Policy on Anti-Bribery and Corruption</p>	N/A	
9.2.2	Any waivers from compliance with the Internal Code of business conduct and ethics or exemptions granted by the Company shall be fully disclosed in the Annual Report.	N/A	
9.2.3	<p>The Company shall disclose in its Annual Report:</p> <p>(i) the list of policies that are in place in conformity Rule 9.2.1 above, with reference to its website.</p> <p>(ii) details pertaining to any changes to policies adopted by the Company in compliance with Rule 9.2 above</p>	N/A	

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Section	Requirement	Status of Compliance	Comments
9.2.4	The Company shall make available all such policies to shareholders upon a written request being made for any such Policy	N/A	
9.3	Board Committees		
9.3.1	The Company shall ensure that the following Board committees are established and maintained at a minimum and are functioning effectively. The said Board committees at minimum shall include; <ul style="list-style-type: none"> (a) Nominations and Governance Committee (b) Remuneration Committee (c) Audit Committee (d) Related Party Transactions Review Committee. 	Compliant	
9.3.2	The Company shall comply with the composition, responsibilities and disclosures required in respect of the above Board committees as set out in these Rules	Compliant	
9.3.3	The Chairperson of the Board of Directors of the Company shall not be the Chairperson of the Board Committees referred to in Rule 9.3.1 above.	Compliant	Transitional Provision w.e.f. 01.10.2024.
9.4	Adherence to principles of democracy in the adoption of meeting procedures and the conduct of all General Meetings with shareholders		
9.4.1	The Company shall maintain records of all resolutions and the following information upon a resolution being considered at any General Meeting of the Company. The Company shall provide copies of the same at the request of the Exchange and/or the SEC. <ul style="list-style-type: none"> (a) The number of shares in respect of which proxy appointments have been validly made (b) The number of votes in favour of the resolution (c) The number of votes against the resolution; and (d) The number of shares in respect of which the vote was directed to be abstained 	Compliant	
9.4.2	Communication and relations with shareholders and investors		
9.4.2(a)	The Company shall have a policy on effective communication and relations with shareholders and investors and disclose the existence of the same in the Annual Report and the website of the Company	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.4.2(b)	Listed Entities shall disclose the contact person for such communication	Compliant	
9.4.2(c)	The policy on relations with shareholders and investors shall include a process to make all Directors aware of major issues and concerns of shareholders, and such process shall be disclosed by the Company in the Annual Report and the website of the Company.	N/A	This Policy is a requirement of a Transitional Provision w.e.f. 01.10.2024.
9.4.2(d)	If the Company conducts any shareholder meetings through virtual or hybrid means the Company shall comply with the Guidelines issued by the Exchange in relation to same and published on the website of the Exchange.	Compliant	
9.5	Policy on matters relating to the Board of Directors		
9.5.1	The Company shall establish and maintain a formal policy governing matters relating to the Board of Directors and such policy covers the requirements detailed in the rules (a) through (j).	Compliant	
9.5.2	The Company shall confirm compliance with the requirements of the policy referred to in Rule 9.5.1 above in the Annual Report and provide explanations for any non-compliance with any of the requirements with reasons for such non-compliance and the proposed remedial action.	Compliant	
9.6	Chairperson and CEO		
9.6.1	The Chairperson of the Company shall be a Non-Executive Director. Consequently, the position of Chairperson and CEO shall not be held by the same individual.	Compliant	
9.6.2	If the Company unable to comply with Rule 9.6.1 above shall make a Market Announcement within a period of one (1) month from the date of implementation of these Rules or an immediate Market Announcement from the date of non-compliance (if such date falls subsequent to the implementation of these Rules). Such Market Announcement shall include the following: (a) The reasons for non-compliance (b) The rationale for combining the positions of the Chairperson and CEO	N/A	

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Section	Requirement	Status of Compliance	Comments
9.6.3	The Requirement for a Senior Independent Director ('SID')	N/A	
9.6.3(a)	<p>The Company shall appoint an Independent Director as the SID in the following instances:</p> <ul style="list-style-type: none"> i. The Chairperson and CEO are the same person ii. The Chairperson and CEO are Close Family Members or Related Parties <p>Such appointment shall be immediately disclosed with reasons for such appointment, by way of a Market Announcement</p>	N/A	
9.6.3(b)	The Independent Directors shall meet at least once a year or as often as deemed necessary at a meeting chaired by the SID without the presence of the other Directors to discuss matters and concerns relating to the Company and the operation of the Board. The SID shall provide feedback and recommendations from such meetings to the Chairperson and the other Board Members	N/A	
9.6.3(c)	The SID shall chair a meeting of the Non-Executive Directors without the presence of the Chairperson at least annually, to appraise the Chairperson's performance and on such other occasions as are deemed appropriate	N/A	
9.6.3(d)	The SID shall be entitled to a casting vote at the meetings specified in Rules 9.6.3.(b) and (c) above	N/A	
9.6.3(e)	The SID shall make a signed explanatory disclosure in the Annual Report demonstrating the effectiveness of duties of the SID.		
9.6.4	Until the Company comply with Rule 9.6.1 above, such Entities shall be required to explain the reasons for non-compliance with Rule 9.6.1 in the Annual Report.	N/A	
9.7	Fitness of Directors and CEOs		
9.7.1	<p>The Company shall take necessary steps to ensure that their Directors and the CEO are, at all times, fit and proper persons as required in terms of these Rules:</p> <p>In evaluating fitness and propriety of the persons referred in these Rules, the Company shall utilize the 'Fit and Proper Assessment Criteria' set out in Rule 9.7.3</p>	Compliant	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.7.2	The Company shall ensure that persons recommended by the Nominations and Governance Committee as Directors are fit and proper as required in terms of these Rules before such nominations are placed before the shareholders' meeting or appointments are made.	Compliant	
9.7.3	Fit and Proper Assessment Criteria		Transitional Provision w.e.f. 01.04.2024.
9.7.4	The Company shall obtain declarations from their Directors and CEO on an annual basis confirming that each of them have continuously satisfied the Fit and Proper Assessment Criteria set out in these Rules during the financial year concerned and satisfies the said criteria as at the date of such confirmation	Compliant	
9.7.5	Disclosures in the Annual Report of the Company The Company shall include the following disclosures/reports in the Annual Report;	Compliant	
9.7.5(a)	A statement that the Directors and CEO of the Company satisfy the Fit and Proper Assessment Criteria stipulated in the Listing Rules of the Colombo Stock Exchange	Compliant	
9.7.5(b)	Any non-compliance/s by a Director and/or the CEO of the Listed Entity with the Fit and Proper Assessment Criteria set out in these Rules during the financial year and the remedial action taken by the Company to rectify such non-compliance/s	N/A	
9.8	Board Composition		
9.8.1	The Board of Directors of a Listed Entity shall, at a minimum, consist of five (05) Directors	Compliant	Transitional Provision w.e.f. 01.10.2024.
9.8.2	Minimum Number of Independent Directors; (a) The Board of Directors of the Company shall include at least two (2) Independent Directors or such number equivalent to one third (1/3) of the total number of Directors of the Company at any given time, whichever is higher. (b) Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change	Compliant	Transitional Provision w.e.f. 01.10.2024.

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Section	Requirement	Status of Compliance	Comments
9.8.3	Criteria for determining independence in terms of rules 9.8.3 (i) through (ix).	Compliant	Transitional Provision applies to rule 9.8.3 (ix) w.e.f. 01.10.2024.
9.8.4	Definitions applied for the purposes of Rule 9.8.3.	N/A	
9.8.4	<p>The Board of Directors of Listed Entities shall require:</p> <p>(a) Each Independent Director to submit a signed and dated declaration annually of his or her “independence” or “non-independence” against the criteria specified herein and in the format in Appendix 9A, containing at a minimum the content prescribed therein.</p> <p>(b) Make an annual determination as to the “independence” or “non-independence” of each Independent Director based on the Directors’ declaration and other information available to it and shall set out the names of Directors determined to be ‘independent’ in the Annual Report.</p> <p>(c) If the Board of Directors determines that the independence of an Independent Director has been impaired against any of the criteria set out in Rule 9.8.3, it shall make an immediate Market Announcement thereof.</p>		
9.9	<p>Alternate Directors</p> <p>If the Company provides for the appointment of Alternate Directors, it shall be required to comply with the requirements in rules 9.9 (a) through (f) and such requirements shall also be incorporated into the Articles of Association of the Company.</p>	N/A	<p>Transitional Provision w.e.f. 01.01.2024.</p> <p>No Alternate Directors have been appointed</p>
9.10	Disclosures relating to Directors		
9.10.1	The Company shall disclose its policy on the maximum number of directorships its Board members shall be permitted to hold in the manner specified in Rule 9.5.1. In the event such number is exceeded by a Director(s), the Company shall provide an explanation for such non-compliance in the manner specified in Rule 9.5.2 above	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.10.2	<p>The Company shall, upon the appointment of a new Director to its Board, make an immediate Market Announcement setting out the following;</p> <ul style="list-style-type: none"> i. a brief resume of such Director; ii. his/her capacity of directorship; and, iii. Statement by the Company indicating whether such appointment has been reviewed by the Nominations and Governance Committee of the Company. 	Compliant	
9.10.3	The Company shall make an immediate Market Announcement regarding any changes to the composition of the Board Committees referred to in Rule 9.3 above containing, at minimum, the details of changes including the capacity of directorship with the effective date thereof	Compliant	
9.10.4	The Company shall disclose the requirements of rules (a) through (i) in relation to the Directors in the Annual Report.	Compliant	
9.11	Nominations and Governance Committee		Transitional Provision w.e.f. 01.10.2024.
9.11.1	The Company shall have a Nominations and Governance Committee that conforms to the requirements set out in Rule 9.11 of these Rules.	N/A	
9.11.2	The Company shall establish and maintain a formal procedure for the appointment of new Directors and re-election of Directors to the Board through the Nominations and Governance Committee.	N/A	
9.11.3	The Nominations and Governance Committee shall have a written terms of reference clearly defining its scope, authority, duties and matters pertaining to the quorum of meetings.	N/A	
9.11.4	Composition	N/A	
9.11.4.1	<p>The members of the Nominations and Governance Committee shall;</p> <ul style="list-style-type: none"> (a) comprise of a minimum of three (03) Directors of the Listed Company, out of which a minimum of two (02) members shall be Independent Directors of the Listed Company. (b) not comprise of Executive Directors of the Listed Company 	N/A	

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Section	Requirement	Status of Compliance	Comments
9.11.4.2	An Independent Director shall be appointed as the Chairperson of the Nominations and Governance Committee by the Board of Directors	N/A	
9.11.4.3	The Chairperson and the members of the Nominations and Governance Committee shall be identified in the Annual Report of the Listed Company	N/A	
9.11.5	The functions of the Nominations and Governance Committee shall include the requirements of rules (i) through (x).	N/A	
9.11.6	The Annual Report of the Company shall contain a report of the Nominations and Governance Committee signed by its Chairperson. The said report shall include the requirements of rules (a) through (m).	N/A	
9.12	Remuneration Committee		
9.12.1	For the purposes of Rule 9.12, the term "remuneration" shall make reference to cash and all non-cash benefits whatsoever received.	Compliant	
9.12.2	the Company shall have a Remuneration Committee that conforms to the requirements set out in Rule 9.12 of these Rules.	Compliant	
9.12.3	The Remuneration Committee shall establish and maintain a formal and transparent procedure for developing policy on Executive Directors' remuneration and for fixing the remuneration packages of individual Directors. No Director shall be involved in fixing his/her own remuneration	Compliant	
9.12.4	Remuneration for Non-Executive Directors should be based on a policy which adopts the principle of non-discriminatory pay practices among them to ensure that their independence is not impaired	Compliant	
9.12.5	Remuneration Committee shall have a written terms of reference clearly defining its scope, authority, duties and matters pertaining to the quorum of meetings	Compliant	
9.12.6	Composition	N/A	

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Section	Requirement	Status of Compliance	Comments
9.12.6.1	The members of the Remuneration Committee shall; (a) comprise of a minimum of three (03) Directors of the Listed Company, out of which a minimum of two (02) members shall be Independent Directors of the Listed Company. (b) not comprise of Executive Directors of the Listed Company.	Compliant	Transitional Provision w.e.f. 01.10.2024. Rule 7.10.5 (a) of the Revoked Rules apply.
9.12.6.2	In a situation where both the parent company and the subsidiary are 'the Company', the Remuneration Committee of the parent company may be permitted to function as the Remuneration Committee of the subsidiary	N/A	
9.12.6.3	An Independent Director shall be appointed as the Chairperson of the Remuneration Committee by the Board of Directors	Compliant	
9.12.7	Functions		
9.12.7.1	The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and CEO of the Listed Company and/ or equivalent position thereof to the Board of the Listed Company which will make the final determination upon consideration of such recommendations	Compliant	
9.12.7.2	The Remuneration Committee may engage any external consultant or expertise that may be considered necessary to ascertain or assess the relevance of the remuneration levels applicable to Directors and CEO	Compliant	
9.12.8	The Annual Report should set out the following:		
9.12.8(a)	Such members (or persons in the parent company's Remuneration Committee in the case of a group company);	Compliant	
9.12.8(b)	A statement regarding the remuneration policy; and	Compliant	
9.12.8(c)	The aggregate remuneration of the Executive and Non-Executive Directors	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.13	Audit Committee		
9.13.1	Where the Company do not maintain separate Committees to perform the Audit and Risk Functions, the Audit Committee of such the Company shall additionally perform the Risk Functions set out in Rule 9.13 of these Rules	N/A	The Company has a separate Board Integrated Risk Committee which has oversight of the risk function
9.13.2	The Audit Committee shall have a written terms of reference clearly defining its scope, authority and duties	Compliant	
9.13.3	Composition		Transitional Provision w.e.f. 01.10.2024. Rule 7.10.6 (a) of the Revoked Rules apply.
9.13.3.1	The members of the Audit Committee shall (a) comprise of a minimum of three (03) directors of the Listed Company, out of which a minimum of two (02) or a majority of the members, whichever higher, shall be Independent Directors. (b) not comprise of Executive Directors of the Listed Company.	Compliant	
9.13.3.2	The quorum for a meeting of the Audit Committee shall require that the majority of those in attendance to be independent directors.	Compliant	
9.13.3.3	The Audit Committee may meet as often as required provided that the Audit Committee compulsorily meets on a quarterly basis prior to recommending the financials to be released to the market.	N/A	
9.13.3.4	If both, the Parent Company and the subsidiary are 'the Company', the Audit Committee of the Parent Company may function as the Audit Committee of the subsidiary..	N/A	
9.13.3.5	An Independent Director shall be appointed as the Chairperson of the Audit Committee by the Board of Directors.	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.13.3.6	<p>Unless otherwise determined by the Audit Committee, the CEO and the Chief Financial Officer (CFO) of the Listed Company shall attend the Audit Committee meetings by invitation.</p> <p>Provided however where the Listed Company maintains a separate Risk Committee, the CEO shall attend the Risk Committee meetings by invitation.</p>	Compliant	
9.13.3.7	<p>The Chairperson of the Audit Committee shall be a Member of a recognized professional accounting body.</p> <p>Provided however, this Rule shall not be applicable in respect of Risk Committees where a Listed Company maintains a separate Risk Committee and Audit Committee</p>	Compliant	
9.13.4	Functions		<p>Transitional Provision w.e.f. 01.10.2024.</p> <p>Rule 7.10.6 (b) of the Revoked Rules apply.</p>
9.13.4.1	The functions of the Audit Committee shall include the requirements of rules (i) through (xiii).	Compliant	
9.13.4.2	Where the Company maintain two (02) separate Committees to carry out the Audit and Risk functions, the terms of reference of such Committees shall, at a minimum, include the respective functions stipulated in Rule 9.13.4 (1) above.	Compliant	
9.13.5	Disclosures in Annual Report		<p>Transitional Provision w.e.f. 01.10.2024.</p> <p>Rule 7.10.6 (c) of the Revoked Rules apply.</p>
9.13.5.1	The Audit Committee shall also prepare an Audit Committee Report which shall be included in the Annual Report of the Listed Company. The Audit Committee Report shall set out the manner in which the Company has complied with the requirements applicable to the Audit Committee during the period for which the Annual Report relates	Compliant	Audit Committee report is provided in the annual report in the pages 95 to 97.

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.13.5.2	The Audit Committee Report shall contain the following disclosures;		
9.13.5.2(a)	the names of the Chairperson and the members of the Audit Committee, and the nature of directorships held by such members (or persons in the parent company's committee in the case of a group company);	Compliant	
9.13.5.2(b)	The status of risk management and internal control of the Listed Company and as a Group (where applicable).	Compliant	
9.13.5.2(c)	A statement that it has received assurance from the CEO and the CFO of the Company's operations and finances.	Compliant	
9.13.5.2(d)	An opinion on the compliance with financial reporting requirements, information requirements under these Rules, the Companies Act and the SEC Act and other relevant financial reporting related regulations and requirements.	Compliant	
9.13.5.2(e)	whether the Listed Company has a formal Audit Charter;	Compliant	
9.13.5.2(f)	the manner in which internal audit assurance is achieved and a summary of the work of the internal audit function;	Compliant	
9.13.5.2(g)	Details demonstrating the effective discharge of its functions and duties for that financial year of the Listed Company;	Compliant	
9.13.5.2(h)	a statement confirming that written assurance was obtained from the external auditors approved by the SEC, confirming that they are and have been independent throughout the conduct of the audit engagement in accordance with the terms of all relevant professional and regulatory requirements; and	Compliant	
9.13.5.2(i)	a statement confirming that the Audit Committee has made a determination of the independence of auditors and the basis of such determination. It shall also contain details on the number of years that the external auditor and the audit partner were engaged. If the external auditor provides non audit services, explanations must be made of how auditor objectivity and independence are safeguarded taking into consideration fees paid for non-audit services provided by the external auditor and affiliated parties.	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.14	Related Party Transactions Review Committee		
9.14.1	the Company shall have a Related Party Transactions Review Committee that conforms to the requirements set out in Rule 9.14 of these Rules	Compliant	
9.14.2	Composition	Compliant	
9.14.2.1	The Related Party Transactions Review Committee shall comprise of a minimum of three (03) Directors of the Listed Company, out of which two (02) members shall be Independent Directors of the Listed Company. It may also include executive directors, at the option of the Listed Company. An Independent Director shall be appointed as the Chairperson of the Committee.	Compliant	Transitional Provision w.e.f. 01.04.2024.
9.14.2.2	If a parent company and the subsidiary are the Company, the Related Party Transactions Review Committee of the parent company may be permitted to function as the Related Party Transactions Review Committee of the subsidiary.	N/A	
9.14.2	Functions		
9.14.2.1	the Company shall have a Related Party Transactions Review Committee which shall be responsible for reviewing the Related Party Transactions as set out herein.	Compliant	
9.14.2.2	The objective of these Rules on Related Party Transactions is to ensure that the interests of shareholders as a whole are taken into account by a Listed Company when entering into Related Party Transactions. These Rules further provide specific measures to prevent Directors, CEOs or Substantial Shareholders taking advantage of their positions.	Compliant	
9.14.2.3	When applying these Rules on Related Party Transactions, the objective and the economic and commercial substance of the Related Party Transactions should take precedence over the legal form and technicality.	Compliant	
9.14.2.4	The Related Party Transactions Review Committee shall establish and maintain a clear policy, procedure and process in place for the identification, clarification and reporting the Related Party Transactions on an end-to-end basis across the Company's operations	Compliant	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.4	General Requirements		
9.14.4.1	The Related Party Transactions Review Committee shall meet at least once a calendar quarter. It shall ensure that the minutes of all meetings are properly documented and communicated to the Board of Directors.	N/A	
9.14.4.2	The members of the Related Party Transactions Review Committee should ensure that they have, or have access to, enough knowledge or expertise to assess all aspects of proposed Related Party Transactions, and where necessary, should obtain appropriate professional and expert advice from an appropriately qualified person.	Compliant	
9.14.4	Where necessary, the Committee shall request the Board of Directors to approve the Related Party Transactions which are under review by the Committee. In such instances, the approval of the Board of Directors should be obtained prior to entering into the relevant Related Party Transaction.	Compliant	
9.14.4	If a Director of the Listed Company has a material personal interest in a matter being considered at a Board Meeting to approve a Related Party Transaction as required in Rule 9.14.4(3), such Director shall not: <ul style="list-style-type: none"> (a) be present while the matter is being considered at the meeting; and, (b) vote on the matter. 	Compliant	
9.14.5	Review of Related Party Transactions by the Related Party Transactions Review Committee	Compliant	
9.14.5.1	Subject to the exemptions given in terms of Rule 9.14.10, the Related Party Transactions Review Committee shall review in advance all proposed Related Party Transactions.	Compliant	
9.14.5.2	In the event of any material changes to a previously reviewed Related Party Transaction in terms of Rule 9.14.5 (1) above, such proposed material changes shall also be reviewed by the Related Party Transactions Review Committee prior to the completion of the transaction.	Compliant	

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Section	Requirement	Status of Compliance	Comments
9.14.5.3	The Related Party Transactions Review Committee shall be provided with all the facts and circumstances of the proposed Related Party Transaction by the senior management to facilitate the review of a Related Party Transaction. Such information shall include the requirements set out in rules (i) through (v).	Compliant	
9.14.5.4	In determining whether to obtain the approval of the Board of Directors for a Related Party Transaction, the Related Party Transactions Review Committee shall take into account the requirements set out in rules (i) through (iii), among other factors it deems appropriate.	Compliant	
9.14.5.5	No Director shall participate in any discussion of a proposed Related Party Transaction in which he or she is a Related Party, except that the Director, at the request of the Committee, may participate in discussions for the express purpose of providing information concerning the Related Party Transaction to the Committee. Where deemed necessary considering the issues of potential conflict, which were presented to the Committee, the Committee may recommend the creation of a special committee to review and approve the proposed Related Party Transaction	Compliant	
9.14.5.6	If a Related Party Transaction will be ongoing (a Recurrent Related Party Transaction), the Related Party Transactions Review Committee may establish guidelines for the senior management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on an annual basis, shall review and assess ongoing relationships with the Related Party to determine whether they are in compliance with the Committee's guidelines and that the Related Party Transaction remains appropriate	Compliant	
9.14.6	Shareholder Approval		
9.14.6.1	the Company shall obtain shareholder approval by way of a Special Resolution for the following Related Party Transactions	N/A	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.6.1(a)	<p>If a non-recurrent transaction;</p> <ul style="list-style-type: none"> i. Any Related Party Transaction of a value equal to, or more than: <ul style="list-style-type: none"> a. one third (1/3) of the Total Assets of the Company as per the latest Audited Financial Statements of the Company; or b. one third (1/3) of the Total Assets of the Company as per the latest Audited Financial Statements of the Company, when aggregated with other non-recurrent transactions entered into with the same Related Party during the same financial year. ii. If the Company acquires a substantial asset from, or disposes of a substantial asset to, any Related Party of the Company or its associates 	N/A	No such Non-Recurrent Related Party Transactions were entered into by the company
9.14.6.1(b)	<p>If a recurrent transaction,</p> <p>Any recurrent Related Party Transaction of a value equal to, or more than:</p> <ul style="list-style-type: none"> i. one third (1/3) of the gross revenue (or equivalent term for revenue in the Income Statement) and in the case of group entity consolidated group revenue of the Company as per the latest Audited Financial Statements of the Company; or ii. one third (1/3) of the gross revenue (or equivalent term for revenue in the Income Statement) and in the case of group entity consolidated group revenue of the Company as per the latest Audited Financial Statements of the Company, when aggregated with other recurrent transactions entered into with the same Related Party during the same financial year, And; iii. the transactions are not in the ordinary course of business and in the opinion of the Related Party Transactions Review Committee, are on terms favorable to the Related Party than those generally available to the public 	N/A	No such Recurrent Related Party Transactions were entered into by the company
9.14.6.2	In relation to Rules 9.14.6 (1) (A) (i) (b) and 9.14.6 (1)(B) (ii) above, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation	N/A	No Related Party Transactions that require shareholder approval were entered into by the company

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.6.3	If a transaction requires shareholder approval as set out in the Rules above, it must be obtained either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction	N/A	No Related Party Transactions that require shareholder approval were entered into by the company
9.14.7	Disclosures		
9.14.7.1	<p>Immediate Disclosures</p> <p>i. A Listed Company shall make an immediate Market Announcement to the Exchange;</p> <p>a. of any non-recurrent Related Party Transaction with a value exceeding 10% of the Equity or 5% of the Total Assets whichever is lower, of the Company as per the latest Audited Financial Statements; or</p> <p>b. of the latest transaction, if the aggregate value of all non-recurrent Related Party Transactions entered into with the same Related Party during the same financial year amounts to 10% of the Equity or 5% of the Total Assets whichever is lower, of the Company as per the latest Audited Financial Statements. the Company shall disclose subsequent non-recurrent transactions which exceed 5% of the Equity of the Company, entered into with the same Related Party during the financial year.</p> <p>The Market Announcement to the Exchange shall include the requirements set out in rules (i) through (vii).</p>	N/A	No Related Party Transactions that require an immediate Market Announcement were entered into by the company
9.14.8	Disclosures in the Annual Report		
9.14.8.1	In the case of Non-recurrent Related Party Transactions: if the aggregate value of the non-recurrent Related Party Transactions exceeds 10% of the Equity or 5% of the Total Assets of the Listed Company, whichever is lower, as per the latest Audited Financial Statements the information set out in the rule must be presented in the Annual Report in the tabular format set out in the rule.	Compliant	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.8.2	<p>In the case of Recurrent Related Party Transactions: if the aggregate value of the recurrent Related Party Transactions exceeds 10% of the gross revenue/income (or equivalent term in the Income Statement and in the case of group entity consolidated revenue) as per the latest Audited Financial Statements, the Listed Company must disclose the aggregate value of recurrent Related Party Transactions entered into during the financial year in its Annual Report.</p> <p>The name of the Related Party and the corresponding aggregate value of the Related Party Transactions entered into with the same Related Party must be presented in the tabular format provided in the rule.</p>	Compliant	
9.14.8.3	<p>The Annual Report shall contain a report by the Related Party Transactions Review Committee, setting out the following;</p> <ol style="list-style-type: none"> i. The names of the Directors comprising the Committee; ii. A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated its comments/observations to the Board of Directors. iii. The policies and procedures adopted by the Committee for reviewing the Related Party Transactions 	Compliant	
9.14.8.4	<p>An affirmative declaration by the Board of Directors in the Annual Report that these Rules pertaining to Related Party Transactions have been complied with or if the Company has not entered into any Related Party Transaction/s a negative statement to that effect</p>	Compliant	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.9	Acquisition and Disposal of Assets from/to Related Parties		
9.14.9.1	<p>Except for transactions set out in Rule 9.14.10, the Company shall ensure that neither the Listed Company nor any of its subsidiaries, acquires a substantial asset from, or disposes of a substantial asset to, any Related Party of the Company without obtaining the approval of the shareholders of the Company by way of a Special Resolution.</p> <p>An asset is substantial if its value or the value of the consideration relating to such asset exceeds 1/3 of the Total Assets of the Company as per the latest Audited Financial Statements</p>	Compliant	
9.14.9.2	If a transaction requires shareholder approval as set out in Rule 9.14.9(1) above, such approval shall be obtained either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction	Compliant	
9.14.9.3	<p>Rule 9.14.9(1) does not apply to:</p> <ul style="list-style-type: none"> i. a transaction between the Listed Company and a wholly owned subsidiary. ii. a transaction between wholly owned subsidiaries of the Listed Company. iii. a takeover offer made by the Listed Company in accordance with Takeovers and Mergers Code 1995 (as amended). iv. any transaction entered into by the Listed Company with a Bank as principal, on arm's length terms and in the ordinary course of its banking business 	N/A	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.14.9.4	<p>The members of the Related Party Transactions Review Committee should obtain 'competent independent advice' from independent professional experts with regard to the value of the substantial assets of the Related Party Transaction under consideration. A person who is in the same group of the Listed Company or who has a Significant Interest in or Financial Connection with the Listed Company or the relevant Related Party shall not be eligible to give such advice.</p> <p>For the purpose of this Rule;</p> <p>"Significant Interest" means a shareholding carrying not less than 10% of the voting rights of the Listed Company.</p> <p>"Financial Connection" means a relationship resulting in transaction value equivalent to 10% of the turnover of the Listed Company or business</p>	Compliant	
9.14.9.5	The competent independent advice obtained in terms of Rule 9.14.9 (4) above should be circulated with the notice of meeting to obtain the shareholder approval as set out in Rule 9.14.9 (1) above.	Compliant	
9.14.9.6	The competent independent advice required in terms of Rule 9.14.9 (4) shall include the requirements listed in the rules (a) through (f).	Compliant	
9.14.10	The Related Party Transactions listed through (a) through (f) shall not fall within the ambit of these Rules;	Compliant	
9.15	Definitions applied for the purposes of Section 9.14;		
9.16	The following additional declarations by the Board of Directors to be included in the Annual Report;		
9.16.i	They have declared all material interests in contracts involving in the Company and whether they have refrained from voting on matters in which they were materially interested;	Compliant	

Corporate Governance

Section	Requirement	Status of Compliance	Comments
9.16.ii	they have conducted a review of the internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and successful adherence therewith, and, if unable to make any of these declarations an explanation on why it is unable to do so;	Compliant	
9.16.iii	they made arrangements to make themselves aware of applicable laws, rules and regulations and are aware of changes particularly to Listing Rules and applicable capital market provisions;	Compliant	
9.16.iv	disclosure of relevant areas of any material non-compliance with law or regulation and any fines, which are material, imposed by any government or regulatory authority in any jurisdiction where the Company has operations	Compliant	

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	N/A
168.1(b)	include financial statements for the accounting period completed and signed in accordance with section 151	Refer pages 117 to 183
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 113 to 116
168.1(d)	describe any change in accounting policies made during the accounting period	Refer Note 4 to the Financial Statements given pages 124 to 127
168.1(e)	state particulars of entries in the interests register made during the accounting period	<p>The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007.</p> <p>These interests have been recorded in the Interest Register which is available for inspection in terms of the Act. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed.</p>
168.1(f)	state the remuneration and other benefits of directors during the accounting period	Refer Note 42 to the Financial Statements.
168.1(g)	state the total amount of donations made by the Company during the accounting period	Refer page 106
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 105
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 107
168.1(j)	state the particulars of any relationship (other than that of auditor) which the auditor has with or any interests which the auditor has in, the proposed company or any of its subsidiaries	Refer page 107
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 118 of Balance Sheet

Risk Management

1. Overview

The Sri Lankan economy demonstrated positive developments in 2023. The Country's economy entered a recovery mode from the macroeconomic crisis that crippled the country in 2022. This recovery was boosted by the signing of the Extended Fund Facility agreement with International Monitoring Fund (IMF) and the receipt of the first instalment of USD 333 Mn in March 2023. In addition, the easing of monetary policy during mid of 2023, paved the way for the recovery in financial intermediary, this is due to the banking sector credit growth seen in Q3, 2023

(Source: CBSL Financial Stability Report 2023). Further, increase in public finances, tourism and increase in remittance from migrant workers also contributed to the recovery of the economy. As per the National Accounts Estimates published by the Department of Census and Statistics, Sri Lanka economy recorded an annual contraction of 2.3% in 2023 due to the significant contraction reported in Q1 and Q2 of 2023.

Inflation in the country dropped to single digits in July 2023 and remained subdued thereafter. Tight monetary policy, appreciation of the Sri Lankan Rupee and the slowing global commodity prices contributed to the downward trend in inflation.

On the global front, the long-term effects of the pandemic, international conflicts, tightening of policies to control inflation, rising fiscal debt levels, sovereign bank nexus and extreme weather events contribute to suppress the global economic recovery. As per the IMF projections, the global economic growth is expected to slow from 3.5% in 2022 to 3.0% in 2023.

Global commodity prices surged due international conflicts, however the impact was negated due to the slowish economic activity.

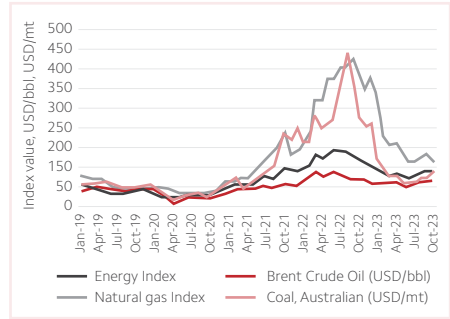


Figure 1.0
Sources: World Bank FAO

In 2023

- The Sri Lankan economy demonstrates positive developments in 2023.
- SL economy contracted by 2.3% compared to 7.8% in 2022.
- Country's inflation rate was reached single digit in July 2023.

License Finance Companies (LFCs) performance

The year under review witnessed a challenging period for LFCs, the main contributing factor was the reduced demand for the core business of this sector. This resulted from slow economic activity in the country during the year. As at end December 2023, total loans and advances of the sector contracted by 3.2% YoY and stood at 1,161.1 Bn as of 31 December 2023 compared to Rs. 1,199.2 Bn recorded as at end of 2022. Restrictions on import of vehicles and adverse macroeconomic conditions continued to affect the Core business of the sector (CBSL, Financial Stability Report 2023).

The Gross and Net Non-Performing Loans (NPL) Ratios for the sector were recorded at 17.8% and 12.0% respectively as at end of December 2023 compared to 17.5% and 12.3% recorded respectively as at end of December 2022. The sector experienced a deterioration in credit quality during the first half of the year. However, this trend was reversed during the second half of the year supported by gradual recovery in the economy.

Risk Management

Asset quality indicators

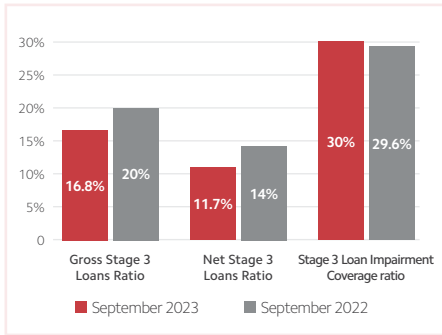


Figure 1.1

Source: Financial system stability review 2023 by CBSL

1.2 Managing the headwinds.

The Company was able to counter the difficult and challenging macroeconomic conditions through effective risk management embedded in the Company’s strategic decisions and risk management framework implemented across the Company whilst providing seamless fintech solutions in the country.

The Business strategy of the Company is developed and implemented taking into consideration the risk impact and mitigation actions for each strategy.

The Risk Management Framework is implemented based on the “three lines of defence” model. It is also important to take note that risk incidents can create opportunities for the Company which is considered a positive impact.

2. Risk Governance

2.1 Risk Governance Structure

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

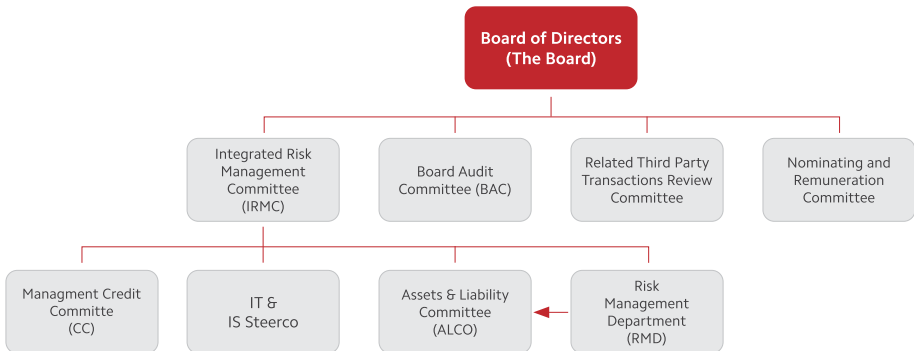


Figure 2.0

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

2.2 Integrated Risk Management Committee (IRMC)

The composition of the IRMC currently consists of 3 Non-Executive Directors (appointed by the Board), the Director/Chief Executive Officer, the Head of Finance, the Head of Risk and Compliance, the Head of Collection and Recoveries and the Head of Operations. One of the 3 Non-Executive Directors chairs the committee. The IRMC meets every quarter. Six meetings held during the period under review (4 quarterly meetings and 2 special meetings). The IRMC ensures that the Company implements a system by which addresses identified risks and ensures that risk impact is maintained within the risk appetite of the Company.

The IRMC reviewed and approved the entity level Money Laundering and Terrorist Financing Risk Assessment and the risk appetite of the Company for FY2023 and reviewed the updates on decisions made by the Asset and Liability Committee, Credit Committee and the Information Technology and Information Security Steering Committee whilst providing guidance to the Company on risk mitigating initiatives.

2.3 Asset and Liability Committee (ALCO)

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

Managing the interest rate risk with rate reductions, meeting funding requirements, and reviewing and updating the pricing of lending products were some of the key decisions taken by ALCO during the period under review.

2.4 Credit Committee

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

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

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

2.5 Information Technology and Information Security Steering Committee

The above management level Committee is chaired by the Chief Executive Officer and includes the Chief Information Officer, Head of Risk and Compliance, Head of Operations, and Head of Finance as its members. Key personnel from the IT division and other Heads of Departments are invited to meetings of the IT IS SteerCo if required. There were 12 meetings held during the year 2023.

Key IT and IS decisions and projects status are apprised to the IRMC on a quarterly basis. The IRMC directed the Committee to ensure that key projects undertaken in terms of Disaster Recovery and Information security were completed in 2023. These projects were successfully completed during 2023.

Risk Management

2.6 Risk Management Department (RMD)

The RMD functions independently and drives the risk management framework throughout the Company. It reports to the IRMC and ensures that identified risks are within the risk appetite of the Company and risk treatment is applied to mitigate the impact of risks. The Business Continuity plan is implemented by RMD, and core system disaster recovery drill was carried out in latter part of 2023..

2.7 Risk Appetite

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

The performance of the risk limits set in the risk appetite is monitored by the RMD and reported to the Board via the risk assessment report monthly.

3. Risk Management Framework and Principles

3.1 The Three Lines of Defence Model

The Company adopts the three lines of defence model in governing the responsibilities for managing risk incidents as outlined below in table 1.

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

Table 1

3.2 Risk Policy and Risk Management Framework

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

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

3.2.1 Overview of the Risk Management Framework

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

Risk Management

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

Figure 3 provides an overview of the Risk Management Framework adopted by the Company.

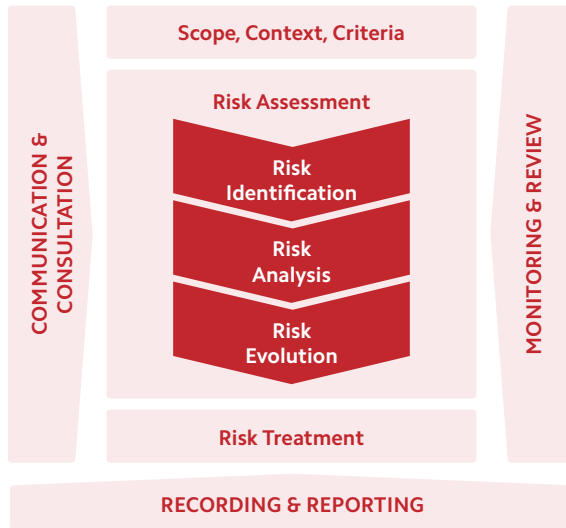


Figure 3

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

4. Credit Risk

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

The lending book remained stable on an year-on-year to record gross loans and advances of Rs. 3.2 Bn as of 31 December 2023. This was mainly attributable to adverse macroeconomic situation in the Country and slow credit growth witnessed during the year.

During the year, The Company implemented a rigorous evaluation process for approval of credit facilities for both the Consumer and Corporate segment. By implementing rigorous credit risk management techniques that includes providing of a risk score on the borrower, the Company's Non-Performing Loans and Advances (NPL) ratio was maintained at 5.37% in December 2023 whilst the industry NPL was at 17.79% for December 2023. Figure 3 outlines the NPL performance during the period under review.

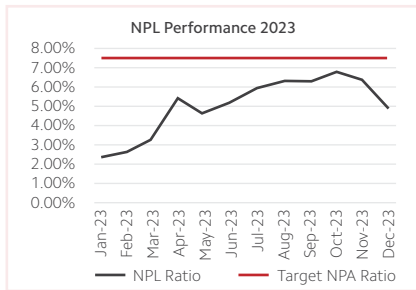


Figure 4

NPL was below the budgeted level of 7.5% during the year under review and declined to 5.3% in December 2023.

Margin Trading credit approval conditions were reviewed, and changes were made to the Buying and Force Selling limits following the stabilisation of the capital markets. Further, new documents required for credit approval and cash payments were included to strengthen the process. Due to stringent monitoring, the Company was able to withstand the stock market volatility during the 3rd Quarter of the year.

The Company uses an inhouse developed business model for lending to its Corporate and SME segments which is built upon stringent selection criteria. The Company has implemented FICO scoring model for its consumer segment to ensure that the lending is made while managing the NPL of the Company. In addition, the Company uses advanced data analytics to actively manage the credit portfolio and to identify trends.

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

4.1 Impairment Charges

The Company follows SLFRS guidelines for impairments charges which are calculated based both on an individual basis for significant loans and collectively

by grouping loans. The individual loans are reviewed based on objective evidence and impairment is calculated based on the discounted cash flow model. Collective impairment charges are calculated by grouping the loans with similar loan characteristics.

Further information is available under Notes to the Financial Statements Note 43.2 – Credit Risk on the process of Impairment and ECL calculations.

5. Operational Risk

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

During the period under review, there were no operational losses incurred by the Company.

Effective internal controls were in place within the Company and each business unit is responsible for managing and mitigating operational risk in line with the three lines of defence model. The Risk Management Department carried out a review of Anti-Money Laundering measures adopted by the Company during 2023.

The Company has developed and implemented the Business Continuity Plan and an effective process of backing up of critical systems is in place and backup servers are located at different locations. The Company carried out drill on the core system Disaster Recovery plan in September 2023.

The Company has engaged Messrs Ernst and Young, Chartered Accountants as their internal auditors, and they provide an independent assurance on the effectiveness of the internal controls in the Company to the Board Audit Committee. This is in addition to the external audits carried out by Messrs. Deloitte Partners, Chartered Accountants on quarterly and annual basis.

Risk Management

6. Cybersecurity Risk

The Company's Information Security Policy was reviewed and updated in 2023 and implemented by the Information Technology Department giving importance to customer data protection. Firewalls are in place and are being monitored for security threats. This is in addition to the security awareness training provided to staff of the Company by the Risk Management team and similar mandatory computer-based trainings on Information security and data privacy. Further, phishing emails drills were conducted during the year with the assistance of Group Information Security team and identified staff were trained on Information Security.

A gap analysis was performed by the Risk Management Department on the Cybersecurity exposure and apprised both IRMC and the Board accordingly in 2023. Further controls were implemented to monitor data privacy breaches on emails sent to third parties.

7. Market Risk – Interest Rate Risk

Interest rate risk 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.

During the year under review, Interest rates continued to decline due to the monetary policy measures taken by the CBSL to reduce inflation. In line with the policy rates and market interest rates, the Company reduced the lending and deposits rates while achieving the target Net Interest Margin (NIM) for the year.

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

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

the Domestic debt restructuring process announced by the Government during 2023 did not impact the Company.

Further information is available under Notes to the Financial Statements Note 43.3 – Market risk on the analysis of Interest Rate Risk.

8. Liquidity Risk

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

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

The Company adheres to the Asset and Liability Management (ALM) policy to manage the liquidity risk.

The funding mix of the Company as of 31 December 2023 is given in figure 5 below.

Funding Mix as at 31 December 2023

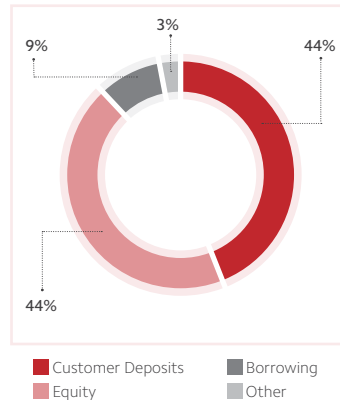


Figure 5

Risk Management

During the period under review, due to the fall on the interest rates, the Company's cost of funds gradually declined. The Company was able to manage the Liquidity risk effectively through pricing of its products through periodic reviews and investments based on directions provided by ALCO and IRMC.

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

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

Further information is available under Notes to the Financial Statements Note 43.4 – Liquidity risk for further analysis on managing the liquidity risk of the Company.

9. Compliance Risk

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

During the period under review, the Company complied with all CBSL, Securities and Exchange Commission (SEC) and Colombo Stock Exchange (CSE) requirements. The implemented its updated Compliance policy in 2023.

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

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

In addition, the Compliance Officer of the Company updates the Board on compliance with Anti Money Laundering and Terrorist Financing (AML/TF) regulations and provides a summary of the Company risk status on ML/TF risks. The IRMC reviewed and approved the Institutional Risk Assessment for Money Laundering and Terrorist Financing (ML/TF) risk that was carried out by the Risk Management division. Further, the compliance division carries out frequent checks to ascertain the quality of KYC documents and the non-face to face verification process.

10. Environment, Social and Governance Risk (ESG)

Environment, Social Governance (ESG) risk encapsulates the potential negative repercussions that environmental, social, and governance factors can impose on the Company and its reputation. Environmental concerns span issues like climate change and resource depletion, social factors encompass Labour practices and community relations, while governance entails transparency and board oversight. Managing ESG risks is integral to securing shareholder trust, mitigating regulatory scrutiny, and sustaining a positive corporate image.

The Company's primary objective is to drive seamless and paperless financing/ payment fintech solutions that supports Company's sustainable finance initiatives. In addition to providing its fintech solutions to the financial inclusive segment in the Country.

The ESG risk management is embedded to the risk management policy and framework of the Company.

Risk Management

The table 2 below provides a snapshot of the Company's exposure to ESG risks and mitigation activities.

Risk	Mitigation Activity
Environmental Risk	1. Careful consideration and evaluation of environmental risk factors of Customer is assessed prior to lending
Social Risk	1. Adopts diversity, good work conditions, training and maintaining employee code of ethics that foster good employee relations. 2. Selective and stringent vendor procurement process prevents the Company from sourcing vendors with poor labour practices or human rights violations which can result in reputational damage to the Company
Governance Risk	1. Complies with Corporate Governance requirements of CBSL and CSE Listing rules. We monitor and report to the Board on Compliance to these rules. 2. This Compliance requirement is set out in pages 28 to 85 of this Annual Report.

Table 2

Further, the Company will expand its lending portfolio to MSME industry and will focus on sustainable finance whilst mitigating the ESG risks through stringent evaluation and in line with the risk appetite of the Company.

Audit Committee Report

The Audit Committee ('the Committee') is a formally constituted sub-committee of the Board of Directors ('the Board'). The Committee 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 13 to 15 of the Annual Report. The composition is compliant with the provisions of the Listing Rules of the Colombo Stock Exchange ('the Rules') regarding the composition of the Committee.

The Members of the Committee as at 31 December 2023 were as follows:

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

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

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee held six (06) meetings during the year ended 31 December 2023. The details of the attendance of the Committee Members at these meetings are given below.

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

The representatives of the Company's External Auditors, Messrs. Deloitte Partners (formerly known as PricewaterhouseCoopers, Sri Lanka) and the representatives of Messrs. Ernst and Young, Chartered

Accountants, Internal Auditors of the Company participated in meetings by invitation during the year ended 31 December 2023. The Chief Executive Officer and Head of Finance attended the meetings by invitation. The Senior Management of the Company too participated in the meetings from time to time on need basis.

During the year ended 31 December 2023, the Audit Committee and the External Auditors met twice without the Key Management Personnel of the Company, in order to facilitate confidential discussions between the two parties.

The Terms of Reference

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

Functions of the Committee

The composition, roles and functions of the Committee are regulated by the Finance Business Act (Corporate Governance) Direction No. 5 of 2021, Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka and the Listing Rules issued by the Colombo Stock Exchange.

The Committee assists the Board in the general oversight of financial reporting, internal controls, functions relating to internal and external audits including follow up actions by the Management and periodically appraises the Board on matters relating to the above.

Activities for the year ended 31 December 2023

1. Financial Reporting

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

Audit Committee Report

- The Committee reviewed the interim and annual financial statements including the acceptability and appropriateness of accounting policies, reasonableness of significant estimates and judgements.
- The Committee reviewed the policy decisions relating to the adoption of Sri Lanka Accounting Standards (SLFRSs / LKASs) applicable to the Company and will continue to monitor the compliance with relevant accounting standards.
- The Committee reviewed the adequacy of provision for Expected Credit Loss (ECL) recognized in the financial statements by factoring the potential impacts of current macro-economic situation of the country, and the moratorium schemes introduced by the Central Bank of Sri Lanka.

2. Internal Controls over Financial Reporting

The Company is required to comply with Section 10 (2) (e) of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 and assess the effectiveness of internal control over financial reporting as at 31 December 2023.

The Statement of Internal Controls over Financial Reporting is reviewed by the Committee prior to endorsement by the Board.

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

3. Internal Audit

The internal Audit function of the Company is outsourced to Messrs. Ernst and Young, Chartered Accountants with due consideration to the level of independency, objectivity and proficiency of Internal Auditors in discharging the duties assigned, having identified its importance as “third line of defense” in adding value and improving operations through

a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and internal controls.

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

The Committee reviewed the findings by the Internal Auditors during the period under review and the same was made available to the External Auditors as well.

4. External Audit

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

The following were among the activities carried out by the Committee during the year ended 31 December 2023.

- Discussion with the External Auditors on the scope of the audit, audit approach and procedures.
- Review of the Management Letter along with the responses provided.
- Evaluation of the External Auditor based on the audit deliverables and the quality assurance initiatives and recommendations.
- Review of the Letter of Representation provided by the Management to the External Auditor.

During the year, the external auditors, PricewaterhouseCoopers Sri Lanka announced that they have existed the PricewaterhouseCoopers network and have joined the Deloitte network with effect from 28 October 2023. Pursuant to the change, the name of the firm was changed from PricewaterhouseCoopers Sri Lanka to Deloitte Partners.

Audit Committee Report

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

Having reviewed the effectiveness of the External Auditors, the Committee has recommended to the Board, the re-appointment of Deloitte Partners as the External Auditors of the Company for the financial year ending 31 December 2024, subject to the approval of the Shareholders at the Annual General Meeting.

5. Annual Corporate Governance Report

The Company is required to comply with Section 16 (1) of the Finance Companies (Corporate Governance) Direction No. 5 of 2021 and publish the Annual Corporate Governance Report for the year ended 31 December 2023.

The findings of the Corporate Governance Report were reviewed by the Committee and were consistent with the matters disclosed in the report on pages 28 to 85.

Reporting to the Board

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

Conduct, Ethics and Good Governance

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

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

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

Professional Advice

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

Conclusion

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

On behalf of the Audit Committee



Mr. Priyan Edirisinghe
Chairman – Audit Committee

06 May 2024

Nominating and Remuneration Committee Report

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

Role of the Committee

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

Further, the Committee also selects, evaluates and recommends to the Board qualified individuals for election or appointment to the Board and to the Senior Management team.

Composition

The Committee comprises of three (3) Non-Executive Directors, of whom a majority are Independent Directors. The Committee is chaired by Mr. Roshaan Hettiaratchi, who is an Attorney-at-Law and was appointed as the Chairman of the Committee.

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 2023 were:

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

Meetings

The Committee held three (03) 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	3/3
Mr. Priyan Edirisinghe	3/3
Mr. Supun Weerasinghe	0/3

The Chief Executive Officer attended the committee meetings by invitation.

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

Summary of Principal Activities of the Committee During the Period

- Approval of the Changes to the Organizational Structure and Key Management Personnel
- Approval for the proposed Tax reimbursement for staff at Dialog Finance PLC
- Approval to continue Quarterly Distress Bonus for Q1 – 2023 and increase annual OPD reimbursement for staff at Dialog Finance PLC
- Approval for the disbursement of annual salary increments for FY 2023 and bonus payment for FY 2022
- Approval for the disbursement of CEO's annual salary increments for FY 2023 and bonus payment for FY 2022.

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

06 May 2024

Related Party Transactions Review Committee Report

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

Composition

The Committee comprises of three (3) Non-Executive Directors, of whom two (2) are Independent Directors. The profiles of the Members are given on pages 13 to 15 of the Annual Report.

The composition below is compliant with the provisions of the Rules and the Direction regarding the composition of the Committee.

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

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Committee held six (06) meetings during the year under review as required by Section 9.2.4 of the Listing Rules of the CSE. Details of attendance of the Members at these meetings are given below.

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

Terms of Reference

The role and functions of the Committee are regulated by the Code and the Rules. The Terms of Reference (ToR) of the Committee were formulated and approved by the Board on 16 June 2016. The ToR is regularly reviewed to ensure new developments relating to Committee functions are addressed.

The Chief Executive Officer and Head of Finance attended the Committee meetings by invitation. The Senior Management of the Company too participated in the meetings from time to time on need basis.

Role and Responsibilities

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

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

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

- Avoiding favorable treatments to Related Parties in granting credit facilities, offering interest rates for deposits, providing and obtaining financial and non- financial services.
- Implementing regulations relating to RPTs issued by the CSE, Central Bank of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

Related Party Transactions Review Committee Report

- 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.

Activities carried out during the year under review

- The Committee reviewed all RPTs carried out during the year on a quarterly basis. Further, the Committee reviewed recurrent and non-recurrent RPTs prior to the transaction being entered into or if the transaction was expressed to be conditional on such review, prior to the completion of the transaction, as required by Section No. 9.2.1 of the Rules.
- Declaration obtained from each Director of the Company for the purpose of identifying parties related to them.
- RPTs for the year ended 31 December 2023 (as defined in LKAS 24 - 'Related parties Disclosures') are set out in Note 42 to the financial statements.

Reporting to the Board

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

Conclusion

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

On behalf of the Related Party Transactions Review Committee.



Mr. Priyan Edirisinghe

Chairman – Related Party Transactions Review Committee

06 May 2024

Integrated Risk Management Committee Report

Role of the Committee

The Board of Directors of the Company have delegated their responsibility of the oversight function of Risk Management in the Company to the Integrated Risk Management Committee ('The Committee') which is a formally constituted sub-committee of the Board of Directors ('the Board'). It reports to and is accountable to the Board.

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

The Terms of Reference of the Committee is periodically reviewed and revised when necessary.

Composition

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

The Members of the Committee as of 31 December 2023 were as follows:

1. Mr. Roshaan Hettiaratchi - Independent, Non-Executive Director (Chairman)
2. Mr. Priyan Edirisinghe - Independent, Non-Executive Director
3. Mr. Supun Weerasinghe – Non-Independent, Non-Executive Director
4. Mr. Nazeem Mohamed – Executive Director / Chief Executive Officer

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

Meetings

The Committee held 5 meetings (4 quarterly meetings and 1 special meetings) during the financial year under review. The meeting attendance of the Members are set out in the table below:

Name of Member	Attendance
Mr. Roshaan Hettiaratchi	5/5
Mr. Priyan Edirisinghe	5/5
Mr. Supun Weerasinghe	0/5
Mr. Nazeem Mohamed	5/5
Ms. Yasoda Sewwandi	5/5
Mr. Thissil Vincent	5/5
Ms. Samiddhi Perera	5/5
Mr. Ashok Vitanachy	3/5

The Head of Credit Management and Chief Information Officer (CIO) of the Company attended the meetings by invitation on a need basis.

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

Summary of Principal Activities of the Committee during the Year

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

Credit Risk

- Provided guidance to the Credit Committee on the decisions relating new products/facilities launched during the year.
- Reviewed the decisions taken by the Credit Committee.
- Provided direction to the company on loan accounts that were under stress due to the economic situation.

Integrated Risk Management Committee Report

Operations Risk

- Reviewed the Company's operational risks and instructed the Company to implement necessary controls to mitigate such risk incidents. This includes staff training and awareness sessions

Information Technology Risk

- Reviewed the decisions taken by the Information Security and Technology Steering Committee
- Provided instructions for the Company to carry out awareness session to the staff on Cybersecurity.
- Reviewed the Company's Cybersecurity position.

Liquidity Risk and Market Risk

- Reviewed the decisions made by the Asset and Liability Committee of the Company
- Reviewed the interest rate risk stress testing.
- With the interest rates dropping in the year, guided the Company to take appropriate decisions to mitigate the risk of falling interest rates.

Compliance Risk

- Approved the Institution's Money Laundering and Terrorist Financing Risk Annual Risk Assessment.
- Reviewed the Anti Money Laundering measures taken by the Company and approved the high-risk clients.
- Approved the Company's Compliance Policy and the Compliance Plan for 2023.

Other key matters

- Approved the Risk Appetite of the Company in line with the Business Plan for 2023.

Conclusion

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

On behalf of the Integrated Risk Management Committee.



Mr. Roshan Hettiaratchi

Chairman – Integrated Risk Management Committee

06 May 2024

Annual Report of the Board of Directors for the Year ended 31 December 2023

The Board of Directors of Dialog Finance PLC (‘the Company’) is pleased to present its Annual Report on the State of Affairs of the Company for the year ended 31 December 2023, together with the audited financial statements of the Company.

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

The Company

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

The Company was incorporated on 25 November 1981, under the Companies Ordinance (Chapter 145), bearing the name Silvereen Finance Company Limited. The Company changed its name to People’s Merchant Finance Company Limited on 30 September 2009 and Capital Alliance Finance Limited on 16 September 2011. The Company was re-registered under the provisions of the Companies Act, No. 07 of 2007 on 21 November 2011 and was accordingly renamed as Capital Alliance Finance PLC. On 22 December 2015, the Company changed its name to Colombo Trust Finance PLC and following the acquisition by Dialog Axiata PLC, the Company changed its name to Dialog Finance PLC on 15 September 2018.

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

Principal Business Activities

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

Financial Statements

The financial statements of the Company as set out on pages 117 to 183, comprise of the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and notes to the financial statements of the Company. They have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, in compliance with the requirements of the Companies Act, No. 07 of 2007 (“the Companies Act”) and the Finance Business Act, No. 42 of 2011.

The aforementioned financial statements for the year ended 31 December 2023 are duly signed by the Chief Executive Officer, Head of Finance and two other Directors of the Company.

Independent Auditor’s Report

The Independent Auditors of the Company are Messrs. Deloitte Partners (“Deloitte”), Chartered Accountants. Deloitte carried out the audit on the financial statements of the Company for the year ended 31 December 2023 and their report on the financial statements, is set out on pages 113 to 116.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of the financial statements are given on pages 122 to 142.

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 117 to 183 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 108 of this Annual report.

Annual Report of the Board of Directors for the Year ended 31 December 2023

Property, Plant and Equipment (PPE)

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

[A]. Capital Expenditure

The total capital expenditure made on acquiring property, plant and equipment and intangible assets of the Company amounted to Rs. 54.70Mn (For the year ended 31 December 2022 – Rs. 101.27Mn) and the details are given in Notes 27 and 28 to the financial statements.

[B]. Capital Commitments

The capital expenditure approved and contracted for, as at the reporting date is given in Note 38 to the financial statements.

Reserves

The aggregate value of reserves and their composition are set out in the Statement of Changes in Equity of the Company on page 119 to the financial statements.

[A] Statutory reserve fund

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

Stated Capital

The Stated Capital of the Company as at 31 December 2023 amounted to Rs. 2,934,582,100 consisting of 117,399,866 ordinary shares (31 December 2022 – Rs. 2,934,582,100 consisting of 117,399,866 ordinary shares).

[B]. Shareholdings of the Company

- The parent company, Dialog Axiata PLC, held 99.05% of the Ordinary shares in issue of the Company as at 31 December 2023. The main shareholders of the Company and corresponding holding percentages are set out below.

	Name of Shareholder	31 December 2023	
		No of Shares	% Holding
1.	Dialog Axiata PLC	116,290,376	99.05%
2.	Mr. R.C.J. Goonewardene	258,363	0.22%
3.	Mr.S.R.S. De Saram/ Mrs.S.T.T. Jayasundera (Joint)	112,000	0.10%
4.	Mr. M.A.T. Raaymakers	27,307	0.02%
5.	Mrs. R. Ameen UR Rahman/ Mr.K.R. Ameen UR Rahman (Joint)	26,000	0.02%
6.	Hatton National Bank PLC/ Dawi Investment Trust (Pvt) Ltd	24,750	0.02%
7.	Mr. P.S.M. Fernando	24,282	0.02%
8.	Mr. W.C. Madhushanka	22,000	0.02%
9.	Guardian Insurance Brokers (Pvt) Ltd	20,039	0.02%
10.	Mr. D.M.H.B. Dasanayake	20,000	0.02%
11.	Dawi Investment Trust (Pvt) Ltd	19,287	0.02%
12.	People's Leasing & Finance PLC/ C.D.Kohombanwickramage	18,152	0.02%
13.	Mr. M.K. Gunawardena/ Mr.M.K. Gunawardena (Joint)	16,190	0.01%
14.	Mr. B.Y. Edirisuriya/ Mrs. R.D. Edirisuriya/ Mr. P.M.Weerasuriya (Joint)	15,001	0.01%
15.	Mr. G.D.M Ranasinghe/ Mrs. O.R.K Ranasinghe (Joint)	14,029	0.01%
16.	Mrs. S. Suwandaradne	13,346	0.01%
17.	Miss. T.K. Hulugalle	12,865	0.01%
18.	Citizens Development Business Finance PLC/ K.D.C. Somalatha and K. Nandasiri	10,480	0.01%
19.	Mr. T.D. Mahaliyana	10,082	0.01%
20.	Miss.M.P.Radhakrishan	9,330	0.01%
	Others	435,987	0.37%
	Total	117,399,866	100.0%

[C]. Minimum Public Holding Requirement

The percentage of shares held by the public as at 31 December 2023 was 0.95%, in the hands of 747 public shareholders (31 December 2022 – 0.95% in the hands of 726 public shareholders)

Annual Report of the Board of Directors for the Year ended 31 December 2023

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

[D]. Equitable Treatment to Shareholders

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

Board of Directors

The Board of Directors of the Company comprise of 5 Directors (31 December 2022- 5) with wide financial and commercial knowledge and experience.

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

The Directors of the Company as at 31 December 2023 were;

Name	Classification (NED/NID/ED)	Remarks (Appointed date, change of directorate to chairman etc)
Ms. Renuka Fernando (Chairperson)	NID/NED	22 May 2020
Mr. Supun Weerasinghe	NID/NED	09 November 2017
Mr. Priyan Edirisinghe	IND/NED	19 January 2016
Mr. Roshan Hettiaratchi	IND/NED	09 February 2016
Mr. Nazeem Mohamed	NID/ED	24 June 2022

Board Subcommittees

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

Committees to ensure that the activities of the Company are conducted with the highest ethical standards and the best interest of its stakeholders at all times. The Board has formed many sub committees including the following.

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

Directors’ Interest in Contracts and Proposed Contracts

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

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

None of the Directors and their close family members directly held any shares in the Company as at 31 December 2023. (As at 31 December 2022 – Nil).

Directors’ Remuneration

The details of Directors’ emoluments and other benefits paid in respect of the Company during the year under review are given in Note 42 to the financial statements.

Related Party Transactions

The Directors have disclosed transactions if, any that could be classified as related party transactions in terms of Sri Lanka Accounting Standards – LKAS 24 (Related Party Disclosure) which is adopted in the preparation of the financial statements. The details of all related party transactions carried out during the period are disclosed in Note 42 to the financial statements.

Annual Report of the Board of Directors for the Year ended 31 December 2023

Outstanding Litigation

In the opinion of the Directors and in consultation with the Company lawyers, there were no pending litigations against the Company as at 31 December 2023 which would have a material impact on the reported financial results, or future operations, of the Company.

Statutory Payments

The Directors, to the best of their knowledge and having made adequate inquiries from management, confirm that all taxes, duties, levies and statutory payments payable by the Company on behalf of and in respect of the employees of the Company as at the date of the statement of financial position have been duly paid, or where relevant, have been provided for, except as disclosed in Note 38 to the financial statements.

Risk Management and Internal Control

[A]. Internal Controls

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

[B]. Corporate Governance

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

Environmental Protection

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

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

Donations

The Company has not made any donations during the year ended 31 December 2023. (For the year ended 31 December 2022 – Nil).

Taxation

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

Dividends

The Directors have not recommended a dividend for the year ended 31 December 2023. (For the year ended 31 December 2022 – Nil).

Going Concern

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

Annual Report of the Board of Directors for the Year ended 31 December 2023

Auditors

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

The audit fees to the Auditors Messrs. Deloitte Partners for the year ended 31 December 2023 amounted to Rs. 1,536,000 (For the year ended 31 December 2022 – Rs. 1,286,000). In addition to the above, Rs. 990,000 was payable for the year ended 31 December 2023 (For the year ended 31 December 2022 – Rs. 844,000) for other permitted services.

Based on the declaration provided by Messrs. Deloitte Partners, 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. Deloitte Partners have expressed their willingness to continue as the Independent Auditors of the Company and a resolution proposing their re-appointment, as Auditors will be proposed at the forthcoming Annual General Meeting.

Employment Policy

The Company believes that its potential rests on the skilled & competent workforce in the rapidly changing environment. As at 31 December 2023, the number of employees on the payroll of the Company was 97 (31 December 2022 – 85).

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

Events after the Reporting Period

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in the accounts other than those disclosed in Note 39 to the financial statements.

By order of the Board



Ms. Renuka Fernando
Chairperson



Mr. Priyan Edirisinghe
Director



Ms. Viranthi Attygalle
Company Secretary

Colombo
16 February 2024

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 113 to 116.

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 2023,
- the statement of profit or loss and other comprehensive income, which present a true and fair view of the profit or loss and/or other comprehensive income of the Company for the year ended 31 December 2023;
- 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 16 February 2024 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 38 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
16 February 2024

Directors' Statement on Internal Controls Over Financial Reporting

1. Purpose

The Board of Directors ('the Board') of Dialog Finance PLC ('the Company') presents this report on Internal Controls over Financial Reporting in compliance with the transitional provisions of the Finance Business Act (Corporate Governance) Direction No. 5 of 2021.

2. Responsibility

The Board is responsible for the implementation of an adequate and effective internal control mechanism and the continuous reviewing of its design and effectiveness.

An ongoing process has been established within the Company to identify, evaluate and manage the significant risks faced by the Company which is inclusive of enhancing the system of Internal Controls over Financial Reporting as and when there are changes to the business environment or regulatory guidelines. These processes are regularly reviewed by the Board and Board appointed sub committees.

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

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

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

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

- **Scope of Board Appointed Sub Committees** - Board sub committees assist the board in evaluating the effectiveness of the Company's daily operations in conformity with corporate objectives, strategies and annual budgets as well as with the policies and directions approved by the Company.
- **Internal Audit Function** - The Company has outsourced the internal audit function to Messrs. Ernst & Young, Chartered Accountants. The annual audit plan is reviewed and approved by the Audit Committee. The audit procedures are designed in such a way to ensure compliance with policies and procedures using samples and rotational procedures. The internal auditors provide independent and objective audit reports, highlighting significant findings on non-compliance. The frequency of such audits is determined based on the level of risk assessment.
- **Role of Audit Committee**
 - Reviews the significant audit findings by internal and external auditors, regulatory authorities and management of the Company. The comments made by the external auditors in connection with the internal control system over financial reporting in previous years through issue of management letters were reviewed during the period and appropriate steps were taken to address and rectify the concerns raised. The recommendation which will be made by the external auditors for the period ended 31 December 2023, 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 95 to 97.
- **Implementation of Accounting Standards and Other Regulatory Changes**
- The Company adopted the new Sri Lanka Accounting Standards comprising LKAS and SLFRS in 2012. Based on the feedback received from the external auditors, internal auditors, regulators and the Audit Committee, the processes to comply with requirements of recognition, measurement, classification and disclosure were further strengthened during the year.
 - Since the implementation of SLFRS 09 "Financial Instruments" which became effective from 1st April 2022, the Company implemented and continued to improve the processes which are required to comply with the requirements of recognition, measurement, presentation and disclosures under the above accounting standard. The Company continuously refined the Expected Credit Loss (ECL) models while validating the appropriateness of the underlying assumptions, adjustments made to the micro economic factors and forward-looking statements and incorporating the potential impacts of the current macro-economic situation of the country. The Board Audit Committee continually advises the management on the strengthening of processes and controls required in management information systems to maintain the level of compliance with SLFRS 9 and related disclosures.

4. Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide a reasonable assurance

regarding the reliability of the financial reporting system of the Company and the financial statements for the year ended 31st December 2023, are prepared and presented in conformity with the requirements of the following.

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

5. Review of the Statement by External Auditors

The external auditors, Messrs. Deloitte Partners has reviewed the above Directors' Statement of Internal Controls over Financial Reporting included in the Annual Report for the year ended 31 December 2023 and reported to the Board that nothing has come to their attention that causes the Board to believe that the statement is inconsistent with their understanding of the processes adopted by the Board in the design and effectiveness of the Internal Control over Financial Reporting of the Company.

By order of the Board



Ms. Renuka Fernando
Chairperson



Mr. Priyan Edirisinghe
Chairman – Audit Committee

Colombo
06 May 2024

Independent Assurance Report to the Board of Directors



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To the Board of Directors of Dialog Finance PLC Report on the Directors' Statement on Internal Control over Financial Reporting

We were engaged by the Board of Directors of Dialog Finance PLC ("Licensed Finance Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the period ended 31 December 2023.

Management's responsibility

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

Our Independence and Quality Control

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

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

Our Responsibilities and compliance with SLSAE 3051

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

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

C S Manoharan FCA, T U Jayasinghe FCA, H P V Lakdeva FCA, K M D R P Manatunga ACA, L A C Tillekeratne ACA, M D B Boyagoda FCA, N R Gunasekera FCA, W D A S U Perera ACA, D C A J Yapa ACA

Regd. Office: P.O. Box 918, 100 Braybrooke Place, Colombo 02, Sri Lanka. Reg. No.: w/4179

Independent Assurance Report to the Board of Directors

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

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

Summary of work performed

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

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

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

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

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

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

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

Our conclusion

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

Deloitte Parkus
CHARTERED ACCOUNTANTS

Colombo
06 May 2024

Independent Auditor's Report to the Shareholders



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To the Shareholders of Dialog Finance PLC

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Dialog Finance PLC (the Company). The financial statements of the Company comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

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

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics"). We have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka Code of Ethics.

Key audit matters

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

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

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Independent Auditor's Report to the Shareholders

To the Shareholders of Dialog Finance PLC (Contd.)

Key audit matters (Contd.)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of loans and advances</p> <p>Refer to the accounting policy Section 5.3: Impairment of financial assets and Notes 10 and 22 to the financial statements.</p> <p>As at 31 December 2023, total gross amount of loans and advances amounted to LKR 3,186 million, with a total allowance for impairment of LKR 143 million. Total net amount of loans and advances contribute 51% to the total assets.</p> <p>Management assesses whether the credit risk of loans and advances to customers have increased significantly since their initial recognition and applies a three-stage impairment model to calculate their ECL. ECL is calculated on either an individual basis or a collective basis. Collective impairment is calculated incorporating key parameters, including probability of default, loss given default, exposure at default and discount rates. Individual impairment is determined using discounted cash flows:</p> <p>The impairment of loans and advances using the ECL model was considered as a key audit matter due to factors such as:</p> <ul style="list-style-type: none"> • The ECL model involves complex calculations with key variables used in the model requiring significant management judgment and use of assumptions. • The magnitude of the reported amounts of loans and advances to customers and the impairment allowances thereof. • The determination of expected loss rates in an uncertain economic environment. 	<p>The audit procedures performed to assess the adequacy of the impairment allowance for credit losses on loans and advances to customers in line with SLFRS 9 adopted, included the following:</p> <ul style="list-style-type: none"> • Understanding, evaluating and testing the design and operating effectiveness of key controls in the lending and credit risk mitigation process including information systems; • Assessing the appropriateness of the criteria used by management to determine whether customer credit facilities are impaired; • Assessing the appropriateness of the design and implementation of the ECL model, including the reasonableness of significant judgement made and assumptions used by management; • Checking the reasonability of the macro-economic and other forward-looking information used by management, by comparing them against reliable publicly available information; • For loans and advances individually impaired, assessing the reasonability on a sample basis, future cash flows forecasted by management and the discount rates supporting the loss allowance computation; • Checking the underlying calculations and data on a sample basis for accuracy and completeness; • Assessing the accuracy and sufficiency of related disclosures.

Independent Auditor's Report to the Shareholders

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2023 (the Annual Report), but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 judgement and maintain professional scepticism throughout the audit. We also:

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

Independent Auditor's Report to the Shareholders

To the Shareholders of Dialog Finance PLC (Contd.)

Auditor's responsibilities for the audit of the financial statements (Contd.)

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

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

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

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

Report on other legal and regulatory requirements

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

Deloitte Parkus

CHARTERED ACCOUNTANTS

CA Sri Lanka membership number: 2857

Colombo

16 February 2024

Statement of Profit or Loss and Other Comprehensive Income

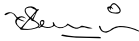
For the year ended 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2023	2022
Interest income	6.1	1,093,157	984,853
Less: Interest expense	6.2	(394,228)	(359,526)
Net interest income	6	698,929	625,327
Fee and commission income	7.1	60,805	17,908
Less: Fee and commission expenses	7.2	(10,251)	(2,792)
Net fee and commission income	7	50,554	15,116
Net (losses)/ gains from trading	8	(399)	947
Other operating income	9	7,590	26,190
Total operating income		756,674	667,580
Less: Impairment charges and other losses	10	(21,816)	(84,884)
Net operating income		734,858	582,696
Less: Operating expenses			
Personnel expenses	11	(251,231)	(208,444)
Depreciation and amortisation	12	(52,042)	(46,250)
Other expenses	13	(328,696)	(212,729)
Operating profit before taxes on financial services		102,889	115,273
Less: Taxes on financial services	14	(58,147)	(48,177)
Profit before tax for the year		44,742	67,096
Deferred tax asset reversal	15	(5,304)	-
Profit for the year		39,438	67,096
Basic / diluted profit per share for losses attributable to the ordinary equity holders of the Company (Rs.)	16	0.34	0.57
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
- changes in the fair value of equity investments at fair value through other comprehensive income (note 23)		65	19
- remeasurement of defined benefit obligations (Note 32.1 a)		2,146	(198)
- deferred tax effect on other comprehensive income (Note 15.1)		(653)	57
Other comprehensive income, net of tax		1,558	(122)
Total comprehensive income for the year, net of tax		40,996	66,974

The notes on pages 121 to 183 form an integral part of these financial statements.

Statement of Financial Position

As at 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2023	2022
Assets			
Cash and cash equivalents	18	33,917	170,399
Placements with financial Institutions	19	54,068	2,427,981
Securities purchased under repurchase agreements	20	-	288,795
Financial assets at fair value through profit or loss	21	1,121,790	2,866
Financial assets at amortised cost - loans and advances	22	3,042,903	3,056,448
Financial assets at fair value through other comprehensive income	23	2,185	2,120
Financial investments at amortised cost	24	1,250,021	221,329
Other assets	25	68,125	46,730
Current tax receivable		6,255	6,255
Right-of-use assets	26	18,708	11,102
Property, plant and equipment	27	47,189	53,980
Intangible assets	28	190,394	173,171
Deferred tax asset	29	117,493	123,450
Total assets		5,953,048	6,584,626
Liabilities			
Financial liabilities at amortised cost – due to customers	30	2,616,766	3,786,922
Financial liabilities at amortised cost - due to banks	31	502,117	-
Lease liabilities	26	20,025	13,833
Retirement benefit obligations	32	9,133	8,989
Other liabilities	33	160,242	171,113
Total liabilities		3,308,283	3,980,857
Equity			
Stated capital	34	2,934,582	2,934,582
Statutory reserve fund	35	16,688	14,716
Fair value through other comprehensive income	36	3,154	1,596
Accumulated losses	36	(309,659)	(347,125)
Total equity		2,644,765	2,603,769
Total equity and liabilities		5,953,048	6,584,626
Net asset per share (Rs.)		22.53	22.18
Commitments and contingencies	38	497,339	505,052

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



Head of Finance
Yasoda Sewwandi



Director / Chief Executive Officer
Nazeem Mohamed

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



Chairperson
Renuka Fernando
Colombo
16 February 2024



Director
Priyan Edirisinghe

The notes on pages 121 to 183 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December, <i>(All amounts in Sri Lanka Rupees thousands)</i>	Note	Stated capital	Statutory reserve fund	Retained earnings / (accumulated losses)	Fair value through OCI reserve	Total
Balance at 1 January 2023		2,934,582	14,716	(347,125)	1,596	2,603,769
Profit for the year		-	-	39,438	-	39,438
Other comprehensive income, net of tax		-	-	-	1,558	1,558
Total comprehensive income for the year		-	-	39,438	1,558	40,996
Transferred to statutory reserve fund	35	-	1,972	(1,972)	-	-
Balance at 31 December 2023		2,934,582	16,688	(309,659)	3,154	2,644,765
Balance at 1 January 2022		2,934,582	11,361	(410,728)	1,580	2,536,795
Profit for the year		-	-	67,096	-	67,096
Other comprehensive income, net of tax		-	-	(138)	16	(122)
Total comprehensive income for the year		-	-	66,958	16	66,974
Transferred to statutory reserve fund	35	-	3,355	(3,355)	-	-
Balance at 31 December 2022		2,934,582	14,716	(347,125)	1,596	2,603,769

The notes on pages 121 to 183 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December, (All amounts in Sri Lanka Rupees thousands)	Note	2023	2022
Cash flows from operating activities			
Profit / (Loss) before income tax		44,742	67,096
Adjustment for,			
Interest expenses	6.2	394,228	359,526
Impairment charges and other losses	10	21,816	84,884
Provision for retirement benefits obligation	11	4,207	2,727
Depreciation of property plant and equipment	12	17,477	19,641
Depreciation of right-of-use assets	12	7,781	6,499
Amortisation of intangible assets	12	26,784	20,110
Interest on lease liabilities	26.2	1,425	1,814
Net losses / (gains) on financial assets at fair value through profit or loss	8	399	(947)
Cash generated from operations before working capital changes		518,859	561,350
(Increase) in loans and advances		(28,496)	(348,522)
(Increase) in other assets	25	(21,395)	(12,807)
(Decrease) / increase in amounts due to customers	30	(1,170,156)	2,463,006
Increase in amounts due to banks	31	502,117	-
Increase in other liabilities		4,516	31,535
Cash (used in) / generated from operations		(194,555)	2,694,562
Interest paid		(409,615)	(383,416)
Retirement benefits paid	31.2	(1,917)	(1,195)
Net cash (used in) / generated from operating activities		(606,087)	2,309,951
Cash flows from investing activities			
Acquisition of property plant and equipment and intangible assets		(54,693)	(101,272)
Net investment in treasury bills	24	(1,016,192)	363,278
Net placements with financial institutions		-	698
Net investment in unit trust	21.2	(1,119,839)	-
Net cash flows from securities purchased under repurchased agreement	20	296,315	(101,674)
Net cash (used in) / generated from investing activities		(1,894,409)	161,030
Cash flows from financing activities			
Principle element of lease payment	26.3	(10,620)	(8,123)
Net cash (used in) financing activities		(10,620)	(8,123)
Net (decrease) / increase in cash and cash equivalents		(2,511,116)	2,462,858
Cash and cash equivalents at the beginning of the year		2,599,119	136,261
Cash and cash equivalents at the end of the year		88,003	2,599,119
Analysis of cash and cash equivalents at the end of the year			
Cash and bank balances	18	33,922	170,440
Placements with financial institutions (less than 90 days)	19	54,081	2,428,679
		88,003	2,599,119
Less: Impairment provision		(18)	(739)
		87,985	2,598,380

The notes on pages 121 to 183 form an integral part of these financial statements.

Notes to the Financial Statements

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

1. Corporate information

1.1 General

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

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

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

1.2 Principal activities

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

1.3 Parent entity and ultimate parent entity

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

1.4 Number of employees

The staff strength of the Company as at 31 December 2023 is 97 (31 December 2022 - 85).

1.5 Approval of financial statements by directors

The financial statements of the Company, for the period ended 31 December 2023, were authorised for issue by the Board of Directors on 16 February 2024. The Directors have the power to amend and reissue the financial statements.

2. Basis of preparation

2.1 Statement of compliance

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

2.2 Responsibility for financial statements

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

2.3 Basis of measurement

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

- Financial assets at fair value through other comprehensive income [Note 23];
- Financial assets at fair value through profit or loss [Note 21];
- Liabilities for defined benefit obligations are recognised at the present value of defined benefit obligation based on actuarial valuation [Note 32].

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 45.

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

2.6 Materiality and aggregation

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

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

2.7 Statement of cash flows

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

3.1 Going concern

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

Notes to the Financial Statements

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

3.2 Impairment losses on loans and advances

The measurement of impairment losses under SLFRS 9 'financial instruments' across all categories of financial assets require judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

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

3.3 Fair value of financial instruments

The determination of fair value of financial assets and financial liabilities recorded on the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that includes the use of mathematical models. The valuation of financial instrument is described in Note 37 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 37.3 to the financial statements.

3.4 Financial assets and financial liabilities classification

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

3.5 Taxation

(a) Income taxes

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

(b) Deferred income tax assets

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

3.6 Defined benefit obligation

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) for defined benefit plan include the discount rate, future salary increase rate, mortality rate, withdrawal and disability rates and retirement age. Any changes in these assumptions will impact the carrying amount of defined benefit plan. The Company determine the appropriate discount rate at the end of each financial reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows, expected to be required to settle the defined benefit plan. In determining the appropriate discount rate,

Notes to the Financial Statements

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

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

3.6 Defined benefit obligation (Contd.)

the Company considers the interest yield of long-term Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related defined benefit plan. Other key assumptions for defined benefit plan are based in part on current market conditions as disclosed in Note 32 to the financial statements.

3.7 Estimated useful lives of property, plant and equipment (PPE) and intangible assets

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

3.8 Commitment and contingent liabilities

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

4. Changes in accounting policies

4.1 New standards and amendments – applicable after 1 January 2023

The Company has applied the following amendments for the first time for their reporting period commencing 1 January 2023:

(a) Amendments to LKAS 1 Presentation of Financial Statements and SLFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies

The amendments change the requirements in LKAS 1 with regard to disclosure of accounting policies.

The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in LKAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in SLFRS Practice Statement 2.

(b) Amendments to LKAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to LKAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in LKAS 12.

Notes to the Financial Statements

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

(c) Amendments to LKAS 12 Income Taxes– International Tax Reform–Pillar Two Model Rules

The IASB amends the scope of LKAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top up taxes described in those rules.

The amendments introduce a temporary exception to the accounting requirements for deferred taxes in LKAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Following the amendments, the Company is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

(d) Amendments to LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors– Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

4.2 New standards, amendments and interpretations issued but not yet adopted in 2023 by the Company

The Company has not applied the following new and revised accounting standards that have been issued but are not yet effective for annual reporting period ending 31 December 2023.

(a) Amendments to SLFRS 10 Consolidated Financial Statements and LKAS 28 Investments in Associates and Joint Ventures–Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to SLFRS 10 and LKAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in

a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent’s profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB.

(b) Amendments to LKAS 1 Presentation of Financial Statements–Classification of Liabilities as Current or Non-current

The amendments to LKAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024.

(c) Amendments to LKAS 1 Presentation of Financial Statements–Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity’s right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent).

Notes to the Financial Statements

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

4. Changes in accounting policies (Contd.)

4.2 New standards, amendments and interpretations issued but not yet adopted in 2023 by the Company (Contd.)

Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024.

(d) Amendments to LKAS 7 Statement of Cash Flows and SLFRS 7 Financial Instruments: Disclosures—Supplier Finance Arrangements

The amendments add a disclosure objective to LKAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, SLFRS 7 was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements.

- The terms and conditions of the arrangements
- The carrying amount, and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements
- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers
- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement
- Liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024.

(e) Amendment to SLFRS 16 Leases—Lease Liability in a Sale and Leaseback

The amendments to SLFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in SLFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example,

Notes to the Financial Statements

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

following a lease modification or change in the lease term) applying the general requirements in SLFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

As part of the amendments, the IASB amended an Illustrative Example in SLFRS 16 and added a new example to illustrate the subsequent measurement of a right-of-use asset and lease liability in a sale and leaseback transaction with variable lease payments that do not depend on an index or rate. The illustrative examples also clarify that the liability, that arises from a sale and leaseback transaction that qualifies as a sale applying SLFRS 15, is a lease liability.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

5. Summary of material accounting policies

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

5.1 Financial instruments – initial recognition, classification and subsequent measurement

(a) Date of recognition

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

(b) Initial measurement of financial instruments

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

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

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

The details of the above conditions are outlined below.

Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity’s key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

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

- 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.

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

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

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

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

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on

Notes to the Financial Statements

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

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

Details of cash and cash equivalents are given in Note 18 to the financial statements.

(e) Classification and subsequent measurement of financial liabilities

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

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

(f) Reclassifications of financial assets and financial liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Classification of financial liabilities is changed where the business model is changed. The Company did not reclassify any of its financial assets or liabilities in for the financial year ended 31 December 2023.

(g) Derecognition of financial assets and financial liabilities.

(i) Derecognition of financial assets

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

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

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

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

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

Notes to the Financial Statements

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

5. Summary of material 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.)

A transfer only qualifies for derecognition if either:

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

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

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

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

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

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

(ii) Derecognition of financial liabilities

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

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

5.2 Determination of fair value

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

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

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

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

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

Notes to the Financial Statements

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

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 37 to the financial statements.

5.3 Impairment of financial assets

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

The Company recognises expected credit losses for all loans and other debt financial assets not held at fair value through profit or loss, together with loan commitments, financial guarantee contracts, placements with financial institutions and cash and cash equivalents. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss 12m ECL. The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 43.2.

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

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

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

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

5.3 Impairment of financial assets (Contd.)

(ii) The calculation of expected credit loss (ECL) (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 key elements used in the ECL calculations are outlined below;

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

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

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

The mechanism of the ECL method are summarised below.

Stage 1:

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

Stage 2:

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

Stage 3:

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

Loan commitments:

When estimating LTECLs for undrawn loan commitments, the Company estimates the expected

Notes to the Financial Statements

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

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

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

(iii) Financial guarantee contracts:

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

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

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

(v) Debt factoring and revolving loans

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

facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

(vi) Forward looking information

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

- Gross Domestic Product growth in the principal market for the asset or liability;
- Unemployment rates published by Central Bank of Sri Lanka;
- Central Bank rates such as exchange rates, interest rates; and
- Inflation rates published by Central Bank of Sri Lanka.

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

5.4 Modification of loans

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

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

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

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

5.5 Write-off of loans and advances

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

5.6 Offsetting financial instruments

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

5.7 Repurchase and reverse repurchase agreements

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

between the sale and re-purchase price is treated as interest expense and is accrued over the life of agreement using the EIR.

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

5.8 Accounting for leases where the Company is the lessee

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

(a) ROU assets

ROU assets are initially measured at cost comprising the following:

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

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

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

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

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

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

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

(c) Remeasurement of lease liabilities

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

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

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

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

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

5.9 Property, plant and equipment (PPE)

(a) Measurement

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

The cost of PPE comprises expenditure directly attributable to the acquisition of the item. These costs include the costs of dismantling, removal and restoration, and the obligation for which an

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

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

(a) Measurement (Contd.)

entity incurs either when the item is acquired or as a consequence of having used the item during a particular period.

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

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

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

	Years
Buildings	40
Computer equipment	5
Office furniture	5
Office equipment	5
Motor vehicles	5

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.

Notes to the Financial Statements

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

5.10 Intangible assets

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

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

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

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

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

5.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that

the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. The impairment loss is charged to comprehensive income. Any subsequent increase in recoverable amount is recognised in comprehensive income.

5.12 Stated capital

(a) Classification

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

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

(b) Share issue expenses

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

(c) Dividends on ordinary shares

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

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

5.13 Employee benefits (Contd.)

5.13 Employee benefits

(a) Short term employee benefits

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

(b) Defined contribution plans

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

(c) Defined benefit plan - gratuity

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

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

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

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligations and included in employee benefit expense in the comprehensive income. The current service cost

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

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the statement of financial position. The assumptions based on which the results of the actuarial valuation were determined, are included in Note 32 to the financial statements.

(d) Termination benefits

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

5.14 Statutory reserve fund

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

5.15 Provisions

Provisions are recognised when the Company have a present legal or constructive obligation as a result of

Notes to the Financial Statements

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

past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

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

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

5.16 Recognition of income and expenses

(a) Interest income and interest expense

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all 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 43.2. (a)) and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit - impaired, the company reverts to calculating interest income on a gross basis.

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

(b) Fees and commission income and expenses

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

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

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

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

5.16 Recognition of income and expenses (Contd.)

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

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 year.

(e) Personnel expenses

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

5.17 Taxes

(a) Income tax

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

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

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

Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

SSCL on financial services is calculated in accordance with the Social Security Contribution Levy Act No.25 of 2002. The base for the computation of value added tax on financial services is the accounting profit before VAT, SSCL and income tax, adjusted for the economic

depreciation and emoluments payable to employees including cash, non-cash benefits and provisions relating to terminal benefits.

The SSCL on Financial service is recognised as expense in the period it becomes due.

(d) Deposit insurance and liquidity support scheme

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

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

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

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

(e) Withholding tax on dividends

Withholding Tax on Dividends Distributed by the Company that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. At present, the rate of 15% is deducted at source

(f) 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.

Notes to the Financial Statements

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

5. Summary of material accounting policies (Contd.)

5.18 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

5.19 Operating segments

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

The Company has five reportable segments, leases and hire purchases, margin trading, factoring and revolving loans, term loans and treasury which are the Company's strategic products / divisions. Those offer different products and services and are managed separately based on the Company's management and internal reporting structure. For each of the strategic divisions, the Company's Board of Directors reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included in Note 45. Performance is measured based on segment profit before tax. Segment profit is used to measure performance as management believes that such information is the

most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

5.20 Commitments and contingencies

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

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

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

Undrawn loan commitment

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

Notes to the Financial Statements

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

6. Net interest income

6.1 Interest income

	Year ended 31 December	
	2023	2022
Placements with banks and financial institutions	304,416	325,760
Securities purchased under repurchase agreements	23,694	99,464
Sri Lanka government securities	106,685	40,607
Lease/hire purchase receivable	41,525	46,363
Factoring and revolving loans	157,296	123,861
Margin trading receivables	172,112	156,879
Term loans	287,429	191,919
Total interest income	1,093,157	984,853

6.2 Interest expense

	Year ended 31 December	
	2023	2022
Deposits from customers	373,215	359,526
Bank borrowings	21,013	-
Total interest expense	394,228	359,526
Net interest income	698,929	625,327

7. Net fee and commission income

7.1 Fee and commission income

	Year ended 31 December	
	2023	2022
Loans & advances related services	15,679	8,121
Savings & debit card related services	40,748	7,901
Other financial services	4,378	1,886
Total fee and commission income	60,805	17,908

7.2 Fee and commission expenses

	Year ended 31 December	
	2023	2022
Other financial services	10,251	2,792
Total fee and commission expenses	10,251	2,792
Net fee and commission income	50,554	15,116

Notes to the Financial Statements

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

8. Net gains from trading

	Year ended 31 December	
	2023	2022
Equities		
Net (losses)/gains on financial assets at fair value through profit or loss (Note 21.2)	(399)	947
	(399)	947

9. Other operating income

	Year ended 31 December	
	2023	2022
Default charges	5,951	2,224
Recovery of bad debt written off	398	5,250
Dividend income (Note 23)	180	-
Other income	1,061	18,716
	7,590	26,190

10. Credit loss expense on financial assets and other losses

The table below shows the expected credit loss (ECL) charges/ (reversals) for financial assets for the year ended 31 December 2023 and for the year ended 31 December 2022 recorded in the income statement.

	Year ended 31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents (Note 18.1)	(36)	-	-	(36)
Placement with financial institutions (Note 19.1)	(685)	-	-	(685)
Securities purchased under repurchase agreements (Note 20.1)	(7,520)	-	-	(7,520)
Financial assets at fair value through profit or loss (Note 21.2.1)	516	-	-	516
Financial investments at amortised cost (Note 24.1)	(12,500)	-	-	(12,500)
Lease/hire purchase receivables (Note 22.1.c)	(5,019)	(3,859)	13,757	4,879
Factoring and revolving loans (Note 22.2.b)	(6,009)	(192)	369	(5,832)
Margin trading receivables (Note 22.3.b)	(1,454)	-	-	(1,454)
Term loans (Note 22.4.b)	(5,870)	2,259	48,059	44,448
	(38,577)	(1,792)	62,185	21,816

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

Notes to the Financial Statements

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

11. Personnel expenses

	Year ended 31 December	
	2023	2022
Wages, salaries and others	203,123	172,657
staff allowances and benefits	23,395	18,015
Contributions to defined contribution plans	20,506	15,045
Contributions to defined benefit plans (Note 32.1.(a))	4,207	2,727
	251,231	208,444

12. Depreciation and amortisation

	Year ended 31 December	
	2023	2022
Depreciation of property, plant and equipment (Note 27)	17,477	19,641
Amortisation of intangible assets (Note 28)	26,784	20,110
Depreciation of right-of-use assets (Note 26.2)	7,781	6,499
	52,042	46,250

13. Other Expenses

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

	Year ended 31 December	
	2023	2022
Directors' emoluments	5,600	2,227
Independence auditor remuneration		
- Audit fees	1,536	1,286
- Non-audit and other services	990	844
Professional and legal expenses	17,160	12,772
Deposit insurance premium	2,681	2,155
Donations	-	-
Interest on lease liability (Note 26.2)	1,425	1,814
IT related expenses	138,846	99,811
Savings & payment services operating expenses	64,534	33,290
Advertising & sales promotion expenses	28,413	15,039
Unrecoverable VAT expenses	23,506	14,390
Office administration expenses	20,250	15,456
Other expenses	23,755	13,645
	328,696	212,729

14. Taxes on financial services

	Year ended 31 December	
	2023	2022
Value added tax on financial services	51,443	46,141
Social Security levy on financial services	6,704	2,036
	58,147	48,177

Notes to the Financial Statements

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

15. Income tax (reversal) / expense

15.1 The major components of income tax expense for the year ended 31 December 2023 and for the year ended 31 December 2022 are as follows:

	Year ended 31 December	
	2023	2022
Current tax expense		
Current tax expense for the year	-	-
Under / (over) provision of current taxes in respect of previous years	-	-
	-	-
Deferred tax reversal		
Deferred tax reversal for the year (Note 29)	5,304	-
	5,304	-
Deferred tax reversal / (charge) on other comprehensive income	(653)	56
Effective tax rate	11.85%	0.00%

15.2 Reconciliation of effective tax rate

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

	Year ended 31 December	
	2023	2022
Profit before tax	44,742	67,096
At the statutory income tax rate of 30%	13,423	20,129
Tax effect of non-deductible expenses	42,305	56,618
Tax effect of other allowable credits	(36,817)	(17,967)
Tax effect of losses claimed	(18,911)	(58,780)
Deferred tax reversal / (expense) not recognised	-	-
	-	-

The Company's profit is subjected to a corporate tax of 30% during the year ended 31 December 2023 and during the year ended 31 December 2022.

16. Profit/(loss) per share – basic

16.1 Profit/(loss) per share

	Year ended 31 December	
	2023	2022
Profit attributable to the equity holders of the Company	39,438	67,096
Weighted average number of ordinary shares during the year (Note 16.2)	117,399,866	117,399,866
Basic profit/loss per share (Rs.)	0.34	0.57

Notes to the Financial Statements

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

16.2 Weighted average number of ordinary shares

	Number of shares		Weighted average number of shares	
	31 Dec 2023	31 Dec 2022	31 Dec 2023	31 Dec 2022
Number of ordinary shares in issue as at 1 January	117,399,866	117,399,866	117,399,866	117,399,866
Number of shares in issue / weighted average number of ordinary shares as at 31 December	117,399,866	117,399,866	117,399,866	117,399,866

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

16.3 Diluted earnings per share

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

17. Analysis of financial instruments by measurement basis

As at 31 December 2023	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
Financial assets				
Cash and cash equivalents	33,917	-	-	33,917
Placements with banks and financial institutions	54,068	-	-	54,068
Securities purchased under repurchase agreements	-	-	-	-
Financial assets at fair value through profit or loss	-	1,121,790	-	1,121,790
Financial assets at amortised cost - loans and advances	3,042,903	-	-	3,042,903
Financial assets at fair value through other comprehensive income	-	-	2,185	2,185
Financial investments at amortised cost	1,250,021	-	-	1,250,021
Total financial assets	4,380,909	1,121,790	2,185	5,504,884
Financial liabilities				
Financial liabilities at amortised cost – due to customers	2,616,766	-	-	2,616,766
Financial liabilities at amortised cost - due to banks	502,117	-	-	502,117
Lease liabilities	20,025	-	-	20,025
Total financial liabilities	3,138,908	-	-	3,138,908

Notes to the Financial Statements

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

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

As at 31 December 2022	Amortised cost	Equity instrument - FVTPL	Equity instrument - FVTOCI	Total
Financial assets				
Cash and cash equivalents	170,399	-	-	170,399
Placements with banks and financial institutions	2,427,981	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	288,795
Financial assets at fair value through profit or loss	-	2,866	-	2,866
Financial assets at amortised cost - loans and advances	3,056,448	-	-	3,056,448
Financial assets at fair value through other comprehensive income	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	221,329
Total financial assets	6,164,952	2,866	2,120	6,169,938
Financial liabilities				
Financial liabilities at amortised cost – due to customers	3,786,922	-	-	3,786,922
Financial liabilities at amortised cost - due to banks	-	-	-	-
Lease liabilities	13,833	-	-	13,833
Total financial liabilities	3,800,755	-	-	3,800,755

18. Cash and cash equivalents

	31 December	
	2023	2022
Cash in hand	18	-
Cash in eZ cash wallet	49,289	5,096
Balances with banks	(15,385)	165,344
Less: Allowance for expected credit loss (Note 18.1)	(5)	(41)
	33,917	170,399

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

	2023	2022
Balance as at 1 January	41	39
Charge for the year	(36)	2
Balance as at 31 December	5	41

18.2 Reconciliation to cash flow statement

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

	2023	2022
Cash and cash equivalents as at 31 December	33,917	170,399
Placement with financial institutions (less than 3 months) (Note 19)	54,068	2,427,981
Cash and cash equivalents as at 31 December as per Cash Flow Statement	87,985	2,598,380

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

Notes to the Financial Statements

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

19. Placements with financial institutions

	31 December	
	2023	2022
Placement with financial institutions (less than 3 months)	54,081	2,428,679
Less: Allowance for expected credit losses (Note 19.1)	(13)	(698)
	54,068	2,427,981

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

	2023	2022
Balance as at 1 January	698	-
(Reversal)/ charge for the year	(685)	698
Balance as at 31 December	13	698

20. Securities purchased under repurchase agreements

	31 December	
	2023	2022
Repos	-	296,315
Less: allowance for expected credit loss (Note 20.1)	-	(7,520)
	-	288,795

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

	2023	2022
Balance as at 1 January	7,520	-
(Reversal)/ charge for the year	(7,520)	7,520
Balance as at 31 December	-	7,520

21. Financial assets at fair value through profit or loss

	31 December	
	2022	2021
Quoted equity shares (Note 21.1)	2,467	2,866
Investment in unit trust (Note 21.2)	1,119,323	-
	1,121,790	2,866

21.1 Quoted equity shares

	31 December 2023		31 December 2022	
	No of Shares	Carrying / Fair value	No of Shares	Carrying / Fair value
Balangoda Plantations PLC	22,000	1,117	22,000	1,804
Tokyo Cement Company (Lanka) PLC	8,972	413	8,157	269
The Kingsbury PLC	30,000	324	30,000	255
John Keells Hotels PLC	32,584	613	32,584	538
Total market value		2,467		2,866

Notes to the Financial Statements

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

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

21.1.1 During the year, shareholding of Tokyo Cement Company (Lanka) PLC increased by 815 shares pursuant to a share issuance related to the capitalization of reserves in the proportion of 1: 10.

21.1.2 The amount of investment in quoted equity shares is as follows

	31 December	
	2023	2022
Balance at the beginning of the year	2,866	1,919
Fair value gain (Note 8)	(399)	947
Disposals	-	-
Balance at the end of the year	2,467	2,866

21.2 The amount of Investment in unit trust is as follows

	31 December	
	2023	2022
Balance at the beginning of the year	1,119,839	-
Less: Allowances for expected credit loss (Note 21.2.1)	(516)	-
Balance at the end of the year	1,119,323	-

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

	31 December	
	2023	2022
Balance as at 1 January	-	-
Charge for the year	516	-
Balance as at 31 December	516	-

22. Loans and advances

	31 December	
	2023	2022
Gross loans and advances	3,185,636	3,181,605
Less: provision for impairment	(142,733)	(125,157)
	3,042,903	3,056,448

	Notes	31 December	
		2023	2022
Lease/hire purchase receivable	22.1	250,614	322,924
Factoring and revolving loans	22.2	437,932	604,847
Margin trading receivables	22.3	720,932	648,925
Term loans	22.4	1,633,425	1,479,752
		3,042,903	3,056,448

Notes to the Financial Statements

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

22.1 Lease / hire purchase receivable

	31 December	
	2023	2022
At amortised cost		
Total rental receivable		
Within one year	128,038	174,712
From one to five years	262,430	286,142
More than five years	-	-
	390,468	460,854
Less: Unearned interest income	(107,269)	(110,042)
Less: Prepaid rentals	-	-
Gross receivable	283,199	350,812
Less: Provision for impairment		
Stage 1	(7,650)	(12,669)
Stage 2	(8,940)	(12,799)
Stage 3	(15,995)	(2,420)
Net receivable	250,614	322,924

The Company provides finance leasing facilities. No lease receivables as at 31 December 2023 have been assigned for funding arrangements. (31 December 2022 - Nil).

(a) Maturity analysis of net receivable

As at 31 December 2023	1 Year	1 - 5 Years	More than 5 Years	Total
Total rental receivable	128,038	262,430	-	390,468
Less: Unearned interest income	(46,038)	(61,231)	-	(107,269)
Gross receivable	82,000	201,199	-	283,199
Less: Allowance for expected credit losses	(2,949)	(29,636)	-	(32,585)
Net receivable	79,051	171,563	-	250,614

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

Notes to the Financial Statements

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

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

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	37,705	37,705
Receivable - subject to collective impairment	174,141	55,231	16,122	245,494
Allowance for expected credit losses	(7,650)	(8,940)	(15,995)	(32,585)
	166,491	46,291	37,832	250,614

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

(c) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2023	12,669	12,799	2,420	27,888
(Reversal) / Charge to income statement (Note 10)	(5,019)	(3,859)	13,757	4,879
Write off of receivables	-	-	(182)	(182)
Balance as at 31 December 2023	7,650	8,940	15,995	32,585

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

(d) Lease income from lease / hire purchase contracts

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

	31 December	
	2023	2022
Interest income from leases the company acts as the lessor	41,525	46,363
	41,525	46,363

22.2 Factoring & revolving loans

	31 December	
	2023	2022
Gross factoring & revolving loan receivable	441,136	617,645
Less: Provision for impairment		
Stage 1	(3,185)	(9,194)
Stage 2	(1)	(193)
Stage 3	(18)	(3,411)
	437,932	604,847

Notes to the Financial Statements

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

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

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	-	-
Receivable - subject to collective impairment	441,071	12	53	441,136
Allowance for expected credit losses (ECL)	(3,185)	(1)	(18)	(3,204)
	437,886	11	35	437,932

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

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2023	9,194	193	3,411	12,798
(Reversal) / charge to income statement [Note 10]	(6,009)	(192)	369	(5,832)
Write off impact	-	-	(3,762)	(3,762)
Balance as at 31 December 2023	3,185	1	18	3,204

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

22.3 Margin trading receivables

	31 December	
	2023	2022
Opening balance	653,797	989,788
Net payment and receipts	70,553	(335,991)
Margin trading receivable	724,350	653,797
Less: Provision for impairment		
Stage 1	(3,418)	(4,872)
Margin trading receivable (net of provisions)	720,932	648,925

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

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Individually impaired receivable	-	-	-	-
Receivable - subject to collective impairment	724,350	-	-	724,350
Allowance for expected credit losses (ECL)	(3,418)	-	-	(3,418)
	720,932	-	-	720,932

Notes to the Financial Statements

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

22. Loans and advances (Contd.)

22.3 Margin trading receivables (Contd.)

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

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2023	4,872	-	-	4,872
(Reversal) / charge to income statement [Note 10]	(1,454)	-	-	(1,454)
Write off	-	-	-	-
Balance as at 31 December 2023	3,418	-	-	3,418

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

22.4 Term Loans

	31 December	
	2022	2021
Gross investment in term loans	2,164,671	2,006,415
Term loans in arrears	100,094	56,089
	2,264,765	2,062,504
Unearned loan income	(527,814)	(503,154)
Net investment in term loans	1,736,951	1,559,350
Less: Provision for impairment		
Stage 1	(12,719)	(18,589)
Stage 2	(35,618)	(33,359)
Stage 3	(55,189)	(27,650)
Net investment in term loans after impairment	1,633,425	1,479,752

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

As at 31 December 2023	Stage 1	Stage 2	Stage 3	Total
Individually impaired loan receivable	-	28,924	16,204	45,128
Loan receivable - subject to collective impairment	1,506,784	103,556	81,483	1,691,823
Allowance for expected credit losses (ECL)	(12,719)	(35,618)	(55,189)	(103,526)
	1,494,065	96,862	42,498	1,633,425

Notes to the Financial Statements

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

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

(b) Movement in allowance for expected credit losses

	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2023	18,589	33,359	27,650	79,598
(Reversal) / charge to statement of profit or loss and Other [Note 10]	(5,870)	2,259	48,059	44,448
Write off	-	-	(20,520)	(20,520)
Balance as at 31 December 2023	12,719	35,618	55,189	103,526

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

During the year loans and advances written-off amounting to Rs. 30.90Mn. (Loans and advances written-off during the year ended 31 December 2022 amounted Rs. 24.96Mn).

23. Financial assets fair value through other comprehensive income

	31 December	
	2023	2022
Financial assets at fair value through other comprehensive income (FVOCI)	2,185	2,120
	2,185	2,120

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

(b) During the period ended 31 December 2023, the Company received dividend of Rs. 179,520 from unquoted equity investments and recognized as other operating income. (Note 9)

24. Financial investments at amortised cost

	31 December	
	2023	2022
Financial investments at amortised cost	1,250,021	233,829
Less: allowance for expected credit loss (Note 24.1)	-	(12,500)
Total other assets	1,250,021	221,329

Notes to the Financial Statements

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

24. Financial investments at amortised cost (Contd.)

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

	31 December	
	2023	2022
Balance as at 1 January	12,500	-
(Reversal) / charge for the year	(12,500)	12,500
Balance as at 31 December	-	12,500

25. Other assets

	31 December	
	2023	2022
Amounts due from related companies (Note 42)	12,613	7,799
Deposits and prepayments	19,850	14,360
WHT receivables	18,626	3,440
Debit card inventory	4,722	10,213
Other receivable	12,314	10,918
Total other assets	68,125	46,730

26. Leases

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

26.1 Amounts recognised in the statement of financial position

	31 December	
	2023	2022
Right-of-use assets		
Buildings	18,708	11,102
	18,708	11,102
Lease liabilities		
Current	12,798	8,048
Non-current	7,227	5,785
	20,025	13,833

26.2 Amounts recognised in the statement of profit or loss

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

	Year ended 31 December	
	2023	2022
Depreciation charge of right-of-use assets (Note 12)	7,781	6,499
Interest expense (Note 13)	1,425	1,814

26.3 Amounts presented in the statement of cash flows

	Year ended 31 December	
	2023	2022
Total cash outflow for leases	10,620	8,123

Notes to the Financial Statements

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

26.4 Right-of-use (ROU) assets

	Year ended 31 December	
	2023	2022
At beginning of the year	11,102	17,601
Addition	15,387	-
Depreciation during the year	(7,781)	(6,499)
At end of the year	18,708	11,102

26.5 Lease liabilities

	Year ended 31 December	
	2023	2022
At beginning of the year	13,833	20,142
Payments during the year	(10,620)	(8,123)
Addition	15,387	-
Interest for the year	1,425	1,814
At end of the year	20,025	13,833

27. Property, plant and equipment

	Land and buildings	Furniture, fittings and other equipment	Computers	Motor vehicles	Total
At 31 December 2023					
Cost	23,835	37,256	94,841	240	156,172
Accumulated depreciation	(8,470)	(25,142)	(75,131)	(240)	(108,983)
Net book amount	15,365	12,114	19,710	-	47,189
Year ended 31 December 2023					
Opening net book amount	15,662	16,632	21,686	-	53,980
Additions	-	1,428	9,258	-	10,686
Disposals - Cost	-	-	-	-	-
Disposals - Accumulated depreciation	-	-	-	-	-
Depreciation charge	(297)	(5,946)	(11,234)	-	(17,477)
Closing net book amount	15,365	12,114	19,710	-	47,189
At 31 December 2022					
Cost	23,835	35,828	85,583	240	145,486
Accumulated depreciation	(8,173)	(19,196)	(63,897)	(240)	(91,506)
Net book amount	15,662	16,632	21,686	-	53,980
Period ended 31 December 2022					
Opening net book amount	15,958	22,500	22,349	-	60,807
Additions	-	194	12,620	-	12,814
Disposals - Cost	-	-	-	-	-
Disposals - Accumulated depreciation	-	-	-	-	-
Depreciation charge	(296)	(6,062)	(13,283)	-	(19,641)
Closing net book amount	15,662	16,632	21,686	-	53,980

Notes to the Financial Statements

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

27. Property, plant and equipment (Contd.)

27.1 Property, plant and equipment acquired during the financial year

During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 10.69 Mn (31 December 2022 – Rs. 12.81Mn).

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 2023 is Rs. 75.68 Mn. (31 December 2022 – Rs. 22.31Mn).

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 2023	31 Dec 2022
No : 21, Kumara Veediya, within Ward No: 19 of Kandy Municipal Council, Kandy District, Central Province	0A-0R-4.75P	3040	1	8,313	15,522	15,365	15,662

28. Intangible assets

	Software	Capital work-in progress (CWIP)	Total
At 31 December 2023			
Cost	261,896	25,767	287,663
Accumulated amortisation	(97,269)	-	(97,269)
Net book amount	164,627	25,767	190,394
Year ended 31 December 2023			
Opening net book amount	146,428	26,743	173,171
Additions	21,216	22,791	44,007
Disposal / transfers	23,767	(23,767)	-
Amortisation charge	(26,784)	-	(26,784)
Closing net book amount	164,627	25,767	190,394
At 31 December 2022			
Cost / valuation	216,913	26,743	243,656
Accumulated depreciation	(70,485)	-	(70,485)
Net book amount	146,428	26,743	173,171
Period ended 31 December 2022			
Opening net book amount	104,625	198	104,823
Additions	61,913	26,545	88,458
Depreciation charge	(20,110)	-	(20,110)
Closing net book amount	146,428	26,743	173,171

Notes to the Financial Statements

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

28.1 Intangible assets acquired during the financial year

During the financial year, the Company acquired intangible assets (computer software) to the aggregate value of Rs. 44.01Mn. (31 December 2022: Rs. 88.46Mn).

28.2 Fully amortised intangible assets

Cost of fully depreciated intangible assets, which are still in use as at 31 December 2023 was Rs. 12.64Mn (31 December 2022: Rs. 12.63Mn).

29. Deferred tax asset

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

	Accelerated depreciation for tax purposes		Equity securities FVOCI	Provision for loan losses	Retirement benefit obligation	Tax loss on operation	Total
	Property plant and equipment	Leased assets					
Balance as at 1 January 2023	(11,503)	(723)	(248)	30,378	2,698	102,848	123,450
Income statement (Note 15.1)	(5,838)	363	(18)	(5,983)	686	5,486	(5,304)
Other comprehensive income	-	-	(10)	-	(643)	-	(653)
Balance as at 31 December 2023	(17,341)	(360)	(276)	24,395	2,741	108,334	117,493
Balance as at 1 January 2022	(7,495)	339	(175)	9,414	1,742	119,568	123,393
Income statement (Note 15.1)	(4,008)	(1,062)	(70)	20,964	896	(16,720)	-
Other comprehensive income	-	-	(3)	-	60	-	57
Balance as at 31 December 2022	(11,503)	(723)	(248)	30,378	2,698	102,848	123,450

The total temporary differences of Rs. 390.72Mn arising from tax losses and tax credits has resulted in deferred tax asset amounted to Rs. 117.49Mn as at 31 December 2023. Carried forward tax losses resulted from investments and operating performance of the Company over the past years. Inland Revenue Act No.24 of 2017 specifies that tax losses could be carried forward for a period of six years, to claim against taxable profits. Any carried forward tax losses prior to year of assessment 2018/2019 shall be treated as loss incurred in the year of assessment 2018/2019.

Based on the internal assessment carried out by the management, the Company has recognized deferred tax asset amounted to Rs. 117.49Mn as at 31 December 2023.

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits based on the future plans of the Company. The Company envisaged to achieve business growth by expanding assets book and fintech products portfolio across the country leveraging on technology platforms, an extensive distribution network, and customer base.

30. Financial liabilities at amortised cost – due to customers

	31 December	
	2023	2022
Savings deposits	687,691	341,645
Time deposits	1,929,075	3,445,277
	2,616,766	3,786,922

Notes to the Financial Statements

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

31. Financial liabilities at amortised cost – due to banks

	31 December	
	2023	2022
Short-term Bank borrowings		
DFCC Bank PLC	502,117	-
	502,117	-

32. Retirement benefit obligations

32.1 Defined benefit obligations

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

	31 December	
	2023	2022
At 1 January	8,989	7,258
Current service cost	2,688	1,958
Interest expense	1,519	770
Total amount recognized in profit and loss	4,207	2,728
Amount recognized in other comprehensive income		
Remeasurement (gain) / losses on defined benefit obligations	(2,146)	198
Total amount recognized in other comprehensive income	(2,146)	198
Benefits paid	(1,917)	(1,195)
At 31 December	9,133	8,989

This obligation is not externally funded.

An actuarial valuation of the gratuity fund was carried out as at 31 December 2023 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).

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

	31 December	
	2023	2022
Discount rate per annum	13.00%	16.90%
Future salary increment rate	10.00%	17.00%
Retirement age (years)	60 years	60 years
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table

Expected average future working life of the active participants is 2.60 years (31 December 2022 – 4.54 years).

Notes to the Financial Statements

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

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

	Change in assumption	31 December 2023		31 December 2022	
		Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by 3.46%	Increase by 3.72%	Decrease by 5.12%	Increase by 5.62%
Future salary growth rate	1.00%	Increase by 3.94%	Decrease by 3.72%	Increase by 5.76%	Increase by 5.33%

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

32.4 Maturity profile of defined benefit obligation

The distribution of the timing of undiscounted benefit payments is as follows:

	31 December	
	2023	2022
Within the next 12 months	2,150	1,116
Between 1-2 years	3,525	2,573
Between 3-5 years	3,530	4,024
Between 6-10 years	4,865	9,016
Beyond 10 years	2,712	18,481
	16,782	35,210
Weighted average duration of defined benefit obligation	4.00 years	6.20 years

33. Other liabilities

	31 December	
	2023	2022
Amounts due to related companies (Note 42)	27,884	34,265
Payable to margin trading customers	6,783	18,464
Accrued expenses	62,453	62,037
Vendor & other payables	47,906	47,596
Other payables	15,216	8,751
Total other liabilities	160,242	171,113

34. Stated capital

	31 December 2023		31 December 2022	
	Number of shares	Amount	Number of shares	Amount
Authorized, Issued and fully paid Ordinary shares				
Ordinary Shares as at 1 January	117,399,866	2,934,582	117,399,866	2,934,582
Ordinary Shares as at 31 December	117,399,866	2,934,582	117,399,866	2,934,582

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

Notes to the Financial Statements

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

35. Statutory reserve funds

	31 December	
	2023	2022
Balance as at 1 January	14,716	11,361
Transfers during the year	1,972	3,355
Balance as at 31 December	16,688	14,716

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.

36. Other reserves

The movement of the reserves is as follows:

	Fair value through other comprehensive income	(Accumulated losses)	Total
Balance at 1 January 2023	1,596	(347,125)	(345,529)
Profit for the year	-	39,438	39,438
Other comprehensive income, net of tax	1,558	-	1,558
Total comprehensive income for the period	1,558	39,438	40,996
Rights issue expense	-	-	-
Transferred to retained earnings	-	(1,972)	(1,972)
Balance as at 31 December 2023	3,154	(309,659)	(306,505)
Balance at 1 January 2022	1,580	(410,728)	(409,148)
Loss for the year	-	67,096	67,096
Other comprehensive income, net of tax	16	(138)	(122)
Total comprehensive income for the period	16	66,958	66,974
Rights issue expense	-	(3,355)	(3,355)
Balance as at 31 December 2022	1,596	(347,125)	(345,529)

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

37. Fair value of asset and liabilities

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income primarily consist of unquoted equity securities. Determination of the fair value of unquoted equity is detailed in Note 37.2.

Notes to the Financial Statements

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

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.

37.1 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	
	2023	2022	2023	2022	2023	2022
As at 31 December						
Financial Assets						
Financial assets at FVTPL	1,121,790	2,866	-	-	1,121,790	2,866
Financial assets at FVTOCI	-	-	2,185	2,120	2,185	2,120
	1,121,790	2,866	2,185	2,120	1,123,975	4,986

37.2 Valuation inputs and relationship to fair value

The following table summarises 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 2023	31 Dec 2022		31 Dec 2023	31 Dec 2022	
Unlisted equity securities	2,185	2,120	Adjusted net assets value per share	2,185	2,120	31 December 2023: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 109,300. 31 December 2022: increasing / decreasing adjusted net assets per share by 5% would change the fair value by Rs 105,000.

The following table summarises the movement of recurring FV measurement categorised within level 3.

	31 December	
	2023	2022
Amount as at the beginning of the year	2,120	2,101
Total gain / (loss) included under the other comprehensive income	65	19
Amount as at the end of the year	2,185	2,120

Notes to the Financial Statements

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

37. Fair value of asset and liabilities (Contd.)

37.3 Financial instruments not measured at fair value and fair value hierarchy

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

	Carrying value	Quoted prices in active markets	Significant observable input	Significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
As at 31 December 2023					
Financial assets					
Financial assets at amortised cost -					
Loans and advances	3,042,903	-	3,042,903	-	3,042,903
Financial investments at amortised cost (Treasury Bills / Bonds)	1,250,021	-	1,250,021	-	1,250,021
Total financial assets	4,292,924	-	4,292,924	-	4,292,924
Financial liabilities					
Financial liabilities at amortised cost - due to customers	2,616,766	-	2,616,766	-	2,616,766
Financial liabilities at amortised cost - due to banks	502,117	-	502,117	-	502,117
Total financial liabilities	3,118,883	-	3,118,883	-	3,118,883

	Carrying value	Quoted prices in active markets	Significant observable input	Significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
As at 31 December 2022					
Financial assets					
Financial assets at amortised cost -					
Loans and advances	3,056,448	-	3,056,448	-	3,056,448
Financial investments at amortised cost (Treasury Bills / Bonds)	221,329	-	221,329	-	221,329
Total financial assets	3,277,777	-	3,277,777	-	3,277,777
Financial liabilities					
Financial liabilities at amortised cost - due to customers	3,786,922		3,786,922		3,786,922
Total financial liabilities	3,786,922		3,786,922		3,786,922

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.

Notes to the Financial Statements

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

Assets

Cash and bank balances
 Securities purchased under repurchase agreements
 Placements with financial institutions
 Other assets

Liabilities

Other payables

All of the resulting fair value estimates are included in level 2, except for fair value hierarchies disclosed elsewhere in the financial statements, where the fair values have been determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

38. Commitments and contingencies

	31 December	
	2023	2022
Commitments		
Commitment for unutilised facilities		
- Factoring & revolving loans	486,267	476,594
Capital commitments	11,072	28,458
	497,339	505,052
Contingent liabilities		
Guarantees	-	-
Total commitments and contingencies	497,339	505,052

38.1 Commitment and contingencies

As at 31 December 2023	On demand	Within 01 year	1 - 5 years	More than 5 years	Total
Commitments					
Commitment for unutilised facilities					
- Factoring & revolving loans	486,267	-	-	-	486,267
Capital commitments	-	11,072	-	-	11,072
	486,267	11,072	-	-	497,339
Contingent liabilities					
Guarantees	-	-	-	-	-
Total commitments and contingencies	486,267	11,072	-	-	497,339

Notes to the Financial Statements

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

38. Commitments and contingencies (Contd.)

38.1 Commitment and contingencies (Contd.)

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

38.2 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 2023 which would have a material impact on the financial statements.

39. Events after the reporting period

No circumstances have arisen since the statement of financial position date which requires adjustments to or disclosures in the financial statements.

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

Implications of acute economic crisis

In the current year, the Sri Lankan economy demonstrates positive development, marking a significant turnaround from challenges stemming from the COVID-19 pandemic, tax cuts, and substantial sovereign debt repayments. Supported by vital measures, including financial assistance from the International Monetary Fund (IMF), the Sri Lankan economy shows clear signs of recovery.

Challenges faced in the previous year, such as inflation, higher interest rates, increased taxes, power cuts, and shortages in essential supplies, have been successfully mitigated. Government actions, coupled with international support, have fostered a more conducive business environment. The Central Bank of Sri Lanka (CBSL) reduced the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 100 basis points each in October and November 2023. Consequently, the SDFR and SLFR rates reached 9.00% and 10.00%, respectively, while prime lending rates dipped below 12%. The CBSL has indicated a pause in any additional monetary policy easing in the near term, allowing market interest rates to fall further in line with easing measures.

Proactive measures taken by the board have played a crucial role in ensuring smooth operations and business continuity during the year. Furthermore, accounting assumptions and estimates used in the preparation of financial statements including the adequacy of provision for Expected Credit Loss (ECL) recognized in the financial statements have been carefully evaluated given the movements in macroeconomic variables. While acknowledging positive changes, we remain vigilant, monitoring the evolving economic landscape. The future impact on our business hinges on the sustained recovery of the Sri Lankan economy, consumer spending patterns, and the overall resurgence of the country's enterprises. Recognizing external factors' influence on operations, the board remains committed in taking proactive steps to navigate potential challenges.

Notes to the Financial Statements

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

41. Comparative information

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

42. Related party transactions

The Company carried out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Related Parties as per the LKAS 24. The names of these related parties, nature of these transactions and their total value have been set out in accordance with the provisions of LKAS 24: "Related Party Disclosure".

42.1 Parent and ultimate parent

Dialog Axiata PLC owns 99.05% of the total number of shares in issue of the Company. The remaining 0.95% of the shares are widely held. The ultimate parent of the Company is Axiata Group Berhad.

42.2 Transactions with key Management Personnel

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

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

	31 December	
	2023	2022
Statement of Financial Position		
Assets		
Financial assets at amortised cost - Loans and advances	-	-
Liabilities		
Financial liabilities at amortised cost - Due to depositors	207,168	93,059
Net accommodation as a % of Company's regulatory capital		
Direct accommodation	0.0%	0.0%

	Year ended 31 December	
	2023	2022
Statement of Profit or Loss		
Expenses		
Directors' fees and short-term employee benefits	22,208	7,119
Interest expense	38,270	13,273

Notes to the Financial Statements

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

42. Related party transactions (Contd.)

42.3 Transactions with related companies

(a) Transactions with the parent company, Dialog Axiata PLC

	31 December	
	2023	2022
Statement of Financial Position		
Assets		
Cash in eZ cash wallet	49,289	5,096
Other assets	12,507	7,499
Liabilities		
Financial liabilities at amortised cost - Due to depositors	754,573	616,910
Other liabilities	13,123	4,511

	Year ended 31 December	
	2023	2022
Statement of Profit or Loss		
Income		
Interest & Fee income	2,557	1,902
Expenses		
Interest expense	67,494	53,106
Hosting fee	3,367	953
Commission expenses	1,954	-
Telecommunication services	1,319	1,109

(b) Transactions with the Affiliates

	31 December	
	2023	2022
Statement of Financial Position		
Assets		
Financial assets at amortised cost - loans and advances	-	-
Other assets	106	300
Intangible assets	19,759	-
Liabilities		
Financial liabilities at amortised cost - Due to depositors	24,938	2,231,009
Other liabilities	14,761	29,754
Net accommodation as a % of Company's regulatory capital		
Direct accommodation	0.0%	0.0%

Notes to the Financial Statements

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

	Year ended 31 December	
	2023	2022
Statement of Profit or Loss		
Income		
Interest & Fee income	-	321
Lease rental	720	276
Expenses		-
Interest expense	98,554	227,009
Telecommunication Services	72,361	44,521
Maintenance & support services	2,184	-

43. Risk management

43.1 Introduction

Risk is inherent in all aspects of financial business activities and whilst many of these risks cannot be eliminated, they can however be identified, quantified and controlled. Company had implemented a robust Enterprise Risk Management system for identifying, assessing, monitoring and managing material risk throughout the organisation which includes:

- Oversight of the risk management system.
- Examination of the Company's risk profile which contains a description of the material risks faced by the Company including financial and non-financial matters.
- Mechanism to review, at least annually, the effectiveness of the Company's implementation of the risk management system.

This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

(a) Risk Governance

The Board of Directors have overall responsibility to ensure that an effective Risk Management framework is developed and implemented across the company and the Board have delegated this responsibility to the Board Integrated Risk Management Committee (BIRMC). The BIRMC was set up to fulfil the requirements set out in the Finance companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No.42 of 2011. This subcommittee will be primarily responsible for the following,

- Assess all credit, market, liquidity, operation and strategic risk.
- Review the adequacy and effectiveness of all management level committees such as Asset and Liability Management Committee (ALCO) and Credit Committee.
- Adequacy of the Company's capital.
- Risk exposures and risk profiles of the company are within the Risk Appetite and to make recommendations to the Board of Directors on any action required.
- Ensure the company is compliant with relevant laws, regulations and standards.

The BIRMC Committee currently consists membership of 3 Directors (appointed by the Board), Chief Executive Officer and key management personnel from Risk Management, Finance and Operations.

Notes to the Financial Statements

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

43. Risk management (Contd.)

43.1 Introduction (Contd.)

The Assets and Liability Committee (ALCO) of the company meets every month to assess and discuss the Risk relating to Market, Liquidity, Assets and Liabilities. Investment related risks are also reviewed. Significant decisions made by ALCO is updated to the BIRMC and to the Board of Directors on a quarterly basis.

Further, Credit Committee decisions and credit related risks are also updated to BIRMC and to the Board of Directors on a quarterly basis.

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

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

(i) 1st Line of Defence

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

(ii) 2nd Line of Defence

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

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

(iii) 3rd Line of Defence

Oversight by Internal Audit and Board Audit Committee.

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

43.2 Credit Risk

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

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

Notes to the Financial Statements

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

Managing Credit Risk

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

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

(a) Impairment Assessment

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

(i) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal assessment of the borrower indicating default and near-default
- The borrower requesting emergency funding from the Company
- The borrower having past due liabilities to public creditors
- The borrower is deceased
- A material decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decreases in the borrower's turnover or the loss of a major customer
- A covenant breach not waived off by the Company
- The debtor (or any legal entity within debtor's group) filing for bankruptcy
- Debtor's listed debt or equity is suspended at the primary exchange because of rumors or facts about financial difficulties.

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(ii) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. The Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk basing on its age movements and the exposure defaults basing on the objective evidence.

Notes to the Financial Statements

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

43. Risk management (Contd.)

43.2 Credit Risk (Contd.)

(b) Credit quality by class of financial assets

Assets	Note	At 31 December 2023				At 31 December 2022				
		Neither past due nor impaired	Past due but not individually impaired	Individually impaired	Total	Neither past due nor impaired	Past due but not individually impaired	Individually impaired	Total	%
Cash and cash equivalents	18	33,922	-	-	33,922	170,440	-	-	170,440	2.68%
Placements with banks	19	54,081	-	-	54,081	2,428,679	-	-	2,428,679	38.17%
Securities purchased under repurchase agreements	20	-	-	-	-	296,315	-	-	296,315	4.66%
Financial assets at fair value through profit or loss	21	1,122,306	-	-	1,122,306	2,866	-	-	2,866	0.05%
Lease/hire purchase receivable	22.1	106,752	138,742	37,705	283,199	176,058	172,207	2,547	350,812	5.51%
Factoring & revolving loans	22.2	419,916	21,220	-	441,136	610,598	3,285	3,762	617,645	9.71%
Margin trading receivable	22.3	724,350	-	-	724,350	653,797	-	-	653,797	10.28%
Term loans	22.4	1,051,574	640,249	45,128	1,736,951	916,556	589,126	53,668	1,559,350	24.51%
Financial assets at fair value through other comprehensive income	23	2,185	-	-	2,185	2,120	-	-	2,120	0.03%
Financial investment at amortised cost	24	1,250,021	-	-	1,250,021	233,829	-	-	233,829	3.68%
Other financial assets		68,125	-	-	68,125	46,730	-	-	46,730	0.73%
Total financial assets		4,833,232	800,211	82,833	5,716,276	5,537,988	764,618	59,977	6,362,583	100.00%

Notes to the Financial Statements

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

(i) Aging analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of financial assets.

	31 December 2023					31 December 2022				
	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total	Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Lease/hire purchase receivable	57,152	46,278	19,190	16,122	138,742	111,074	53,352	6,527	1,254	172,207
Factoring & revolving loans	21,155	-	53	12	21,220	-	3,285	-	-	3,285
Margin trading receivable	-	-	-	-	-	-	-	-	-	-
Term loans	448,690	71,960	38,364	81,235	640,249	541,216	16,087	9,725	22,098	589,126
Total	526,997	118,238	57,607	97,369	800,211	652,290	72,724	16,252	23,352	764,618

(c) Maximum exposure to credit risk

	At 31 December 2023		At 31 December 2022	
	Maximum exposure to credit risk	Net exposure	Maximum exposure to credit risk	Net exposure
Financial assets				
Cash and bank balances	33,922	33,917	170,440	170,399
Placements with banks	54,081	54,068	2,428,679	2,427,981
Securities purchased under repurchase agreements	-	-	296,315	288,795
Financial assets at fair value through profit or loss	1,122,306	1,121,790	2,866	2,866
Lease/hire purchase receivable	283,199	250,614	350,812	322,924
Factoring & revolving loans	441,136	437,932	617,645	604,847
Margin trading receivable	724,350	720,932	653,797	648,925
Term loans	1,736,951	1,633,425	1,559,350	1,479,752
Financial assets at fair value through other comprehensive income	2,185	2,185	2,120	2,120
Financial investment at amortised cost	1,250,021	1,250,021	233,829	221,329
Other financial assets	68,125	68,125	46,730	46,730
Total financial assets	5,716,276	5,573,009	6,362,583	6,216,668

99.65% of loans and advances are secured against securities including immovable property, movable property, deposits held within the Company and other securities as at end of 31 December 2023.
(31 December 2022 – 99.96%)

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

	31 December 2023				31 December 2022			
	Vehicles	Land Security	Other Security	Total	Vehicles	Land Security	Other Security	Total
Lease/hire purchase receivable	53,827	-	-	53,827	3,801	-	-	3,801
Factoring & revolving loans	-	-	53	53	1,923	-	1,839	3,762
Term loans	-	12,199	85,488	97,687	1,464	5,604	34,899	41,967
Total	53,827	12,199	85,541	151,567	7,188	5,604	36,738	49,530

Notes to the Financial Statements

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

43. Risk management (Contd.)

43.2 Credit Risk (Contd.)

(e) 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 2023	Manu- facturing	Tourism	Agric- culture	Trade	Con- struc- tion	Transport	Services	Gover- nment	Financial Institutions	Con- sumption	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	33,917	-	-	33,917
Placements with banks	-	-	-	-	-	-	-	-	54,068	-	-	54,068
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-	-
Lease/hire purchase receivable	64,821	-	-	33,091	1,084	2,211	19,972	-	12,920	116,515	1,121,790	1,121,790
Factoring & revolving loans	1,577	-	-	236,384	48,424	40,674	110,873	-	-	-	-	250,614
Margin trading receivables	-	-	-	-	-	-	-	-	720,932	-	-	437,932
Term loans	1,304	-	-	439,298	36,244	-	448,828	-	8,511	699,240	-	720,932
Financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-	2,185	2,185
Financial investments at amortised cost	-	-	-	-	-	-	-	1,250,021	-	-	-	1,250,021
Other financial assets	-	-	-	-	-	-	-	-	-	-	68,125	68,125
Total financial assets	67,702	-	-	708,773	85,752	42,885	579,673	1,250,021	830,348	815,755	1,192,100	5,573,009

Notes to the Financial Statements

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

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

43.3 Market Risk

Market risk is the risk that arises from movements in stock prices, interest rates, exchange rates, and commodity prices. The company has identified that Interest Rate Risk as the most critical risk to the organisation.

(a) Interest Rate Risk (IRR)

Interest Rate Risk (IRR) is the loss of net interest income to the company due to changes in the market interest rates as the company is involved in lending to borrowers from the funds obtained as deposits from customers. It refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

Notes to the Financial Statements

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

43. Risk management (Contd.)

43.3 Market Risk (Contd.)

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

Managing interest rate risk

Interest rate risk is managed principally through interest rate gaps and by having pre-approved limits for re-pricing products. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risk arising from the maturity and re-pricing.

i. Interest rate risk exposure on non-trading financial assets & 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 2023	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	33,917	-	-	-	-	-	33,917
Placements with financial institution	54,068	-	-	-	-	-	54,068
Securities purchased under repurchase agreements	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	1,121,790	1,121,790
Lease/hire purchase receivable	23,550	62,711	131,229	33,124	-	-	250,614
Factoring & revolving loans	181,289	256,643	-	-	-	-	437,932
Margin trading receivables	720,932	-	-	-	-	-	720,932
Term loans	303,878	459,300	616,520	253,727	-	-	1,633,425
Equity instruments at fair value through other comprehensive Income	-	-	-	-	-	2,185	2,185
Financial investments at amortised cost	1,250,021	-	-	-	-	-	1,250,021
Other financial assets	-	-	-	-	-	68,125	68,125
Total financial assets	2,567,655	778,654	747,749	286,851	-	1,192,100	5,573,009
Financial liabilities							
Financial liabilities at amortised cost – due to customers	1,753,159	687,412	102,800	73,395	-	-	2,616,766
Financial liabilities at amortised cost – due to banks	502,117	-	-	-	-	-	502,117
Lease liabilities	3,199	9,599	7,227	-	-	-	20,025
Other financial liabilities	-	-	-	-	-	160,242	160,242
Total financial liabilities	2,258,475	697,011	110,027	73,395	-	160,242	3,299,150
Interest sensitivity gap	309,180	81,643	637,722	213,456	-	1,031,858	2,273,859

Notes to the Financial Statements

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

As at 31 December 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
Financial assets							
Cash and cash equivalents	170,399	-	-	-	-	-	170,399
Placements with financial institution	2,427,981	-	-	-	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	-	-	-	288,795
Financial assets at fair value through profit or loss	-	-	-	-	-	2,866	2,866
Lease/hire purchase receivable	44,719	77,050	134,203	66,952	-	-	322,924
Factoring & revolving loans	171,452	433,395	-	-	-	-	604,847
Margin trading receivables	648,925	-	-	-	-	-	648,925
Term loans	270,251	309,638	602,213	297,650	-	-	1,479,752
Equity instruments at fair value through other comprehensive Income	-	-	-	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	-	-	-	221,329
Other financial assets	-	-	-	-	-	46,730	46,730
Total financial assets	4,243,851	820,083	736,416	364,602	-	51,716	6,216,668
Financial liabilities							
Financial liabilities at amortised cost – due to customers	3,227,715	538,597	11,700	8,910	-	-	3,786,922
Financial liabilities at amortised cost – due to banks	-	-	-	-	-	-	-
Lease liabilities	2,387	5,661	5,785	-	-	-	13,833
Other financial liabilities	-	-	-	-	-	171,113	171,113
Total financial liabilities	3,230,102	544,258	17,485	8,910	-	171,113	3,971,868
Interest sensitivity gap	1,013,749	275,825	718,931	355,692	-	(119,397)	2,244,800

ii. Interest rate risk exposure on non-trading financial assets & liabilities

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

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

	2023		2022	
	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
Impact on Net Interest Income				
Average for the period	25,579	(25,579)	24,680	(24,680)

(b) Equity Price risk

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

Notes to the Financial Statements

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

43. Risk Management (Contd.)

43.3 Market Risk (Contd.)

(b) Equity Price risk (Contd.)

Year ended 31 December	2023	2022
	Financial assets recognised through profit or loss	Financial assets recognised through profit or loss
Market value of equity securities	2,467	2,866
Stress Level	Impact	Impact
Shock of 10% on equity prices (upward)	247	287
Shock of 10% on equity prices (downward)	(247)	(287)

43.4 Liquidity risk

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

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Managing liquidity risk

Liquidity Risk is monitored and managed by ALCO and Finance Department. ALCO provides the necessary guidance to ensure that this risk is avoided by the company. The Company ensures that it always manages the liquidity risk by having sufficient liquidity to meet its liability obligations.

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

43.4.1 Liquid Asset

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

Liquid assets requirement

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

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

Every finance company shall maintain a minimum holding of 7.5% of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per the section 4 of the said direction). Liquid assets are maintained in the form of Sri Lanka Government Treasury Bills, Sri Lanka Government Securities and the

Notes to the Financial Statements

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

Central Bank of Sri Lanka Securities which constitutes a part of a liquid asset requirement defined above as per the section 2 and 3 of the said direction.

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

	31 December 2023		31 December 2022	
	Actual	CBSL minimum requirement	Actual	CBSL minimum requirement
Total liquid assets	1,444,062	346,142	3,068,055	395,858
Approved government securities	1,254,388	242,515	535,348	85,427

43.4.2 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 2023.

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

As at 31 December 2023	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Financial assets						
Cash and cash equivalents	33,922	-	-	-	-	33,922
Placements with financial institutions	54,081	-	-	-	-	54,081
Securities purchased under repurchase agreements	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,122,306	-	-	-	-	1,122,306
Lease/hire purchase receivable	37,950	97,298	186,011	69,209	-	390,468
Factoring & revolving loans	183,702	257,434	-	-	-	441,136
Margin trading receivables	724,350	-	-	-	-	724,350
Term loans	414,358	641,314	903,037	306,056	-	2,264,765
Financial assets at fair value through OCI	-	-	-	-	2,185	2,185
Financial investments at amortised cost	1,299,047	-	-	-	-	1,299,047
Other financial assets	55,512	12,613	-	-	-	68,125
Total financial assets	3,925,228	1,008,659	1,089,048	375,265	2,185	6,400,385
Financial liabilities						
Financial liabilities at amortised cost – due to depositors	1,774,770	740,452	123,060	113,683	-	2,751,965
Financial liabilities at amortised cost – due to banks	516,686	-	-	-	-	516,686
Lease liabilities	4,290	10,385	7,700	-	-	22,375
Other financial liabilities	132,358	27,884	-	-	-	160,242
Total financial liabilities	2,428,104	778,721	130,760	113,683	-	3,451,268
Net financial assets / liabilities	1,497,124	229,938	958,288	261,582	2,185	2,949,117

Notes to the Financial Statements

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

43. Risk Management (Contd.)

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

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

44. Capital management

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

The Company maintained capital and reserves of Rs. 2,644,765,286 as at 31 December 2023 which was above the minimum capital requirement of Rs. 2,500,000,000 as at that date.

Further, the Tier I capital adequacy ratio (CAR) and total CAR of the Company recorded at 40.30% as at 31 December 2023, which were well above the CBSL's prescribed minimum thresholds. The Company is required to maintain Tier I CAR at 8.5% and total CAR at 12.5%.

Notes to the Financial Statements

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

45. Maturity analysis

As at 31 December 2023	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Assets						
Cash and cash equivalents	33,917	-	-	-	-	33,917
Placements with financial institutions	54,068	-	-	-	-	54,068
Securities purchased under repurchase agreements	-	-	-	-	-	-
Financial assets at fair value through profit or loss	1,121,790	-	-	-	-	1,121,790
Lease/hire purchase receivable	23,550	62,711	131,229	33,124	-	250,614
Factoring & revolving loans	181,289	256,643	-	-	-	437,932
Margin trading receivables	720,932	-	-	-	-	720,932
Term loans	303,878	459,300	616,520	253,727	-	1,633,425
Financial asset at fair value through OCI	-	-	-	-	2,185	2,185
Financial investments at amortised cost	1,250,021	-	-	-	-	1,250,021
Other assets	55,512	12,613	-	-	-	68,125
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	18,708	-	18,708
Property, plant and equipment	-	-	-	19,710	27,479	47,189
Intangible assets	-	-	-	-	190,394	190,394
Deferred tax assets	-	-	117,493	-	-	117,493
Total assets	3,751,212	791,267	865,242	325,269	220,058	5,953,048
Liabilities						
Financial liabilities at amortised cost—due to customers	1,753,159	687,412	102,800	73,395	-	2,616,766
Financial liabilities at amortised cost—due to banks	502,117	-	-	-	-	502,117
Retirement benefit obligations	3,199	9,599	7,227	-	-	20,025
Lease liabilities	-	-	-	-	9,133	9,133
Other liabilities	132,358	27,884	-	-	-	160,242
Total liabilities	2,390,833	724,895	110,027	73,395	9,133	3,308,283
Equity						
Stated capital	-	-	-	-	2,934,582	2,934,582
Statutory reserve fund	-	-	-	-	16,688	16,688
Fair value through other comprehensive income	-	-	-	-	3,154	3,154
Retained earnings	-	-	-	-	(309,659)	(309,659)
Total equity	-	-	-	-	2,644,765	2,644,765
Total liabilities and equity	2,390,833	724,895	110,027	73,395	2,653,898	5,953,048

Notes to the Financial Statements

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

45. Maturity analysis (Contd.)

As at 31 December 2022	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total
Assets						
Cash and cash equivalents	170,399	-	-	-	-	170,399
Placements with financial institutions	2,427,981	-	-	-	-	2,427,981
Securities purchased under repurchase agreements	288,795	-	-	-	-	288,795
Financial assets at fair value through profit or loss	2,866	-	-	-	-	2,866
Lease/hire purchase receivable	44,719	77,050	134,203	66,952	-	322,924
Factoring & revolving loans	171,452	433,395	-	-	-	604,847
Margin trading receivables	648,925	-	-	-	-	648,925
Term loans	270,251	309,638	602,213	297,650	-	1,479,752
Financial asset at value through OCI	-	-	-	-	2,120	2,120
Financial investments at amortised cost	221,329	-	-	-	-	221,329
Other assets	38,932	7,798	-	-	-	46,730
Income tax receivable	6,255	-	-	-	-	6,255
Right-of-use assets	-	-	-	11,102	-	11,102
Property, plant and equipment	-	-	-	21,686	32,294	53,980
Intangible assets	-	-	-	-	173,171	173,171
Deferred tax assets	-	-	123,450	-	-	123,450
Total assets	4,291,904	827,881	859,866	397,390	207,585	6,584,626
Liabilities						
Financial liabilities at amortised cost—due to customers	3,227,715	538,597	11,700	8,910	-	3,786,922
Retirement benefit obligations	-	-	-	-	8,989	8,989
Lease liabilities	2,387	5,661	5,785	-	-	13,833
Other liabilities	136,848	34,265	-	-	-	171,113
Total liabilities	3,366,950	578,523	17,485	8,910	8,989	3,980,857
Equity						
Stated capital	-	-	-	-	2,934,582	2,934,582
Statutory reserve fund	-	-	-	-	14,716	14,716
Fair value through other comprehensive income	-	-	-	-	1,596	1,596
Retained earnings	-	-	-	-	(347,125)	(347,125)
Total equity	-	-	-	-	2,603,769	2,603,769
Total liabilities and equity	3,366,950	578,523	17,485	8,910	2,612,758	6,584,626

Notes to the Financial Statements

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

46. Financial reporting by segment

	Leasing and Hire purchase		Factoring & revolving loans		Margin Trading		Term loans		Treasury/ investments		Unallocated		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
For the year ended 31 Dec														
Interest income	41,525	46,363	157,296	123,861	172,112	156,879	287,429	191,919	434,795	465,831	-	-	1,093,157	984,853
Interest Expenses	(19,668)	(13,063)	(34,337)	(18,821)	(40,864)	(25,170)	(97,032)	(44,464)	(202,327)	(258,008)	-	-	(394,228)	(359,526)
Net interest income	21,857	33,300	122,959	105,040	131,248	131,709	190,397	147,455	232,468	207,823	-	-	698,929	625,327
Net fees and commission income	255	362	352	929	-	-	15,072	7,285	-	-	34,875	6,540	50,554	15,116
Other income	1,086	631	-	-	-	-	4,465	6,860	-	947	1,640	18,699	7,191	27,137
Operating income by segment	23,198	34,293	123,311	105,969	131,248	131,709	209,934	161,600	232,468	208,770	36,515	25,239	756,674	667,580
Total Operating Income	23,198	34,293	123,311	105,969	131,248	131,709	209,934	161,600	232,468	208,770	36,515	25,239	756,674	667,580
Impairment (expense) / reversal	(4,879)	(15,428)	5,832	843	1,454	(4,267)	(44,448)	(45,313)	20,225	(20,719)	-	-	(21,816)	(84,884)
Net operating income	18,319	18,865	129,143	106,812	132,702	127,442	165,486	116,287	252,693	188,051	36,515	25,239	734,858	582,696
Operating expenses	(33,285)	(24,152)	(57,858)	(39,917)	(70,363)	(54,173)	(167,190)	(94,487)	-	-	-	-	(328,696)	(212,729)
Depreciation and amortisation	(5,270)	(5,251)	(9,161)	(8,679)	(11,140)	(11,778)	(26,471)	(20,542)	-	-	-	-	(52,042)	(46,250)
Segment result	(20,236)	(10,538)	62,124	58,216	51,199	61,491	(28,175)	1,258	252,693	188,051	36,515	25,239	354,120	323,717
Personnel expenses													(251,231)	(208,444)
Profit / (loss) from operations													102,889	115,273
VAT on financial services													(58,147)	(48,177)
Income tax reversal / (expense)													(5,304)	-
Profit / (loss) for the period													39,438	67,096
Other information														
Balance at 31 Dec														
Segment assets	250,614	322,924	437,932	604,847	720,932	648,925	1,633,425	1,479,752	2,461,982	3,108,504	448,163	419,675	5,953,048	6,584,626
Total assets	250,614	322,924	437,932	604,847	720,932	648,925	1,633,425	1,479,752	2,461,982	3,108,504	448,163	419,675	5,953,048	6,584,626
Segment liabilities	335,012	451,970	582,332	746,958	708,196	1,013,762	1,682,743	1,768,167	-	-	-	-	3,308,283	3,980,857
Total liabilities	335,012	451,970	582,332	746,958	708,196	1,013,762	1,682,743	1,768,167	-	-	-	-	3,308,283	3,980,857

Five Year Summary

Income Statements

	Year ended 31 December 2023	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	9 months ended 31 December 2019
Interest income	1,093,157	984,853	261,067	214,700	198,179
Interest expense	(394,228)	(359,526)	(56,629)	(67,090)	(48,102)
Net interest income	698,929	625,327	204,438	147,610	150,077
Other income	57,745	42,253	9,361	21,090	69,912
Total operating income	756,674	667,580	213,799	168,700	219,989
Impairment charges and other losses	(21,816)	(84,884)	(10,247)	(63,339)	(105,901)
Net operating income	734,858	582,696	203,552	105,361	114,088
Operating expenses	(631,969)	(467,423)	(276,104)	(291,660)	(257,864)
Operating profit	102,889	115,273	(72,552)	(186,299)	(143,776)
Taxes on financial service	(58,147)	(48,177)	(4,689)	-	-
Profit / (loss) before tax	44,742	67,096	(77,241)	(186,299)	(143,776)
Income tax / Deferred tax reversal / (expense)	(5,304)	-	-	86,780	110
Profit / (loss) after tax	39,438	67,096	(77,241)	(99,519)	(143,666)

Statements of Financial Position

	Year ended 31 December 2023	Year ended 31 December 2022	Year ended 31 December 2021	Year ended 31 December 2020	9 months ended 31 December 2019
Assets					
Cash and cash equivalents and short-term funds	1,209,775	2,887,175	330,863	1,889,246	853,000
Financial assets at amortised cost-loan and advances	3,042,903	3,056,448	2,742,531	806,332	1,023,629
Financial investment at a mortised cost	1,250,021	221,329	597,106	2,186	2,085
Property, plant and equipment and intangible assets	237,583	227,151	165,630	177,254	171,017
Other assets	212,766	192,523	185,250	352,204	334,351
Total assets	5,953,048	6,584,626	4,021,380	3,227,222	2,384,082
Liabilities and shareholders' funds					
Financial liabilities at amortised cost - due to customers	2,616,766	3,786,922	1,323,916	1,064,175	818,869
Borrowings	502,117	-	-	-	-
Other liabilities	189,400	193,935	160,669	109,175	111,551
Shareholders' funds	2,644,765	2,603,769	2,536,795	2,053,872	1,453,662
Total liabilities and shareholders' funds	5,953,048	6,584,626	4,021,380	3,227,222	2,384,082
Ratios					
Return on average assets	0.78%	1.03%	-2.24%	-6.44%	-9.00%
Return on equity	1.49%	2.61%	-3.52%	-4.83%	-14.40%
Net interest margin	12.68%	10.99%	7.31%	5.33%	8.70%
Profit / (loss) per share (Rs.)	0.34	0.57	(0.70)	(0.98)	-1.61
Net asset per share (Rs.)	22.53	22.18	21.61	18.88	15.92

Share Information

Information on Ordinary Shares of the Company

Market price per share

For the year ended 31 December	2023 Rs.	2022 Rs.
Highest price	85.00	119.00
Lowest price	50.00	45.50
Last traded price	53.20	63.00

Shareholders' Information

Twenty largest shareholders of the Company

	Name of shareholders	31 December 2023		31 December 2022	
		No. of shares	% Holding	No. of shares	% Holding
1	Dialog Axiata PLC	116,290,376	99.05%	116,290,376	99.05%
2	Mr. R.C.J. Goonewardene	258,363	0.22%	N/Q	N/Q
3	Mr.S.R.S. De Saram/ Mrs. S.T.T. Jayasundera (Joint)	112,000	0.10%	85,459	0.07%
4	Mr. M.A.T. Raaymakers	27,307	0.02%	N/Q	N/Q
5	Mrs. R. Ameen UR Rahman/ Mr.K.R. Ameen UR Rahman (Joint)	26,000	0.02%	N/Q	N/Q
6	Hatton National Bank PLC/ Dawi Investment Trust (Pvt) Ltd	24,750	0.02%	97,595	0.08%
7	Mr. P.S.M. Fernando	24,282	0.02%	24,282	0.02%
8	Mr. W.C. Madhushanka	22,000	0.02%	N/Q	N/Q
9	Guardian Insurance Brokers (Pvt) Ltd	20,039	0.02%	19,982	0.02%
10	Mr. D.M.H.B. Dasanayake	20,000	0.02%	N/Q	N/Q
11	Dawi Investment Trust (Pvt) Ltd	19,287	0.02%	38,752	0.03%
12	People's Leasing & Finance PLC/ C.D.Kohombanwickramage	18,152	0.02%	18,152	0.02%
13	Mr. M.K. Gunawardena Mudalige Kithsiri/ Mr. M.K. Gunawardena Mudalige Kaveen	16,190	0.01%	N/Q	N/Q
14	Mr. B.Y. Edirisuriya/ Mrs. R.D. Edirisuriya/ Mr. P.M.Weerasuriya (Joint)	15,001	0.01%	N/Q	N/Q
15	Mr. G. D. M Ranasinghe/ Mrs. O. R. K Ranasinghe (Joint)	14,029	0.01%	14,029	0.01%
16	Mrs. S. Suwandaratne	13,346	0.01%	13,346	0.01%
17	Miss. T.K. Hulugalle	12,865	0.01%	N/Q	N/Q
18	Citizens Development Business Finance PLC/ K.D.C. Somalatha and K. Nandasiri	10,480	0.01%	10,480	0.01%
19	Mr. T.D. Mahalyana	10,082	0.01%	10,082	0.01%
20	Miss. M.P.Radhakrishan	9,330	0.01%	9,330	0.01%
		116,963,879	99.63%	116,631,865	99.34%
	Others	435,987	0.37%	768,001	0.66%
	Total	117,399,866	100.00%	117,399,866	100.00%

N/Q- Not qualify for top 20 shareholders as at 31 December 2023

Share Information

Directors' shareholdings

Directors'/ CEO's Holding in Shares as at 31 December	2023	2022
Ms. Renuka Fernando	Nil	Nil
Mr. Supun Weerasinghe	Nil	Nil
Mr. Priyan Edirisinghe	Nil	Nil
Mr. Roshaan Hettiaratchi	Nil	Nil
Mr. Nazeem Mohamed	Nil	Nil

Public shareholdings

Information pertaining to public shareholding is as follows:

	31 December	
	2023	2022
Public holding percentage	0.95%	0.95%
Number of public shareholders	747	726

(a) Float adjusted market capitalisation as at 31 December 2023 was Rs. 59,333,892/-. (31 December 2022 was Rs. 69,894,010/-)

(b) The Company is not compliant with the minimum public holding requirement under option 2 of Rule 7.14.1(b) of the Listing Rules of the Colombo Stock Exchange (CSE). Accordingly, the Company was transferred to the Second Board on 10 February 2020.

Utilisation of proceeds from the rights issue as at 31 December 2023

Rights issue – October 2021

Objective number	Objective as per Circular	Amount allocated as per Circular Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds Rs. (A)	% of total proceeds	Amounts utilised Rs. (B)	% of utilisation against allocation (B/A)	Clarification if not fully utilised including where the funds are invested
1	To utilise for lending purpose	558,897,760	Within 12 months ending October 2021	558,897,760	99.77%	558,897,760	100%	-
2	Expenses relating to the Rights Issue	1,175,000	-	1,175,000	0.23%	1,175,000	100%	-

Share Information

Distribution of shareholders

Description	Resident			Non Resident			Total		
	Number of shareholders	No. of shares	(%)	Number of shareholders	No. of shares	(%)	Number of shareholders	No. of shares	(%)
1 to 1000 Shares	615	75,081	0.06	2	330	-	617	75,411	0.06
1001 to 10000 Shares	106	348,542	0.30	6	21,364	0.02	112	369,906	0.32
10001 to 100000 Shares	14	253,638	0.22	2	40,172	0.03	16	293,810	0.25
100001 to 1000000 Shares	2	370,363	0.32	-	-	-	2	370,363	0.32
Over 1000000 Shares	1	116,290,376	99.05	-	-	-	1	116,290,376	99.05
Total	738	117,338,000	99.95	10	61,866	0.05	748	117,399,866	100.00

Categories of shareholders	No. of shareholders	No. of shares
Individual	709	971,748
Institutional	39	116,428,118
Total	748	117,399,866

Related Party Transactions

Declaration

The Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions.

Non - Recurrent Related Party Transactions exceeding 10% of the Equity or 5% of the Total assets of the Company (Disclosure as per section 9 of the CSE Listing Rules)

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

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

Name of the related party	Relationship	Nature of the transaction	Value of the Related Party Transactions entered into during the financial year	Value of Related Party Transactions as % of the Gross Revenue/ Income	Terms and Conditions of the Related Party Transactions
Axiata Investment Labuan Limited	Affiliate	Customer Deposit	Deposits received - Rs. 2,297,686 (Rs' 000)	303.7%	Market Terms (Deposit was withdrawn on 10th April 2023)
			Interest accrued - Rs. 98,214 (Rs' 000)	13.0%	
Dialog Axiata PLC	Parent	Customer Deposit	Deposits received - Rs. 754,573 (Rs' 000)	99.7%	Market Terms
			Interest accrued - Rs. 67,494 (Rs' 000)	8.9%	

Other Disclosures pertaining to Related Party Transactions

Further to the disclosures of RPT made in Note 42 to the Financial Statements,,

- The Company has not obtained from or granted guarantees to Dialog Axiata PLC or any other related Companies within the group of Companies.
- The Company has not made any provision for impairment for the receivable balances from Dialog Axiata PLC or its related companies as there are no balances which are deemed as irrecoverable.

Value Added Statement

(All amounts in Sri Lanka Rupees thousands)

For the year ended 31 December	2023	2022
Direct economic value generated		
Interest income	1,093,157	984,853
Fee and commission income	60,805	17,908
Other income	7,191	27,137
	1,161,153	1,029,898
Economic value distributed		
To depositors and lenders		
Interest expense	394,228	359,526
	394,228	359,526
Operating costs		
Depreciation and amortisation	52,042	46,250
Fee and commission expenses	10,251	2,792
Other expenses	328,292	212,729
	390,585	261,771
To employees		
Salary and bonus	203,123	172,656
Other benefits	48,108	35,788
	251,231	208,444
Payments to government		
Income tax (reversal) / expense	-	-
Taxes on financial services	58,147	48,177
Crop insurance levy	404	-
	58,551	48,177
Payments to providers of capital		
Dividends to shareholders	-	-
	-	-
Economic value distributed	1,094,595	877,918
Economic value retained	66,558	151,980
	1,161,153	1,029,898

Glossary of Financial Terms

Accounting policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Asset and liability committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Available -for -sale financial assets

Non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Capital adequacy ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash

Cash on hand and demand deposits.

Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Inflows and outflows of cash and cash equivalents.

Capital funds

Capital funds shall have the same meaning as contained in the definition in section 46 of the Finance Companies Act, No. 78 of 1988.

Collectively assessed impairment

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

Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Glossary of Financial Terms

Compounded annual growth rate (CAGR)

The rate at which a variable would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Control

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate governance

The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Cost to income ratio

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit risk

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit risk mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer deposits

Money deposited by account holders. Such funds are recorded as liabilities.

Deferred tax

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful asset.

Derecognition

Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

Discount rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend cover

Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Glossary of Financial Terms

Dividend pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend yield

Dividend earned per share as a percentage of its market value.

Earnings per share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Effective interest rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective tax rate (EPR)

Provision for taxation expressed as a percentage of Profit Before Tax.

Equity method

A method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the reporting period

Events, favourable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Expected credit loss (ECL)

Probability weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period use as the weights). ECL measurements are unbiased (i.e. neutral, not conservative and not biased towards optimism or pessimism) and are determined by evaluating a range of possible outcomes.

Exposure at default (EAD)

This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns of committed facilities.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

Factoring

A time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit or loss

A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract).

Glossary of Financial Terms

Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial asset

Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability

A contractual obligation to deliver cash or another financial asset to another entity.

Functional and presentation currency

These Financial Statements are presented in Sri Lanka Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

Going concern

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group

A parent of all its subsidiaries.

Gearing

Long term borrowings divided by the total funds available for shareholders.

Gross dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

Held for trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

Held to maturity (HTM)

Investments Held-to-Maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

High quality liquid assets (HQLA)

Assets that can be easily and immediately converted into cash at little or no loss of value that can be readily sold or used as collateral to obtain funds in a range of stress scenarios and are unencumbered, i.e. without legal, regulatory or operational impediments.

International financial reporting standards (IFRS)

set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Glossary of Financial Terms

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest margin

Net Interest income expressed as a percentage of average interest earning assets.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest spread

Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in suspense

Interest suspended on non-performing leases, hire purchases and other advances.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment allowances

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment provisions

Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually assessed impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually significant loan impairment provision (Specific impairment provision)

Impairment is measured individually for assets that are individually significant to the Group.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment properties

Investment property is a property (land or building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative services; or sale in the ordinary course of business.

Investment securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

Key management personnel

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Glossary of Financial Terms

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime expected credit losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/credit losses and provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)

A mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss given default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Market capitalisation

The value of a Company obtained by multiplying the number of ordinary shares in issue by its market value as at a date.

Market risk

The possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Net assets value per share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Non controlling interest

Non Controlling interest is the equity in a subsidiary not attributable, directly or indirectly to a parent.

Net interest income (NII)

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net interest margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Glossary of Financial Terms

Non - performing advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than three months have been categorised as non-performing. Nonperforming advances are reclassified as performing when all arrears rentals are settled in full.

NPA ratio

The total non-performing leases hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

Off- balance sheet items

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

Parent company

A parent is an entity that has one or more subsidiaries.

Past due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The existing rights that give the current ability to direct the relevant activities.

Price earnings ratio (P/E ratio)

The current market price of the share is divided by the earnings per share of the Company.

Probability of default (PD)

The probability that an obligor will default within a one-year time horizon.

Projected unit credit method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro- rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, so that asset or income are not overstated and liabilities or expenses are not understated.

Glossary of Financial Terms

Related parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Repurchase agreements

This is a contract to sell and subsequently repurchase government securities at a given price on a specified future date.

Return on average assets (ROA)

Profit after tax expressed as a percentage of average assets

Return on equity (ROE)

Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

Revenue reserves

Reserves set aside for future distribution and investment.

Reverse repurchase agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Right-of-use asset (ROU asset)

Right-of-use asset is lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payment made to the lessor before the lease commencement date, plus any initial direct cost incurred, minus any lease incentives received.

Rights issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk weighted assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

Segment analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' funds

The total of stated capital and capital and revenue reserves.

Single borrower limit

Maximum of a single accommodation or the aggregate of accommodations granted to by a finance company and outstanding at any point of time from an individual borrower shall not exceed 15% of the capital funds of such finance company as shown in the last audited balance sheet.

Statutory reserve fund

A capital reserve created as per the provisions of the Finance Companies (Capital Funds) Direction No.1 of 2003.

Sri Lanka financial reporting standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS); Sri Lanka Accounting Standards (LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Glossary of Financial Terms

Stated capital

All amounts received by the Company or due and payable to the Company – (a) in respect of the issue of shares, (b) in respect of calls on shares. Statutory Reserve Fund A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

Substance over form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary company

An entity, including an unincorporated entity which is controlled by another entity called parent.

Tier I capital (Core capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base) Capital base is summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

Twelve month expected credit losses (12m ECL)

The portion of lifetime expected credit losses that represent the expected credit losses that result from default event on a financial instrument that are possible within the 12 months after the reporting date.

Useful life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

Value added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Notice of Annual General Meeting

DIALOG FINANCE PLC
(PB 765 PQ)

NOTICE IS HEREBY GIVEN THAT **THE FORTY THIRD ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD AS A FULLY VIRTUAL MEETING ON TUESDAY, 11 JUNE 2024 AT 04:00PM (IST – INDIA STANDARD TIME)** FROM THE BROADCAST VENUE AT THE BOARDROOM, DIALOG AXIATA PLC, 14TH FLOOR, NO. 475, UNION PLACE, COLOMBO 2, SRI LANKA.

1. Ordinary Resolution 1

To receive and adopt the Report of the Directors and the Statement of Accounts for the Financial Year ended 31 December 2023 and the Auditors' Report thereon.

2. Ordinary Resolution 2

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

3. Ordinary Resolution 3

To authorise the Directors to determine and make donations.

By Order of the Board



Viranthi Attygalle
Company Secretary

30 April 2024
Colombo

Notes:

- i) *The AGM will be held as a fully virtual meeting, and as such shareholders will only be able to participate in the AGM virtually, via the designated online meeting platform.*
- ii) *Only persons who are shareholders of the Company and whose names appear on the Share Register as at 4 June 2024 will be entitled to participate in the above virtual meeting.*
- iii) *A shareholder entitled to participate and vote at the above virtual meeting is entitled to appoint a proxy to participate and vote in his/her place by completing the Form of Proxy enclosed herewith.*
- iv) *A proxy need not be a shareholder of the Company. However, the proxy must be above 18 years of age.*
- v) *Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairperson of the Meeting or any other Director of the Company to participate and vote on their behalf.*
- vi) *For more information on how to participate virtually in the above meeting, please refer Administrative Details enclosed herewith.*

Administrative Details for the 43rd Annual General Meeting

The 43rd Annual General Meeting (AGM) of Dialog Finance PLC (the “Company”) will be held as a fully virtual meeting on Tuesday, 11 June 2024 at 4:00PM (IST – India Standard Time).

The details regarding the participation and the procedure to be adopted during the AGM are set out below.

Date, Time and Conduct of AGM

- (a) The AGM will be held as a fully virtual meeting on **Tuesday, 11 June 2024 at 4:00PM (IST – India Standard Time)**.
- (b) Certain members of the Board and other key officials who are essential for the administration of the meeting will be physically present in the Broadcast venue of the Company. All others, including shareholders, will participate via a designated online meeting platform.

Notice of AGM and Form of Proxy

The Notice of AGM and accompanying Form of Proxy are attached herewith and will also be published on the corporate website at www.dialogfinance.lk/important-notice.

No Personal Attendance at AGM

The AGM will be held virtually, and as such shareholders will only be able to participate in the AGM virtually, via the designated online meeting platform.

Alternative Arrangements for Participation at the AGM

Shareholders may participate at the AGM by:

- (a) participating in the AGM via the designated online meeting platform;
- (b) submitting questions in advance of the AGM; and/or
- (c) duly appointing a proxy to participate and vote on their behalf at the AGM.

Confirmation of Participation and Pre-Registration

- (a) Shareholders of the Company who wish to participate at the virtual AGM and whose names appear on the Share Register as at 4 June 2024 are required pre-register participation. Registrations that do not meet this requirement will be rejected during the verification stage.
- (b) In order to pre-register participation, shareholders are requested to complete the online pre-registration form available at www.dialogfinance.lk/important-notice on or before 4:00PM on 4 June 2024.
- (c) If your shares are held in joint names, please register both names. However, you only need to enter one email address.
- (d) Upon verification of the registration details, an email of confirmation will be sent to the shareholders followed by an email with the log-in information closer to the AGM. Please note that the log-in information is authorised only for use by shareholders or their duly appointed proxy. The Company shall not be responsible or liable for misuse and /or unauthorised use of the log-in information.

Administrative Details for the 43rd Annual General Meeting

Appointment of Proxies

- (a) A shareholder entitled, as set out above, to participate and vote at the meeting but is unable to do so, is entitled to appoint a proxy to virtually participate and vote at the AGM instead of him/her in the manner provided for by completing the Form of Proxy enclosed herewith.
- (b) Shareholders who are unable to participate also have the option of submitting a duly completed Form of Proxy (which, in particular, clearly indicates such shareholder's vote in respect of each of the matters set out in the Form of Proxy), appointing the Chairperson of the Meeting or any one of the Directors of the Company to participate and vote on their behalf such that each shareholder's vote may be identified and recorded as if such shareholder were present at the meeting.
- (c) In order to be valid, the Form of Proxy must be duly completed and forwarded to the Company Secretary via post to Dialog Finance PLC, No. 475, Union Place, Colombo 2 and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 4:00PM on 9 June 2024.

Annual Report 2023

The Annual Report 2023 has been published on the corporate website and may be accessed at www.dialogfinance.lk/financial-statements. If a shareholder wishes to receive a printed copy of the Annual Report 2023, please complete the Form of Request and forward it to the Company Secretary in accordance with the instructions given therein.

Meeting Procedure & Voting

- (a) Shareholders who are unable to participate at the virtual AGM may submit their suggestions/questions related to the AGM and the agenda, to the Company Secretary in writing on or before 4 June 2024 via agminfo@dialog.lk.
- (b) The procedure on the conduct of the meeting and voting will be explained to shareholders prior to the commencement of the meeting.

Further Information

For more information, shareholders can refer to our corporate website at www.dialogfinance.lk/important-notice or contact Ms. Divya Ranaraj on +94 773 908 929 during working hours.

Thank You

Form of Proxy

I/We (name of shareholder/s)
 (Holder of NIC/Passport/Company Registration No./s)
 of (address of shareholder/s).....
 being a shareholder/s of **Dialog Finance PLC**, hereby appoint:

please indicate your preference with a

- Name of proxy holder :
- NIC/Passport No of proxy holder :
- Address of proxy holder :
- Email address of proxy holder :
- Mobile number of proxy holder :

OR failing him/her

- Chairperson of the Meeting, or failing her, any one of the Directors of the Company

as my/our proxy to participate and vote on my/our behalf in accordance with the preference as indicated below at the **Forty Third Annual General Meeting of the Company** to be held by virtual means on 11 June 2024 at 4:00PM (IST – India Standard time) and at any adjournment thereof, and at every poll which may be taken in consequence thereof.

RESOLUTIONS	FOR	AGAINST
Ordinary Resolution 1		
Ordinary Resolution 2		
Ordinary Resolution 3		

(Please indicate with a 'X' in the space provided how your proxy is to vote on each resolution. If you do not do so, the proxy will vote or abstain from voting at his/her discretion.)

Signature(s) of Shareholder(s)	Contact No. of Shareholder/s	Email address of Shareholder/s	Date

NOTE:

Instructions as to completion of the Form of Proxy are on the reverse hereof.



Notes and Instructions as to completion of Form of Proxy

1. A shareholder entitled to participate and vote at the virtual meeting but is unable to do so, can appoint not more than one proxy to virtually participate and vote at the AGM instead of him/her, by completing the Form of Proxy. Shareholders who are unable to participate in the above meeting are encouraged to appoint the Chairperson of the Meeting or any other Director of the Company to participate and vote on their behalf.
2. Please complete the Form of Proxy by filling in legibly, your full name, address and contact number and the full name, NIC number, address, contact number and email of the proxyholder and thereafter date and sign in the space provided.
3. In order to be valid, the Form of Proxy must be duly completed and forwarded to the Company Secretary via post to Dialog Finance PLC, No. 475, Union Place, Colombo 2 and must be received not later than 48 hours before the time appointed for holding the meeting, i.e. before 4:00PM on 9 June 2024.
4. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
5. If the appointer is a Company or Corporation, the Form of Proxy should be executed under its Common Seal or by a duly authorised officer of the Company or Corporation in accordance with its Articles of Association or Constitution.
6. The Form of Proxy should only be used for the purpose of appointing a proxy to participate and vote on your behalf at the meeting in the event you are unable to participate at the meeting and should not be used to confirm participation at the AGM. If you wish to participate at the meeting via the designated online meeting platform, you must pre-register your participation by completing the online pre-registration form at www.dialogfinance.lk/important-notice.
7. If a shareholder has submitted a Form of Proxy prior to the meeting and subsequently decides to participate at the meeting him/herself, he/she should take immediate steps to revoke the appointment of proxy.

Corporate Information

Name of the Company

Dialog Finance PLC

Company Secretary

Ms. Viranthi Attygalle

Company Registration No.

PB 765 PQ

Compliance Officer

Mr. Thisil Vincent

Date of Incorporation

25 November 1981

Registrars

SSP Corporate Services (Private) Limited
No. 101, Inner Flower Road,
Colombo 03.

Registered Address

No. 475, Union Place, Colombo 02.

Tel : + 94 11 2573894

Fax : + 94 11 2573609

Principal Office

1st Floor,

No. 57, Srimath Anagarika Dharmapala Mawatha,
Colombo 03.

Tel : + 94 11 4317317

E-mail : financialservice@dialog.lk

Auditors

Messrs. Deloitte Partners
Chartered Accountants
100, Braybrooke Place,
Colombo 02.

Legal Form

A public quoted company with limited liability.

Bankers

- Seylan Bank PLC
- Commercial Bank of Ceylon PLC
- Nations Trust Bank PLC
- Bank of Ceylon
- Cargills Bank Ltd
- People's Bank
- Hatton National Bank PLC
- National Development Bank PLC
- DFCC Bank PLC
- Sampath Bank PLC

Stock Exchange Listing

The ordinary shares which were listed on the Diri Savi Board of the Colombo Stock Exchange (CSE) on 04 October 2011 and transferred to the Second Board of the CSE on 10 February 2020.

Board of Directors

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

Credit Rating

AA (Ika) was affirmed by Fitch Ratings Lanka Ltd with a Stable Outlook.
(Issued by Fitch Ratings Lanka)

Chief Executive Officer

Mr. Nazeem Mohamed

Designed & Produced by :





1st Floor,
No. 57, Srimath Anagarika Dharmapala Mawatha,
Colombo 03, Sri Lanka.
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Email : financialservice@dialog.lk **Web :** www.dialogfinance.lk

