

RISING TO THE CHALLENGE



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RISING TO THE CHALLENGE

With various factors that contributed to an uncertain market environment, it was a challenging year for us at the Colombo Stock Exchange. However, we will continue our journey towards success and we value our stakeholders whose confidence in us stood unaltered. Our dedication and hard work remained unchanged and we will continue to adapt and grow within these conditions, rising to the challenge as we have always done to make the year ahead a positive one.

NAVIGATING OUR REPORT

A Sketch of Our Performance

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Creating Value

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We present to you the Integrated Annual Report for the year ended 01st Jan 2018 to 31st December 2018. The report provides an explanation of the strategy, performance and value creation of the CSE. Information contained in the report was selected keeping in mind the concepts of Simplicity, Integrity, Relevance and Materiality being prerequisites for a concise and meaningful report.

Improvements to the report

- Prepared a balanced yet concise report emphasizing on the material topics for the year.
- Implemented measures to collate information on economic, social and environmental impacts with reference to the GRI standards.
- The Business Line Reviews provide information on value creation.

Scope and Boundary

This report covers the activities of Colombo Stock Exchange (CSE) and its fully owned subsidiaries Central Depository Systems (Pvt) Ltd (CDS) and CSE Clear (Pvt) Ltd (CSE Clear).

Source of information

- Audited financial statements.
- Management discussions.
- Management information systems.
- Publicly available industry information.

Voluntarily adopted reporting Guidelines

GRI-102-12

- Integrated Reporting Framework of the International Reporting Council (IIRC).
- Global Reporting Initiative – GRI standards.
- International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks.
- Sustainable Development Goals (SDGs)- The UN initiative with 17 aspirational “Global Goals”
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities & Exchange Commission of Sri Lanka. (SEC).

Statutory Standards and Acts

- Sri Lanka Financial Reporting Standards.
- Sri Lanka Auditing Standards.
- Companies Act No 7 of 2007.
- SEC Act: No. 36 of 1987 as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act no. 47 of 2009.

External Assurance

The financial statements contained in the report have been audited by external auditors, Messrs KPMG.

Statement from the Board of Directors

The Board of directors acknowledge the full responsibility of the report.

Mr. Ray Abeywardena
Chairman
04 June 2019

For any queries on the report, please contact

Mr. Kusal Nissanka
Head of Finance & Administration

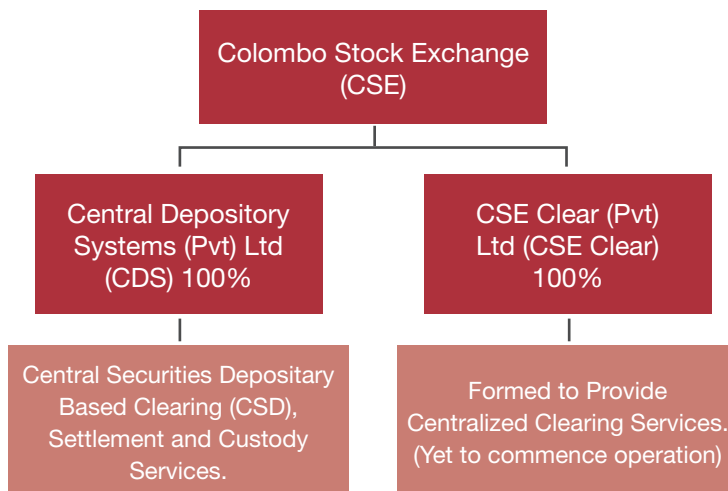
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Colombo 01
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ABOUT US GRI 102-1

The Colombo Stock Exchange (CSE) is the only licenced stock exchange in Sri Lanka operating in its present form since 1985 as successor to the secondary market for trading shares established by the Ceylon Brokers' Association formed in 1896. We drive the socioeconomic progress of the country by providing capital market platforms offering wealth management opportunities for investors and access to capital for issuers of listed securities.

A company limited by guarantee, today we are a mutual exchange and has fifteen Members and fourteen Trading Members, of which Twenty Six Members operate as Stockbrokers for both Equity & Debt and Three members are appointed by the CSE as Trading Members only for Debt. The policy making body of the CSE is the Board of Directors composed of nine members. Five Directors are elected by the fifteen Members, while Government on the recommendation of Securities Exchange Commission appoint four.

GROUP STRUCTURE



OUR VISION GRI-102-16

To be the preferred choice for creation of wealth and value.

MISSION

- Encourage issuers to raise capital through CSE
- Increase the number of active investors
- Provide facilities to trade diversified products
- Ensure balanced regulation to maintain market integrity and investor confidence

Affiliations GRI-102-13



OVERVIEW

GRI 201-1

824,716

CDS Accounts

Listed Companies

297

Market Capitalisation

Rs. 2,839 Bn

4 Boards

Main Board, Diri Savi Board, Multi
Currency Board and Empower Board

Value of Debt Market

Rs. 4.4 Bn

Market Turnover

Rs. 200 Bn

Value Added 2018

Rs. 536 Mn

Members

Rs. 26 Mn

Employees

Rs. 327 Mn

Government

Rs. 46 Mn

Communities

Rs. 0.5 Mn

Reinvested in CSE

Rs. 136 Mn

KEY BUSINESS LINES

GRI 102-2, 6

PRIMARY MARKET/ LISTINGS	SECONDARY MARKET/TRADING	MARKET DATA	POST TRADE SERVICES
<ul style="list-style-type: none"> • Provide corporates with access to equity and debt capital markets through our listing platforms, facilitating visibility to potential investors • Listing fee of Rs.92 Mn 	<ul style="list-style-type: none"> • Facilitate share and debt trading through Automated Trading Platform (ATS) • Commission fee income Rs. 376 Mn 	<ul style="list-style-type: none"> • Provision of real time and up-to date market data necessary for investors • Income from sale of data Rs.24 Mn 	<ul style="list-style-type: none"> • Responsible for custody, clearing, and settlement of transactions carried out by CDS, 100% owned subsidiary • Business income from CDS of Rs.120 Mn

BUSINESS SUPPORT



PROMOTING SUSTAINABILITY

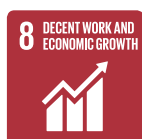
CSE joined the Sustainable Stock Exchanges (SSE) initiatives in 2015 with the signing of a voluntary public commitment to encourage responsible investment and enhanced ESG disclosure and performance among listed companies. Launched in 2009 by the UN Secretary General, SSE is a UN Partnership Programme of the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the UN Environment Program Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI). This is a knowledge sharing platform with the collaboration of several stock exchanges to support socio-economic progression in local economies.

Our exchange is a network of multiple stakeholders who play a prominent presence in the economy as a manufacturer, consumer or investor. We used our widespread network to promote sustainability practices to several areas of our economy. In addition, being a fund raiser, we are well positioned to extend our role to reducing inequalities in the economy by generating funds to support inclusive growth. In 2018, we launched the Empower Board to support capital raising for the SME sector.

“We voluntarily commit, through dialogue with investors, companies and regulators, to promoting long term sustainable investment and improved environmental, social and corporate governance disclosure and performance among companies listed on our exchange.”



Conducted ‘Ring the bell events for gender equality’.



Provide employment opportunities both directly and indirectly.

Engaged in training and development of workforce.



MoU with regional exchanges.

MoU with GRI and collaboration with Tundra Fonder, a sustainability Investment Driven Fund from Sweden.



Launched a sustainability guide for listed companies.

Discussions to launch an ESG index.

Promote ESG best practices among corporates.



Monitor paper and electricity consumption of the exchange.



Enhance credibility of institutions.

Reviewed 152 annual reports.

Held four workshops in collaboration with Global Reporting Initiatives (GRI) on corporate transparency and sustainability practices.



Developed capital market infrastructure.

We are the only stock exchange in Sri Lanka.

OUR MILESTONES

1896

- Formalized share trading commenced in Colombo.

1984

- Establishment of a Public Trading Floor.

1987

- The Securities Council Act No. 36 of 1987 passed providing for the establishment of a regulator for the capital market.

1991

- The clearing house of the CSE was automated with the establishment of a Central Depository Systems (CDS).

1904

- Colombo Share Brokers Association changed its name to Colombo Brokers Association (CBA).

1985

- The Colombo Securities Exchange (Guarantee) Ltd is incorporated as a Guarantee Company by seven (7) subscribing Stock Broker Companies and takes over the operations of the Stock market in Sri Lanka from the Colombo Broker Association (CBA).

1990

- Name changed to the Colombo Stock Exchange (CSE).
- Liberalization of investment in the stock market with the abolition of the 100% transfer of Property Tax on Share Purchase by non-nationals.

1995

- Upgrade of the CDS
- Relocation of the Exchange to the World Trade Centre (WTC).
- Company Take Overs and Mergers Code introduced.

1997

- Automation of Trading with a screen based trading system.
- Establishment of a Settlement Guarantee Fund and a Compensation Fund.

1999

- Introducing of the Milanka Price Index (MPI) which replaced the Sensitive Price Index (SPI).
- Rule for Debt Securities introduced. CSE establishes its first Regional Office in Matara.

2001

- CSE Website re-launched with on line market information.
- Public gallery re-opened at the CSE after a lapse of 10 years.

1996

- Mark 10 years of Share Trading in Sri Lanka.
- The introduction of a Two-Tierd Board. The Main Board and the Second Board.
- The CSE is appointed as the National Numbering Agency for Sri Lanka.

1998

- The CSE become the 52nd Member of the FIBV [now known as the World Federation of Exchanges (WFE)].
- The CDS gained membership in the Asia Pacific Central Securities Group (ACG)

2000

- Formation of the South Asian Federation of Exchanges (SAFE) and Sri Lanka become a Founder Member.
- New Listing Rules introduced.
- Second Regional Office opened in kandy

OUR MILESTONES

2005

- The 3rd Regional Office opened in Kurunegala.
- CSE introduces a new Triaxial Ribbon on its new logo.
- Settlement cycle shortened to T+3 for buyers and T+4 for sellers.
- Government imposed Share Transaction Levy of 0.20%.

2007

- Introduction of Single Tier settlement of T+3.
- CSE opens a Regional Office in Negombo.
- Corporate Governance Rules for Listed Companies introduced.

2009

- 3 new Settlement Banks appointed.

2012

- S&P 20 Index launched.

2006

- Five Trading Members admitted increasing the number of Stock Broker Firms to 20.

2008

- CSE introduces an Automated Market Surveillance System.
- Cash margin for trades over Rs. 20 Million introduced by the CDS.

2010

- New CDS Rules introduced.
- New Regional Office in Jaffna opened.
- Revision of Transaction Costs.
- Tick size reduced to Rs. 0.10.
- Crossing threshold increased to Rs. 20 Mn.
- Seven (7) new Trading Members admitted.

2013

- 3 new Regional offices in Anuradhapura, Ratnapura and Hambantota opened.

2015

- Holds Chairmanship of the South Asian Federation of Exchanges.
- Joins United Nations Sustainable Stock Exchanges (SSE) Initiative.
 - Adopts Global Industry Classification Standard (GICS) for classification of Listed Companies.
- Signs MOU with the Maldivian Stock Exchange.
- The CDS launches Custody services for listed companies.
- CDS hosts ACG Cross Training Seminar in Colombo.
- New HRIS system introduced.
 - Intranet Portal for CSE Staff introduced.
 - Introduction of Market Open Ceremonies.
- CDS signs MOU with NSDL India

2017

- Implementation of Risk Based Capital Adequacy Requirement (CAR) for Member Firms
 - CSE hosts South Asian Federation of Exchanges Workshop and Panel Discussion in Colombo
- Three MoUs signed with Korea Exchange, Sydney Exchange and Central Depository (India).
- CSE introduces a step-up fee structure for Share Transaction Fees.
- Value of non-voting shares was included in market cap and index calculations.

2014

- Launch of the new CDS system
- Upgrade of Automated Trading System (ATS).
- The S&P SL 20 Index surpasses 4000 Mark for the first time since its launch.
 - CSE wins award for 'Most Sustainable Growth Exchange' in Asia awarded by Capital Finance International (CFI).
- CSE hosts an International Fund Managers Forum in Colombo.

2016

- CDS celebrates 25 years in the Sri Lankan capital market
- The S&P/CSE Sector and Industry Group Indices jointly launched
- CSE implements new Broker Back Office and Order Management Systems
- Opens branch office in Ambalantota
- Conducts first forum to encourage foreign company listings
- CSE wins Global HR Excellence Award for Innovation in Training and Development
- Wins IPM's – National HR Excellence Gold Award for Best HR Practices
- CDS launches e-Connect online account management portal
- The launch of the CSE Education Portal
 - CDS signs MOU with Central Depository Company Pakistan Ltd
- New Surveillance System introduced.

2018

- APAC delegates gather in Colombo for largest gathering of Depositories and Clearing organizations in SL history
- CSE launches the Empower Board and Multi Currency Board
- CSE Wins Global HR Excellence Award for Best Workplace Practices
- CSE launches an Advanced Diploma in Financial Markets
- CSE hosts Invest Sri Lanka Forums London, Singapore and a first ever event in Edinburgh, Scotland
- CDS diversifies to launch Corporate Action Services and Registrar Services
- CSE and the National Stock Exchange of India sign MoU to advance collaboration
 - CSE launches its first sustainability guide: 'Communicating Sustainability: Six Recommendations for Listed Companies'
- CSE awarded ISO 9001:2015 Certification for Quality Management in HR

HIGHLIGHTS: MARKET PERFORMANCE

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Equity										
Turnover (Rs. Mn)	200,068.8	220,591.2	176,935.4	253,251.0	340,917.1	200,467.8	213,827.2	546,255.8	570,326.8	142,462.6
Domestic (Rs. Mn)	111,378.0	117,135.2	102,544.2	166,151.5	246,796.8	128,227.6	160,543.3	486,959.4	464,733.6	99,010.8
Foreign (Rs. Mn)	88,690.8	103,456.0	74,391.3	87,099.5	94,120.3	72,240.2	53,283.9	59,296.4	105,593.2	43,451.8
Shares Traded (No. Mn)	6,000.7	8,468.3	7,195.8	9,414.7	16,721.5	9,054.2	9,691.2	24,543.7	18,489.2	4,762.7
Domestic (No. Mn)	4,820.8	6,528.8	5,776.2	7,693.2	14,726.2	7,861.6	8,289.6	23,151.6	16,684.5	3,784.2
Foreign (No. Mn)	1,179.9	1,939.5	1,419.6	1,721.5	1,995.4	1,192.6	1,401.7	1,392.1	1,804.7	978.4
Trades (No.)	885,657	981,977	1,056,849	1,506,790	1,982,709	1,421,303	1,857,384	4,579,352	3,355,126	1,266,299
Domestic (No.)	838,784	928,276	1,002,476	1,431,750	1,899,569	1,355,380	1,796,868	4,463,404	3,225,041	1,190,822
Foreign (No.)	46,873	53,701	54,373	75,040	83,140	65,923	60,516	115,948	130,085	75,477
Daily Average Turnover (Rs. Mn)	833.6	915.3	737.2	1,059.6	1,414.6	828.4	883.6	2,285.6	2,396.3	593.6
Market Capitalisation (Rs. Bn)	2,839.5	2,899.3	2,745.4	2,938.0	3,104.9	2,459.9	2,167.6	2,213.9	2,210.5	1,092.1
Turnover to Market Capitalisation (%)	7.0%	7.8%	6.2%	8.4%	12.3%	8.7%	9.8%	24.7%	34.5%	18.0%
Market Capitalisation as a % of GDP*	21.4%	24.5%	23.2%	26.8%	30.0%	25.6%	24.8%	30.7%	34.5%	22.6%

* based on latest available revised GDP, at current market prices for each year

Contribution to Total Market Turnover

Foreign Companies	42.3%	45.1%	41.0%	32.8%	26.0%	34.3%	23.5%	8.3%	15.3%	26.8%
Foreign Individuals	2.0%	1.8%	1.0%	1.6%	1.6%	1.8%	1.4%	2.6%	3.2%	3.7%
Total Foreign Investor Contribution	44.3%	46.9%	42.0%	34.4%	27.6%	36.1%	24.9%	10.9%	18.5%	30.5%
Local Companies	34.0%	28.2%	30.9%	30.4%	34.7%	30.4%	41.0%	34.5%	37.5%	33.9%
Local Individuals	21.7%	24.9%	27.1%	35.2%	37.7%	33.5%	34.1%	54.6%	44.0%	35.6%
Total Local Investor Contribution	55.7%	53.1%	58.0%	65.6%	72.4%	63.9%	75.1%	89.1%	81.5%	69.5%

Foreign Trading Activities

Secondary Market - Equity

Purchases (Rs. Mn)	77,067.1	112,284.8	74,583.0	84,414.6	104,689.8	83,607.0	72,614.2	49,776.8	92,425.5	43,057.3
Sales (Rs. Mn)	100,314.5	94,627.3	74,199.5	89,784.4	83,550.8	60,873.3	33,953.6	68,816.0	118,760.9	43,846.3
Net Foreign Flow (Rs. Mn)	-23,247.5	17,657.4	383.5	-5,369.9	21,139.0	22,733.7	38,660.7	-19,039.2	-26,335.3	-789.0

New Listings/ Issues

Equity IPOs (No.)	2	2	3	2	5	1	6	13	8	2
Equity Introductions (No.)	1	1	1	-	1	1	11	16	2	0
Debt IPOs (No.)	11	5	17	25	20	28	3	1	2	1

Capital Raised

Equity IPOs (Rs. Mn)	1,953.3	960.0	1,822.5	329.6	2,693.8	494.4	1,739.4	19,155.7	4,347.5	681.8
Debt IPOs (Rs. Mn)	55,917.6	20,000.0	77,994.9	83,414.4	54,234.9	68,262.3	12,500.0	1,000.0	15,000.0	630.6
Rights Issues (Rs. Mn)	42,216.8	50,604	2,531.1	16,105.3	8,099.0	25,539.0	11,128.0	28,019.7	24,321.7	5,235.4
Conversion of Warrants (Rs. Mn)	0	-	3,193.8	7,972.8	0.0	0.5	1,954.8	2,675.0	Not Available	
Private Placement (Rs. Mn)	4,624.20	2,012.7	-	1,517.7	12,755.2	-	2,266.2	4,500.0	433.0	1,100.0

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Returns, Yields and Valuation Multiples										
All Share Price Index	6,052.37	6369.26	6,228.26	6,894.50	7,298.95	5,912.78	5,643.00	6,074.42	6,635.87	3,385.55
Change %	-4.98%	2.3%	-9.7%	-5.5%	23.4%	4.8%	-7.1%	-8.5%	96.0%	125.3%
S&P SL 20	3,135.18	3671.72	3496.44	3,625.69	4,089.14	3,263.87	3,085.33	-	-	-
Change %	-14.61%	5.0%	-3.6%	-11.3%	25.3%	5.8%	8.4%*	-	-	-
Market PER (Times)	9.65	10.6	12.4	18.0	19.7	15.9	15.9	15.8	25.2	16.6
Price to Book Value (Times)	1.18	1.3	1.4	2.0	2.2	2.0	2.1	2.0	3.0	1.7
Dividend Yield	3.1%	3.2%	2.8%	2.2%	2.1%	2.9%	2.4%	1.8%	1.2%	3.0%

* Launched on 27th June 2012

Debt Trading Statistics

Corporate Debt

Turnover (Rs. 000)	4,405,617	3,592,905	2,932,154	4,714,012	7,139,730	2,229,221	75,717	2,690,664	72,288	136,765
Trades (No.)	293	529	290	220	401	173	39	62	92	42
Debentures Traded (No. 000)	44,024	35,696	28,317	42,201	56,909	19,999	740	25,861	693	1,020

Closed End Fund

Turnover (Rs. 000)	23,650.5	28,887.9	113,300.3	55,316.5	131,872.5	44,160.0	21,865.5	137,848.1	621,264.6	4,615.6
Trades (No.)	327	552	925	765	940	883	767	2,898	8,302	228
Units Traded (No. 000)	350	4,123	1,976	818	1,680	640	339	1,642	8,222	87
Funds Listed (as at 31st December)	2	2	2	2	1	1	1	1	1	1

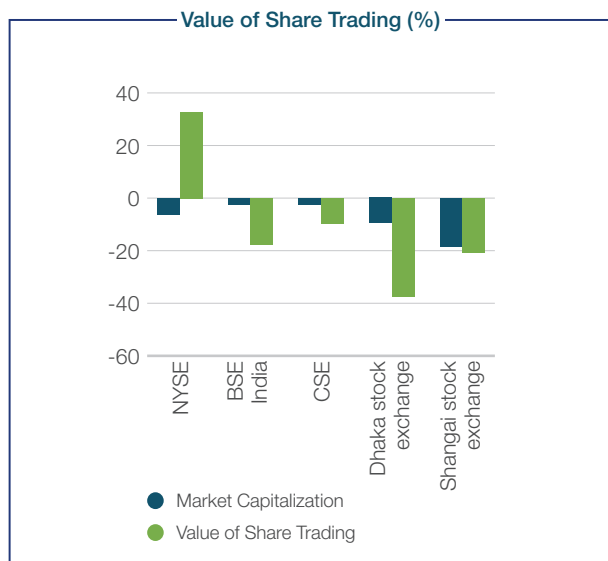
Additional Data

Companies Listed (No.)	297	296	295	294	294	289	287	272	241	231
Companies Traded (No.)	279	279	278	278	284	278	280	264	238	231
Delistings (No.)	2	2	2	3	3	1	2	0	1	6
Market Days (No.)	240	241	240	239	241	242	242	239	238	240

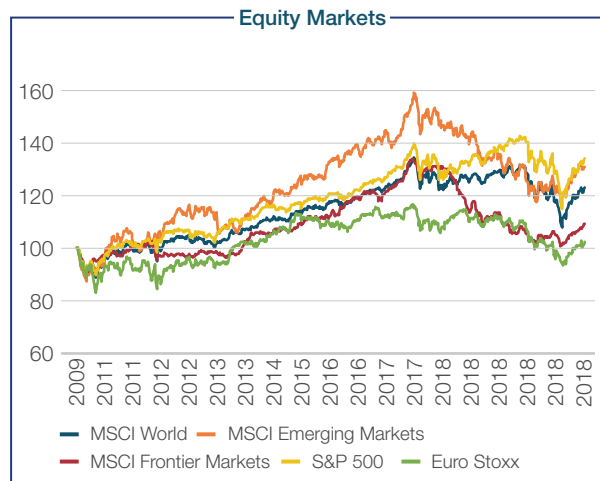
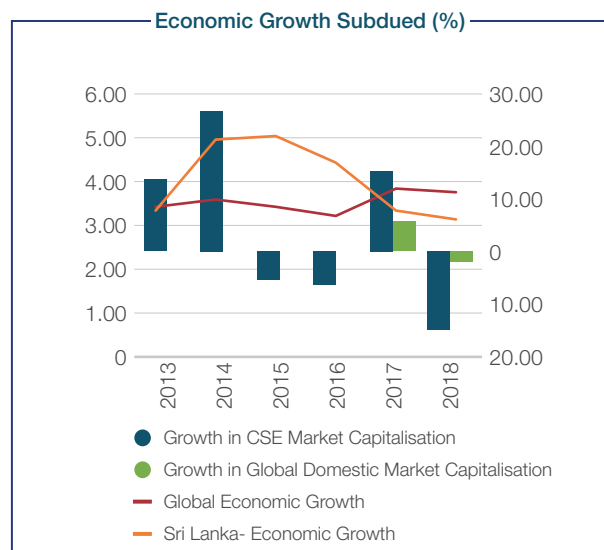
MARKET PERFORMANCE

The year 2018 had a strong start with investors entering capital markets with an optimistic outlook. However, the situation reversed by Feb 2018, the start of a stock market correction across the globe. This was primarily driven by possibilities of interest rate hikes in the US and exacerbated by an uncertain business landscape. Geopolitical tensions, changing policies, political turmoil fluctuating commodity prices and escalating trade created a lacklustre environment for businesses. Global economic growth weakened in 2018 to 3.7% and was expected to reach 3.5% by 2019 as per IMF projections¹. Emerging markets became even more vulnerable to a mammoth debt pile with a slowdown in economic performance.

Several markets showed signs of sell-offs with benchmark indices and valuations heading downward as investor confidence declined. Both new listings and investment flows weakened by (14%) and (12%) in 2018.² Global domestic market capitalization declined by (14.9%) in 2018 to USD 74.4 Trillion losing USD 9 trillion in absolute value. By the third quarter of 2018, emerging markets witnessed net capital outflows.



Despite an unprecedented business landscape, the CSE managed to curtail degrowth in market capitalization to (2%) in 2018. This was mainly driven by an active primary market with thirteen new issuances (equity and debt securities) valued at Rs. 57 Bn, 176% growth to last year. However, investor confidence subdued during the year and market turnover declined by (9%). Foreign investor outflows amounted to Rs (23) Mn, the highest outflow since 2010. Correspondently, benchmark indices namely ASPI and S&P SL 20 dipped by (4.9%) and (14%). Corporate valuations headed down with PERs reaching 9.65 times compared to 10.6 times last year.



¹ WEO update, Jan 2019

² <https://focus.world-exchanges.org/statistics/articles/new-listings-and-investment-flows-through-ipo>

Economic performance plays a crucial role in investor confidence which drives our market performance.

Subdued Economic Performance

The Sri Lankan economy over the 1st nine months of 2018 grew at 3.3% in line with last year despite a recovery of the Agricultural sector. Growth for the full year is estimated to decelerate to 3.1% compared to 3.3% last year as per IMF estimates. This was primarily due to declining construction activity and tightening monetary policies such as interest rates. Growth of the Industrial sector declined to 1.8% over the 1st nine months of 2018 compared to 4.8% last year. Other sub sectors such as Agriculture grew in 2018 recovering from severe weather conditions of last year. However, the impact of slow paced growth in industrial activities had a profound impact on economic growth which trended downward.

Weak external sector performance pressurized exchange rates: The external sector faced several pressures from a challenging global environment. Although export earnings increased, import expenditure driven by gold, vehicles and fuel imports had a sharper rise. Hence, trade deficits widened. Low investor confidence led to capital outflows from the government securities market and Colombo Stock Exchange. The Sri Lankan Rupee depreciated by 15.9% against the US dollar by Dec 2018.

Policy Interest rates maintained: Interest rates were maintained at 9% in Dec 2018 after two hikes during the year.

Inflation subdued: In 2018, Core inflation (NCPI) increased by 0.1% year on year in December 2018 compared to 7.3% in December 2017.⁵ Food prices were lower than last year with the recovery from severe weather patterns experienced in 2017.

Outlook: Economic growth in 2019 is expected to reach 4.5% compared to 3.1% in 2018 as per IMF projections. This will be driven by improving domestic demand, materialization of structural reforms, cross border trade agreements and an investor conducive environment. Despite heavy refinancing requirements in 2019, the commitment to implement reforms in line with the IMF program, enhances economic resilience and investor confidence.

⁴ IMF, Sri Lanka Development update Feb 2019.

⁵ http://www.statistics.gov.lk/PressReleases/Files/en/NCPI_20190121E.pdf

Key Challenges of 2018

Escalating trade conflicts and trade barriers.

Subdued global economic growth.

Rising interest rates in US.

Geo political events such as BREXIT.

Uncertainties in policies and direction of policymakers.

Increasing concerns of climate action.

Heavy debt refinancing requirements in 2019-2020.

Opportunities

Investor conducive environment:

1. Implementation of structural reforms such as the new Inland Revenue Act.
2. Simplification of property registrations and launch of a web portal for investors.
3. Stable inflation levels.
4. Strong legal and regulatory environment to minimize vulnerability of the financial system.
5. Signing of bilateral and multi-lateral trade agreements to improve external trade.





**NOTHING IS
IMPOSSIBLE WITH
EXEMPLARY
LEADERSHIP AND A
DEDICATED TEAM**

CHAIRMAN'S REVIEW



“ CSE PURSUED ITS STRATEGY TO DEVELOP CAPITAL MARKETS IN THE COUNTRY, WORKING TOGETHER WITH THE MARKET REGULATOR SEC TO BUILD INTEREST IN THE MARKET, ENGAGING WITH MARKET PARTICIPANTS TO PROMOTE THE MULTIPLE PLATFORMS PROVIDED FOR RAISING CAPITAL AND INVESTMENT.”

Dear Members,

The Colombo Stock Exchange (CSE) continued to focus on its role as the operator of the stock market in Sri Lanka and a creator of value for market participants in a year of strong economic headwinds and political uncertainty in the country coupled with capital outflows from emerging markets. Global markets also witnessed a return to volatility as weakening global growth, geopolitical and trade tensions, concerns about tightening monetary policy, and increased scrutiny of the technology sector combined to depress market sentiments resulting in a 14.9% decline in global market capitalisation.

Performance of CSE was in 2018 was a sharp contrast to the positive performance recorded in 2017 as market capitalisation decreased by 2.1% to Rs. 2.839 Bn. The benchmark All Share Price Index (ASI) declined by 5% reflecting negative business confidence stemming from macroeconomic stresses amid capital outflows from emerging markets and political turmoil. Low market capitalization (around 20% of GDP) and liquidity levels highlight the need to develop the domestic capital market to supplement the domestic capital formation process. Capital inflows decreased by 9% to Rs. 200 Bn as foreign sales grew by 6% to Rs. 100 Mn outpacing purchases which decreased by 31% to Rs. 77 Bn. Domestic inflows followed suit decreasing by 4.9% to Rs. 111 Bn as high interest rates dampened interest in equity markets. Encouragingly, capital raised increased by 42.3% to Rs.104 Bn as issuers raised debt of Rs. 55 Bn and equity of 55.9 Bn through mainly rights issues. The number of listed companies increased to 297 at the close of the year with 279 actively traded and 2 delistings. Against this backdrop, CSE continues to remain active in promoting investing in Sri Lanka and strengthening market mechanisms to optimise opportunities for growth in the future.

Strengthening Capital Markets

CSE pursued its strategy to develop capital markets in the country, working together with the market regulator SEC to build interest in the market, engaging with market participants to promote the multiple platforms provided for raising capital and investment.

Investors

The “Invest Sri Lanka” Investor Forum in Singapore attracted a strong turnout of leading Asia based institutional funds and other investors across multiple industries providing a strong platform for the persuasive business case presented by the Sri Lankan delegation. This was followed by road shows in London and Scotland which attracted emerging and frontier market institutional investor representatives in UK which has been a key market for the country.

We continue to focus on our medium term goal of meeting the criteria for reclassification to emerging market status from its current classification as a frontier market by Morgan Stanley Strategy Indexes (MSCI), working together with the SEC. However, given the market volatility observed during the year and the policy uncertainty, we believe that the current classification is more appropriate to driving a resurgence of investor interest which will pave the way for a stronger reclassification.

Higher levels of local investor contribution witnessed in 2018 provided impetus to our plans to increase engagement with potential domestic investors. We continued initiatives commenced in 2017 for regional investor forums which continues to attract interest from discerning domestic investors. Our seminars and workshops to enhance awareness of opportunities for investments with the CSE also continued during the year. Online tools were also developed to enable potential investors to test their skills and understanding prior to undertaking investments, enhancing awareness of capital market dynamics.

Issuers

CSE continued its work with family businesses to increase awareness of the potential benefits of listing. We are encouraged by the work undertaken by investment banks in promoting the SME Board to their clients and look forward to supporting their progress in the year that has commenced. Disappointingly, the Government proposal to list state owned enterprises did not materialise and is unlikely to do so in 2019, dampening the potential for growth of the Colombo bourse.

CHAIRMAN'S REVIEW

Long Term Focus

CSE continues to implement a pipeline of projects to ensure that we compete effectively with regional markets boosting fund flows to the market. The launch of the SME Board in July 2018 together with the SEC opens a pathway for SME's of the country to attract capital and grow, opening the market to a significant segment of the country's economic activity. The setting up of a multi currency Board is another key initiative offering foreign companies an opportunity to access a diversified pool of investors through Sri Lanka where shares of foreign companies can be listed and traded in Sri Lanka in a foreign currency.

Operationally, I am pleased to note that CSE recorded a modest profit of Rs. 5 Mn reflecting a focus on digitisation and rationalising operations to support long term growth.

The anticipated demutualization of CSE has been paused pending enactment of the new SEC Act which will pave the way for the necessary changes. As this has been discussed over many years, I will refrain from further discussion until the requisite approvals are in place to enable us to move forward on this project.

Cautious Optimism

Forecasts for the global and local economies remain subdued for 2019 although 2020 is more promising. Political and policy stability is necessary to enhance investor confidence necessary for the functioning of efficient capital markets and this is likely to have some impact as the country readies for elections. Although AWDR and AWDFR moderated during the year, it remains in double digits providing little incentive to investors to move in to higher yielding options for wealth creation. Given these operating conditions, stimulus must come from CSE's programmes to broad base its investor base. Programmes to create awareness outside Colombo, MOUs for bi-lateral co-operation and road shows will continue to ensure that we encourage stakeholders to invest through the Colombo bourse. Issuers also can unlock opportunities by increasing the floats to create more trading opportunities for investors addressing liquidity concerns.

Appreciations

I am appreciative of the efforts of my co-directors who have provided valuable perspectives in guiding strategy and facilitating oversight. I also wish to record appreciation of the contribution made by the late Mr. Dakshitha Thalgodapitiya who served on our Board for 12 years and passed away during the year.

I commend the leadership provided by the Chief Executive Officer Mr. Rajeeva Bandaranaike to his team who worked with passion and dedication during the year to improve performance of the CSE amidst a challenging operating environment.

We continued to work closely with SEC to ensure develop capital markets and wish to thank them for their co-operations. In particular, we wish to thank the Chairman Mr. Ranel Wijesinghe for the support extended in gaining necessary approvals to key projects. We also extend our appreciation of the co-operation extended by the Governor and officials of the Central Bank of Sri Lanka who worked with us on several projects.

Our growth is dependent on the active participation of brokers, investors and listed companies who trade in our market place, enhancing opportunities and widening the circle. I thank them for their continued support and count on their continued participation in the future as well.



Ray Abeywardena
Chairman

Colombo
04 June 2019

CEO'S MESSAGE

GRI 102-14



“ CAPITAL MARKETS IN SRI LANKA ARE LARGELY UNTAPPED AND GOVERNMENT AND CORPORATES MUST ENGAGE THE CAPITAL MARKETS IN A MUCH MORE EFFICIENT MANNER. MOVING FORWARD, WE CONTINUE TO STRONGLY ADVOCATE A MORE BALANCED REGULATORY FRAMEWORK. ”

CEO'S MESSAGE

The Colombo Stock Exchange (CSE) navigated a year marked by volatility in common with stock exchanges around the world .

The CSE was not immune to global trends of capital outflows from emerging markets. Market performance continued to be depressed with the benchmark ASPI declining by 4.9% and the S&P SL 20 declining by 14.6%. It is noteworthy that the decline in market capitalisation was limited to 2% which compares favourably with declines experienced by other markets in the Asia Pacific region which recorded an average decline of 23.8% in 2018.

Foreigners continued to stay invested signalling interest and confidence in the country particularly vis a vis the capital outflows in the region. The year 2018 recorded a net foreign outflow of Rs.23 Bn as against a net foreign inflow of Rs.18 Bn in 2017 . Foreign investors accounted for 44% of daily trading volumes compared to 47% in 2017. Equity market turnover declined as the daily average market turnover dropped by 9 % from Rs. 915.3 Mn in 2017 to Rs.833.6 Mn. in 2018. Annual Debt market turnover increased by 23% to Rs.4.4 Bn reflecting a shift in asset allocations supported by high interest rates.

Capital raised through the market increased by 34% to Rs. 104 Bn during the year, supported by 11 debt IPOs which accounted for 53% of capital raised.

Financial Performance

As a result of the implementation of prudent cost management and revenue diversification strategies over the period, the CSE has reported a positive total comprehensive income of Rs. 5 Mn for the first time since 2014 during the year ended 31st December 2018 despite a decline in revenue and an increase in costs .

The CSE has reported a total revenue of Rs.894 Mn as against a revenue of Rs. 964 Mn for 2017. The other income too declined to Rs. 359 Mn in 2018. As a result of active treasury management strategies, there was a 2% increase in investment income to Rs. 272 Mn over the last year. Income from recently introduced value added services amounted to Rs 29 Mn.

We continued to drive cost efficiencies through rationalising the staff cost, rent & IT maintenance cost. The staff cadre reduced from 152 to 147 in 2018 as we used natural attrition

to reduce staff costs with higher levels of automation and reassignment of responsibilities facilitating higher levels of employee productivity. These initiatives allowed us to curtail growth of total costs to a mere 1% over the last year to Rs. 888 Mn. despite the currency depreciation and cost increase in all the good and services .

Strategy

Our long term strategy is to move from the current classification of a frontier market to the Emerging Markets classification as per the Morgan Stanley Capital International (MSCI) index. We are clearly focused on the qualification criteria to achieve the benchmarks that we can impact and have in place a blue print to monitor progress. However, some factors are beyond our control and our strategy is focussed on achieving readiness for positive macroeconomic factors to support a re-entry in the Emerging Markets classification.

The qualification criteria includes the requirement for the market to have at least 03 companies meeting the quantitative criteria of a stipulated minimum full market capitalization, a float market capitalization and a liquidity criteria of a traded value ratio. In addition to these quantitative criteria there are five broad quantitative criteria such as openness to foreign ownership, ease of capital inflows/outflows, efficiency of operational framework, competitive landscape and the stability of the institutional framework that require some advancements from the current level.

However the, CSE is mindful that it will be more advantageous to remain in the frontier market space currently, as we have some gaps to fill before we can compete effectively in the emerging markets space where the dynamics will be very different.

Key developments planned would be increasing the size and liquidity of the market, the introduction of a more balanced regulatory framework, focus on the post trade activities which include the introduction of a Delivery Versus Payment system and improving the customer experience through improved digitised solutions to market participants These are game changers, strengthening market processes and investor confidence, supporting our progress towards our medium term goals.

Size and Liquidity

Size and liquidity remain a key constraint for market growth. The listing of large private sector companies and state

owned enterprises remains a top priority for the exchange. Government policy will dictate the timing of the listing of State Owned Enterprises (SOE's). Much more needs to be done in terms of creating awareness among the public that a listing does not constitute a privatisation but instead an opportunity for SOE's to obtain market based funding which they urgently require and there are examples of such SOE's that are majority Government owned which have successfully listed and have become market leaders in their industry. On the contrary the public at large and trade unions should be supportive as a listing results in greater transparency and a more productive institution. It is noteworthy to mention that in many countries markets have grown significantly both in size and liquidity following the listing of State Owned Enterprises.

Encouraging higher investor participation remains another top priority item for the exchange. Much is being done to facilitate greater participation by local institutional and retail investors as well as foreign investors. The exchange continues to engage prospective local investors through a country wide awareness and an investor education program and we continue to promote the market overseas among foreign institutional investors through our "Invest Sri Lanka" branded investor forums in collaboration with the SEC, Listed Companies and Stock broking Firms.

Product Diversification

Two significant new initiatives were launched during the year which will pave the way to enhance the opportunities for the corporate sector both locally and internationally to raise capital using the capital market.

The launch of a dedicated board for SME companies titled "Empower Board" and another dedicated board titled the "Multi currency Board" (MCB) for companies incorporated overseas to list and raise capital in US Dollars.

The marketing efforts for the Empower Board has commenced and already 8 institutions have been registered as sponsors of listing applications for the Empower board. Several workshops targeting prospective companies have been conducted country wide.

The marketing efforts for the Multi Currency Board is due to commence shortly once the all the regulatory matters are sorted out.

The CDS launched a new corporate action service and a corporate registrar service creating a fresh revenue stream. The CDS will enter this market space cautiously and mindful that the entry of the CDS into this space is to further complement, strengthen and support the good work done by the existing market intermediaries and not with the objective of replacing them.

Technology

The use of appropriate technology which is at the heart of stock exchanges will largely define the success or failure of exchanges. At the CSE we have identified this a very long time ago and hence have continued to invest in world class systems and continuous upgrades.

The CSE is again in the process of implementing further major upgrades to our trading and post trade technology which is due to be completed in 2020. We work very closely with the London Stock Exchange group (LSEG) our technology partner.

Our IT team delivered a number of investor centric technology developments during the year which will significantly enhance the stakeholder experience.

We continue our best efforts to provide uninterrupted access to the market and maintain a market wide robust Business Continuity Planning (BCP) mechanism with annual disaster recovery tests. Continuous stringent monitoring, investment and upgrades to our IT systems have helped us to maintain 100% uptime in all our main systems.

Market Regulation and Risk Management

The CSE continues its regulatory focus to ensure that all market intermediaries which are within the purview of the exchange are in compliance with the relevant rules and regulations. Where necessary punitive and enforcement actions have been taken without fear of favour. We continue to strengthen and upgrade the skills of our staff performing regulatory functions to ensure that an effective supervisory oversight is maintained.

The CSE has established a robust system of monitoring the risk of Stock broker firms. The risk based supervision and enforcement has resulted in 3 stock broker firms who were unable to comply with the minimum risk ratios ceasing operations during the course of the year under review.

CEO'S MESSAGE

The CSE monitors the compliance of the continuous listing rules by listed companies. These also include the filing of timely financial statements, the corporate disclosure policy and the corporate governance rules. Companies which are in non compliance are transferred to a watch list and the enforcement rules for companies under the watch list has proved to be an effective deterrent for non compliance.

The CSE continues to monitor the market for any possible violations of market offences under the SEC Act. All suspected instances of any market offences relating to market manipulation, insider trading and front running that have been identified through our market surveillance system during the course of the year under review have been referred to the SEC for further investigation.

The CSE commenced using a risk based approach to its review of financial statements of issuers which was previously more focused on compliance. This will facilitate improved risk management of the CSE as the review is expected to provide early warning signs enabling us to consider appropriate actions, mitigating reputation risk.

Governance

The CSE significantly enhanced Board Governance with the CSE Board adopting a Board charter with enhanced fit and proper requirements. A Board nominations committee was also established on the advice of the SEC to screen and recommend all elected Board appointments.

The CSE launched "Communicating Sustainability: Six Recommendations for Listed Companies" during the year to encourage more corporates to address environmental, social and governance factors in their capital market communications. The CSE worked closely with the Global Reporting Initiative (GRI) on Sustainability Reporting and Corporate Social Responsibility to provide insights to listed Issuers in to adopting sustainable business practices and measuring, monitoring, managing and communicating sustainability performance during the course of the year.

The exchange has been actively encouraging women's participation on listed company boards and partnered the IFC, UN Global compact, UN Women and the WFE in a series of initiatives including a bell ringing ceremony and a publication of a directory of women on boards of listed companies to draw attention to the issue.

The CSE continue to invest in upgrading the skills of staff through foreign and local training and development opportunities. Staff retention remains a key challenge and the exchange maintains a performance based work environment which identifies, recognizes and rewards performers with further development opportunities. Staff welfare activities are maintained throughout the year with a focus on effective company wide communication and feedback mechanisms for staff.

Regional Co-operation

The CSE has signed MOUs with the National Stock Exchange of India, the Korea Stock Exchange, the London Stock Exchange, Dhaka Stock Exchange, Sydney Stock Exchange and the Maldives Stock Exchange to explore opportunities of working together and co-operating with each other, strengthening strong relationships in knowledge transfer, technology transfer and product knowledge that has grown over the years.

Our CDS has signed MOUs with the CSDC China, KSD Korea, NSDL India, CDCL India and the CDC Pakistan to co-operate and collaborate on mutual opportunities which we believe will be beneficial to Sri Lanka as these are large regional depositories, assisting us to raise the bar on clearing and settlement platforms and protocols, strengthening our own infrastructure.

During 2018 Cross training opportunities with our exchange counterparts were continued with the Exchanges of Korea and NSE India conducting training for our staff and the CSE conducted training to the staff and stock brokers of the Nepal Stock Exchange and the Royal Stock Exchange of Bhutan,

The Central Depository Systems (Pvt) Ltd (CDS), which is our fully owned subsidiary, hosted the 22nd Annual General Meeting of the Asia-Pacific Central Securities Depository Group (ACG) in Colombo with delegates from 25 depositories and clearing organizations in participation. The event marks the largest gathering of depositories and clearing organizations Sri Lanka has ever hosted and also upholds an unbroken tradition of 21 consecutive years of conferences for ACG.

Looking Ahead

Our vision is to become a demutualized, listed, diversified profitable exchange competing in the emerging market space in the next 5- 6 years. Stakeholder support and innovation are

key drivers for our growth and we are conscious of the need to facilitate wealth creation for our stakeholders within applicable legislative and regulatory frameworks and macroeconomic factors. However, policy reform, regulation and government agencies also have a key role to play in developing our capital markets and can pave the way to bringing in the partnerships to support the next stage of evolution. Monetary policy framework are also key as equity markets thrive in low interest regimes.

Capital markets in Sri Lanka are largely untapped and Government and corporates must engage the capital markets in a much more efficient manner.

Market intermediaries are key stakeholders and they must also drive the necessary changes to evolve, building investor capacity for financial inclusivity and investing in their own technology transformations to ensure that together, we are future ready and able to compete effectively.

We believe that financial literacy is an area that all regulated financial service providers should focus on and the CSE looks forward to support and actively participate in the National Financial Inclusion Strategy of Sri Lanka.

The CSE is committed to innovating and technology is at the heart of what we do. All broker back office systems have been upgraded with risk management capability and we are in the process of digitising account openings to support our growth moving forward, leveraging technology.

It is necessary that we take note of the moderated forecasts for global, regional and country growth in 2019 as set out in the April issue of the World Economic Outlook. Encouragingly, it forecasts an uptick in economic growth in response to accommodative monetary policy stances, improved US-China trade relations and observes a resumption of portfolio flows to emerging markets and a strengthening of currencies as well which is positive. Downside risks make the recovery precarious, recommending policy makers to be objective and data dependent.

As with all risks, there is opportunity, and this can be a time to forge ahead as investors look for compliant markets with strong governance frameworks backed by fin tech. The CSE is well positioned to leverage years of investment in

strengthening the country's capital markets and we will drive our agenda to deliver opportunities for wealth creation to our stakeholders.

Appreciations

I wish to extend my appreciation to all Member Firms, Trading Members, Issuers, Investors and other market intermediaries during a trying year and count on their support to take CSE to greater heights as we pursue our aspirations to move in to the Emerging Markets Index. We have worked closely with the SEC and thank the Chairman, Commission Members, Director General and officials of the SEC for all the support extended towards our market development initiatives. I also wish to place on record our appreciation to the Governor of the Central bank and his officials.

I wish to thank the Chairman and Board Members of the CSE for their guidance, wise counsel and diligent oversight of our performance. I look to their continued encouragement in driving an ambitious plan for our growth. I thank the CSE team for their hard work and in particular the excellent quality of work produced, inspiring me during a challenging year. We need to continue to work together to regain the vibrancy of one of the more established stock exchanges in the South Asian region, ensuring that we are future fit to compete effectively.



Rajeeva Bandaranaike
Chief Executive Officer

Colombo
04 June 2019

BOARD OF DIRECTORS



Left to Right

Mr. Anthony Shanil Fernando - *Director*

Mr. Ray Abeywardena - *Chairman*

Prof. M.A.D.S. Jeeva Shirajanie Niriella - *Director*

Mr. Murtaza Jafferjee - *Director*



Left to Right

Mr. Dimuthu Abeyesekera - *Director*

Mr. Dilshan Wirasekara - *Director*

Mr. Dumith Fernando - *Director*

Mr. Anton Godfrey - *Director*

BOARD OF DIRECTORS

MR. RAY ABEYWARDENA

Chairman

Mr. Ray Abeywardena is the Managing Director of Acuity Partners (Pvt) Ltd. He has been associated with Sri Lanka's capital markets for over 32 years, primarily as a Stockbroker and since 2009 as an Investment Banker. Prior to being appointed as Managing Director/CEO of Acuity Partners (Pvt) Ltd he served as the Managing Director/CEO of Acuity Stockbrokers (Pvt) Ltd from 2001 to end 2008. Mr. Abeywardena is the Chairman of Acuity Stockbrokers (Pvt) Ltd, Acuity Securities Ltd and Guardian Acuity Asset Management Ltd (GAAM) and an independent Non-Executive Director of Softlogic Insurance PLC. He also serves on the Boards of Lanka Ventures PLC, Lanka Energy Fund PLC and The Associated Newspapers of Ceylon Ltd (Lake House).

Mr. Abeywardena is a past Chairman of the Colombo Stockbrokers Association, is a member of the Chartered Institute of Marketing (UK) and holds a Masters Degree in Business Administration from the University of Wales.

MR. DUMITH FERNANDO

Director

Dumith is Chairman of Asia Securities Holdings (Pvt) Ltd, a leading independent Investment Bank in Sri Lanka which offers Investment Banking, Wealth Management, Stock Brokerage and Research services to international and domestic institutions, corporates and high net worth individuals.

Dumith has two decades of experience in international Investment Banking and Equities, based in New York and Hong Kong with JPMorgan Chase & Co. and Credit Suisse AG. Until 2013, he was Managing Director and Group Chief Operating Officer for Credit Suisse Asia Pacific. He worked at Credit Suisse from 2007 until 2013 and at JPMorgan from 1995 until 2007 in roles across Investment Banking, Equities, Private Equity and Corporate Strategy.

Dumith is a Non-Executive Director of the listed firms Union Assurance PLC and Singer (Sri Lanka) PLC and a member of the Economic Policy Steering Committee of the Ceylon Chamber of Commerce.

He holds a BA in Physics & Economics from Middlebury College in the U.S. and an MBA from Harvard Business School.

MR. DILSHAN WIRASEKARA**Director**

Mr. Dilshan Wirasekara, is Director / Chief Executive Officer of First Capital Holdings PLC. He is an investment banker by profession with a career spanning over 22 years, comprising diversified expertise in financial services including, treasury and investment management, capital market strategy and corporate finance advisory.

He is an Alumnus of INSEAD having completed his Executive Professional Education at INSEAD Business School in Fontainebleau, France.

Mr. Wirasekara specializes in Asset and Liability Risk Management having secured the accolade of leading and representing two Sri Lankan companies in winning the International Bank Asset and Liability competition organized annually by the Netherlands Development Finance Company (FMO), German Investment Corporation (DEG) and Proparco – a subsidiary of the Agence Française de Développement (AFD).

He was the former General Manager of Softlogic Capital PLC guiding investment and trading portfolio management across subsidiaries inclusive of the Group's Licensed Finance Company, Composite Insurer and Equity Brokerage; prior to which he was Head of Treasury at Nations Trust Bank PLC.

MR. DIMUTHU ABYESEKERA**Director**

Mr. Dimuthu Abeysekera serves as Director/CEO of Asha Phillip Securities Ltd, which is affiliated to Phillip Capital Singapore, a specialized financial services organization managing assets worth over US\$ 35 Billion with a network of offices around the world. He is an experienced capital market professional counting over 30 years in the industry. Mr. Abeysekera is also a Director at Asha Financial Services Ltd, a Specialized Margin Trading Company in Colombo and is a past Chairman of the Colombo Stockbrokers Association (CSBA). As a veteran capital market professional, Mr. Abeysekera presently serves as an important resource person at CSBA. In recognition of his experience and leadership, Mr. Abeysekera was also invited to serve a term as the Chairman at Kalamazoo Systems PLC.

BOARD OF DIRECTORS

MR. ANTON GODFREY

Director

Founder/ Executive Chairman of agxa-AG, distinguished entrepreneur who has been the impetus behind the expanding frontiers of the global business initiative of the company. Upholds highest standards of professionalism and maintains responsibility towards all stakeholders. His achievement oriented, focused on innovation and committed towards inspiring further extension of the existing business networks. Due to his vision and innovative spirit, agxa Global has now evolved into a multi-million dollar venture with a truly global outreach. The entity has several global strategic partnership and joint ventures in energy resources, pulp and paper, consumer, technology and offshore trading clusters.

The backward and forward integrated strategic partners includes Norske Skog, Veridos, SPB, StoraEnso Jeonju, Chenming, Fusionex, Havas, Civs, MI, Knowledge & ETG. In recognition of his accomplishments, Mr. Godfrey received the Outstanding Aisa Pacific Entrepreneurship Award at APEA 2013. The company has won several awards and became the runner up of the Best Business Champion Award in Western Australia for ICT and offshore global trade.

He possess over two decades of extensive expertise on capital markets derivatives, international trade-futures and FDI initiative with global networking skills. Mr. Godfrey holds an MBA from the University of Leicester UK, Chartered Marketer and a Fellow of The Chartered Institute of Marketing UK and the Australian Institute of Management. Also a visiting Lecturer at the University of Curtin – Perth, Western Australia.

Mr. Anton Godfrey has been actively involved in International Trade Councils including the Chamber Of Commerce in Sri Lanka and Australia. He is the past president of the Vietnam Sri Lanka Business Council and Indonesia Sri Lanka Business Council of the Ceylon Chamber of Commerce and currently serves on the Board of the Western Australian Chamber of Commerce and Industry panel focusing on International Trade.

Apart from being a successful entrepreneur he was also recognized as the best Rotary president during his tenure as the president of the Rotary Club of Colombo Uptown. He shares time between leading a fast growing global business venture, playing golf, a sport that he is quite passionate about.

**PROF. M.A.D.S. JEEVA
SHIRAJANIE NIRIELLA**

Director

Ms. M.A.D.S. Jeeva Shirajanie Niriella is a senior academic of the University of Colombo and is a senior attorney- at- law. She holds Bachelor's Degree with Honours in Law and Master's Degree (M.Phil) in Law and Criminal Justice from the University of Colombo and a PhD Scholar of KIIT University, India.

She was the former Head of the Department of Public and International Law, Faculty of Law, University of Colombo. She rendered her service as member of the First Board of Management of the National Authority for the Protection of Victims of Crime and Witnesses, Sri Lanka and served as a member of the National Research Committee of National Science Foundation from 2005-2011.

She is presently the Deputy Director/Examinations of Virtual Campus, University of Colombo, Course Director of LLM Programme conducted by the Faculty of Law, University of Colombo, visiting lecturer for the Master of Laws programmes conducted by Open University, Sri Lanka and Kotelawal Defence University, Course Module Writer of Sri Lankan and International Commercial Law and Sri Lankan and International Business Structures for the LLM Programme of University of West London, U.K., member of the executive committee of World Center for Women Studies, USA , International Economic Development, Research Center, China, member in the Presidium of General Assembly, Asian Criminological society, Life member of the Bar Association of Sri Lanka, Sri Lanka Women Lawyers' Association, Sri Lanka Federation of University Women, World Victimology Society and International Bar Association.

She also serves on Advisory Panel, Editorial and Reviewer Boards of several International Journals including International Journal of Contemporary Laws, International Annals of Criminology published by the University of Cambridge Press, Asian Journal of Humanities and Social Science, Asian Journal of Humanities and Social Studies, International Journal on Art and Humanities and African Journal of Politics and Governance.

BOARD OF DIRECTORS

MR. ANTHONY SHANIL FERNANDO

Director

Mr. Anthony M Shanil Fernando, Attorney-at-Law, Solicitor, MBA, MsiArb, is Partner at Anton Fernando Associates Law firm. Shanil is Lawyer, Arbitrator, Notary Public, Commissioner of Oaths and Registered Trade mark Agent and Company Secretary.

Shanil obtained a First Class Honours and Prize in Commercial Law at the Sri Lanka Law College has followed Postgraduate studies at the Queen Mary College, University of London, in Corporate Law, on a Commonwealth Scholarship. And The University of Texas, USA, and the University of Prince Edward Island Canada. He has also followed a course on South Asian Corporate Management in Tokyo Japan.

Shanil has obtained a Master of Business Administration (MBA) from Postgraduate Institute of Management (PIM) University of Sri Jayewardenepura and his researched on the Use of Electronic Data interchange for the facilitation of Trade and Transport Facilitation. Shanil is a member of the Singapore Institute of Arbitrators.

Chairman of, Asian Logistics Park Pvt Ltd, and World Express (CMB) Limited. And Director of The Colombo Stock Exchange of Sri Lanka and Director of the Central Depositary Systems Ltd, and Chairman of AFA Corporate Services Limited and is the Director and Secretary of The International Chamber of Commerce (ICC Sri Lanka). Shanil was a Task Force Member, of the ICC Commission on Arbitration and ADR, and has attended many international ICC workshops.

He has also served as member of the board of Urban Development Authority (UDA), and Paliyagoda Warehousing Co Ltd, He was a recipient of the Achieves Award by the Postgraduate Institute of Management Professional Association University of Sri Jayewardenepura.

Shanil is a certified trainer on Corporate Governance and was trained by Commonwealth Association for Corporate Governance London. He also serves as a visiting Lecturer and resource person in the area of Corporate Law, Arbitration, Corporate Compliance, Negotiations and Conflict Resolution and Supply Chain Management.

MR. MURTAZA JAFFERJEE

Director

Mr. Murtaza Jafferjee is the chairman of JB Securities and has over 25 years of experience in the capital markets across multiple asset classes. He serves on the Board of Nations Trust Bank PLC and Serendib Hotels PLC as an Independent Director and also served on the Board of the CSE from August 2007 to July 2009. Mr. Jafferjee holds a Bachelors' Degree in Mechanical Engineering and Computer Science from the University of New South Wales, Australia and a Masters' Degree in Financial Economics from the University of Colombo. As a CFA charter holder, Mr. Jafferjee makes an annual pledge to abide by the highest levels of ethics and professional conduct.

MANAGEMENT TEAM



Left to Right

Mr. Charita Dumbukola - *Head of Enterprise Risk Management / Human Resources*

Mr. Niroshan Wijesundere - *Head of Market Development*

Ms. Nilupa Perera - *Head of Trading, Market Surveillance & Corporate Affairs*

Ms. Nilma Samarasinghe - *Head of Strategy*

Mr. Nalin Fonseka - *Head of Central Depository Systems*

Ms. Kushlani Coswatte - *Head of Internal Audit*

Mr. Kusal Nissanka - *Head of Finance and Administration*

Ms. Renu Ranatunge - *Head of Legal*

Mr. Rajeeva Bandaranaike - *Chief Executive Officer*

Mr. Renuke Wijayawardhane - *Chief Regulatory Officer*

Ms. Kanishka Munasinghe - *Head of Broker Supervision*

Ms. Lankesha Molligoda - *Head of Compliance*

Mr. Nishantha Hewavithana - *Head of Research and New Products*

Ms. Vinduni Dullewe - *Head of Listing*

Mr. Chandrakanth Jayasinghe - *Chief Information Officer*

Mr. Kaushal Siriwardena - *Manager System Operation*

Mr. Janaka Mahagedarawatta - *Manager Data Center Operation*


**CREATING VALUE
WHILE PROMOTING
GOODWILL IS OUR
PASSION**





CREATING VALUE


CAPITALS USED




Financial Capital
(Page 89)




Human Capital
(Page 71)



Digital Capital
(Page 69)



Social and Relationship Capital
(Page 80)



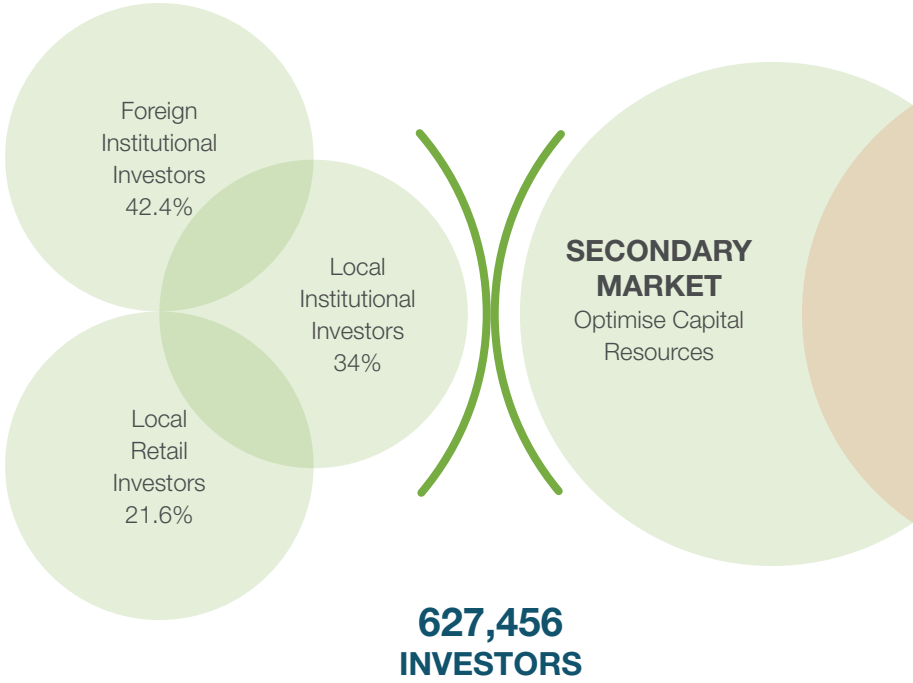
Intellectual Capital
(Page 85)



Natural Capital
(Page 88)

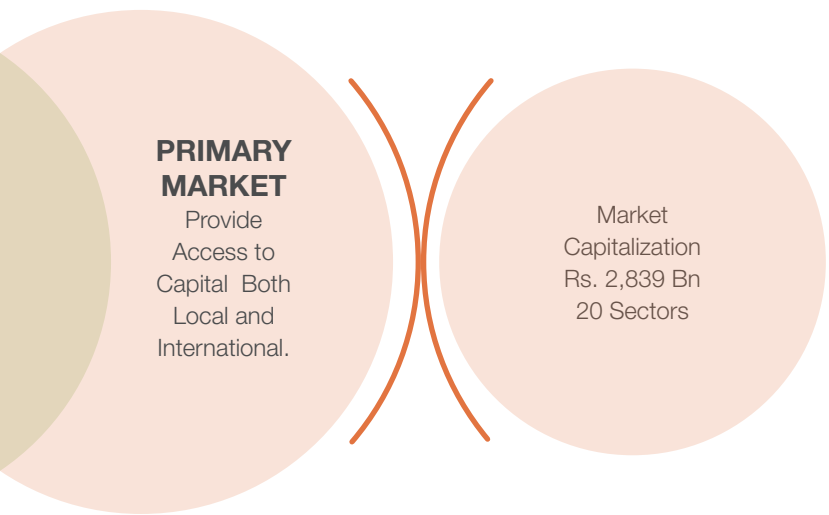
Our Vision: ‘To be the Preferred Choice for Creation of Wealth and Value.’

Driven by Sound Corporate Governance



Risk Management

We Create an Avenue for Issuers to Connect with a Large Array of Investors to Raise Capital.



297
ISSUERS/LISTED ENTITIES

Listing, Market
Surveillance, Corporate Affairs

Stakeholder
Engagement

**VALUE CREATED TO
STAKEHOLDERS**

Investors

Dividend Yield of 3.1%

Issuers

Funds Raised of Rs. 104,712 Mn

Employees

Salaries of Rs. 280 Mn
Training Spend of Rs. 5.8 Mn

Brokerages

Trading Commissions
Rs. 1,790 Mn

Regulator

Fees
Rs. 249.8 Mn.

Government

Foreign Investments
Rs. 77,067 Mn
Share Transaction Levies
Rs. 1,200 Mn

Public

Financial Literacy
Employment Opportunities

DETERMINING MATERIAL ISSUES

GRI 102-46, 47, 49

MATERIALITY ASSESSMENTS HELPED US IDENTIFY AND PRIORITIZE FOCUS AREAS FOR THE YEAR. THESE WERE IDENTIFIED FROM A CONTINUOUS PROCESS OF RISK MANAGEMENT, STAKEHOLDER ENGAGEMENT AND EVALUATION OF ECONOMIC LANDSCAPES. THE PRIORITIES WERE SELECTED BASED ON THE IMPACT ON THE CSE AND IMPACT ON STAKEHOLDERS.

IN 2018, WE SET SIX PRIORITIES ALONG WITH KPIs. CUMULATIVELY, THESE FACTORS WOULD ASSIST IN SUSTAINING MARKET ACTIVITY IN THE CURRENT ECONOMIC LANDSCAPE.

IN ADDITION, THE FOCUS AREAS WOULD ASSIST CSE TO TRAVERSE ITS STATUS AS A FRONTIER MARKET TO REACH EMERGING MARKET STATUS. THIS WOULD ENTAIL AN INCREASE IN BOTH MARKET LIQUIDITY AND EFFICIENCY. THE MATERIAL TOPICS SELECTED DEVELOP AN ENABLING MARKET ENVIRONMENT AND A LUCRATIVE CHANNEL FOR PORTFOLIO INVESTMENTS.



Market Performance

(Page 14)



An Evolving Team

(Page 71)



Engage and Strengthen Strategic Relationships

(Page 80)



Operational Excellence

(Page 58)



Enhance Transparency and Credibility

(Page 85)



Modernise Market Practices


(Page 69)




Advocate Sustainability Practices

(Page 88)

STRATEGY IN 2018

Medium term goals	Increase market size	Develop market infrastructure	Strong Governance	Balanced Regulation	Brand Image
Create a lucrative center for fund raising and price discovery by focusing on five broad areas.	KPIs Number of listings, growth in market capitalization and market turnover	KPIs: Capital expenditure, Operational excellence	KPIs: Regulatory compliance, Investor complaints, Cases of market malpractices.	KPIs: Rule amendments, Investor participation	KPIs: New customers Market reach
	<ul style="list-style-type: none"> 3 equity and 11 debenture listings. Capital raised from IPOs increased by 176% YoY. Market capitalization declined by (2%) (9%) change in market turnover. 	<ul style="list-style-type: none"> Capital expenditure of Rs. 55.7 Mn. Developing State of art technology on par with leading exchanges. 	<ul style="list-style-type: none"> Level of compliance to regulations was 94%. 20 investor complaints on Stockbrockers. 22 referrals to SEC on suspected malpractices. 	<ul style="list-style-type: none"> Seven proposals on rule amendments. Foreign investor participation was 44%. Local investor participation was 55% 	Customer Growth and retention <ul style="list-style-type: none"> 10,246 new investor accounts opened. 63% growth in CSE followership base.
ENGAGE 	Attract new Listings and Improve Investor Participation. <ul style="list-style-type: none"> Three Investor Road shows abroad. Direct meetings with potential investors and issuers. Introduced an academic qualification and conducted regional awareness programs to improve financial literacy. 	Enhancing Market Accessibility <ul style="list-style-type: none"> Media representatives conducted interviews with key representatives of the CSE. 	Engaged with Market Participants to Develop a Fully Complaint Exchange. <ul style="list-style-type: none"> Periodic referrals to the regulatory committee of the CSE of any non- complaint Stockbrockers. 	Engaged with Regulators and Market Participants to Develop a Balanced Regulatory Landscape.	Collaborated with Regional Exchanges <ul style="list-style-type: none"> Participated in four bell ringing ceremonies. The CDS successfully hosted the 22nd ACG Annual General Meeting with regional depositories.

STRATEGY IN 2018

INNOVATE 	Expanding Product Suite. <ul style="list-style-type: none"> Launched the Empower Board and Multi currency Board. 	Provide Value Added Services To Clients <ul style="list-style-type: none"> CDS implemented new value added services to clients such as corporate action and registrar services, dividend payout solutions. 	Introduced the Board Charter.	New Rules <ul style="list-style-type: none"> Introduced new rules such as All or None blocks trade. Proposed new SEC Act. 	Being Relevant To Customer Needs <ul style="list-style-type: none"> Developed products that are up to date with regulatory changes such as facilitating listing of Basel 111 compliant debt securities.
EVOLVE 	Develop Market Infrastructure <ul style="list-style-type: none"> Digitalising core depository activities. Launched pilot run of CDS digital front desk. Steps taken to enhance post trading with the launch of the DvP model and CCP. 	Providing State of Art Technology <ul style="list-style-type: none"> Invested Rs. 40.8 Mn on digital capital. 100% system uptime. Upgraded broker back office systems, Digitalization of post trade services. 	Established Corporate Compliance Framework <ul style="list-style-type: none"> Implemented compliance policies and commenced monthly compliance reporting to the Board 	Rule Amendments <ul style="list-style-type: none"> Proposed and implemented seven rule amendments on approval from SEC. 	Developed a Highly Skilled Pool of Capital Expertise. <ul style="list-style-type: none"> Training spend amounted to Rs. 5.8 Mn.
MONITOR Trade and Market Surveillance 	Monitoring Compliance of Listed Issuers. <ul style="list-style-type: none"> 61 companies were in the Watch List as at 31st December 2018 due to non compliance with CSE Listing rules. 	Surveillance Activities to Monitor Trading Activity <ul style="list-style-type: none"> Hosted awareness programs for stockbrokers on market manipulation. 	Clearly Defined Procedures for Investor Complaints on Stockbrokers	Implemented Enforcement Action for Instances of Non-Compliance by Market Participants.	

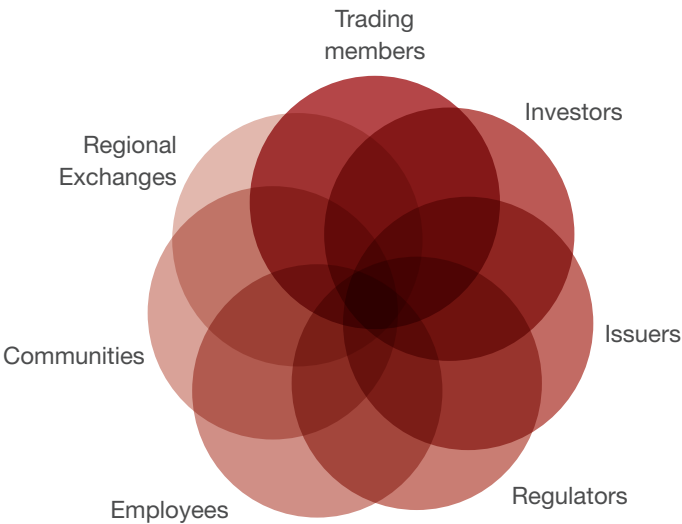
STAKEHOLDER ENGAGEMENT

GRI 102-40, 42

The activities of our Exchange involve a complex interaction of several key stakeholders who play a pivotal role. We develop strong relationships by continuously engaging with stakeholders through varied means. Some of our main objectives of engagement are:

1. Understand stakeholder needs
2. Develop expertise and market infrastructure.
3. Deliver our social economic role.

(Please refer page No. 80 of the Social and Relationship Capital for detailed report)



CORPORATE GOVERNANCE

Dear Members,

The Board of CSE is committed to providing effective leadership and setting the Tone at the Top to shape a culture of high performance and equally lofty ethical standards. Therefore, Corporate Governance is key as it articulates expected behaviours and provides guidance for management on its day to day operations while facilitating oversight by the Board. It also facilitates accountability through delegation of authority to facilitate exercise of professional judgement, an organization structure with clear roles, responsibilities and reporting lines and effective internal controls which are regularly reviewed and approved by the Board. The Board also reviews the risk management processes in place on a regular basis to understand the risk dynamics and ensure that appropriate strategies are deployed to manage risk within levels acceptable to the Board.

We are cognizant of the need to ensure that stakeholder views are carefully balanced as their confidence in the effective functioning of markets is key to our performance. Accordingly, the Board has reviewed the findings of the Public Perception Survey and the Investor Profiling Survey to prepare a blue-print for action on areas identified for improvement.

The Board plays a pivotal role in Governance through appointment of Key Management Personnel, approval of organization structures, approval of policy and other resolutions and effective oversight of performance. Good corporate governance goes beyond adherence to codes of practice to do what is right, mindfully balancing stakeholder interests. Accordingly, we continue to refine our structures, processes and the conduct of our meetings in a cycle of continuous improvement to drive high standards of corporate governance.



Ray Abeywardena

Chairman

04 June 2019

Corporate Governance Report Code Ref D6

CSE upholds high standards of corporate governance in our role as a market operator. Our governance structures and frameworks are in line with best practice as we believe that we need to set the bar for sound governance, moving beyond mere regulatory compliance. With this in mind, we continue to adopt new standards and codes which provide insights in to the way forward in Corporate Governance.

The CSE governance framework is adopted based on the following:

- Companies Act No. 7 of 2007
- Relevant provisions of the Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto
- Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

This report provides signposts to the Code of Best Practice where relevant.

An Effective Board Code Ref A1 & A1.5

The Board of Directors is responsible for setting the strategic direction and monitoring performance of the CSE. It appoints the Chief Executive Officer and approves appointments of Key Management Personnel to operate the CSE. It also sets in place formal governance structures and policy frameworks which provide the executive management team guidance in managing their day to day operations. All Board members bring independent judgement to bear on matters set before the Board.

Board Meetings Code Ref A1.1, A1.6 & A6

Regular Board meetings are held monthly with special Board meetings being convened as the need arises. The required quorum for a meeting is 5 directors with at least two elected and two appointed directors being present. Questions arising shall be resolved with a majority vote and in the event of equality of votes, the chairman shall have a second or casting vote. A secure electronic Board paper storage and distribution system is used to circulate meeting agendas and Board

papers prior to Board and Sub-Committee meetings. Agenda and board papers are uploaded giving directors 5 days for review of the same. There is provision for approval of board resolutions by circulation for urgent matters. Minutes are maintained by an Independent company secretary and directors have access to the archives through the secure electronic platform. Minutes of Board Sub-Committee meetings are tabled at the following Board meeting and matters arising from the same are deliberated and actioned as deemed appropriate. Attendance at Board Meetings and Board Committee Meetings are given below.

Director	Board		Governance Committees			Regulatory Committees				Other			
	Board Meetings	Special Board Meetings	Risk & Audit	HR	Nominations Committee	Arbitration & Disciplinary	Dispute Resolutions	Member Evaluations	Regulatory	Market Development	AGM/EGM	SEC	Other
Mr. Ray Abeywardena	12/12	6/7		1/1		8/10	14/20	1/1		5/7	2/3	1/1	5/5
Mr. D. T. W. Thalgodapitiya	9/12	4/7	4/5		1/2	6/10	12/20	1/1	8/8	3/7	1/3	1/1	4/4
Prof: M. A. D. S Jeeva Shirajanie Niriella	11/12	7/7	5/5		1/2	10/10	20/20		8/8		2/3	1/1	4/4
Mr. Dumith Fernando	12/12	7/7	5/5	1/1	2/2					7/7	3/3	1/1	2/2
Mr. Anton Godfrey	10/12	5/7		1/1	2/2	1/10	10/20		4/8	7/7	2/3	1/1	3/3
Mr. Dilshan Wirasekara	12/12	7/7					2/20				2/3	1/1	2/2
Mr. A. Shanil Fernando	12/12	7/7	5/5			10/10	13/20		8/8	7/7	1/3	1/1	4/4

Board Responsibilities Code Ref A1.2

The Board Charter was approved and adopted by the Board in January 2018 as part of the annual process of review to ensure it is fit for purpose and incorporates key development. The Charter sets out the roles and responsibilities of the Board as summarized below.

Role	Responsibilities	Duties
<ul style="list-style-type: none"> Leadership Strategic guidance Independent oversight Ultimate decision making body 	<ul style="list-style-type: none"> Optimal use of skills and expertise. Implement strategic plans and policies. Monitor operational performance. Develop sound internal controls Ensure compliance with regulation. Risk management Evaluate social and environmental impact. Appointment of the Chief Executive Officer (CEO) Implementing the terms of appointments and KPIs for evaluation of CEO. 	<ul style="list-style-type: none"> Fiduciary duty of integrity, transparency and in best interest of all stakeholders. Protect and promote CSE image Confidentiality of information

CORPORATE GOVERNANCE

The Board reviewed the Strategic Plan developed by the Management up to 2020 and reviewed performance against the same on a quarterly basis. They also reviewed the Public Perception Report and the Investor Profiling Survey Report carried out in 2017 which was received in 2018 to objectively assess stakeholder perceptions and concerns in providing strategic guidance to improve market performance.

The Board ensures that the CEO and the Key Management Personnel (KMP) have the required skills and expertise to implement business strategy and uphold the corporate values of CSE with assistance from the HR Committee. The HR Committee reviews talent pipelines within CSE to facilitate optimal performance and succession. Performance management systems in place to facilitate assessment of development needs provide a basis for rewarding performance through approved incentive schemes.

The Board ensures that affairs of CSE are conducted in accordance with legislative and regulatory requirements. Directors have the ability to request for professional advice on matters considered material and relevant to the Company. [Code Ref A1.3](#)

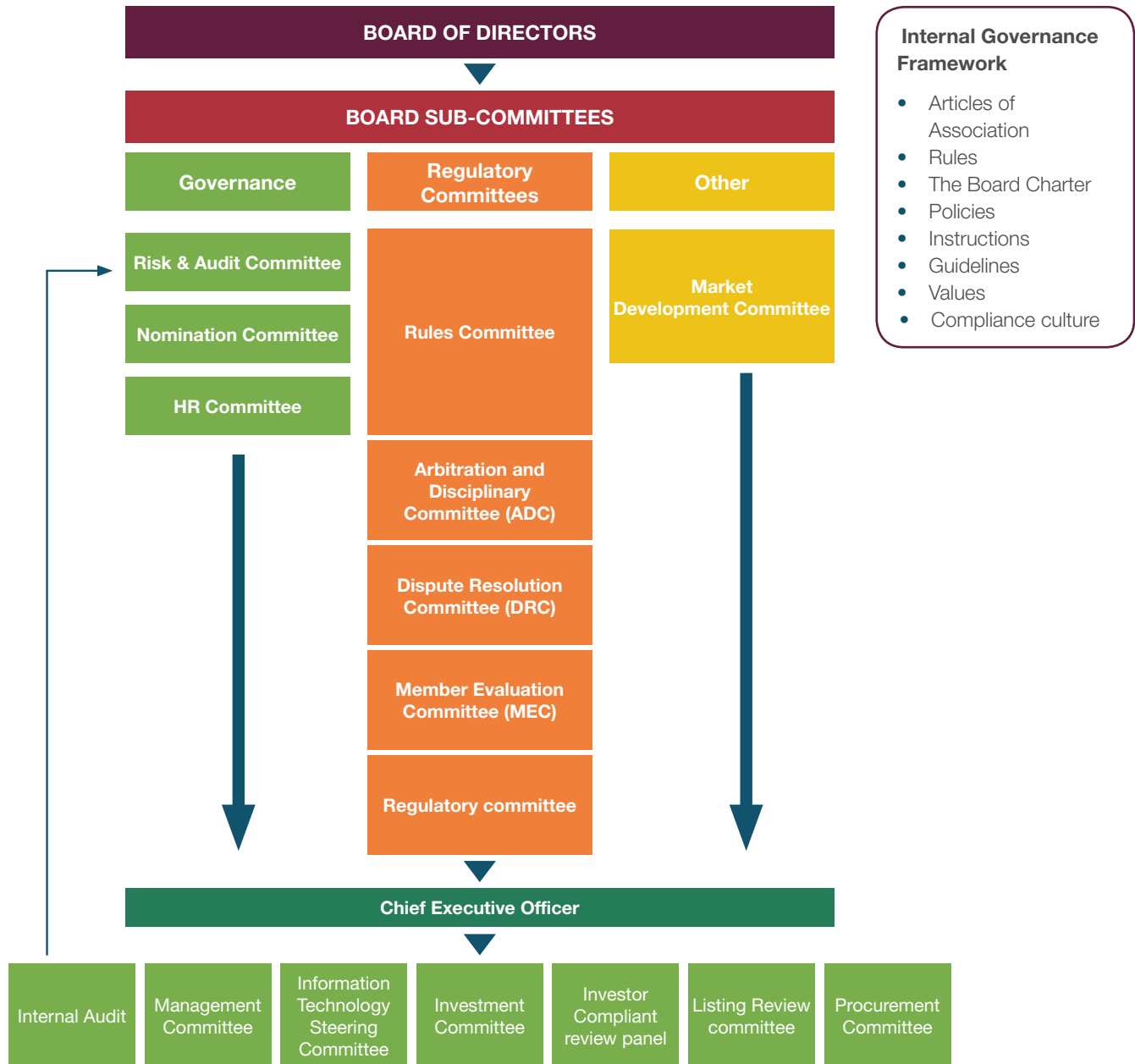
Company Secretary [Code Ref A1.4](#)

Company secretarial services are provided by an Independent Law Firm with a full time representative to assist and advise the Board of Directors. Responsibilities of the Company Secretary are summarised in the adjacent column. Appointment and removal of the Company Secretary is a matter for the Board as a whole. Jacey & Company was appointed as Company secretary w.e.f. 01st April 2019.

ROLE OF COMPANY SECRETARY

- Provide guidance to the Board on matters of governance;
- Assist the Chairman in organizing the activities of the Board
- Ensure Board compliance of regulatory requirements and the articles of association
- Assist the Board in self-evaluation processes
- Maintain register of conflicts of interest
- Carry out any other duties as may be assigned by the Board

The Board has delegated authority to facilitate the smooth operation of the CSE and has set in place an appropriate organization structure and a comprehensive policy framework to ensure compliance with regulatory requirements and realization of its short, medium and long term goals. The Directors have no vested interests and take decisions on matters before them using independent judgment. It has also appointed Sub Committees to assist in the discharge of their duties which have oversight responsibility for defined areas as detailed in the Governance structure below. [Code Ref A1.5](#)



CORPORATE GOVERNANCE

Board Sub Committees

Composition and areas of oversight by the sub-committees are given below:

Board Sub Committees	Composition	Objective
Regulatory		
Rules Committee	4 members Mr. Ray Abeywardena – Chairman Mr. Dumith Fernando Prof. Jeeva Niriella Mr. Shanil Fernando	<ul style="list-style-type: none"> Reviewing the suitability and adequacy of new Rules and amendments to the existing Rules to support regulatory requirements and market dynamics. Recommend changes to proposed Rules (if deemed necessary) and approve such Rules amendments and/or new Rules.
Arbitration and Disciplinary Committee	4 Members Mr. Shanil Fernando-Chairman Prof. Jeeva Niriella Mr. Ray Abeywardena Mr. Anton Godfrey	<ul style="list-style-type: none"> Handle all matters of disciplinary nature and doubts and disputes between members.
Dispute Resolution Committee	4 Members Prof. Jeeva Niriella - Chairperson Mr. Ray Abeywardena Mr. Anton Godfrey Mr. Shanil Fernando	<ul style="list-style-type: none"> Handle appeals on client-stockbroker disputes not being satisfied with decisions made by Secretariat.
Member Evaluation Committee	3 Members Mr. Ray Abeywardena – Chairman Mr. Anton Godfrey Mr. Shanil Fernando	<ul style="list-style-type: none"> Recommend significant changes in shareholding of member firms for Board approval.
Regulatory Committee	4 Members Prof. Jeeva Niriella - Chairperson Mr. Shanil Fernando Mr. Anton Godfrey Mr. Ray Abeywardena	<ul style="list-style-type: none"> To oversee and review the Regulatory Functions exercised by the CSE
Governance		
Risk and Audit	4 members Mr. Dumith Fernando – Chairman Mr. Anton Godfrey Mr. Shanil Fernando Prof. Jeeva Niriella	<ul style="list-style-type: none"> Establishment and monitoring of ERM framework, Monitor the integrity of financial statement and review internal controls and work of internal/ external audit functions.

Board Sub Committees	Composition	Objective
Nomination Committee	3 members Mr. Anton Godfrey – Chairman Mr. Dumith Fernando Prof. Jeeva Niriella	<ul style="list-style-type: none"> Review and evaluate appointments/ re-appointments of directors to the CSE Board and make necessary recommendations to the Board.
HR	3 members Mr. Ray Abeywardena – Chairman Mr. Anton Godfrey Mr. Dumith Fernando	<ul style="list-style-type: none"> Review and recommends the compensation and benefits of the staff. Ensure the Board and CEO have sufficient skills for strategy implementation. Succession planning.
Other		
Market Development	5 members Mr. Anton Godfrey – Chairman Mr. Ray Abeywardena Mr. Dumith Fernando Mr. Shanil Fernando Mr. Dilshan Wirasekara	<ul style="list-style-type: none"> Market promotional activity.

Other Committees

Consultative Committee of Market Stakeholders	16 members	<ul style="list-style-type: none"> Provide policy direction to the market promotional strategies
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Activities During the Year

Rules Committee	<p>Referred seven (7) sets of Rule amendments to the Rules Committee, relating to the following areas, for review and approval:</p> <ol style="list-style-type: none"> Regulatory framework to support the creation of an alternate market segment by introducing a Small and Medium Enterprise Board and Multi-Currency Board; Facilitating the voluntary inactivation of Business operations of stockbroker, enhancing the Sanctions that may be imposed on Stockbroker Firms by the Board of Directors of the CSE and introduce a Common Client Agreement for all Stockbroker Firms. Enhancing enforcement action for non-compliance with key continuous listing requirements by Listed Companies. Facilitate the All-or-None Blocks executed on the Automated Trading System of the CSE <p>Additionally, a comprehensive regulatory framework for listing BASEL III Compliant Debt Securities on the CSE was developed and submitted to the SEC for their approval.</p>
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CORPORATE GOVERNANCE

Arbitration and Disciplinary Committee	Instituted disciplinary action against four (04) Stockbroker Firms and delivered decisions in respect of three (03) Stockbroker Firms
Dispute Resolution Committee	Handled 06 appeals with decisions been issued for all
Regulatory Committee	<ol style="list-style-type: none"> 1. Reviewed the regulatory concerns in relation to Member Firms including continuous non-compliances with significant CSE Stockbroker Rules. 2. Presentation was made to the committee on Common types of Market offences through CSE 3. Reports and presentations on referrals to SEC regarding market offences were submitted 4. Reports on non-compliance with Listing Rules by the listed companies were submitted
Nomination Committee	Review and evaluate any nomination of a person to be appointed as a CSE director and review and evaluate any nomination for reappointment of a CSE Director, in instances where a Director, being eligible, wishes to offer himself/herself for re-election and recommend the approval or disapproval of such nomination to the CSE Board.
Member Evaluation Committee	Evaluation carried out by the Secretariat in relation to a transfer of shares of a Member Firm resulting in a significant change in shareholding which was recommended for approval to the Board of Directors
Risk and Audit	<ol style="list-style-type: none"> 1. Approve the annual internal audit plan. 2. Oversee the progress of internal audit function. 3. Review internal audit reports and determine whether critical risks are mitigated. 4. Appointment of external auditors and review their performance.
HR	<ol style="list-style-type: none"> 1. Review and recommend the CEO's compensation, including incentive, bonus, benefit and retirement plans, to the Board for approval. 2. Review and recommend the Company's compensation philosophy, strategy, and guidelines. 3. Review major changes in the organizational structure of management as proposed by the CEO. 4. In consultation with the CEO, review and recommend the appointment of and compensation, including incentive, bonus, benefit and retirement plans, for the senior management. 5. Review with the CEO existing senior management resources, and performance evaluations, including recruitment and training programs, to ensure that compensation is linked to performance.
Market Development	Provided guidance for local and foreign investor focused awareness drive on broad-basing the investor base. An island wide investor perception research on stock market investment was also recommended by the committee and is presently being carried out.

Director Induction and Training

Code Ref A1.8

The elected Directors are all industry experts currently serving in top Executive level capacities in their respective firms. The Appointed Directors are all qualified professionals who have served in the organization for over 4 years and are well versed with the industry. As such no specific induction or training was required during the course of the year. However the Directors participate in numerous forums where they receive presentations on matters related to their roles which support them in discharging their roles.

Role of Chairman

Code Ref A2 & A3

The Chairman of the Board is elected from among the Elected Directors annually and may be re-elected provided that no Chairman shall hold office for more than three consecutive years from the date of his appointment unless re-elected unanimously by the Board. The roles of Chairman and CEO are separated and the Chairman is a non-executive director who presided over all meetings. He leads the Board and is appointed annually. The same director can be re-elected as the Chairman if the period of service doesn't exceed three years. The Chairman's role is set out below.

ROLE OF CHAIRMAN

- Effective participation of both elected and appointed directors.
- Effective contribution of all directors
- Balance of power between elected and appointed directors.
- Views of all directors are considered on issues.
- Promote a constructive relationship with the Board of Directors and management.
- Ensure the Board has complete control on CSE affairs

Composition of the Board

Code Ref A4 & A5

The Board comprises nine non-executive directors with five directors elected by the fifteen Members. Four directors appointed by the subject minister on the recommendation of the Securities and Exchange Commission of Sri Lanka. Profiles of Board members setting out their experience and skills are given on pages 28 to 32 of this report. The directors are holding senior positions in leading companies, as a result of that they have gained vast experience and also due to their academic and professional background, all of them possess financial acumen and knowledge. The Chief Executive Officer is responsible for implementing strategy and managing day to day operations of the CSE Secretariat and is accountable to the Board of Directors for its performance.

Appointment, Re-election and Independence

Code Ref A.7 & 8

In terms of Article 50 of the Articles of Association of the CSE, the Directors who should retire by rotation are determined on the basis of the two directors who have been longest in office since their last election and they may stand for re-election by the members at the Annual General Meeting. The nominations committee evaluates director nominations presented by

existing stockbrokers and makes recommendations to the Board. Based on the recommendations, the Board recommends directors to the SEC. New directors and directors to be re-elected need to provide declaration forms assuring that he/she is fit and proper to hold office based on factors such as past performance, skills, technical knowledge, instances of past/pending disciplinary or administrative action by regulators or judiciary system.

Board Appraisal and Committee Performance

Code Ref A.9

The Board conducts annual appraisals of its performance and that of its sub-committees. As per the Board charter, the effectiveness of the Board is evaluated in areas of composition, accountability, responsibility and conduct encompassing matters set out in Schedule B of the Code. The board evaluates its performance at least annually based on a performance evaluation checklist in addition to self-evaluation.

Appraisal of CEO

Code Ref A.11

The Board appraises the performance of the CEO annually against pre-defined targets that have been agreed prior to the commencement of the year. The targets include financial and non-financial goals.

CORPORATE GOVERNANCE

Directors' Remuneration Code Ref B

Directors of the Board serve without remuneration. However, CSE repays any reasonable expenses incurred on the business or management of the exchange.

Managing Conflicts

It's a requirement for directors to act in the best interest of the exchange that enhance public confidence and impartiality of the board. As per the Board charter, the directors are advised to discuss annually at a Board Meeting, the hypothetical situations leading to conflicts of interest. In addition, a questionnaire is circulated every year to Board directors to identify instances of conflicts of interest.

In the event of a conflict of interest:

1. The director is required to submit written application form disclosing the conflict of interest.
2. Obtain advice and guidance of the Chairman in the event of uncertainty of conflict of interest.
3. Board director cannot participate in the decision making process.
4. The disclosure of the decision on whether a conflict exists and how the conflict was managed are documented in meeting minutes.

Relations with Members Code Ref C1-3

The Board engages with the members through the consultative committee and other meetings with Members who are licensed stock brokers. Minutes are maintained of these meetings and feedback is given on how concerns raised are being addressed. During the year several and regular consultations were held on matters relating to Members, regulatory matters and market development matters.

The Annual Report, Notice of Annual General Meeting, Resolutions and voting procedures are sent to members 21 days prior to the AGM facilitating participation and review of matters presented. Proxy forms are also included on page 172 of this report enabling members to participate via proxy. The CSE has a mechanism to record all proxy votes and proxy votes lodged for each resolution. Separate resolutions

are proposed at the AGM for each substantially separate issue facilitating voting on each substantial issue. Accordingly the adoption of the report and accounts is proposed as a separate resolution. The Board, including the Chairmen of all the sub committees, are present at the AGM to answer any questions.

The CSE's future strategies and their potential impact have been disclosed in the following sections of this Annual Report.

- Chairman's Statement on pages 18 to 20.
- CEO's Review on pages 21 to 25.
- Operational Review on pages 58 to 91.

This Annual Report provides a balanced view of CSE's position, performance for the year ended 31st December 2018 and its prospects. The Directors' Report on pages 94 to 97 contains the following as specified by the Code:

Code Ref D.1

Requirement	Page Ref.
Statement that all material interests in contracts involving the Company have been declared and that they refrained from voting on matters in which they were materially interested	96
Statement confirming review of the internal controls and obtaining assurance on its effective operation	97
Statement setting out the responsibilities of the Board for the preparation and presentation of financial statements	95
Statement by the Auditors about their reporting responsibilities	95
Report/Statement on Internal Control	97
Management Discussion and Analysis	94
Statement that the business is a going concern	95
Related party transactions	96

Accountability and Audit Code Ref D.2 & 3

The Risk and Audit Committee has oversight responsibility for approval of appropriate accounting policies, CSE's internal control framework and risk management processes. It comprises 4 independent non-executive directors as set out in the report of the Risk and Audit Committee on pages 99 to 100 which also summarises the responsibilities of the Audit Committee and activities undertaken during the year. They are supported by Internal Audit who reports directly to the Risk and Audit Committee reviewing the efficacy of internal controls and regulatory compliance. Additionally, the committee also reviews risk management processes of the CSE which is supported by the ERM Division which ensures that potential risks are identified, measured, monitored and managed or mitigated within the defined risk appetite approved by the Board. The Risk and Audit Committee also meets with external auditors to discuss audit plans, matters arising from the audit, audit reports and management letters including an in-camera meeting.

Members Code Ref E & F

CSE is a mutual exchange comprising fifteen Members and fourteen Trading Members, all of whom are corporate entities. Twenty six Members operate as Stockbrokers for both Equity and Debt while three members trade solely in Debt securities. It is a company limited by guarantee as per provisions of the Companies Act No.7 of 2007. The Annual General Meeting is the main forum for dialogue with the members on relevant matters of concern to the general membership. Feedback obtained from members on areas of concern during the year are communicated to the Board by the CEO.

Internet of Things and Cybersecurity Code Ref G

The Board allocates sufficient time for discussion of information technology and cyber risk as it is a critical capital for functioning of our business. CSE complies with three standards namely Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000) and aspires to maintain high levels of cyber security taking in to account peer exchange practices and the rapid evolution of technology.

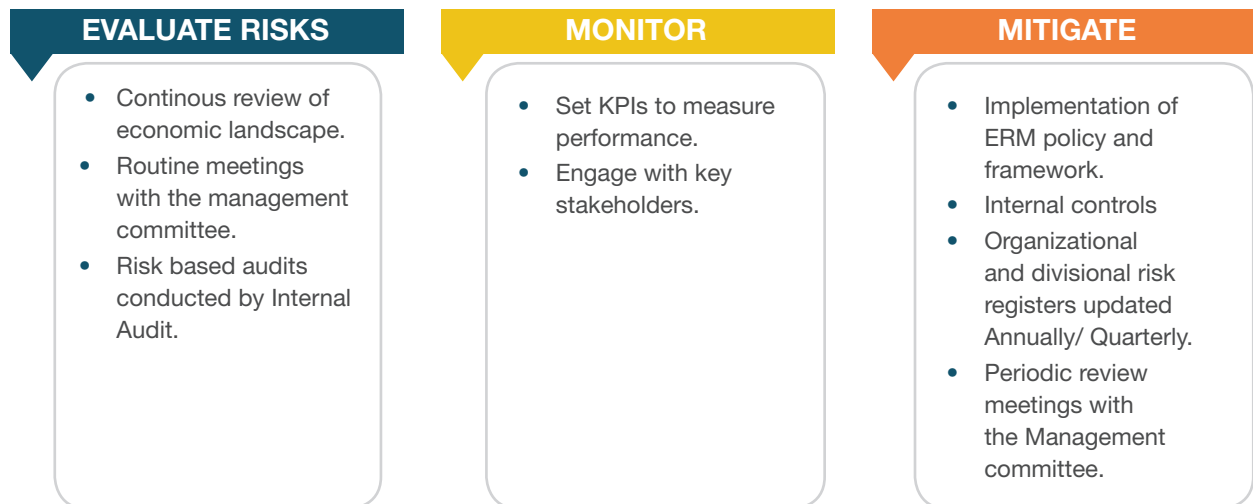
Sustainability Reporting Code Ref H

This Annual Report is an Integrated Report prepared according to the IR Framework published by the International Integrated Reporting Council, integrating sustainability information with governance and financial information.

Requirement	Page Ref.
Economic sustainability	7
The Environment	88
Labour Practice	71
Society	80
Stakeholder identification, engagement and effective communication	41
Formalise Sustainability Reporting processes	7

RISK MANAGEMENT

Delivering sustainable value creation to stakeholders by evaluating potential risks and minimizing unfavourable outcomes.



Risk management is an ongoing process of risk identification, assessment, monitoring and reporting. The risk landscape defines the core risks to the CSE both controllable and uncontrollable. Identified risks were categorised as Financial, Strategic, Operational and Compliance. These risks have been assessed on two parameters namely likelihood of occurrence and extent of impact.

Risk mitigation

Strategies to mitigate risks are formulated by the Management committee and approved by the Risk and Audit committee, a sub-committee of the Board of Directors. Risk registers are maintained at an organizational and divisional level. These are updated annually/ quarterly. The management committee conducts review meetings to evaluate performance against Key performance indicators. The progress of risk management strategies is presented to the Risk and Audit committee of the CSE. In addition, an independent evaluation of the CSE is performed by the Internal Audit function.

Risk Governance

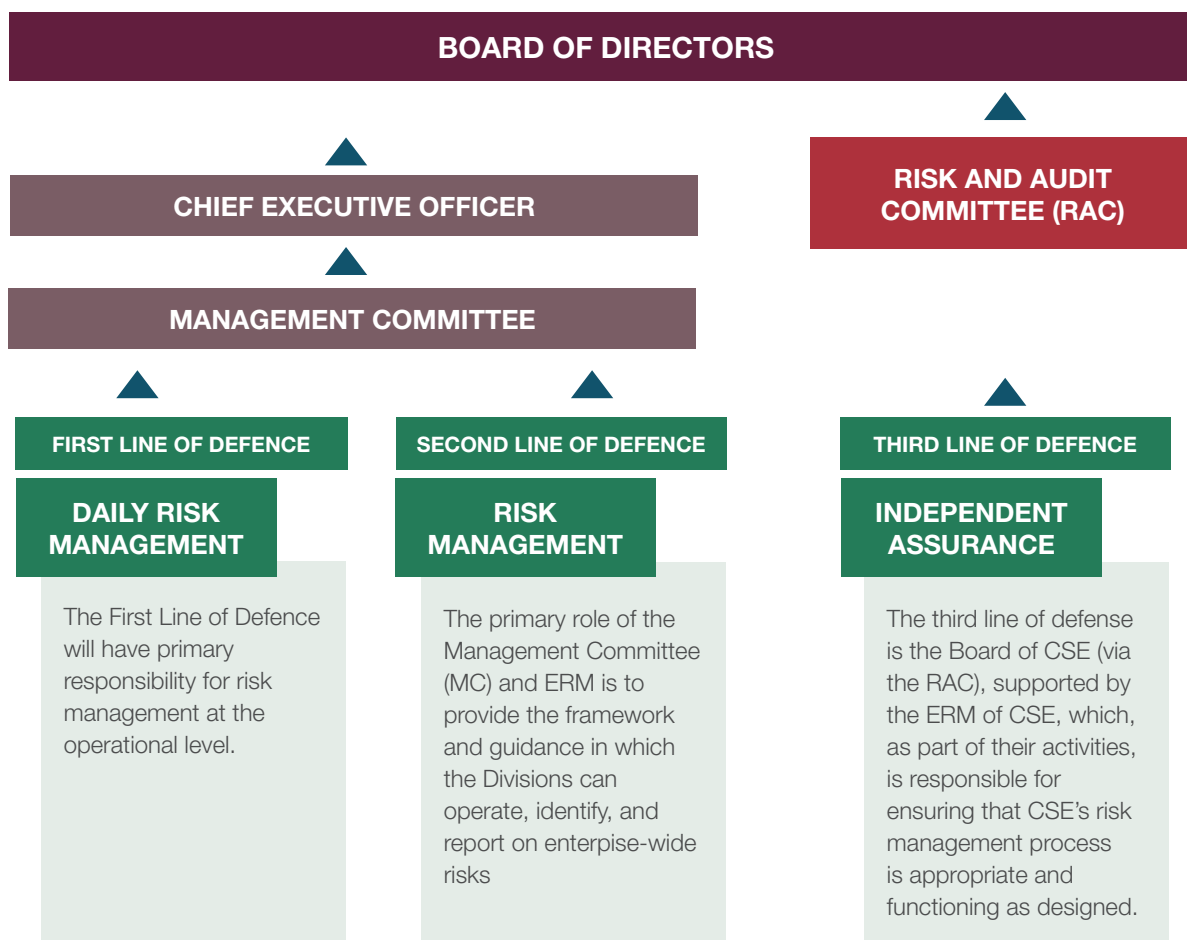
Enterprise risk management framework (ERM) is the underlying methodology of our risk management function and conforms to best practices of the COSO (The Committee of Sponsoring Organisations of the Treadway Commission). The three line of defence model is a three -tier structure to coordinate activities of management and operational staff.

DEVELOPMENTS IN 2018

- Risk and Audit Committee approved the annual risk review and risk mitigating strategies.
- Introduced a corporate compliance policy.
- Implemented a corporate compliance framework.
- Commenced Monthly reporting of Compliance Status to the Board of Directors.

Key Highlights

The CSE group was 94% compliant with Legal, Regulatory and other requirements by December 2018.



Current Risk Landscape

Risk	Description	Drivers	Mitigating actions	How we monitor
Strategic Risks	Financial Loss	Declining revenue. Operational Cost.	Diversification. Cost optimisation measures. Process Improvements.	Growth in Income. Cost-to-Income ratio.
	Low Turnover Levels	Lack of Liquidity. Limited product offerings.	Improve education and awareness (Retail, high net worth and institutional investors). Organize Investor (local/foreign) Forums. Introduced lower transaction costs for day traders.	Average Daily Turnover

RISK MANAGEMENT

Risk	Description	Drivers	Mitigating actions	How we monitor
Strategic Risks	Low Local Investor Participation	Lack of knowledge of the market dynamics. Negative perceptions on market returns.	Conduct education and awareness (Retail, high net worth and institutional investors).	Local investor contribution to total market turnover.
	Competition Risk	Alternative investment opportunities. Lack of products / instruments compared to other Regional Markets.	Organize Investor (local/foreign) Forums.	Trend of Active Investor Accounts.
	Attrition of right talent	Remuneration benefits. Career progression.	Strengthen the reward and recognition mechanisms. Training and Development.	Rate of Staff turnover.
Financial Risks	Broker Failure	Inadequate capital buffers.	Comply with Minimum liquid capital requirements. Maintain Capital Adequacy Ratio. Maintain Minimum Shareholders' Funds requirement. Conduct Risk based Audit.	Daily monitoring of Capital Adequacy Ratio and liquid capital levels. Monthly compliance of Minimum Shareholders Funds.
	Counter party credit risk (settlement failures)	Counter party defaults	15% margin applicable on transactions worth over Rs. 20 Mn. Settlement Guarantee Fund. Buying and Selling through the same broker. Weekly liquidity calculation based on last 4 weeks purchases.	Daily monitoring of compliance with Margin Requirement. Weekly monitoring of Liquidity Deposit requirement.

Risk	Description	Drivers	Mitigating actions	How we monitor
Compliance Risk	Litigation risk	<p>Evolving regulations.</p> <p>Negative impact of inappropriate or obsolete regulation.</p>	<p>Review the relevant laws/regulations and recommend necessary legal changes.</p> <p>Professional Indemnity Insurance. Directors' and Officers' Liability Insurance.</p> <p>Seek expert legal advice (if necessary).</p>	Number of instances of non-Compliance with regulatory requirements.
Operational Risk	Failure of systems and processes	<p>System /Infrastructure downtime.</p> <p>Human Error/Omissions.</p>	<p>ISO Certification. (20000 - ITSM, 22301 - BCMS).</p> <p>Business Continuity Plan/Disaster Recovery Plan.</p> <p>Comprehensive system testing.</p> <p>Annual Disaster Recovery Drills.</p> <p>Documentation of procedures.</p> <p>Redundant System Architectures and Infrastructures.</p> <p>Regular system audits.</p>	<p>Number of instances of system failures</p> <p>System downtime</p>
	Cyber Security Risk	Evolving threats in information security	<p>ISO Certification. (27001 - ISMS).</p> <p>Perimeter firewall to prevent threats.</p> <p>Endpoint Protection.</p> <p>Periodic vulnerability and Penetration testing.</p> <p>E-mail security.</p>	Number of instances of Cyber Security threats



**IDENTIFYING
OPPORTUNITIES AND
CAPITALIZING WHEN
THE TIME IS RIGHT
ARE THE HALLMARKS
OF THE DEFINITIVE
TRAILBLAZER**

BUSINESS LINE REVIEWS

KEY PERFORMANCE INDICATORS

PRIMARY MARKETS/ LISTING

Listing fee income of Rs. 106 Mn.
Three new equity listings
Eleven debt listings
Capital Raised of Rs. 104 Bn

SECONDARY MARKETS/ TRADING

Trading Income of Rs. 292 Mn
Growth in Average daily turnover - (8.9%)
Movements in All share price index - (4.9%)

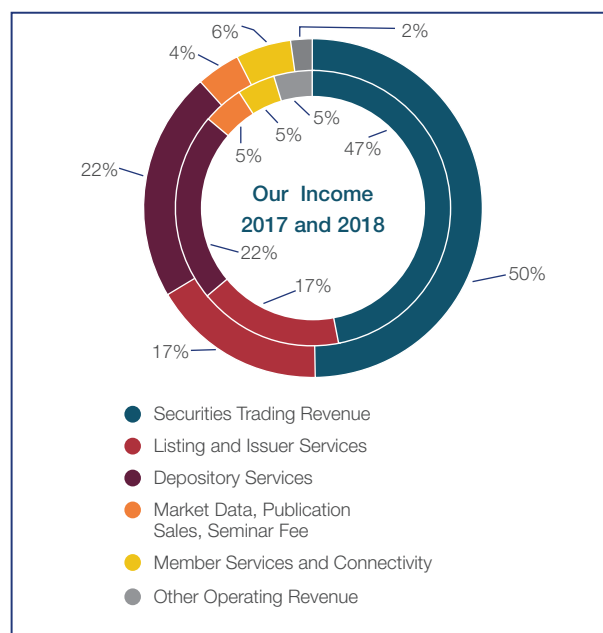
DEPOSITORY SERVICES

Income of Rs. 138 Mn.
New account openings was 10,426.
Growth in volume of securities under custody was 8%.

MARKET DATA

Fee from sale of data of Rs. 30 Mn.
Total follower base of CSE platforms increased by 63%

“Our four business lines focus on improving market liquidity and efficiency enabling the CSE to transform and evolve on par with regional exchanges.”



“On the backdrop is our integrated value chain which support the effective functioning of our core business lines.”

Our Support Functions

Market Surveillance

Compliance

Market Development

Information Technology

Risk Management

Human Resources

Research and New Products

Strategy

Legal

Corporate Affairs

Finance and Administration

Internal Audit

Primary Markets/Listing

KEY INPUTS



Digital capital



Social capital



Human capital

OUR ACTIVITIES

- Provide access to capital for corporates of any size, scale and locality.
- Create market infrastructure such as listing platforms and diverse products to raise funds.

<ul style="list-style-type: none"> • Direct meetings with issuers. • Promotional campaigns for the launch of new products. • Investor forums and awareness sessions • Approve listing applications. • Guide issuers on the listing process. • Collaborating with Regional Chambers and Associations to create awareness on listing. 	<ul style="list-style-type: none"> • Launched two listing platforms namely the Empower Board and Multi Currency Board. • Initiated plans to introduce the listing of SME debt securities. 	<ul style="list-style-type: none"> • Spend on capacity building was Rs. 0.5 Mn • Amended listing rules to facilitate new listing platforms. • Enhancements to trading systems to facilitate Empower and Multi Currency listings. 	<ul style="list-style-type: none"> • Initiated the process to implement the 'Listing Framework' to facilitate smooth processing of Applications. • Commenced the process of further amending the Listing Rules to cater to the listing of BASEL III Debt Securities

KPIs

Market liquidity

- Three new equity listings and eleven debt issues.
- 176% growth in funds raised through IPOs.

Income

- Fees from listing and issuer services of Rs. 105 Mn , an 2.1% growth.

VALUE CREATED TO STAKEHOLDERS

Issuers:

- Fund raising of Rs. 104 Bn.
- Launch of customised listing platforms such as Empower Board and Multi Currency Board (MCB) Board.
- Supported banks to issue BASEL III compliant debt securities.
- Promoted sustainability (ESG) reporting practices across corporates.

Investors

- Widened product offerings

Government

- Economic growth by funding investments.
- Increased tax income

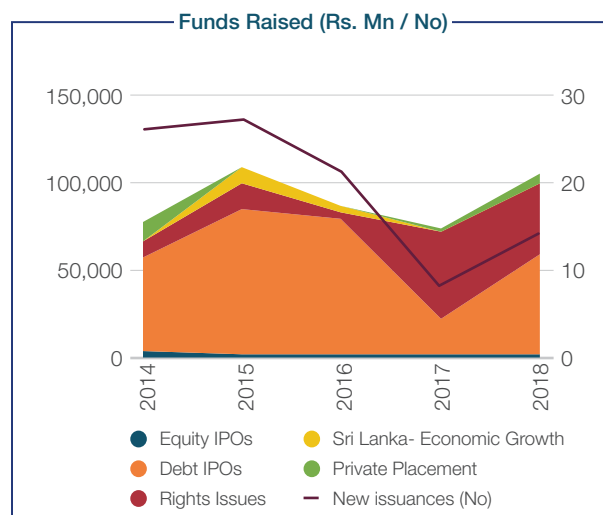
Public



BUSINESS LINE REVIEWS

Key Highlights

- Three new listings and eleven debt issues
- Capital raised increased by 42% in 2018: Two new issuers obtained the prestigious listed status by raising funds of Rs 1.9 Bn.
- As an exchange, we strive to be on par with changing regulatory requirements of our clients. During the year, we continued to facilitate the issuance of BASEL III debt securities of listed banks. Funds raised on Debt IPOs increased by 179% to Rs 55 Bn, being the main contributor to an active primary market.



Breakthroughs in 2018

We launched the Empower Board and Multi Currency Board in 2018. This supports growth and development of an under served SME sector and facilitate foreign listings in the Sri Lankan Capital Market.

Operating Landscape

The journey was tough with bleak and uncertain economic and business environments. Corporate performance continued to be pressurized with rising costs and lower demand. This deterred investments. New listings and investment flows in the Asian pacific regions declined by (22%) and (26%) in Jan- Nov 2018. (Ref Page 14)

Performance Overview

Despite a tough and competitive environment, the CSE raised Rs. 104 Bn of funds with new listings/ issues and further issues. The primary market was active with two equity offerings and eleven debt issues, primarily BASEL III debt securities of listed banks. Funds raised from IPOs increased by 176% to Rs. 56 Bn. Further issues amounted to Rs. 47 Bn driven by rights issues and private placements. Total funds raised in 2018 grew by 42% to Rs. 104.7 Bn despite the lacklustre economic environment.

Going Forward

Over the years, the CSE has travelled through both booms and troughs, relentlessly evolving to reach our long -term aspirations. Despite a pessimistic business environment, we will continue with our initiatives to improve market efficiency and liquidity. Extending product offerings, reaching potential issuers and fine- tuning processors will be our focus in the medium term. We plan to extend the Multi Currency Board to facilitate the listing of Debt Securities of Local Companies. The listing application process is another area of focus over the next year. A listing framework defining the regulatory requirements will be published to fasten the processing of listing applications. This will improve operational efficiency, transparency and credibility of our market. In addition, listing rules will continually be reviewed and kept up to date to changing regulatory landscapes.

RISKS

- Subdued economic performance.
- Low free float
- Issuers reluctant to use capital market due to information disclosure requirements and fear of losing control.
- Competition from alternative funding methods.

OPPORTUNITIES

- Increasing requirements for capital.
- IPO oversubscriptions.
- Availability of several listed and unlisted potential issuers in the private and public sector.

Secondary Markets/ Trading

KEY INPUTS



Digital capital







Social capital



Intellectual capital

OUR ACTIVITIES

- Develop a price driven auction market
- Create a trade conducive environment with modern market practices, ethical standards and sound governance.
- Develop benchmark prices indexes such as ASPI and SLPSL20

			
<ul style="list-style-type: none"> • Direct meetings with private and institutional investors. • Three investor forums abroad. • Awareness sessions. • Nine regional forums. 	<ul style="list-style-type: none"> • Research on the launch of an ESG index. 	<ul style="list-style-type: none"> • Spend on capacity building was Rs. 0.13 Mn. • Enhanced data privacy policies and procedures in pace with EU general data protection regulation introduced in 2018 	<ul style="list-style-type: none"> • 22 cases of market malpractices identified. • Monitored performance of trading members. • Introduced All or None blocks to facilitate divestiture of government holdings on listed securities.

VALUE CREATED TO CSE

Market Activity

- Market turnover of Rs. 200 Bn.
- Increasing participation of local institutional investors.

Income

- Trading fees of Rs. 292 Mn, a (5%) decline.

VALUE CREATED TO STAKEHOLDERS

Investors: Annual Returns and Capital Gains

- Dividend yield of 3.1%
- ASPI movement of (4.9%).

Government

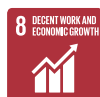
- Share transaction levies.

Regulator

- Fees from share transactions.

Public

- Financial literacy
- Employment opportunities



BUSINESS LINE REVIEWS

Key Highlights

- Market turnover declined by (9%) to Rs 200 Bn.
- Average daily turnover was Rs 833 Mn
- Participation of local institutional investors increased to 34% from 28% last year. Local market turnover declined by (4%) in 2018.
- Low investor confidence led to a (14%) decline in foreign market turnover although foreign purchases originating from vibrant markets

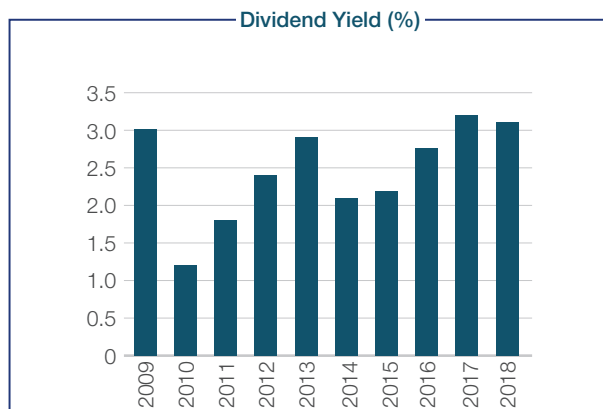
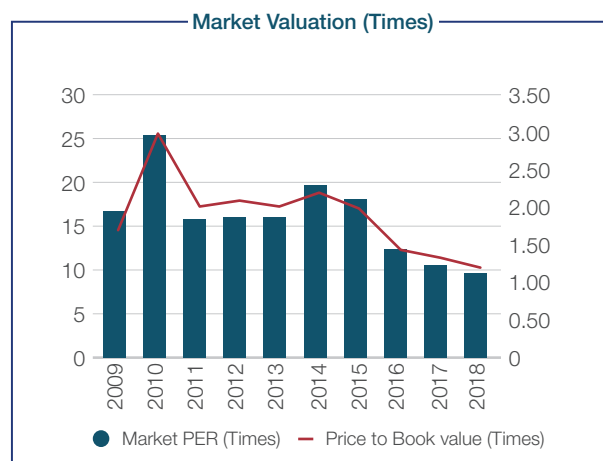
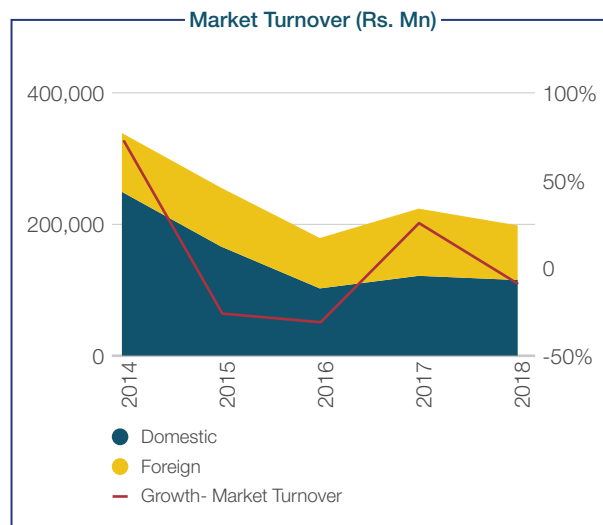
Focus in 2018:

As market sentiments primarily in the Asian region weakened, we pinned our focus on engaging with investors to awaken confidence. In 2018, we hosted several investor forums and regional events to cater to specific investor clusters. Investor forums attracted foreign investors in vibrant markets such as Singapore, the financial hub of London and Edinburgh. Officials of high calibre such as the Governor of the Central Bank and a member of the Monetary Board engaged in forums to improve investor confidence. Following the forums, the CSE observed an increase in foreign purchases originating from Singapore and London. In addition, we directly engaged with key state and private local institutional investors. This had positive result with investors contemplating on increasing investment exposure on equities. Notably, local institutional investor participation improved to 34% in 2018 from 28% last year. For local retail investors, we hosted an event in collaboration with the Colombo Stock Brokers Association.

In 2018, we continued to evolve and create a trade conducive market environment for investors. Digitalization of processors, robust systems and balanced regulation continued to be our focus in 2018.

Operating landscape

Value of share trading in the Asia Pacific region declined by (3.6%) compared to a global growth of 17.7% in share trading. Investor sentiment was impacted by gloomy economic and trade landscapes, geopolitical tensions and rising debt levels in emerging economies. Capital flows weakened. By May-June 2018, emerging markets witnessed sell-offs in equity securities. Foreign outflows were seen in emerging market funds. ⁶The local economic environment was further pressurized by policy uncertainties, currency depreciation and widening trade deficits. Net outflows of foreign investments were seen in both the CSE and government securities market.



⁶ IMF Oct 2018 report

Performance Overview

Equity Trading

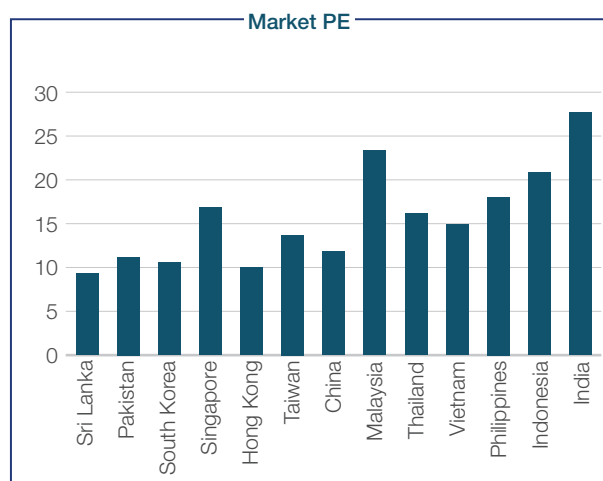
Market turnover declined by (9%) to Rs. 200 Bn in 2018 primarily due to a (14%) decline in foreign market turnover. Number of shares traded dropped by (29%) to 6 billion shares. Correspondingly, daily average turnover was Rs. 833 Mn compared to Rs. 915 Mn last year, a (8.9%) decline. With declining investor confidence on vulnerable emerging markets, foreign investors exited the market resulting in net foreign outflows of Rs. (23 Bn) compared to an inflow of Rs. 17.6 Bn last year. However, turnover of local investors declined at a slower pace of (5%) in 2018 as local institutional investors increased exposures. The CSE managed to recoup local investor participation for the first time since 2014. Investor forums, awareness sessions and direct meetings with potential investors ignited interests of institutional investors. Participation improved to 34% in 2018 compared to 28% last year. Other trading products such as corporate debt trading increased by 22% to Rs. 4,405 Mn with increasing debt IPOs in 2018. Volume of debentures traded increased by 23% in 2018.

Performance of Price Indices

The All share price index (ASPI) declined by 5% in 2018 and the S&P SL 20 declined by 15%. Both indices trailed as market activity dimmed in 2018. However, the indices continued to be competitively placed in regional markets.

Looking Ahead

The Sri Lankan capital market continue to provide buying opportunities for investors. However, gloomy economic landscapes and trade environments persistently affected market sentiments and reversed investment flows. As we enter 2019 with the challenge of recouping investor confidence, the CSE will continue initiatives to develop our capital markets to new heights. Enhancing investor awareness and outreach, investing on leading edge technology and enhancing market efficiency will continue to be our priorities



RISKS

- Bleak economic and trade environments
- Subdued growth in investments
- Corporate performance impacted by changing policies, tight financial conditions and rising costs.
- Intense competition with rising interest rates.

OPPORTUNITIES

- Low Market valuations compared to regional markets and 10-year history. Market PE of 9.6 as at Dec 2018 lower than 10 - year average of 16.
- A sizeable local institutional investor base in the public and private sector.

BUSINESS LINE REVIEWS

Depository Services

GRI 102-2

KEY INPUTS



Digital Capital







Financial Capital



Social and Relationship Capital

OUR ACTIVITIES

- Sole depository of the CSE specialised in settlement of securities transactions.
- Safekeeping of over 97% of securities traded on behalf of local and international investors.
- Offered value added services to listed issuers such as corporation action and registrar services.

			
<ul style="list-style-type: none"> • Signed two MoUs with regional depositories namely Korea Securities Depository (KSD) and China Securities Depository and Clearing Corporation Limited (CSDC). 	<ul style="list-style-type: none"> • Launched customised services to stakeholders such as CDS digital front desk. 	<ul style="list-style-type: none"> • Forward integration in the value chain to improve cost efficiency. 	<ul style="list-style-type: none"> • Enhance transparency of operations by digitalizing depository services. • Reduced post trade risks such as settlement failures.

VALUE CREATED TO CSE

Income

- Income of Rs. 138 Mn.
- 10,426 new accounts were opened with CDS.
- Twenty corporate action services.

Enhanced Post Trade Infrastructure

- Launched digital platform for trading members to open CDS accounts on behalf of customers.

Brand Image

- Set a benchmark practice in South Asia by dematerializing over 97% of securities.
- With the introduction of new services as e-Dividends and Corporate Action services, the CDS is on par with international depositories.

VALUE CREATED TO STAKEHOLDERS

Investors

- Value of securities held on custody was Rs. 2,228 Bn.
- Digitalized processors to enhance transparency and reduce time and cost of investing.
- Eliminate post trade risks such as settlement failures.
- Enhance customer experience by using best in class technology.

Regional Exchanges

- The CDS successfully hosted the 22nd ACG Annual General Meeting with regional depositories.

Focus in 2018

Over the years, we embarked on a journey to expand beyond our traditional role as a depository. Value added services were introduced to enrich customer experience and convenience. Digitalizing account openings, providing registrar services and facilitating corporate actions are among our latest developments. In 2018, services were extended to both listed and unlisted privately held companies. In addition, we successfully hosted the 22nd AGM of the Asia-Pacific Central Securities Depository Group (ACG) in Sri Lanka under the theme “Fintech – shifting or shaping the future of CSDs”. This is a premier gathering of Central Securities Depositories in the Asia-Pacific region held annually for 22 consecutive years focused on key matters relating to ACG policy and activities. The conference attracted 88 participants from 25 member-organizations in 16 countries, with 10 participants from 8 non-member organizations as well.

Initiatives in 2018

Forward integration in our value chain: The CDS launched customised services for listed issuers by establishing registrar services and a corporation action unit. This enabled CDS to be on par with regional depositories. During the year, value added services provided an income of Rs. 29 Mn to the CDS.

Innovation: We continued to develop digital platforms for post trade activities. In 2018, CDS launched a pilot run of the CDS digital front desk which will enable participants to open accounts digitally. The new digital platform complements with other recently introduced tech driven solutions such as e-statements, web portal, etc enabling the CDS to provide a fully-fledged post trade service to customers.

Capitalize on leading edge technology: Our new value-added services were linked to core depository platforms. This enabled the CDS to offer cost efficiencies and enhance convenience to listed issuers and investors. Companies registering with CDS for registrar services can electronically transfer dividends to an investor's bank account, which is a seamless process where investors would receive their dividend payments instantly without delays.

Other initiatives

- Compliance to standards: our post trade activities complied with ISP standards.

- In 2018, the CSE introduced a fee structure for the issuance of International Securities Identification Number (ISIN) for listed issuers. Being the national number agency of ANNA, the CDS issues 200 ISINS per year and the introduction of the fee will enable the CDS to recover a portion of the costs incurred to comply with ANNA requirements.

Performance

Core depository services

Market value of securities held on custody declined by (4%) in 2018. Despite a tight operating landscape, domestic investors continued to actively use depository services. During the year, 10,426 new CDS accounts were opened. Quantity of shares held increased by 8% compared to last year driven by domestic investors who accounted for 75% of quantity of shares held.

Performance	2018	Change
Market value of securities held on custody (Rs. Bn)	2,828	(4%)
New accounts	10,426	(11%)
Volume of shares held	97,794	8%
DE-Mat - equity	97.48%	
DE-Mat - debt	99.83%	

Other value-added services

Value added services such as corporate actions, subscriptions for E-statements, SMS alerts and e-connect facilities increased in 2018. During the year, CDS handled 20 corporate actions, with more than 60,000 dividend cheques and 17,000 direct fund transfers. In addition, we entered into two agreements with Melstacorp PLC and Distilleries Company of Sri Lanka PLC for the provision of registrar services.

Going forward

Going forward, the CDS will focus on enriching customer experience whilst expanding our customer base by offering tailor-made customized solutions to stakeholders. Implementing the CDS digital front desk, decentralization of investor account opening process and growing subscriptions for value-added services will be our medium-term priorities.

BUSINESS LINE REVIEWS

Market Data

KEY INPUTS



Digital Capital



Financial Capital



Social Capital

OUR ACTIVITIES

- Provision of market data to vendors and other users.
- Strong connectivity through digital platforms that outreach to a follower base.
- Own platforms include CSE website and mobile app. External platforms include social media, media representatives and tie ups with reputed data providers.



- Diverse platforms to engage with stake holders



- Promote new products to a broad audience.



- Invest Rs. 4 Mn on own and external platforms.



- Enhanced transparency and market efficiency.

VALUE CREATED TO CSE

- Income of Rs. 30 Mn from sale of market data.
- Coordinated with seven data providers and other media representatives.
- Brand image: Enhance awareness of our activities across a large audience.

VALUE CREATED TO STAKEHOLDERS

Investors:

- Real time market data supporting agile decisions.
- Strong connectivity through robust platforms.
- Choice of platforms including own and external platforms such as social media.
- Improving quality of corporate disclosure.

Issuers

- Increased visibility of businesses

Media Representatives

- Workshops to educate media personnel on market activities.

Public

- Improved financial literacy and awareness.

Performance

Total followership base on CSE platforms increased by 64% to 36.5 Mn subscribers in total. A diverse range of customers both local and foreign were connected through varied channels. Our own channels include the CSE website and Mobile App. In addition, we actively used social media platforms to launch promotions and enhance awareness on investment opportunities. With increasing popularity of social media, it was a rich asset to the CSE providing access to a perennially growing audience.

Data providers continued to play an important role in information dissemination. We networked with seven data providers including globally renowned vendors such as Bloomberg and Reuters. In addition, we engaged with media representatives to disseminate key announcements and market updates to local and foreign media. A dedicated space was provided for media personnel in the CSE website. Educational workshops were hosted for media representatives on business and market activities.

Growth In Social Media Platforms

 **56%**

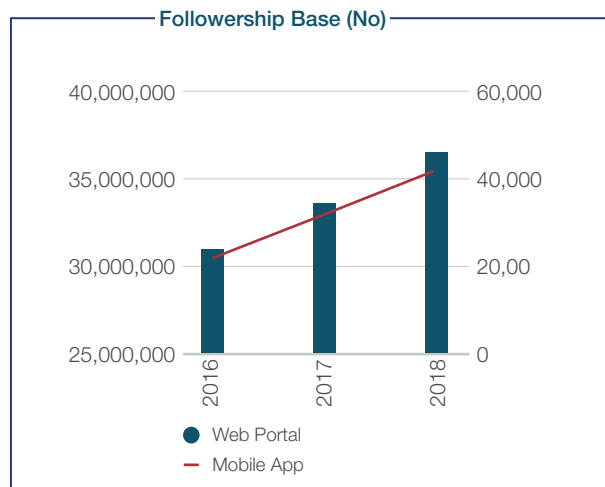
 **22%**

 **114.4%**

 **102.4%**

Looking Ahead

Information services play a pivotal role facilitating price discovery and agile decision making. Going forward, our focus for 2019 is to enhance quality of market data, diversify media platforms and stretch our followership network. Social media platforms will continue to be extensively used for promotions and awareness of our brand. In addition, issuers are encouraged to adopt best practices in corporate reporting which will improve quality of market data. Media representatives were educated on business and markets to actively disseminate key announcements. Developing a vibrant and agile market with informed decision making will be our priorities for 2019.



RISKS

- Maintaining a fair and orderly market.
- Enhancing quality of corporate disclosure.

OPPORTUNITIES

- Expanding follower bases and subscriptions.
- Increasing demand for high quality market data.

CAPITALS REPORT

**WE FACILITATE
TRADING WITH A FEW
CLICKS.**



Capitals We Invested



Digital Capital
(Page 69)



Financial Capital
(Page 89)



Human Capital
(Page 71)



**Social and Relationship
Capital**
(Page 80)



Intellectual Capital
(Page 85)



Natural Capital
(Page 88)

DIGITAL CAPITAL



Composition of Digital Capital

NBV of Rs. 232.1 Mn, 80% of Total Assets

Rs. 55.8 Mn

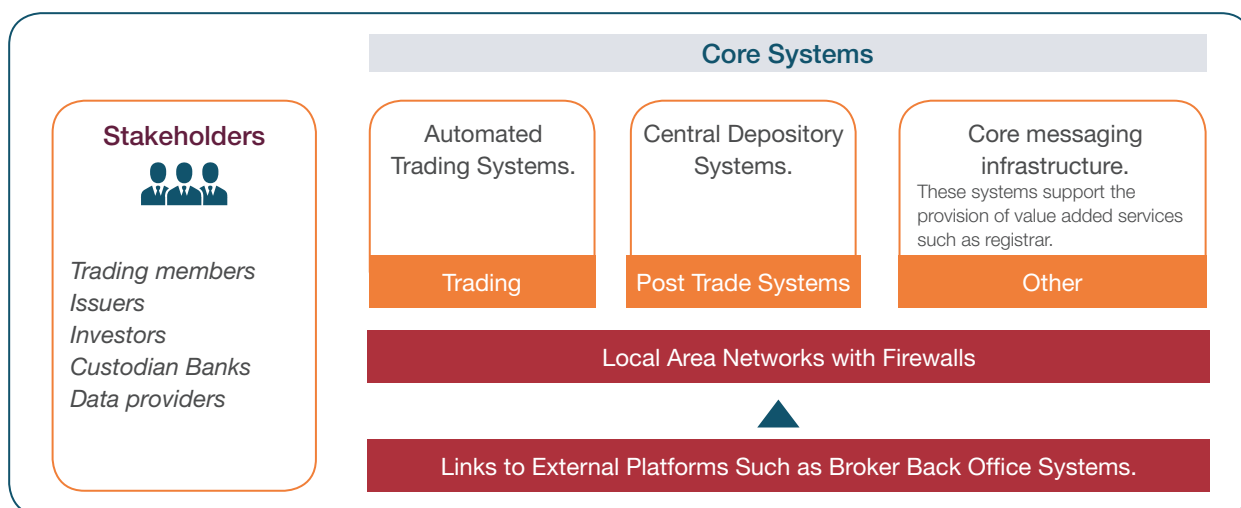
Two main systems namely central depository system and automated trading system.

Rs. 174.7 Mn

Intangible assets such as software, firewalls, etc.

Rs. 57.4 Mn

Computers



INITIATIVES

Improving Core systems

- CAPEX was Rs 40.8 Mn compared to Rs 35.6 Mn last year.
- Upgraded infrastructure to facilitate launch of new listing Boards and enable digitalization of depository processors.
- Implemented systems to digitalize communication with stakeholders such as automating corporate announcements, etc.

Retaining High Standards

- Compliant to Information security standards (ISO 27001, Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000).
- Conducted live disaster recovery program without major operational issues.

Strengthened Cyber-Security Preparedness

- Conducted multiple rounds of vulnerability, penetration and threat assessments for internal assets as well as publicly available services.
- Upgraded security infrastructure.

KEY PERFORMANCE INDICATORS

System Efficiency

- Both systems maintained 100% system uptime

Technological Cost Footprint

- Technological Costs reduced by 11%.

DIGITAL CAPITAL

Digital infrastructure consisting of IT systems and processors, is the heart of our business model. Two core systems work in tandem namely Automated Trading Platforms and Central Depository Systems to deliver trade and post trade services. These systems are well designed on renowned event driven push technology to be highly reliable, scalable and flexible and serve dynamic business needs. In 2018, our system uptime continued to be 100%, a testament of sound IT management.

Our initiatives in 2018

Improving core systems: During the year, the CSE invested Rs 40.8 Mn on upgrading the technological infrastructure to facilitate product launches and new service offerings.

Maintained robust systems: The Automated Trading System (ATS) and the Central Depository System (CDS) recorded an uptime of 100% during trading hours driven by robust technological framework and monitoring systems.

Enhance system efficiency: During the year, the CSE developed systems and solutions to support the ongoing digitalization of internal processors such as:

Account Openings

Corporate
Announcements

Broker compliance
reporting

Publication of Corporate
Announcements

Document Submissions
from Member Firms

Documentation Requirements of
ISO Certifications and Compliance
Processes.

Information and cyber security: Cyber-security preparedness was one of our core priorities due to rising cyber security threats. During the review period, we upgraded our security infrastructure and conducted multiple rounds of vulnerability, penetration and threat assessments on internal assets and publicly available services.

Maintaining high system standards: we continued to comply with three IT standards namely Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000). The disaster recovery drill complied was in line with ISO 22301.

Going Forward

In 2019, the CSE will continue to focus on enhancing our technological platforms to deliver robust and efficient services to our customers. In addition, digitalization of internal processors and the migration of the core messaging infrastructure to cloud platforms will continue to support the CSE to reduce technological costs while enhancing customer convenience.

HUMAN CAPITAL



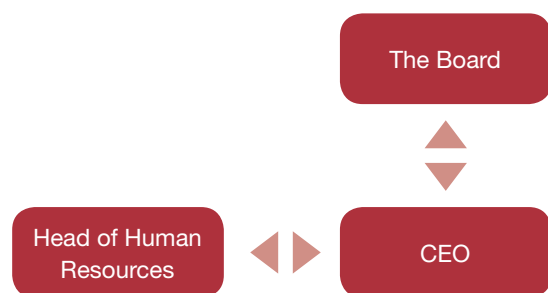
At the Colombo Stock Exchange, we strive to retain and enrich our expertise in capital markets. Our workforce is a major driving force in achieving the Exchange's primary objectives. We focus on attracting the right talents and nurturing it with career progression, a learning culture and a conducive work environment. Our employee base consists of experienced and specialized professionals who support our vision to become a world class organization.

A Testament of Our Best Practices in HR

The CSE won the award for Best Workplace Practices at the 26th edition of the World HRD Congress in 2018. This is a testament of our sound HR procedures which comply with international standards. In 2018, we continued to obtain the ISO 9001:2015 Quality management certificate by Bureau Veritas Certification Holdings SAS -UK branch for the 2nd year.

Governance Framework

The Human Resource Department operates under the purview of the Chief Executive Officer. Our human resource framework consists of policies and standards which define best practices to a healthy and ethical work place. The HR function ensures that policies have been duly implemented, HR systems are up to date and a conducive work environment is in place.



Our Core Values

The CSE corporate values play an integral role in defining our workplace culture. Our values namely integrity, professionalism, teamwork, care and passion are linked to the day to day functions of the Exchange. As the CSE is not a unionized organization, we are not subject to any collective bargaining agreements. We reported no incidences of child labour or forced labour.



Equal Opportunity



Open Door



Health and Safety



Grievance Handling



Remuneration



Diversity and Inclusion

HR Strategy

People care is at the heart of our HR strategy. In 2018, we focused on four main areas namely attracting, developing, retaining talents and optimizing the HR function.

Our Policies and Practices

We are conscious of maintaining a healthy and ethical workplace. During the year, we fine -tuned two policies related to staff benefits.

Equal Opportunity

Being an equal opportunity employer, we ensure our HR procedures are free of any form of discrimination. Our practices are on par with standard labour laws as specified in the Shop and Office Employees Act. During the year, there were no complaints regarding discrimination.

Health and Safety

CSE is committed to providing a safe environment for our employees by:

- Identifying risks at work and implementing safety measures. Divisional Disaster Recovery Management Coordinators and Fire wardens within the organization assist in emergency situations. Other measures include bi-annual fire drills, fire warden trainings, awareness on cyber-attacks, routine pest control measures, etc.

- Enhance awareness of health and safety risks among employees and encouraging collaborative support to develop a safe workplace for all.

Recruitment

We adopt a practice of hiring staff from varying localities. Our brand is represented in 7 provinces of Sri Lanka enabling us to hire from local communities. In addition, the senior officials of CSE comprises of locally hired professionals from Sri Lanka.

Remuneration and Benefits

GRI 401-2

We strive to maintain fair remuneration policies and practices and ensure our compensation structures are on par with industry standards. Our policies ensure employees are treated fairly and compensation packages are designed to suit each employee category.

Grievance Handling

GRI 405-1

A comprehensive grievance and open -door policy support in communicating and resolving grievances. Employees have access to all levels of management. In addition, HR clinics, opinion surveys and chats with CEO enable employees to freely raise concerns.

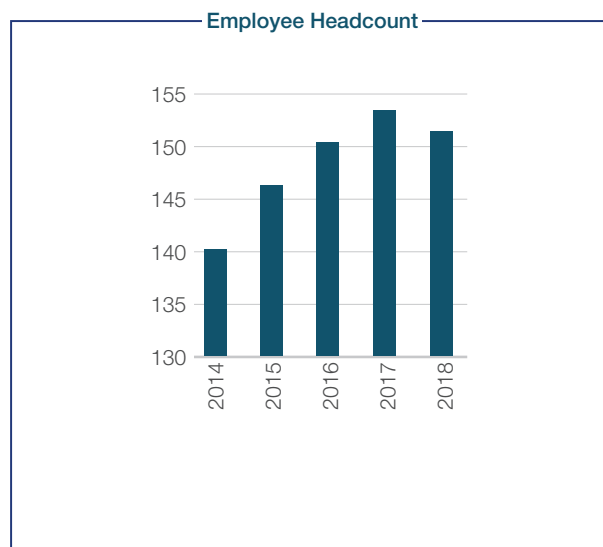
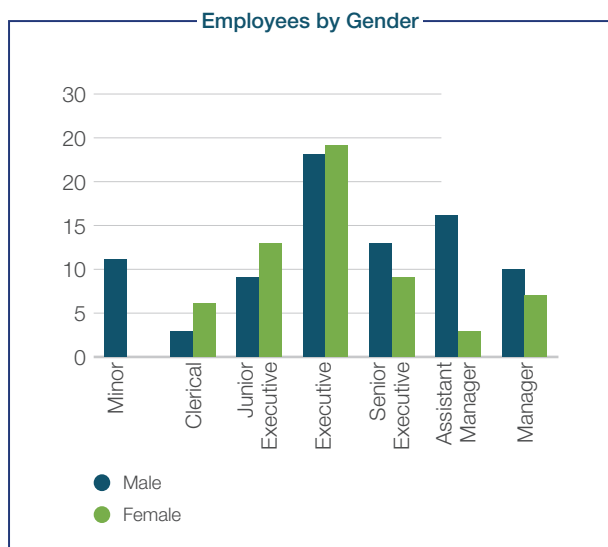
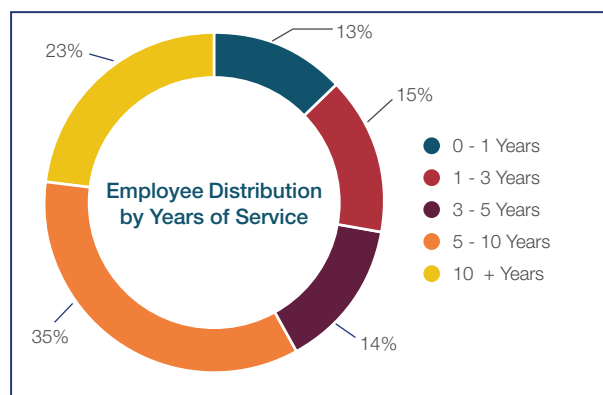
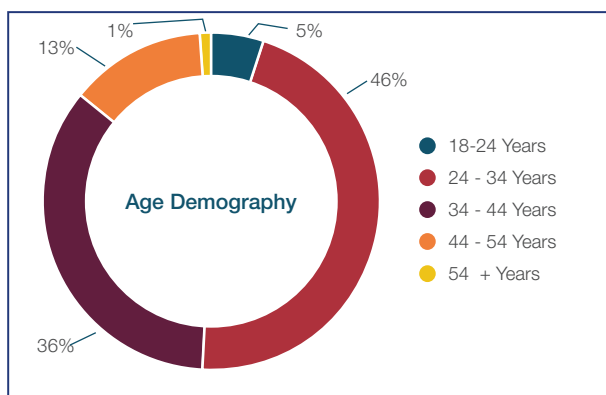
Diversity and Inclusion Policy

We provide a fair and equitable workplace to our employees. All employees are provided access to the employee handbook which describes the policies, culture, standards and work ethics of the CSE.

An Elaborated View of Our Activities

Our team

A cluster of innovative capabilities, varied perceptions and diverse skills help us to evolve and create better markets. Our team comprises of professionals who hold a minimum degree qualification in addition to several years of capital market experience. During the year, 58% of our workforce had over 5 years of work experience. This drives our expertise in capital markets.



HUMAN CAPITAL

Recruitments

GRI 401-1

We focus on attracting right talent with right skills, knowledge and attitude that best fit the organization. With new recruits, we freshen our skill base while providing opportunities to external candidates and existing employees. Recruitment policies ensure our selections are free from any discrimination and suitability is determined on qualifications and competencies that best fit the job role. During the year, CSE recruited a total of 11 recruits of which 64% was female and 36% male. The Western Province being the location of the head office accounted for 99% of new recruits in 2018.

New recruits by age	2017	2018
<25 Years	5	3
26 - 35 Years	10	7
36 - 45 Years	1	1
>46 Years	0	0
Total	16	11



Investments





Training and Development

GRI 404-1, 2

A learning environment sets the stage for an evolving workforce which is vital for the development of our exchange. We consider training as a long-term investment which develops the core expertise of our organization. A competency framework is used to expand our talent pool across both technical and behavioural traits. Skill development focuses on leadership, customer management, innovative thinking, etc. We adopted several measures to develop skills such as training programs, performance management, succession planning and induction programs.

GRI 404-3

Our investment in 2018

 Rs.	
Rs. 5.8 Mn	16.74 hours per employee
Training hours	3,608
No of employees trained	105
Average training hours per employee	16.7
Training man days per employee	3.1

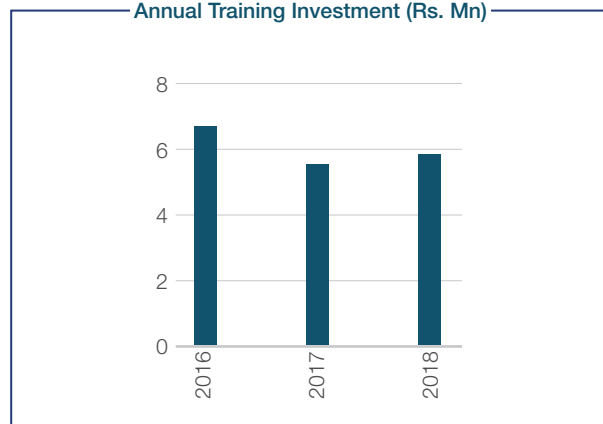
Training programs both local and foreign included specialized in-house training, knowledge sharing programs and awareness sessions. Awareness sessions kept employees up to date on strategic plans, safety measures, information security and other key operational level activities. In addition, we provided learning opportunities through lateral transfers and leadership opportunities. During the year, we invested Rs. 5.8 Mn on training and development. We provided 3 leadership rotation and 6 lateral transfer opportunities as well.

Induction programs were hosted for new recruits. These programs were conducted at a divisional and corporate level. Recruits were provided the opportunity to learn and explore activities, culture and processors of the exchange. At the end of the program, new recruits presented learnings to a panel consisting of the CEO and members of the senior management.

Career Progression

Key Performance Indicators (KPIs) set the stage for a performance driven culture within our organization. Our performance management system covers 100% of our workforce and evaluated both job related KPIs and behavioural competencies. KPIs are set annually with bi annual revisions and evaluated at annual performance appraisals. In 2018, 11 employees were promoted and 8 employees were offered job rotations.

Annual Training Investment (Rs. Mn)




Employee Compensation Package

During the year, employee related costs amounted to Rs. 327 Mn compared to Rs. 291 Mn last year. The CSE maintained a gender unbiased minimum pay bracket above the standard regulated minimum. We maintained a fair male to female wage ratio of 1.00: 1.16. In view of promoting a work life balance, the CSE offers flexible leave practices. We are one of the few employers in the industry to provide 100 days of maternity leave.

GRI 401-3

Return to Work and Retention Rates after Parental Leave	2017	2018
Number of employees entitled for maternity leave	42	43
Number of employees who took maternity leave	3	7
Number of employees who returned to work after maternity leave	1	4
Number of employees who returned to work after maternity leave and stayed for 12 months	-	3
Number of employees due to return to work after taking parental leave	2	3
Return to work rate	50%	57%
Retention rate	50%	75%

HUMAN CAPITAL

	Employee turnover rate of 12%	47%
		53%

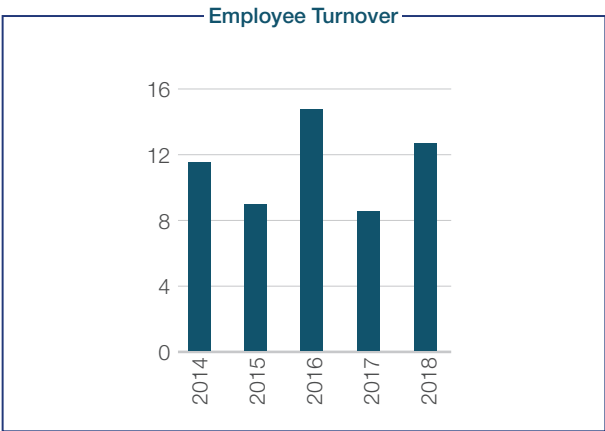
Employee compensation and benefits GRI-201-3

- Retirement benefits such as 12% contribution to EPF fund and 3% contribution to ETF fund.
- Bonuses
- Gratuity
- Other benefits include:
 1. Health benefits such as reimbursement of medical expenses, hospitalization and life insurance covers, etc.
 2. Staff loan facilities at concessionary interest rates.
 3. Vehicle loan facilities
 4. Allowances for mobile bills
 5. Reimbursement of educational material for children, mobile bills and memberships at gymnasiums.

Talent Retention GRI 401-1

Developing a highly specialized team with rich capital market experience is a challenge. At CSE, we consider our talent pool as an important asset and strive to retain it. Some of the measures to enhance employee retention include:

Equal Opportunity	Grievance Handling Procedures
Compensation and Benefits	Health and Safety
Rewards and Recognition	Positive Culture
Welfare Initiatives	



During the year, we retained 89% of our workforce. Capital market expertise was driven by a workforce consisting of 58% with over 10 years of experience and 35% between 5 – 10 years’ experience. Despite our low staff turnover, we evaluated possible reasons for resignations. Key reasons in 2018 were new career prospects, migration and other personal reasons.

Employee Engagement GRI 413-1

We engaged with employees to motivate and create a sense of belonging to the workplace. Our approach to employee engagement has been threefold. The ‘total rewards’ approach includes a rewards and recognition scheme to support progressive employee performance. The CSE value champions recognition initiative first introduced in 2015



is hosted every two years to recognise five employees adopting our corporate values. In 2018, we introduced the 'CSE recognition awards' initiative to recognise efforts and contribution of employees who represent CSE at external platforms such as mercantile sports events, corporate quiz competitions and the Toastmaster achievements.

The year 2018 was no different as we continued to host staff engagement events such as the annual sports day, the annual staff quiz competition and year end employee awards ceremony. Additionally, events hosted by the Sports and Recreational Club of the CSE included a Blood donation campaign and Vesak ice cream dansala.

Employees were also given the opportunity to take part in the CSE CSR project - a medical and eye camp for elders which was held at the Sri Punyaloka Viharaya, Watareka Padukka. The project was carried out in association with HelpAge Sri Lanka. Around 150 elders were treated at the Medical and eye camp and around 75 elders were given spectacles.

We also encourage our staff to showcase their talents in the form of communication, leadership and sports. The CSE Toastmaster club has played a supportive role in grooming leadership skills in employees and also building their confidence in public speaking and communication since the inception of the club in 2015. Several staff members belonging to the CSE Toastmasters club have won at contests over the past years, and we congratulate Mr Nilanka De Silva who represented the club and won at the Area Level Table Topics Contest in 2018 and Mr Kusal Nissanka for being recognized as a Star Area Director for the Toastmaster year 2017-2018. CSE continues to support and encourage staff to join our club and build their skills by indulging the benefits Toastmasters International has to offer.

To initiate a culture inclusive of sports, we participated in tournaments conducted by the Mercantile Badminton Association of Sri Lanka and the Mercantile Table Tennis Association of Sri Lanka. CSE is proud to recognize the achievements of two of our staff members namely Mr. Nayana Wijethunga and Ms. Vidushini Malavige who were awarded colours for the Year 2018 and for enabling the CSE Table Tennis team to be ranked 20th for the year 2018 by the Mercantile Table Tennis Association of Sri Lanka.

We believe that these welfare initiatives assist in building a culture of inclusiveness and engagement.



HUMAN CAPITAL



Sports Day



Sports Staff Recognition Event



Vesak Ice Cream Dansala





'Battle of the Brains' Quiz Competition



Blood Donation Campaign



Toastmasters Club



SOCIAL AND RELATIONSHIP CAPITAL



Our performance is anchored on strategic relationships.

Social and relationship capital defines our relationships that drive business activity. The CSE connects with a diverse network of stakeholders with varied interests. Managing our social capital base is a challenge although its outcome is fruitful especially in a lacklustre business environment.

In 2018, we primarily engaged with:

- Investors and issuers to improve visibility of the capital market, promote capital raising and retain investor participation.
- Business partners such as regional exchanges and external associations to popularize our activities across borders. In 2018, CDS hosted a premier event, the AGM of the Asia-Pacific Central Securities Depository Group (ACG) in Sri Lanka. The conference attracted 88 participants from 25 member-organizations in 16 countries, with 10 participants from 8 non-member organizations as well.
- Government and Regulator- SEC to maintain balanced regulation, enhance transparency and obtain financial assistance.
- Media representatives and data vendors to disseminate real time market data to an immeasurable audience in various parts of the globe.



FOCUS IN 2018

Maintaining investor confidence was a challenge during the year. Our prime focus was on strengthening relationships through engagement. Investor forums and awareness sessions focused on enhancing financial literacy in communities, attracting local investors and improving investor sentiment. These forums were hosted by capital market experts and government officials providing a platform to share knowledge and expertise.




AGM -Asia-Pacific Central Securities Depository Group (ACG)



Relevant Material Topic:

GRI 102-43, 44

Engage and strengthen relationships

	Presence in Value Chain	Stakeholder Priorities	How We Addressed Concerns
Customers (Issuers and Investors)	Facilitate trading activity.	Engage	<ul style="list-style-type: none"> Road shows in global markets Awareness sessions, regional programs and investor events. Direct meetings Issuers participated in 'market opening ceremonies' Promotional campaigns to launch new products. Sponsor Annual Report Awards competitions.
		Informed decision making	<ul style="list-style-type: none"> Disseminate real time market data. Providing a transparent digital platform. Robust and up to date systems.
		Innovative market practices	<ul style="list-style-type: none"> Launch of new listing Boards such as SME and MCB Research on new products such as REITs.
Policymakers and Regulator	Business continuity depends on relationships with policy makers.	Engage	<ul style="list-style-type: none"> Routine meetings Participation in road shows. SEC provided insight on marketing strategies.
		Ethical Market practices	<ul style="list-style-type: none"> Market Surveillance Compliance to regulatory frameworks Propose rule amendments
		Market development	<ul style="list-style-type: none"> Launch of new products and value added services. Meetings with government official such as the Prime Minister and State Minister of Finance on 2019 budget proposals.
Trading Members	Execute Trading Orders	Transparency	<ul style="list-style-type: none"> Published brokerage fee rates. Access to real time market data and transactions of investors.
		Efficient operating systems.	<ul style="list-style-type: none"> Broker back office systems. Up to date trading systems. Onsite inspections of brokers.
		Engage	<ul style="list-style-type: none"> CSE marketing sub- committee meetings Attended investor forums, road shows and regional events. Opportunities to discuss key matters with Prime Minister of Sri Lanka on investor road shows.

SOCIAL AND RELATIONSHIP CAPITAL

Business Partners	Strengthen Brand Image	Regional cohesion	<ul style="list-style-type: none"> • Cross border knowledge sharing workshop with the Nepal stock exchange (NEPSE). • Collaborate with global SSE initiatives and International Financial Corporation (IFC) to host sessions such as 'Ring the bell for Gender equality'.
		Financial literacy	<ul style="list-style-type: none"> • Conducted stock market sessions to 149 schools and educational institutions. • Launched an Advanced Diploma in Financial Markets (ADFM) academic qualification. • Partnered with the CFA society on a three -year agreement to promote best practices in investment markets. • Conducted the 2nd edition of 'CSE masterminds', a capital market quiz for corporates.
Public			

Investor Engagement

During the year we hosted:

- 321 Island-wide events.
- Nine regional events in association with the SEC under 'Kotas Welandapola Nagarayen Nagarayata' program in Anuradhapura, Bandarawela, Batticaloa, Embilipitiya, Kurunagala, Panadura, Colombo, Gampaha and Ratnapura.
- Three Investor forums in London, Edinburgh and Singapore, in partnership with the SEC, Stockbrokers and Listed Companies.
- Direct meetings with potential issuers and investors in the private and public sector.

Complementarily, the CSE focused on improving financial literacy of budding investors and public: for the first time, the CSE introduced an academic qualification namely Advanced Diploma in Financial Markets (ADFM). This is an initiative to enhance knowledge of financial markets among a budding investor population. In addition, we conducted the 2nd edition of the capital market quiz – 'CSE Masterminds'. In 2018, we signed a three -year agreement with the CFA society of Sri Lanka to promote best practices in investment markets. The CSE has once again come onboard as the strategic partner to power the 54th Annual Report Awards competition organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) to promote transparency, accountability and social responsibility.





Investor Road Shows



Local Investor Forum



Forum with Stock Brokers Association

SOCIAL AND RELATIONSHIP CAPITAL



Annual Report Awards competition organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)



Sessions with Schools



CSE Masterminds 2018

INTELLECTUAL CAPITAL



Brand Equity is an Emblem of Our Evolutions.

Over the years, the CSE transformed and evolved to connect Sri Lanka with a highly developed global capital market. Trademark and proprietary rights fenced our operations as the sole exchange in the country. Our prime focus was to develop the exchange to new heights adding value to our brand equity. An integrated value chain and an evolving regulatory landscape created a robust and transparent market for our stakeholders. We outreached to a wide audience by displaying investment opportunities through investor forums and awareness sessions. In addition, our regional branches engaged with local communities to improve financial literacy through regional programs.

In 2018, an island-wide research was conducted to evaluate awareness of CSE and its activities. The findings and insights obtained will be used to fine tune our marketing strategies.

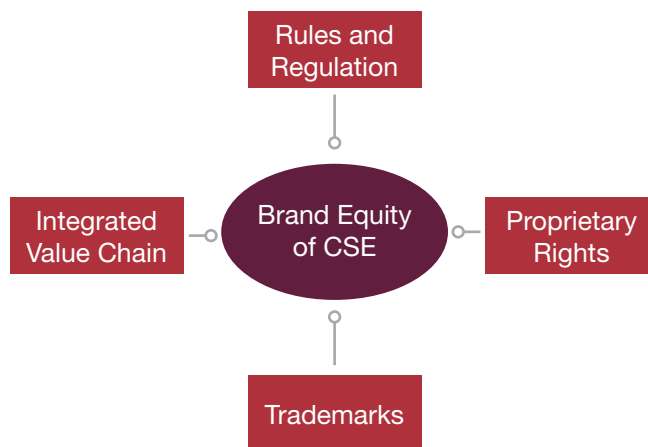
Integrated Value Chain

The operations of a capital market are complex with the involvement of multiple stakeholders. Our value chain is a process of connecting stakeholders in a sound platform. Several intangible features such as innovation, transparency, compliance, etc drive an effective and efficient platform.

In 2018, we focused on optimizing our integrated value chain to deliver our commitment towards high quality services, customer experience and sustainability.

Several initiatives collaboratively added value to our brand equity by:

- 1 Fostering awareness and financial literacy
- 2 Enhancing transparency and credibility
3. Launching innovative products
4. Enhancing customer convenience through digitalization.
5. Supporting sustainability initiatives



MATERIAL TOPIC ADDRESSED

Enhance Transparency
and Credibility



Modernise Market Practices



INTELLECTUAL CAPITAL

Brand Awareness	Regulatory Compliance	Resilience
Market Development	Compliance	Information Technology
<ul style="list-style-type: none"> Held periodic meetings at Board subcommittee to evaluate and optimise marketing strategies. Promoted brand awareness by hosting awareness sessions, road shows and investor forums. Engaged with a network of investors, issuers and external associations such as CFA and Institute of Chartered Accountants. Improve corporate disclosure and governance by promoting issuers to adopt globally accepted standards such as GRI and organized an acclaimed annual reports competition in the country. Engaged with government officials of high rank namely the Prime Minister and Governor of the Central Bank. Improve financial literacy of public: Launched an academic qualification and organized stock market sessions through our branches. 	<p>An investment driven regulatory landscape.</p> <ul style="list-style-type: none"> Proposed SEC Act in preparation for the demutualization of the Exchange. Seven rule amendments were proposed and approved by SEC. A comprehensive regulatory framework for listing of BASEL III Compliant Debt securities was submitted to SEC for approval. <p>Establish a robust compliance culture</p> <ul style="list-style-type: none"> Adopted a Corporate Compliance Policy and Corporate Compliance Framework for the CSE Group. A risk based Corporate Compliance Programs to ensure the compliance of all divisions with all legal, regulatory and other obligations inherent in their respective areas of work. Compliance universe of the CSE Group was defined, prioritized and reported every month to the Board of Directors through the Chief Executive Officer. The CSE group is currently 94% compliant with all of its Legal, Regulatory and other obligations, ensuring the CSE group carries out its business operations with a minimal level of non-compliance and that no investigations or regulatory sanctions are imposed by its regulator and other regulatory authorities 	<p>Develop a robust and secure technological architecture.</p> <p>State of technology</p> <ul style="list-style-type: none"> Upgraded ATS, CDS systems during the year. <p>Ensure conformity to benchmark practices.</p> <ul style="list-style-type: none"> Systems were compliant to Information Security (ISO 27001), Business Continuity (ISO 22301) and IT Service Management Systems (ISO 20000). <p>Monitor system resilience</p> <ul style="list-style-type: none"> Maintained 100% system uptime in 2018. Tested disaster recovery sites.

Business Continuity	Credibility	Innovation	Skills
Broker supervision	Market Surveillance	Research and New Products	Other
<ul style="list-style-type: none"> Adopted a risk -based supervision approach Implemented minimum shareholders' fund requirements to uplift financial standards of stock brokers. Developed a risk matrix based on the financial and non -financial factors that impact brokers. Conducted risk- based audits (RBA) and fifteen on- site inspections. Defined procedures for the inactivation of stockbroker firms. Implemented a common client agreement forms for all stockbroker firms. Initiated development of an online reporting system for broker firms to submit financial statements. Enforcement action and disciplinary proceedings was taken on non- compliant brokers. Periodic referrals to the Board subcommittees such as Regulatory committee. 	<p>Rule amendments to improve credibility.</p> <ul style="list-style-type: none"> Implemented enforcement rules for non -compliance With CSE Listing Rules by Listed Companies <p>Monitor activities of Listed Companies and trading of securities of 14 Listed Companies have been suspended as at end of 31st December 2018.</p> <div>Legal</div> <ul style="list-style-type: none"> Implemented the Board charter Established a Nomination committee to evaluate Nominations deposited with the CSE by members for election or re-election as a Director to the CSE Board. 06 disciplinary actions were handled by the Arbitration and Disciplinary Committee. Inquired into 20 complaints by investors. 10 Appeals to the Dispute Resolution Committee. Article 19 was amended to facilitate the voluntary inactivation of operations of stockbrokers in accordance with the CSE Rules. Article 52 was amended and Article 52A was introduced to facilitate the newly established Nomination Committee of the CSE. 	<ul style="list-style-type: none"> A team of 3 employees engage in research and development. Launched the Empower Board and Multi Currency Board in 2018. 	<p>Human Resource (pg 71)</p> <p>Risk Management (pg 52)</p>

NATURAL CAPITAL



We adopt an environmentally friendly culture within the CSE, while promoting sustainability to our stakeholders such as listed issuers.

We acknowledge the urge for a cleaner environment to combat climate action and its impacts. Although our direct impact is limited, we understand our pivotal role in the economy, corporate sector and investor communities. During the year, the GRI and the CSE. Conducted surveys and studies amongst listed companies and investors. This initiative were to evaluate the extent of awareness, capability and dedication to sustainability reporting. Findings of the surveys was used to identify the technical assistance and capacity building required to improve awareness and institutionalize sustainability reporting within the organizations. The Colombo Stock Exchange (CSE) in collaboration with Global Reporting Initiative (GRI) held four workshops on Corporate Transparency and Sustainability Reporting in April, July and December. Over 250 representatives from listed companies, who have a direct involvement with the organization's sustainability initiatives were provided insights into monitoring, managing and communicating sustainability related performance effectively. GRI also facilitated capacity building for CSE and SEC staff through workshops.

Minimizing our impacts: Paper and energy consumption are our direct negative impacts. In 2018, we focused on reducing paper consumption by digitalizing processors, promoting usage of digital platforms and implementing work flow- based systems.



We are part of a wide team of sustainable stock exchanges linked under the banner Sustainable Stock Exchanges Initiative (SSE) of UN since 2015.



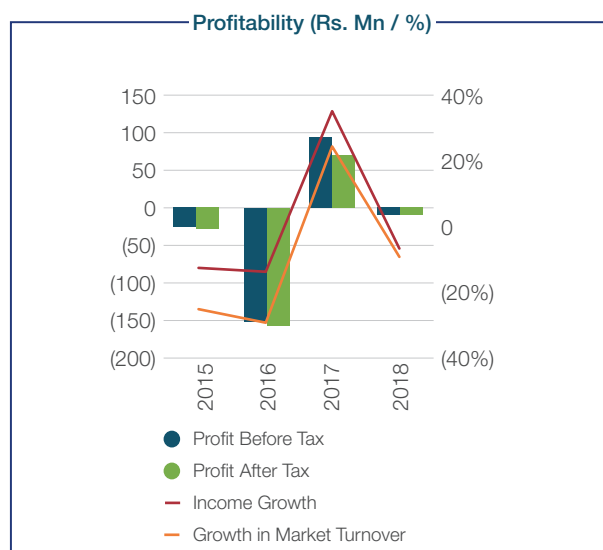
Our contributions to SDGs





Financial Performance: Highlights

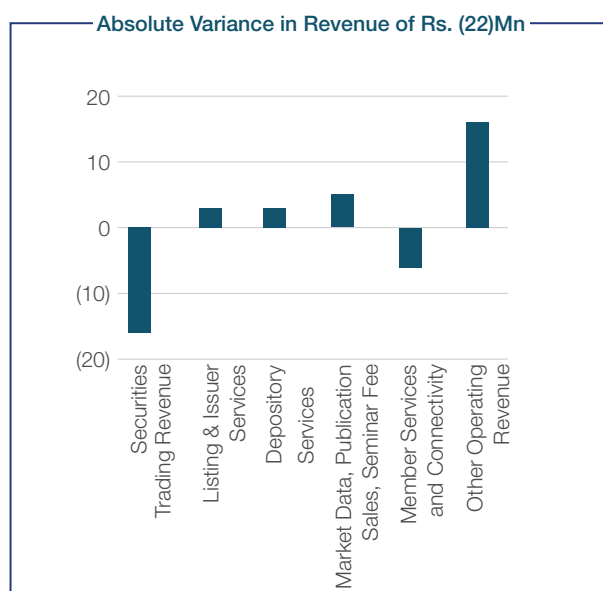
Rs. Mn	2017	2018	% Change
Group Revenue	557	536	(3.9)
Other income	406	358	(11.7)
Total income	964	894	(7.2)
Operating expenses	870	903	3.8
Profit/ (loss) before tax	93	(9)	
Profit/(loss) after Tax	69	(9)	
Total other comprehensive (Expense)/ Income net of tax.	(88)	14	
Total Comprehensive Income /(Expense) for the Year	(19)	5	



Group Income

Group income of the CSE declined by (7%) in 2018 due to declining revenue and other income. Revenue of the exchange dropped by (3.9%) to Rs. 536 Mn with declining daily market turnover. CSE and CDS fees accounting to 70% of CSE revenue declined by (5%) in 2018 reversing growth trends of last year. However, income from Listing and issuer services improved by 3% in 2018 to Rs. 106 Mn with new listings. In addition, value added services such as corporate actions, registrar services, etc provided an income of Rs. 3.77 Mn in 2018 compared to Rs. 2.75 Mn last year.

Other income declined by (12%) to Rs. 358 Mn due to lower net gains recognised in 2018 compared to last year. Fair value gains amounted to Rs. 39 Mn in 2018 compared to Rs. 129 Mn of net gains transferred from comprehensive income during 2017. This had a severe impact on other income which declined by Rs. (47) Mn although interest and other miscellaneous income increased during the year.



FINANCIAL CAPITAL

Total costs

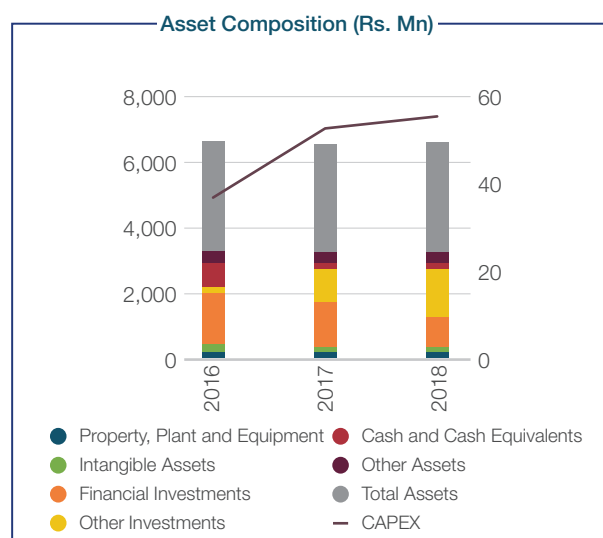
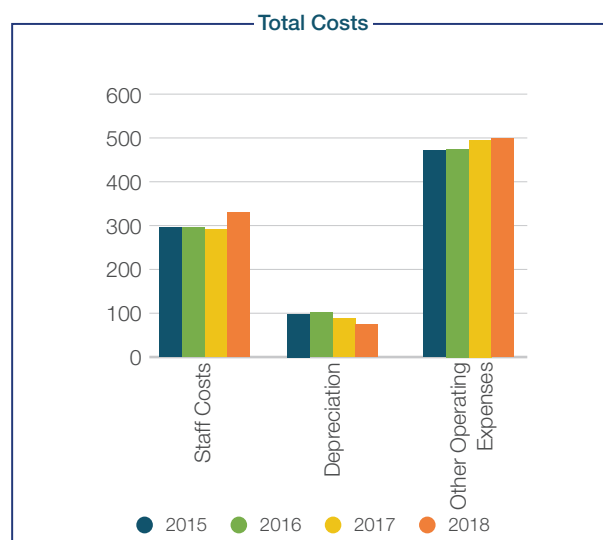
Operating costs of the exchange increased by 4% in 2018 to Rs. 903 Mn with an increase in staff costs. During the year, staff bonuses, salaries and gratuity provisions increased although the staff count declined to 146 employees. The CSE continued to manage costs by focusing on optimization of systems and space utilizations with prudent cost management. Despite the pressure of the exchange rate depreciation which severely impact the IT management costs, the Exchange maintained other operating expenses in line with last year. Depreciation and amortization declined by (14%) in 2018 and accounted for 8% of operating costs. Impairment charges on financial assets amounted to Rs. 5.2 Mn.

Profitability

The exchange recovered from losses since 2014 with a profit of Rs. 5 Mn despite declining income. Prudent cost management and revenue diversification supported the exchange to recover in 2018. Income from recently introduced value added services amounted to Rs. 29 Mn compared to Rs. 30 Mn last year.

Financial position: Highlights

	Rs. Mn	2017	2018	% Change
Assets		3,265	3,302	1
Non-current		1,279	832	(35)
Current		1,985	2,469	24
Liabilities		260	292	12
Non-current		59	55	(7)
Current		201	237	18
Net Assets		3,004	3,009	



Assets

Total Assets of the exchange remained in line with last year at Rs. 3,302 Mn.

Current assets

Current assets increased by 24% to Rs. 2,469 Mn as investments expected to mature in 2019 were reclassified from non- current assets to current assets.

Non- current assets

Non -current assets valued at Rs. 832 Mn declined by (35%) in 2018 due to reclassification of investments. Gross value of PPE and intangible assets increased in 2018 as the CSE continued to invest on upgrading and developing market infrastructure. Net book value of PPE declined by (4%) to Rs. 128 Mn and intangible assets declined by (6%) to Rs. 174 Mn.

Investments in 2018

During the year, capital expenditure amounted to Rs. 55 Mn compared to Rs. 53 Mn last year. Investments on PPE amounted to Rs. 32 Mn. Gross PPE increased by 3% to Rs. 664 Mn. Investments on intangible assets which primarily consisted of application software used in business activities amounted to Rs. 23 Mn in 2018. Gross value of intangible assets increased by 3% to Rs. 528 Mn. Capital work in progress amounted to Rs. 78 Mn in line with last year and primarily consisted of investment on Central Counter Party project (CCP) which is in progress.

Equity/Net assets

Total equity remained in line with last year at Rs. 3,009 Mn. Accumulated fund amounted to Rs. 2,909 Mn with a Rs. 5 Mn increase in 2018.

Liabilities

Total liabilities increased by 12% to Rs. 292 Mn compared to Rs. 260 Mn last year. This was due to the 18% increase in current liabilities as brokers maintained higher deposits in lieu of Bank guarantee.

Non -current liabilities amounted to Rs. 55 Mn and declined by (7%) as retirement benefit obligations declined in 2018.

UNWAVERING FOCUS AND DISCIPLINE ARE KEYS TO ACHIEVING THE DESIRED GOALS

FINANCIAL STATEMENTS

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ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Board of Directors of the Colombo Stock Exchange (CSE) has pleasure in presenting their Annual Report to the Members, together with the audited consolidated Financial Statements and Auditors' Report on those Financial Statements for the financial year ended 31st December 2018.

This Annual Report on the affairs of the Company contains the information required in terms of the Companies Act No. 07 of 2007.

The Financial Statements were reviewed and approved by the Board of Directors on 04 June 2019.

General

The Colombo Stock Exchange (CSE) is a company limited by guarantee, incorporated in Sri Lanka on 02 December 1985, under the Companies Act No. 17 of 1982 and is licensed by the Securities and Exchange Commission (SEC). The CSE was re-registered as per the Companies Act No. 7 of 2007 on 13 May 2008 with GL 12 as the new number assigned to the Company.

The CSE is a mutual exchange and has fifteen Members and fourteen Trading Members, of which twenty six Members operate as Stockbrokers for both Equity and Debt and three Members are appointed by the CSE as Trading Members only for Debt. All Members are corporate entities. The CSE became the first South Asian member of the World Federation of Exchanges (WFE) in 1998. CSE is also a member of the South Asian Federation of Exchanges (SAFE) and Member of Association of National Numbering Agencies (ANNA). The fully-owned subsidiary, Central Depository Systems (Pvt) Ltd is a Member of Asia-Pacific Central Securities Depository Group (ACG).

The policy making body of the CSE is the Board of Directors composed of nine members. Five Directors are elected by the fifteen Members, while the Government on the recommendation of Securities Exchange Commission appoint four.

The CSE Secretariat, headed by the Chief Executive Officer is responsible for the operations of the CSE, and is accountable to the Board of Directors.

Vision, Mission and Corporate Conduct

The Vision and Mission statements are given on Page 4 of the Annual Report. The business activities of the group are conducted in keeping with the highest level of ethical standards in achieving its Vision and Mission.

Principal Activities

The principal activity of the Company is the operation of a Stock Exchange. The fully-owned subsidiary, Central Depository Systems (Pvt) Ltd. (CDS) acts as a depository for listed securities. CSE Clear (Pvt) Limited (CSE Clear) which is also a fully owned subsidiary of CSE was incorporated on 28th March 2016. The CSE Clear is anticipated to carry out clearing and settlement functions as the Central Counter Party (CCP).

There were no significant changes in the nature of principal activities of the Company and its subsidiary during the financial year under review.

Review of Operation

A review of the activities of the CSE during the year is contained in the Chairman's Statement on pages 18 to 20 and the Chief Executive Officer's Review on pages 21 to 25 and the Operational Review on pages 58 to 91 the Annual Report 2018. These reports form an integral part of the Annual Report.

Future Developments

An overview of the future development of the CSE is given in the Chairman's Statement on pages 18 to 20 and the Chief Executive Officer's Review on pages 21 to 25 and the Operational Review on pages 58 to 91 the Annual Report 2018. These reports form an integral part of the Annual Report.

Financial Statements

The Financial Statement of the Company and its subsidiary have been prepared based on the new accounting policies and methods which have been revised in line with the requirements of SLFRS 9 -Financial Instruments. In order to recognise the impact on the transition, the Company and its Subsidiary have adopted the modified retrospective approach in line with paragraph 7.2.14 Transition, of SLFRS 9-Financial Instruments .Accordingly the impact on the adoption of SLFRS

9 on the Financial performance as at 31 December 2017, has been reflected in the opening equity balance as at 01 January 2018.

The comparative figures for the year ended 31 December 2017 remains as audited and published and previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation. The impact on the transition to SLFRS 9, Financial Instruments on the assets, liabilities and retained earnings of the Company and its Subsidiary are given in the Note 3.16.

The Financial Statement of the Company and its Subsidiary for the year ended 31st December 2018, duly signed by the Head of Finance and Administration and two of the Directors of the Company on pages 104 to 164 are form an integral part of the Annual Report of the Board of Directors.

Directors' Responsibility for Financial Reporting

The Statement of Directors' Responsibility for the Financial Reporting given on page 98 forms an integral part of the Annual Report of the Board of Directors.

Auditor's Report

Messrs. KPMG, the Auditors of the Company carried out the audit on the Consolidated Financial Statements for the year ended 31 December 2018 and their report on those statements which forms an integral part of the Report of the Board of Directors, on page 101 of this Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in preparation of the Financial Statements are given on pages 110 to 128. The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given on pages 122 to 128.

Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, we continue to adopt the "going-concern" basis in preparing these Financial Statements.

Income

The income of the Group for 2018 was Rs. 894.11 Mn (2017: Rs 964.20 Mn) while the Company's income was Rs.735.71 Mn (2017: Rs. 795.25Mn). An analysis of the income is given in Note 04 & 05 to the Financial Statements.

Financial Results and Appropriations

The Group has recorded a Loss before tax of Rs.9.18 Mn (Profit before tax of Rs.93.69 Mn in 2017) and Loss after tax of Rs. 9.18 Mn (Profit after tax of Rs.69.99Mn in 2017) for the year 2018. The Company has recorded a Loss before tax of Rs.34.89 Mn (Profit before tax of Rs.36.98 Mn in 2017) and Loss after tax of Rs. 34.89 Mn (Profit after tax of Rs.19.10 Mn in 2017) for the year 2018.

The Group's total other comprehensive income for the year 2018 was Rs.14.54 Mn (total other comprehensive expense of Rs. 88.50 Mn in 2017) while the Company has recorded a total other comprehensive income of Rs.12.73 Mn for the year 2018 (total other comprehensive expense of Rs. 68.71 Mn in 2017).

Taxation

The income tax rate applicable on the Company and the subsidiary company is 28% (2017 -28%).

Dividend

The Board of Directors of the CSE has not recommended a Dividend in compliance with the Companies Act No. 07 of 2007 and Articles of Association of the CSE.

Reserves

A summary of the consolidated reserves is given below.

As at 31st December	2018 Rs. 000	2017 Rs. 000
Accumulated Fund	2,909,254	2,904,291
Available for Sale Reserve	-	397
Other Reserve	166	
Capital Reserve	99,975	99,975
Total	3,009,395	3,004,663

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Capital Expenditure and Capital Commitments

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Group amounted to Rs.55Mn (2017: Rs.53Mn). Details of property and equipment are given in Note 09 and 10 to the Financial Statements. The capital expenditure approved and contracted for and not contracted for as at Balance Sheet date is given in Note 27 to the Financial Statements.

Property and Equipment

Details of property, plant and equipment are given in Note 09 to the financial statements.

Donations

During the year Company made donations amounting to Rs.482,855/-. (Rs.362,603 in 2017).

Statutory Payments

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and the employees have been made up to date.

Outstanding Litigation

In the opinion of the Directors and the Company's Lawyers, pending litigation against the Company disclosed in Note 26 of the Financial Statements will not have a material impact on the financial position of the Company or its future operations.

Events after the Reporting Date

Events after the Reporting Date has been disclosed in Note 30 of the Financial Statements.

Board of Directors

The following Directors held office as at the Statement of Financial Position date:

Name of the Directors

Mr. Ray Abeywardena (Chairman)
Mr. D.T.W. Thalagodapitiya (Deceased on 23rd October 2018)
Prof: M.A.D.S Jeeva Shirajanie Niriella
Mr. Dumith Fernando
Mr. Anton Godfrey
Mr. A. Shanil Fernando
Mr. Dilshan Wirasekara

Mr. Dimuthu Abeyesekera (Appointed to the Board on 01st February 2019)

Mr. Murtaza Jafferjee (Appointed to the Board on 01st February 2019)

Mr. Dumith Fernando and Mr Dilshan Wirasekara retire by rotation at the conclusion of the Annual General Meeting in terms of Article 50 of the Articles of Association, and being eligible and offering himself for re-election.

The details of the Directors' meetings which comprise Board meetings, Risk and Audit Committee meetings, HR Committee meetings, Dispute Resolution Committee meetings, Arbitration and Disciplinary Committee meetings, Rules Committee meetings, Nomination Committee Meetings, Regulatory Affairs Committee meetings and Market Development Committee meetings and the attendance of Directors at these meetings are given on page 43 of the Annual Report.

Board Sub Committee

The composition of the Board sub committees, comprising of Non-Executive Directors is provided on pages 46 to 48.

The report of the Board Risk and Audit Committee given on pages 99 to 100.

Directors' Interest Register

The CSE maintains a Directors' Interests Register in compliance with to the provision of the Companies Act No. 7 of 2007. The Directors of the CSE have disclosed their interests in other companies to the Board and those interests are recorded in the Interests Register conforming to the provisions of the Companies Act No.7 of 2007. The particulars of those entries are set out on Note 29 to the Financial Statements and form an integral part of the Annual Report of the Board of Directors.

Related Party Transactions

The Directors have also disclosed transactions if any, that could be classified as related party transactions in terms of LKAS 24 "Related Party Disclosures" which is adopted in the preparation of the financial statements. Those transactions disclosed by the Directors are given in Note 29 to the financial statements forming part of the Annual Report of the Board of Directors.

Directors' Remuneration

In compliance with the provisions of the Articles of Association, the CSE has not made any payments on account of Directors' remuneration other than payment pertaining to meet out of pocket expenses for attending Board Meeting as given in Note 29 to the financial statements.

Environmental Protection

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

Risk Management and Internal Control

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company.

Internal Control

The strong internal controls are integral to the sound management of the Company, hence the Board committed to maintain strict financial, operational and risk management controls over all its activities including safeguard the assets of the Company and prevent and detect frauds.

There is an ongoing process for identifying, recording, evaluating and managing the risks that are faced by the Company, and the Directors have reviewed this process, through the Board Audit and Risk Committee including internal reviews, internal audits and system audits.

Corporate Governance

The Directors and Management of the CSE have placed emphasis on conforming to the best corporate governance practices and procedures. A separate report on Corporate Governance is given on pages 42 to 51 in the Annual Report.

Auditors

The Company's Auditor's during the period under review was Messrs KPMG, Chartered Accountants. Audit Fee and reimbursement of expenses paid to KPMG during the year under review by the Company and its subsidiary amounted to Rs. 953,000 (Rs. 908,000 in 2017). Further Rs.634,955

(Rs.555,367 in 2017) was paid on account of tax related services. The detail of their remuneration is given in Note 7 to the Financial Statements.

As far as the Directors are aware the Auditors do not have any interest with the CSE or its subsidiary other than those disclosed above.

The Auditors have expressed their willingness to continue in office. A resolution to re appoint the Auditors and authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Notice of Meeting

The 34th Annual General Meeting of the CSE will be held on 28 June 2019 at 4.30 p.m. at the Colombo Stock Exchange, Auditorium, 4-1, West Block, World Trade Center, Colombo 01.

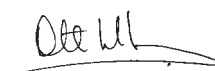
Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledges the contents of this Annual Report.

For and on behalf of the Board of Directors.



Ray Abeywardena
Chairman



Dumith Fernando
Director



Jacey and Company
Secretaries

04 June 2019
Colombo

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to Financial Statements, is set out in the Report of the Auditors' on the Annual Report.

As per the provisions of the Companies Act No. 7 of 2007 the Directors are required to prepare Financial Statements for each financial year and place them before a General Meeting. The Financial Statements comprise the Statement of Financial Position as at 31st December 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flows for the year then ended and Notes thereto.

The Financial Statements of the Company and its Subsidiary give a true and fair view of:

the state of affairs of the Company and its Subsidiary as at the Statement of Financial Position date and the Profit or Loss of the Company and its Subsidiary for the financial year ended on the Statement of Financial Position date.

The Directors have ensured that, in preparing these Financial Statements:

1. The appropriate accounting policies have been selected and applied in a consistent manner.
Material departures, if any have been disclosed and explained;
2. All applicable accounting standards as relevant have been followed;
3. Judgments and estimates have been made which are reasonable and prudent.

The Directors confirm that the Consolidated Financial Statements of the CSE and its Subsidiary CDS for the year ended 31st December 2018 presented in this Annual Report have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS), Companies Act No: 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No: 15 of 1995.

The Directors have adopted the going concern basis in preparing the Financial Statements. The Directors are of the view that the CSE and CDS have adequate resources to continue in operation.

The Directors have taken reasonable steps to safeguard the assets of the CSE and its subsidiary CDS 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. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy.

Directors are required to prepare the Financial Statements and to provide the Company's External Auditors, Messrs KPMG, with every opportunity to carry out any reviews and tests that were considered appropriate and necessary for expressing their independent audit opinion on the Financial Statements.

The Financial Statements of the Company and its Subsidiary have been certified by the Company's Head of Finance and Administration, the officer responsible for their preparation, as required by the Sections 150 (1) (b) and 152 (1) (b) of the Companies Act. Also the Financial Statements of the Company and its Subsidiary have been signed by two Directors on 04 June 2019 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No.7 of 2007.

The Directors to the best of their knowledge and belief, are satisfied that all statutory payments in relation to all relevant regulatory and statutory authorities which were due and payable by the CSE and its subsidiary CDS as at the Statement of Financial Position date have been paid or where relevant provided for.

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

By order of the Board



Jacey and Company
Secretaries

04 June 2019
Colombo.

RISK AND AUDIT COMMITTEE REPORT

Composition of the Committee

The Risk and Audit Committee of the Colombo Stock Exchange (CSE) comprises of 3 appointed Directors and 1 elected Director.

The members of the Risk and Audit Committee appointed by the Board are;

Mr. Dumith Fernando - Chairman
Mr. D.T.W. Thalgodapitiya (Deceased on 23rd October 2018)
Mr. Shanil Fernando
Prof. M.A.D.S. Jeeva Shirajanie Niriella
Mr. Anton Godfrey (Appointed on 14th January 2019)

All 4 members of the Risk and Audit Committee are Non-Executive Directors.

The Chief Executive Officer, Chief Regulatory Officer, Chief Information Officer, Head of Enterprise Risk Management, Head of HR, Head of Finance and Administration, Head of Internal Audit, other relevant Senior Management members and External Auditors and Internal Auditors attend the meetings of the Risk and Audit Committee on invitation.

Responsibilities and Duties of the Committee

The responsibilities and duties of the Committee were based on the Terms of Reference (TOR) adopted by the Company in terms of best practices. The TOR as approved by the Board of Directors, include the following functions:

- To ensure that adequate and efficient processes are in place to identify, report and monitor risks.
- To benchmark risk management exposure of the CSE against other exchanges
- To advise the Board on the risk profile and appetite of the Company and as part of this process, to oversee the risk assurance within the CSE.
- To act on behalf of the Board of Directors to ensure that appropriate mechanisms are in place with respect to risk identification, risk assessment, risk assurance and overall risk management.
- To review significant accounting and reporting issues, including complex or unusual transactions, recent professional and regulatory pronouncements, and understand their impact on financial statements of the Company.

- To review the effectiveness of the Company's internal control systems.
- To monitor and review the effectiveness of the Company's internal audit function, in the context of the overall financial control and risk management system of the Company.
- To assess independence and objectivity of the external auditor.
- To make recommendations to the Board of Directors on the appointment, reappointment and removal of the CSE's external auditor.

Meetings of the Committee

During the year, 5 Risk and Audit Committee meetings were held to discuss relevant matters including, but not limited to, Enterprise Risk Management, Budgets and Investments, specific ad hoc risk incidents, reports of the Internal and External Auditors and Annual/Quarterly accounts. The Company Secretary functions as the Secretary to the Risk and Audit Committee. Minutes of each committee meeting were recorded and submitted for confirmation at the next committee meeting and subsequently presented to the Board for ratification.

Risk Management

The Committee is tasked with monitoring the effectiveness and implementation of the Enterprise Risk Management (ERM) Policy and Framework in the CSE which ensure potential risks are identified, measured, monitored and managed or mitigated within the defined risk tolerance levels approved by the Board.

The Committee reviewed the Annual update to the ERM Framework and ERM Policy. The Committee deliberated impacts and consequences of the risk of Economic and Political Conditions and decided to remove the risk as no controls can be placed to manage the risk which is totally beyond the control of the organization. However, the Committee will monitor the impact of this risk on the business and operations for the CSE, as appropriate. The Committee also reviewed the quarterly updates to the ERM Framework and discussed the effectiveness of the risk treatment measures and the progress of the action plans which were proposed to mitigate the exposure of the Organizational Risks.

RISK AND AUDIT COMMITTEE REPORT

Integrity of Financial Statements

The Committee reviewed the appropriateness of the accounting policies used and the financial statements of the group to assess their integrity and compliance with Accounting Standards. The Committee reviewed and discussed with the management, the quarterly financial statements and recommended the same for approval of the Board. In order to ensure effectiveness of the Financial Reporting Systems that are in place and reliability of the information provided, at the request of the Committee, the Internal Auditor performed a review on each quarterly financial statement.

Internal Controls

The Committee reviewed the effectiveness of the Group's internal control systems and suggested, where necessary, appropriate remedial measures. The Committee has decided to establish a holistic risk map in order to monitor the same on a regular basis at the Committee's meetings.

External Audit

The independence of the External Auditor was evaluated by the Committee and the Committee also reviewed the non-audit services provided by the Auditors to ensure that the provision of such services does not impair the External Auditors' independence. The Committee met with the External Auditor during the year to discuss their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence. The Risk and Audit Committee reviewed the Consolidated Financial Statements audited by Messrs. KPMG for the financial year ended 31st December 2018 and approved the Financial Statements for submission to the Board. The Committee also reviewed and approved the Letter of Representation to be given to the External Auditors for the year 2018.

The Risk and Audit Committee has recommended for approval at the Annual General Meeting, the re-appointment of the external Auditor, Messrs. KPMG and for the Board of Directors to fix the Auditors' remuneration.

Internal Audit

The Internal Audit Charter governing the Mission, Purpose, Responsibilities, Scope and Accountability of the Internal Audit Division was presented to the Risk and Audit Committee for

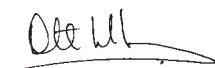
approval at the Risk and Audit Committee Meeting during January 2018.

The Purpose of the Internal Audit Division as highlighted in the Internal Audit Charter is to add Value in all of the following areas:

- Overall Risk Management Process
- Strengthen the Internal Controls in all areas
- Ensure Compliance with Policies, Procedures and Regulations
- Recommend opportunities for Process Improvement and enhancing Efficiency
- Recommending opportunities for Cost Minimization
- Recommending Revenue Maximization and Diversification opportunities
- Enhancing System Controls
- Recommending Controls to mitigate Fraud Risks, if any

In-line with the above requirements, an internal audit plan comprising areas chosen for Audit was developed, approved by the Risk and Audit Committee and implemented. Proper Policies, Procedures and Controls were recommended for implementation at the review of each audit area. The findings of the internal auditor together with management comments and agreed action plans were reviewed by the Committee during the year and approved for implementation. The Committee has also decided to establish a new review process of outstanding audit actions and progress against their remediation plans across all departmental internal audits.

On behalf of the Risk and Audit Committee;



Dumith Fernando
Chairman – Risk and Audit Committee

Colombo
04 June 2019

INDEPENDENT AUDITOR'S REPORT



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
Internet : www.kpmg.com/lk

TO THE MEMBERS OF COLOMBO STOCK EXCHANGE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Colombo Stock Exchange ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at December 31, 2018, and of their financial performance and 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 are independent of the Group in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics) that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

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

Our opinion on the financial statements does not cover the other information and we do not 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

INDEPENDENT AUDITOR'S REPORT



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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Report on Other Legal and Regulatory Requirements

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



CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

04 June 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December,	Note	Group		Company	
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Revenue	4	535,554,291	557,827,192	415,623,344	432,029,560
Other Income	5	358,554,423	406,373,677	320,083,247	363,224,881
		894,108,714	964,200,869	735,706,591	795,254,441
Staff Cost	6	(327,420,063)	(291,130,904)	(295,232,017)	(268,409,160)
Depreciation and Amortization		(72,475,048)	(85,295,230)	(72,388,552)	(85,208,734)
Other Operating Expenses	7	(498,177,827)	(493,095,181)	(398,947,671)	(403,714,386)
Impairment Charges and Other Credit Losses on Financial Assets		(5,218,674)	(983,551)	(4,026,300)	(938,776)
Profit/(Loss) before Taxation		(9,182,898)	93,696,003	(34,887,949)	36,983,386
Income Tax Expense	8	-	(23,705,409)	-	(17,878,430)
Profit/(Loss) for the year		(9,182,898)	69,990,594	(34,887,948)	19,104,956
Other Comprehensive Income					
Items that will never be reclassified to Profit or Loss					
Actuarial Gains/(Losses) on defined benefit plans		14,375,628	(7,450,118)	12,732,644	(6,320,361)
Item that are or may be reclassified to Profit or Loss					
Net Change in Fair Value of Available-for- Sale Financial Assets		-	48,822,356	-	24,154,943
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss		-	(129,881,138)	-	(86,554,455)
Net Change in Fair Value of Financial Assets Measured at Fair value Through Other Comprehensive Income	14	165,965	-	-	-
Total Other Comprehensive Income/(Expense) Net of Tax		14,541,593	(88,508,900)	12,732,644	(68,719,873)
Total Comprehensive Income/(Expense) for the Year		5,358,695	(18,518,306)	(22,155,305)	(49,614,917)

The accounting policies and notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION

As at 31 December,		2018	Group	2017	Company	2017
	Note	Rs.		Rs.	Rs.	Rs.
ASSETS						
Non Current Assets						
Property and Equipment	09	128,891,666	134,242,170	128,891,622	134,242,126	
Intangible Assets	10	174,701,435	186,492,942	174,542,229	186,247,241	
Capital Work in Progress	11	78,095,511	78,095,511	78,095,511	78,095,511	
Investments in Subsidiary	12	-	-	25,000	25,000	
Financial Investments at Amortised Cost	13	349,715,543	-	349,715,543	-	
Financial Investments - Held To Maturity	13	-	779,968,652	-	779,968,652	
Investments in LFSB	14	1,165,965	1,000,000	-	-	
Settlement Guarantee Fund	15	100,000,000	100,000,000	100,000,000	100,000,000	
Total Non Current Assets		832,570,120	1,279,799,275	831,269,905	1,278,578,530	
Current Assets						
Inventories		2,324,823	2,122,519	2,171,007	2,026,035	
Trade and Other Receivables	17	271,049,400	262,426,451	238,897,949	231,359,594	
Tax Receivable		23,788,314	10,385,898	21,088,241	10,246,980	
Financial Assets -Available-for-Sale	18	-	539,981,652	-	181,384,476	
Financial Assets at FVTPL	18	154,406,792	-	-	-	
Financial Investments at Amortised Cost	13	429,907,203	-	429,907,203	-	
Other Investments	19	1,376,476,823	1,031,246,881	959,415,032	878,953,665	
Cash and Cash Equivalents	20	211,690,516	139,777,313	177,038,420	139,001,786	
Total Current Assets		2,469,643,871	1,985,940,714	1,828,517,852	1,442,972,536	
Total Assets		3,302,213,991	3,265,739,989	2,659,787,757	2,721,551,066	
EQUITY AND LIABILITIES						
Accumulated Fund		2,909,254,059	2,904,290,737	2,388,013,428	2,410,664,043	
Other Reserves	21	100,140,965	100,371,858	-	126,365	
Total Equity		3,009,395,024	3,004,662,595	2,388,013,428	2,410,790,408	
Non Current Liabilities						
Brokers' Deposits in lieu of Bank Guarantee	22	939,970	939,970	939,970	939,970	
Retirement Benefit Obligation	23	54,364,386	58,896,598	54,364,386	58,896,598	
Total Non Current Liabilities		55,304,356	59,836,568	55,304,356	59,836,568	
Current Liabilities						
Brokers' Deposits in lieu of Bank Guarantee	22	112,961,827	88,830,000	78,250,000	83,500,000	
Other Payables	24	116,741,146	103,833,147	110,639,021	100,871,499	
Amounts due to Related Company	25	-	-	19,769,314	58,045,786	
Bank Overdraft	20	7,811,638	8,577,679	7,811,638	8,506,805	
Total Current Liabilities		237,514,611	201,240,826	216,469,973	250,924,090	
Total Equity and Liabilities		3,302,213,991	3,265,739,989	2,659,787,757	2,721,551,066	

The accounting policies and notes annexed form an integral part of these Financial Statements.

These Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act No.07 of 2007.



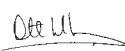
Kusal Nissanka
Head of Finance & Administration

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed on behalf of the Board;



Ray Abeywardena
Chairman



Dumith Fernando
Director

04 June 2019
Colombo.

STATEMENT OF CHANGES IN EQUITY

Group	Accumulated Fund Rs.	Available-for- Sale Reserve Rs.	Other Reserves Rs.	Capital Reserve Rs.	Total Equity Rs.
Balance as at 01 January 2017	2,841,750,261	81,455,640	-	99,975,000	3,023,180,901
Total Comprehensive Income					
Profit for the Year	69,990,594	-	-	-	69,990,594
Other Comprehensive Income					
Net Change in Fair Value of Available-for- Sale Financial					
Assets Reclassified to Profit or Loss	-	(129,881,138)	-	-	(129,881,138)
Actuarial Loss on Retirement Benefit Obligations	(7,450,118)	-	-	-	(7,450,118)
Net Change in Fair Value of					
Available-for- Sale Financial Assets	-	48,822,356	-	-	48,822,356
Total Other Comprehensive Expenses for the Year	(7,450,118)	(81,058,782)	-	-	(88,508,900)
Total Comprehensive					
Income/(Expense) for the Year	62,540,476	(81,058,782)	-	-	(18,518,305)
Balance as at 31 December 2017	2,904,290,737	396,858	-	99,975,000	3,004,662,595
Impact of adopting SLFRS 9					
Financial Instruments"					
as at 01 January 2018 (Note 3.16)	(229,408)	(396,858)	-	-	(626,266)
Restated Balance as at 01 January 2018	2,904,061,329	-	-	99,975,000	3,004,036,329
Total Comprehensive Income					
Loss for the Year	(9,182,898)	-	-	-	(9,182,898)
Other Comprehensive Income					
Actuarial Gain on Retirement Benefit Obligations	14,375,628	-	-	-	14,375,628
Net Change in Fair Value of Financial					
Assets Measured at Fair value Through					
Other Comprehensive Income	-	-	165,965	-	165,965
Total Other Comprehensive Income for the Year	14,375,628	-	165,965	-	14,541,593
Total Comprehensive Income for the Year	5,192,730	-	165,965	-	5,358,695
Balance as at 31 December 2018	2,909,254,059	-	165,965	99,975,000	3,009,395,024

Company	Accumulated Fund Rs.	Other Reserves Rs.	Available-for- Sale Reserve Rs.	Total Equity Rs.
Balance as at 01 January 2017	2,397,879,448	-	62,525,877	2,460,405,325
Total Comprehensive Income				
Profit for the Year	19,104,956	-	-	19,104,956
Other Comprehensive Income				
Net Change in Fair Value of Available-for- Sale Financial Assets Reclassified to Profit or Loss	-	-	(86,554,455)	(86,554,455)
Actuarial Gain on Retirement Benefit Obligations	(6,320,361)	-	-	(6,320,361)
Net Change in Fair Value of Available-for- Sale Financial Assets	-	-	24,154,943	24,154,943
Total Other Comprehensive Income for the Year	(6,320,361)	-	(62,399,512)	(68,719,873)
Total Comprehensive Income/(Expenses) for the Year	12,784,595	-	(62,399,512)	(49,614,917)
Balance as at 31 December 2017	2,410,664,043	-	126,365	2,410,790,408
Impact of adopting SLFRS 9 - “Financial Instruments”				
as at 01 January 2018 (Note 3.16)	(495,310)	-	(126,365)	(621,675)
Restated Balance as at 01 January 2018	2,410,168,733	-	-	2,410,168,733
Total Comprehensive Income				
Losses for the Year	(34,887,949)	-	-	(34,887,949)
Other Comprehensive Income				
Actuarial Gain on Retirement Benefit Obligations	12,732,644	-	-	12,732,644
Total Other Comprehensive Income for the Year	12,732,644	-	-	12,732,644
Total Comprehensive Expenses for the Year	(22,155,305)	-	-	(22,155,305)
Balance as at 31 December 2018	2,388,013,428	-	-	2,388,013,428

The accounting policies and notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December,		Group	Company
	Note	2018 Rs.	2017 Rs.
		2018 Rs.	2017 Rs.
Cash Flows from Operating Activities			
Profit/(Loss) before Taxation		(9,182,898)	93,696,003
Adjustments For :			
Depreciation/Amortization	09/10	72,475,048	85,020,872
Interest Income	05	(232,315,697)	(210,729,760)
Fair Value Gain on Financial Assets Measured at FVTPL		(39,501,881)	-
Profit/Loss on Sale of Property & Equipment	05	(203,439)	9,384,858
Dividend Income	05	-	(6,881,961)
Gratuity Provision	23	11,778,420	10,343,001
Gratuity Provision - Transfer to/(Reversal from) Subsidiary	23	-	-
Provision/(Reversal) for Impairment of Trade receivables		5,310,331	983,551
Provision for Inventory		-	1,877,434
Impairment Charges on Financial Assets		(91,658)	-
Operating Loss before Working Capital Changes		(191,731,774)	(16,306,002)
Decrease/(Increase) in Inventories		(202,304)	777,130
(Increase)/Decrease in Trade and Other Receivables		(13,933,278)	(18,475,000)
Increase/(Decrease) in Other Payables		12,907,999	16,238,877
Increase/(Decrease) in Amounts due to Related Company		-	-
(Decrease)/Increase in Brokers' Deposit		24,131,828	(35,029,048)
Cash Used in Operating Activities		(168,827,529)	(52,794,043)
Income Tax, ESC,WHT and Dividend Tax Paid		(13,402,417)	(2,772,972)
Gratuity Paid	23	(1,935,004)	(2,126,751)
Net Cash Used in Operating Activities		(184,164,950)	(57,693,766)

For the Year Ended 31 December,	Note	Group		Company	
		2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Cash Flows from Investing Activities					
Interest Income	05	211,897,052	150,750,068	193,441,405	120,524,757
Purchase of Property & Equipment and Intangible Assets	09	(55,664,562)	(53,074,379)	(55,664,561)	(53,160,874)
Proceeds from Sale of Property & Equipment		534,963	49,780	534,963	49,780
Increase in Fixed Deposit		(325,000,000)	(825,000,000)	(75,000,000)	(825,000,000)
Dividend Income	05	-	6,881,961	-	6,881,961
Decrease in Investments in Unit Trusts		425,076,741	172,199,543	192,354,769	380,526,225
Capital Work in Progress	11	-	(4,525,714)	-	(4,525,714)
Net Cash Generated from / (Used in) Investing Activities		256,844,194	(552,718,741)	255,666,576	(374,703,865)
Cash Flows from Financing Activities					
		-	-	-	-
Net (Decrease) /Increase in Cash and Cash Equivalents		72,679,244	(610,412,507)	38,731,801	(411,081,630)
Cash and Cash Equivalents at beginning of the Year		131,199,634	741,612,141	130,494,981	541,576,611
Net Cash and Cash Equivalents at End of the Year	20	203,878,878	131,199,634	169,226,782	130,494,981
Analysis of Cash and Cash Equivalents at End of the year					
Cash in Hand		275,050	275,050	250,050	250,050
Cash at Bank		15,742,039	11,346,663	14,549,370	10,613,736
RTGS Account		17,600	17,600	-	-
Short Term investment in Overnight Repos		195,655,827	128,138,000	162,239,000	128,138,000
Cash & Cash Equivalents		211,690,516	139,777,313	177,038,420	139,001,786
Bank Overdraft		(7,811,638)	(8,577,679)	(7,811,638)	(8,506,805)
Net Cash & Cash Equivalents at End of the Year		203,878,878	131,199,634	169,226,782	130,494,981

The accounting policies and notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1. Domicile and Legal Form

Colombo Stock Exchange is a Company Limited by Guarantee incorporated & domiciled in Sri Lanka. The registered office of the Company is located at 4 - 01, West Block, World Trade Center, Echelon Square, Colombo 01, and the principal place of business is also situated at the same place.

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2018 comprise the Company and Central Depository Systems (Private) Limited which was incorporated on 02 September 1991 as a wholly owned subsidiary of Colombo Stock Exchange.

1.2. Principal Activities and Nature of Operations

The principal activity of the Company is the operation of a Stock Exchange. The subsidiary operates a clearing and settlement of securities system for equities traded in the Colombo Stock Exchange and acts as a depository for such securities.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Consolidated Financial Statements which comprise 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 thereto have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 07 of 2007.

The Financial Statements of Colombo Stock Exchange for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 04 June 2019.

2.2. Basis of Measurement

The Financial Statements of the Company have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets at Fair Value through Profit or Loss (FVTPL) are measured at fair value;
- Financial assets at Fair Value through Other Comprehensive Income (FVTOCI) are measured at fair value; and
- Liabilities for defined benefit obligations are measured at its present value.

2.3. Functional and Presentation Currency

The Financial Statements are presented in Sri Lanka Rupees, which is the Group's functional currency. Financial information presented in Sri Lanka Rupees has been rounded to the nearest rupee.

2.4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements requires management to make judgments, estimates and assumptions that 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 recognized in the period in which the estimate is revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except for the new standards adopted from this year (see Note 3.16)

3.1. Changes in Significant Accounting Policies

The Group has initially applied SLFRS 15 and SLFRS 09 from 01 January 2018.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

3.1.1 SLFRS 15 - Revenue from Contracts with Customers

The Group has applied SLFRS 15 “Revenue from contracts with customers” with a date of initial application of 1 January 2018.

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15 Revenue from Contracts with Customers, an entity should recognize as revenue the amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services excluding amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a goods or service to a customer. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has applied SLFRS 15 using the cumulative transition effect method – i.e. by recognizing the cumulative effect of initially applying SLFRS 15 as an adjustment to the opening balance of equity at 1 January 2018 and therefore the comparative information has not been restated and continues to be reported under LKAS 18.

The Group do not have a material impact on SLFRS 15 as the current accounting practice does not differ significantly from SLFRS 15. Therefore there was no adjustment to retained earnings on the transition as at 1 January 2018.

3.1.2 SLFRS 09 – Financial Instruments

SLFRS 09 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement.

The nature and effects of the key changes to the Group’s accounting policies resulting from its adoption of SLFRS 9 – “Financial Instruments” are disclosed in note 3.16.

3.1.2.1 Transition to SLFRS 09 – “Financial Instruments”

Changes in accounting policies resulting from the adoption of SLFRS 09 – “Financial Instruments” have been applied retrospectively, except as described below:

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 – “Financial Instruments” are recognised in retained earnings and reserves as at 01 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 – “Financial Instruments” and therefore is not comparable to the information presented for 2018 under SLFRS 09 – “Financial Instruments”.

Accordingly, the Group has disclosed the accounting policies under SLFRS 9 – “Financial Instruments” along with disclosures prescribed in SLFRS 7 – “Financial Instruments: Disclosures” that would apply from the date of initial application which is 01 January 2018.

Accounting policies as per LKAS 39 – “Financial Instruments: Recognition and Measurement” and related disclosures as per SLFRS 7 – “Financial Instruments Disclosures” for the comparative period is also presented after the SLFRS 9 – “Financial Instruments” accounting policies.

3.1.2.2 Classification of Financial Assets and Financial Liabilities on the Date of Initial Application of SLFRS 9-“Financial Instruments”

The details of Classification of Financial Assets and Financial Liabilities on the Date of Initial Application of SLFRS 9-“Financial Instruments” is disclosed in Note 3.16 separately.

3.2. Basis of Consolidation

The Financial Statements of the Company and Group comprise the Financial Statements of the Company and its Subsidiary for the year ended 31 December 2018. The Financial Statements of the Company’s Subsidiary for the purpose of consolidation is prepared for the same reporting year as that of Colombo Stock Exchange, using consistent accounting policies.

3.2.1. Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a

NOTES TO THE FINANCIAL STATEMENTS

bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.2.2. Non-Controlling Interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.2.3. Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

3.2.4. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.2.5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains and losses resulting from transactions

between the Group and its Associates are also eliminated in preparing the consolidated financial statements to the extent of the Group's interests in the Associates.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.3. Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Reporting Date are translated to Sri Lankan Rupees at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognized in the profit or loss.

3.4. Financial Instruments

3.4.1 Policy Applicable From 1 January 2018

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) - debt investment; fair value through other comprehensive income (FVOCI) - equity investment; or fair value through profit or loss (FVTPL).

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial

assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets - Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. '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 (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows

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such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets - Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
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Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets classification change

Measurement Basis	Classification under SLFRS 9	Classification under LKAS 39
Fair value	FVOCI/ FVTPL	AFS/ FVTPL
Amortised cost	Financial Assets at Amortised cost	HTM/ Loans and Receivable

3.4.2 Policy Applicable Prior To 1 January 2018

Classification and subsequent measurement of financial assets

At inception a financial asset is classified under one of the following categories:

- (i) Financial assets at fair value through profit or loss (FVTPL);
 - Financial assets - Held for trading or
 - Financial assets - Designated at fair value through profit or loss
- (ii) Loans and receivables (L&R);
- (iii) Financial assets - Held to maturity (HTM); or
- (iv) Available-for-sale (AFS) financial assets.

3.4.3 Non Derivative Financial Assets

The Group initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

- Financial Assets at Fair Value through Profit or Loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

- Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The losses arising from impairment are recognized in profit or loss.

- Held to Maturity Financial Assets

If the Group has the positive intent and ability to hold securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The losses arising from impairment of such investments are recognized in profit or loss.

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3.4.4 Non Derivative Financial Assets (Ctd.)

- Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

- Available for Sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income.

When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Classification and subsequent measurement of financial liabilities

At the inception the Company determines the classification of its financial liabilities. Accordingly financial liabilities are classified as:

- i) Financial liabilities at fair value through profit or loss (FVTPL)
 - Financial liabilities held for trading
 - Financial liabilities designated at fair value through profit or loss
- ii) Financial liabilities at amortized cost.

The subsequent measurement of financial liabilities depends on their classification

3.4.5 Non Derivative Financial Liabilities

All financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party

to the contractual provisions of the instrument. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs.

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Other financial liabilities comprise of bank overdrafts, trade and other payables and brokers' liquidity deposits payables.

Comparative information – financial instruments

Refer note 3.16 in relation to the changes in accounting policy resulting from adoption of SLFRS 9 and the comparative information.

3.5. Property and Equipment

3.5.1. Recognition and Measurement

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self – constructed assets includes the costs of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment,

and are recognized net within the “other income” in profit or loss.

3.5.2. Subsequent Costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item, if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day - to - day servicing of property and equipment are recognized in the profit or loss as incurred.

3.5.3. Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives of the Property, Plant & Equipment of the Company as at 31st December 2018 are as follows:

	Rate
Furniture & Fittings	10 years
Hardware & Software	5 - 10 years
Office Equipment	5 years
Motor Vehicles	5 years
Telephones	4 years

The depreciation rates are determined separately for each significant part of an item of Property, Plant & Equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an assets ceases at the earlier of the date that the assets is classified as held for sale or the date that the asset is derecognized.

3.5.4. Capital Work-in-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred for system development.

3.6. Intangible Assets

Intangible Assets consist of application software used in trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.

3.6.1. Basis of Recognition

An Intangible Asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with the LKAS 38, Intangible Assets.

3.6.2. Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific assets to which it relates. All other expenditure is expensed as incurred.

3.6.3. Amortization

Intangible Assets are amortized on a straight-line basis to profit or loss, from the date when the asset is available for use, over the best estimate of its useful economic life.

3.6.4. Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS

Capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

3.6.5. De recognition of Intangible Assets

Intangible assets are derecognized on disposal or when no future economic benefits are expected from their use. Gain or losses arising from de recognition of an intangible asset are measured as the difference between the net disposals proceed and the carrying amount of the asset and are recognized in profit or loss.

3.7. Inventories

Inventories include stationeries, stamps and data wall spares and measured at the lower of cost and net realizable value.

3.8. Impairment of Assets

3.8.1 Non-derivative Financial Assets

IMPAIRMENT POLICY: APPLICABLE FROM 1 JANUARY 2018

Financial instruments and contract assets

Loss allowances for trade receivables is always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures to recovery of amounts due.

IMPAIRMENT POLICY: APPLICABLE PRIOR TO 1 JANUARY 2018

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active

Market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

- Financial Assets Measured at Amortized Cost

The Group considers evidence of impairment for financial assets measured at amortized cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

- Available-for-Sale Financial Assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

3.8.2. Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

3.9. Employee Benefits

3.9.1. Short – Term Employee Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.9.2. Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contribution into separate entity and will have no legal or constructive obligation to pay further amounts.

All employees who are eligible for Employees' Provident Fund and Employees' Trust Fund are covered by relevant contributions to the defined contribution plans and are recognized as an expense in profit or loss when incurred.

(a) Employees' Provident Fund

The Company and employee contribute 12% and 8% respectively on the basic salary of each employee to the employees' approved provident fund.

(b) Employees' Trust Fund

The Company contributes 3% of the basic salary of each employee to the employee's trust fund.

NOTES TO THE FINANCIAL STATEMENTS

3.9.3. Defined Benefits Plan – Gratuity

As required by LKAS -19 “Employee Benefits”, which the Company has provided for gratuity liability based on projected unit credit method.

However under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of five years of continued service.

The Group recognizes all Actuarial Gains / (Losses) arising from Defined Benefit plans immediately in Other Comprehensive Income and Expenses related to Defined Benefit in employee benefits in profit or loss.

The liability is not externally funded.

3.10. Provisions

A provision is recognized if the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.11. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

3.11.1. CSE & CDS Fees

CSE & CDS fees on securities traded on the stock exchange are recognized on a trade date basis.

3.11.2. Listing Fees

Annual listing fees are recognized on an accrual basis and charged annually from listed companies a fee of Rs.100,000/- or 0.003% of the market capitalization of the Listed Entity as at 31st December of the year immediately preceding, whichever is higher, subject to a maximum of Rs.2,000,000/-

3.11.3. Quotation Fees

The initial listing fee payable when the ordinary voting shares of an Entity are listed on the Exchange and recognized upon the listing of an applicant.

Additional listing fees are recognized for a further issue of Securities by way of rights issue of shares, issues of shares credited as fully paid-up by way of capitalization of reserves, issues of shares through private placements, scrip dividend, share swaps & ESOP as per listing rules.

3.11.4. Brokers’ Fees

Monthly subscription fees from brokers are recognized on an accrual basis.

3.11.5. Charges for Computer Information

The CDS charge a fee on a pre-determined basis from listed companies for the service rendered pertaining to providing information and fees are recognized on an accrual basis.

3.11.6. Listed Company Fees

Listed Company Fee is charged based on the number of trades and Rs.15/- will be charged per trade, subject to a minimum charge of Rs.25,000/- and a maximum charge of Rs.750,000/- per annum.

3.11.7. Other Income

- Dividend from unit trust is recognized in profit or loss on an accrual basis when the Company's right to receive the dividend is established.
- Interest income is recognized in profit or loss as it accrues, using the effective interest method.
- Gain on disposal of property, plant and equipment have been accounted for in profit or loss, after deducting from the net sales proceeds on disposal of the carrying amount of such assets.

3.12. Taxation

As per Sri Lanka Accounting Standard (LKAS 12) – “Income taxes”, tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognized in the income statement.

3.12.1. Current Taxation

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the Reporting Date, and any adjustment to tax payable

in respect of previous years. Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

The Company is Liable for income tax at the rate of 28% on the taxable profit.

3.12.2. Deferred Taxation

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3.12.3. Other Tax Exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

3.12.3.1 Withholding Tax on Dividends Distributed by Subsidiary

Dividend distributed out of profit of the Subsidiary attracts 10% deduction at source and is not available for set off against the tax liability of the Colombo Stock Exchange. Thus the withholding tax deducted at source is added to the expense of the Subsidiary Company in the Group Financial Statements as a consolidation adjustment.

3.12.3.2 Economic Service Charge (ESC)

As per the provisions of Economic Service Charge Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on the liable turnover at specified rates. ESC is deductible from the income tax liability. Any unclaimed amount can be carried forward.

3.12.3.3 Value Added Tax (VAT)

Value Added Tax is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. VAT is payable at 15%.

3.12.3.4 Nation Building Tax (NBT)

As per the provisions of the Nation Building Tax Act, No. 9 of 2009 and the subsequent amendments thereto, Nation Building Tax should be payable at the rate of 2% with effect from 1 January 2011 on the liable turnover as per the relevant provisions of the Act.

3.13. Related party transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

NOTES TO THE FINANCIAL STATEMENTS

3.14. Statement of cash flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow', whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of 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.

3.15 New Accounting Standards Issued but not Effective

3.15.1 New Accounting Standards Issued But Not Effective As At Reporting Date

A number of new standards and amendments to standards which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. Accordingly, these Accounting Standards have not been applied in preparing these Financial Statements.

The Group is expected to have a significant impact from the following new standard.

New or amended Standard	Summary of the Requirement	Possible impact on Financial Statements
SLFRS 16 Leases	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead, there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for reporting periods beginning on or after 01 January 2019.	The Group is currently in the process of assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

3.16 Transition to SLFRS 9 – “Financial Instruments”

Changes in accounting policies resulting from the adoption of SLFRS9 - “Financial Instruments” have been applied retrospectively, except as described below;

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 – “Financial Instruments” are recognised in retained earnings and reserves as at 1st January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 – “Financial Instruments” and therefore is not comparable to the information presented for 2018 under SLFRS 9 – “Financial Instruments”.

Accordingly, the Group has disclosed the accounting policies under SLFRS 9 – “Financial Instruments” along with disclosures prescribed in SLFRS 7 – “Financial Instruments: Disclosures” that would apply from the date of initial application which is 1 January 2018.

Accounting policies as per LKAS 39 – “Financial Instruments: Recognition and Measurement” and related disclosures as per SLFRS 7 – “Financial Instruments Disclosures” for the comparative period is also presented after the SLFRS 9 – “Financial Instruments” accounting policies.

IMPACT OF ADOPTING SLFRS 9 – “FINANCIAL INSTRUMENTS”

The following table summarises the impact, net of tax, of transition to SLFRS 9 – “Financial Instruments” on reserves and retained earnings as at 1 January 2018.

Group	Retained Earnings Rs.	Available-for-Sale Reserve Rs.
Closing balance as per LKAS 39 (1st January 2018)	2,904,290,737	396,858
Impact on reclassification and remeasurments		
Classification of Available-for-sale as financial assets measured at FVTPL	396,858	(396,858)
Impact on recognition of expected credit losses:		
Expected credit losses under SLFRS 9 for		
-Financial Investments - Held To Maturity	(605,893)	-
-Financial Investments - Fixed Deposit	(20,373)	-
Opening balance as per SLFRS 9 Initial Application (1st January 2018)	2,904,061,329	-
Company	Retained Earnings Rs.	Available-for-Sale Reserve Rs.
Closing balance as per LKAS 39 (1st January 2018)	2,410,664,043	126,365
Impact on reclassification and remeasurments		
Classification of Available-for-sale as financial assets measured at FVTPL	126,365	(126,365)
Impact on recognition of expected credit losses:		
Expected credit losses under SLFRS 9 for		
-Financial Investments - Held To Maturity	(605,893)	-
-Financial Investments - Fixed Deposit	(15,782)	-
Opening balance as per SLFRS 9 Initial Application (1st January 2018)	2,410,168,733	-

NOTES TO THE FINANCIAL STATEMENTS

CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES ON THE DATE OF INITIAL APPLICATION OF SLFRS 9 – “FINANCIAL INSTRUMENTS”

The following table shows the original measurement categories as per LKAS 39 – “Financial Instruments: Recognition and Measurement” and the new measurement categories as per SLFRS 9 – “Financial Instruments” along with their carrying amounts for each class of the Group’s financial assets and financial liabilities as at 1st January 2018.

Group					
FINANCIAL ASSETS	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 9 Rs.
Financial Assets measured at FVTPL					
Investment in Unit Trusts	18	Available-for-sale	Measured at FVTPL	539,981,652	539,981,652
Financial Assets measured at FVOCI					
Investment in LFSB	14	Available-for-sale	Measured at FVOCI	1,000,000	1,000,000
Trade Receivables	17	Loans and Receivables	Measured at amortised cost	44,150,082	44,150,082
Other Investment Securities					
Investment in Debentures	13	Held-to-maturity measured at amortised cost	Measured at amortised cost	779,968,652	779,362,759
Investment in Fixed Deposits	19	Loans and Receivables	Measured at amortised cost	1,031,246,881	1,031,226,507
Total Financial Assets				2,396,347,267	2,395,721,000

Company					
FINANCIAL ASSETS	Note	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 9 Rs.
Financial Assets measured at FVTPL					
Investment in Unit Trusts	18	Available-for-sale	Measured at FVTPL	181,384,476	181,384,476
Trade Receivables	17	Loans and Receivables	Measured at amortised cost	14,520,075	14,520,075
Other Investment Securities					
Investment in Debentures	13	Held-to-maturity measured at amortised cost	Measured at amortised cost	779,968,652	779,362,759
Investment in Fixed Deposits	19	Loans and Receivables	Measured at amortised cost	878,953,665	878,937,883
Total Financial Assets				1,854,826,868	1,854,205,193

Group				
FINANCIAL LIABILITIES	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 9 Rs.
Due to Brokers	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	91,826,407	91,826,407
Due to Customers	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	1,941,734	1,941,734
Due to Banks	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	8,577,679	8,577,679
Total Financial Liabilities			102,345,820	102,345,820

NOTES TO THE FINANCIAL STATEMENTS

Company				
FINANCIAL LIABILITIES	Original Classification as per LKAS 39	New Classification as per SLFRS 9	Original Carrying Amount as per LKAS 39 Rs.	New Carrying Amount as per SLFRS 9 Rs.
Due to Brokers	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	86,496,395	86,496,395
Due to Customers	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	1,212,126	1,212,126
Due to Banks	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	1,212,126	1,212,126
Due to Related Parties	Other financial liabilities measured at amortised cost	Other financial liabilities measured at amortised cost	58,045,786	58,045,786
Total Financial Liabilities			146,966,433	146,966,433

The Group accounting policies on the classification of financial instruments under SLFRS 9 - "Financial Instruments" are set out in Note 28.2 and the Accounting policies.

The following table reconciles the carrying amounts of financial assets as per LKAS 39 - "Financial Instruments: Recognition and Measurement", to the carrying amounts as per SLFRS 9 - "Financial Instruments", on transition to SLFRS 9 - "Financial Instruments", on 1st January 2018.

Group Classification as per SLFRS 9	LKAS 39 Carrying Amount as at 31-Dec-17 Rs.	Change in Classification Rs.	Remeasurement Rs.	SLFRS 9 Carrying Amount 1-Jan-18 Rs.
Financial assets at FVTPL	18			
Investment in Unit trusts				
Brought forward: Available-for-sale	539,981,652	(539,981,652)		
Remeasurement/Reclassification		539,981,652		
Carried forward: FVTPL				539,981,652
Total Financial Assets at FVTPL	539,981,652	-	-	539,981,652
Financial assets at FVTOCI				
Investment in LFSB	14			
Brought forward: Available-for-sale	1,000,000			
Remeasurement/Reclassification				
Carried forward: FVOCI				1,000,000
Total Financial Assets at FVTOCI	1,000,000	-	-	1,000,000
Financial assets at Amortised Cost				
Investment in Debentures	13			
Brought forward: Held-to-maturity	779,968,652			
Remeasurement/Reclassification			(605,892)	
Carried forward: Measured at amortised cost				779,362,759
Investment in Fixed Deposit	19			
Brought forward: Loans and Receivables	1,031,246,881			
Remeasurement/Reclassification			(20,374)	
Carried forward: Measured at amortised cost				1,031,226,507
Trade receivables	17			
Brought forward: Loans and Receivables	44,150,082			
Remeasurement/Reclassification				
Carried forward: Measured at amortised cost				44,150,082
Total Financial Assets Measured at Amortised Cost	1,855,365,615	-	(626,267)	1,854,739,348

NOTES TO THE FINANCIAL STATEMENTS

Company Classification as per SLFRS 9	LKAS 39 Carrying Amount as at 31-Dec-17 Rs.	Change in Classification Rs.	Remeasurement Rs.	SLFRS 9 Carrying Amount 1-Jan-18 Rs.
Financial Assets at FVTPL				
Investment in Unit trust	18			
Brought forward: Available-for-sale	181,384,476	(181,384,476)		
Remeasurement/Reclassification		181,384,476		
Carried forward: FVTPL				181,384,476
Total Financial Assets at FVTPL	181,384,476	-	-	181,384,476
Financial Assets Measured at Amortised Cost				
Investment in Debentures	13			
Brought forward: Held-to-maturity	779,968,652			
Remeasurement/Reclassification			(605,892)	
Carried forward: Measured at amortised cost				779,362,759
Investment in Fixed Deposit	19			
Brought forward: Loans and Receivables	878,953,665			
Remeasurement/Reclassification			(15,782)	
Carried forward: Measured at amortised cost				878,937,883
Trade receivables	17			
Brought forward: Loans and Receivables	14,520,075			
Remeasurement/Reclassification				
Carried forward: Measured at amortised cost				14,520,075
Total Financial Assets Measured at Amortised Cost	1,673,442,392	-	(621,675)	1,672,820,717

For the Year Ended 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
04. REVENUE				
CSE & CDS Fees	376,482,983	396,616,978	292,326,950	307,813,100
Listing Fees	92,299,554	92,266,430	92,299,554	92,266,430
Quotation Fees	13,246,716	11,087,122	13,246,716	11,087,122
Brokers' Fees	16,703,504	19,694,908	16,703,504	19,694,908
Charges for Remote Data Link	1,046,620	1,168,000	1,046,620	1,168,000
Charges for Computer Information	20,046,494	20,238,850	-	-
Listed Company Fees	15,728,420	16,754,904	-	-
	535,554,291	557,827,192	415,623,344	432,029,560

05. OTHER INCOME

Interest Income	232,315,697	210,729,760	198,980,816	178,713,394
Dividend Income - Unit Trusts	-	6,881,961	-	6,881,961
CDS Rental Income	-	-	36,162,068	36,162,068
Management Fee	-	-	6,214,655	5,936,072
Profit/(Loss) on Disposal of Property & Equipment	203,439	(9,384,858)	203,439	(9,384,858)
Miscellaneous Income	86,533,406	68,265,676	67,551,977	58,361,789
Net Gain on Disposal of Available-For-Sale Financial Assets	-	129,881,138	-	86,554,455
Fair Value Gain on Financial Assets Measured at FVTPL	39,501,881	-	10,970,292	-
	358,554,423	406,373,677	320,083,247	363,224,881

Miscellaneous Income comprise of net interest income from staff loan Rs.3,896,134 (Interest Income of Rs.10,858,118 and Interest Expense of Rs. 6,961,984) in 2018 and net interest income of Rs. 2,804,260 (Interest Income of Rs.8,805,260 and Interest Expense of Rs. 6,001,000) in 2017.

06. STAFF COST

Salaries	279,924,208	263,711,331	253,044,491	244,034,615
Staff Bonus	17,895,990	-	16,422,576	-
Terminal Benefits (Gratuity)	11,778,420	10,343,001	10,404,292	9,274,858
Staff Welfare	9,421,224	9,738,289	8,118,036	8,554,122
Medical Expenses	4,981,306	4,791,529	4,500,435	4,259,827
Transport & Traveling	3,418,915	2,546,754	2,742,187	2,285,738
	327,420,063	291,130,904	295,232,017	268,409,160

The Number of Employees at the end of the Year 2018 were 146 (152 in 2017).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
07. OTHER OPERATING EXPENSES				
Rent	111,116,552	117,782,131	104,993,750	108,838,010
Administration Expenses	44,763,495	42,724,193	31,586,346	31,776,055
Data Communication Charges	24,482,231	29,504,185	19,041,321	22,943,216
CDS Statement Expenses	7,836,060	7,508,314	-	-
Stationery Expenses	1,700,063	1,516,524	1,369,400	924,088
Maintenance Expenses	124,848,259	115,583,975	100,368,021	93,394,100
Issuer Marketing Expenses	1,276,203	-	995,439	-
Donations	482,855	362,603	482,855	362,603
Training Expenses	5,830,248	5,476,789	5,305,043	5,077,146
Conference Expenses	3,632,711	3,743,977	3,381,691	3,157,356
Nation Building Tax & Disallowed VAT	45,774,276	46,653,396	30,917,047	31,475,724
Investor Education & Foreign Road Show Expenses	39,370,988	41,910,255	30,709,371	32,689,999
Publication & Website Expenses	10,112,000	10,267,392	7,854,064	7,981,488
Incentive Scheme for Brokers Back Office Systems	26,083,331	27,645,834	26,083,331	27,645,834
Directors' Expenses	8,373,993	9,909,000	8,373,993	9,909,000
Auditors' Remuneration	953,000	908,000	606,000	578,000
Fees Paid to Auditors for Non-Audit Services	634,955	555,367	483,633	444,070
Legal Fees	6,052,218	5,867,087	6,052,218	5,785,487
Professional Charges & Subscription	21,714,535	23,912,301	16,983,971	19,599,157
Risograph Expenses	41,642	16,859	32,482	-
Other Project Cost	13,098,212	1,246,999	3,327,695	1,133,052
	498,177,827	493,095,181	398,947,671	403,714,385

08. TAXATION

For the Year Ended 31 December,	2018 Rs.	Group 2017 Rs.	2018 Rs.	Company 2017 Rs.
08.1 Income tax Expense				
Current tax expense	-	23,705,409	-	17,878,430
	-	23,705,409	-	17,878,430
08.2 Reconciliation on Accounting Profit/(Loss) to Income Tax				
Accounting Profit/(Loss) before taxation	(9,182,898)	93,696,003	(34,887,948)	36,983,386
Adjustment on Disallowable Expenses	90,682,527	99,530,655	83,810,657	97,634,814
Adjustment on Allowable Expenses	(42,780,534)	(69,015,752)	(42,398,021)	(68,907,578)
Exempt Income	-	(217,243,362)	-	(173,916,679)
Other Sources of income	(232,315,697)	(130,249,496)	(198,980,816)	(98,233,130)
Losses from Business	(193,596,602)	(223,281,952)	(192,456,129)	(206,439,187)
Total Statutory Income	232,315,697	130,249,496	198,980,816	98,233,130
Tax Loss Utilized	(232,315,697)	(45,587,323)	(198,980,816)	(34,381,597)
Taxable Income	-	84,662,173	-	63,851,545
Income Tax at 28% (Note 8.3)	-	23,705,409	-	17,878,430
Income Tax on Current year Profit	-	23,705,409	-	17,878,430

08.3 Tax has been provided at the rate of 28% in respect of CSE & CDS for the Financial Year 2018 (28% in 2017).

As per the Inland Revenue Act No.10 of 2006 any person who derived income from the secondary market transactions in Government securities issued after or outstanding at 01 April 2002 would be entitled to a notional credit in relation to tax payable by such person. Accordingly, the net interest earned by the CSE for the year, has been grossed up in the Financial Statements and the resulting notional credit is Rs. 101,433/- in 2018 (Rs.4,356,610/- in 2017).

Tax for the year 2018 has been calculated in accordance with the provisions of the the Inland Revenue Act No. 24 of 2017.

NOTES TO THE FINANCIAL STATEMENTS

09. PROPERTY & EQUIPMENT

09.1 Group

	Furniture & Fittings	Computers	Office Equipment	Motor Vehicles	Telephones	Total
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 01 January 2018	158,191,426	413,987,595	47,335,621	12,190,987	14,144,104	645,849,733
Additions	13,074,407	17,487,161	1,669,511	-	38,590	32,269,669
Disposals	(5,229,323)	(3,638,847)	(622,710)	-	(988,668)	(10,479,548)
As at 31 December 2018	166,036,510	427,835,909	48,382,422	12,190,987	13,194,026	667,639,854
Accumulated Depreciation						
As at 01 January 2018	95,634,838	353,774,399	41,649,017	7,039,138	13,510,172	511,607,563
Charge for the year	10,286,124	20,273,823	3,917,009	2,383,300	428,393	37,288,649
Disposals	(4,897,806)	(3,638,845)	(622,705)	-	(988,668)	(10,148,024)
As at 31 December 2018	101,023,156	370,409,377	44,943,321	9,422,438	12,949,897	538,748,188
Net Book Value						
As at 31 December 2018	65,013,354	57,426,532	3,439,101	2,768,549	244,129	128,891,666
As at 31 December 2017	62,556,588	60,213,196	5,686,605	5,151,849	633,932	134,242,170

09.1.1 Based on the assessment carried out internally, by the Board of Directors no provision was required for the potential impairment of fixed assets as at 31 December 2018.

09.1.2 Gross carrying amount of fully depreciated assets as at 31 December 2018 is Rs. 536,473,463/-.

09.1.3 There were no restrictions on the title of the Property and Equipment as at 31 December 2018.

09.1.4 There were no items of Property and Equipment pledged as security as at 31 December 2018.

09.2 Company

	Furniture & Fittings	Computers	Office Equipment	Motor Vehicles	Telephones	Total
Cost	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
As at 01 January 2017	157,800,109	411,116,157	47,209,903	12,190,987	14,083,254	642,400,411
Additions	13,074,407	17,487,161	1,669,511	-	38,590	32,269,669
Transfers from Capital						
Work in Progress	-	-	-	-	-	-
Disposals	(5,229,323)	(3,638,847)	(622,710)	-	(988,668)	(10,479,548)
As at 31 December 2018	165,645,193	424,964,471	48,256,704	12,190,987	13,133,176	664,190,532
Accumulated Depreciation						
As at 01 January 2017	95,243,545	350,902,975	41,523,303	7,039,138	13,449,324	508,158,285
Charge for the year	10,286,124	20,273,823	3,917,009	2,383,300	428,393	37,288,649
Disposals	(4,897,806)	(3,638,845)	(622,705)	-	(988,668)	(10,148,024)
As at 31 December 2018	100,631,863	367,537,953	44,817,607	9,422,438	12,889,049	535,298,910
Net Book Value						
As at 31 December 2018	65,013,330	57,426,519	3,439,097	2,768,549	244,127	128,891,622
As at 31 December 2017	62,556,564	60,213,182	5,686,600	5,151,849	633,930	134,242,126

09.2.1 Based on the assessment carried out internally, by the Board of Directors no provision was required for the potential impairment of fixed assets as at 31 December 2018.

09.2.2 Gross carrying amount of fully depreciated assets as at 31 December 2018 is Rs. 533,024,184/-.

09.2.3 There were no restrictions on the title of the Property, Plant and Equipment as at 31 December 2018.

09.2.4 There were no items of Property and Equipment pledged as security as at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

	Group		Company	
As at 31 December,	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

10. INTANGIBLE ASSETS

Cost

Balance as at 01 January	527,941,655	514,411,057	527,508,960	513,978,362
Acquisition and Transfers during the year	23,394,892	13,530,598	23,394,892	13,530,598
Balance as at 31 December	551,336,547	527,941,655	550,903,851	527,508,960

Accumulated Amortization

Balance as at 01 January	341,448,713	307,146,985	341,261,719	307,046,487
Charge for the year	35,186,399	34,301,728	35,099,903	34,215,232
Balance as at 31 December	376,635,112	341,448,713	376,361,622	341,261,719

Net Book Value	174,701,435	186,492,942	174,542,229	186,247,241
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Intangible Assets consist of application software used in trading, clearing, settlement, surveillance, accounting, mail systems and the web site of the Colombo Stock Exchange.

	Group		Company	
As at 31 December,	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

11. CAPITAL WORK IN PROGRESS

Balance as at 01 January	78,095,511	73,569,797	78,095,511	73,569,797
Incurred during the year	7,119,291	12,273,401	7,119,291	12,273,401
Transfers	(7,119,291)	(7,747,687)	(7,119,291)	(7,747,687)
Balance as at 31 December	78,095,511	78,095,511	78,095,511	78,095,511

The Capital Work in progress is for Central Counter Party (CCP) project and "Delivery Vs. Payment" (DVP) Project which are in progress.

	Group		Company	
As at 31 December,	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.

12. INVESTMENT IN SUBSIDIARY

Central Depository Systems (Pvt) Ltd.

(10,000,000 Ordinary Shares- 100% Ownership)	-	-	25,000	25,000
	-	-	25,000	25,000

13. FINANCIAL INVESTMENTS - HELD TO MATURITY (LKAS 39)

FINANCIAL INVESTMENTS AT AMORTISED COST (SLFRS 09)

Investment in Debenture classified under Held to maturity investments as per LKAS - 39 Financial Instruments: Recognition and Measurements has been reclassified to financial assets measured at amortised cost.

Refer Notes 3.16 (Transition Note) for more details on transition to SLFRS 09

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Investment in Listed Debentures of				
People's Leasing and Finance PLC	183,500,000	183,500,000	183,500,000	183,500,000
Investment in Listed Debentures of DFCC Bank PLC	200,000,000	200,000,000	200,000,000	200,000,000
Investment in Listed Debentures of HNB PLC	200,000,000	200,000,000	200,000,000	200,000,000
Investment in Listed Debentures of Sampath Bank PLC	150,000,000	150,000,000	150,000,000	150,000,000
	733,500,000	733,500,000	733,500,000	733,500,000
Interest Receivable	46,538,887	46,468,652	46,538,887	46,468,652
	780,038,887	779,968,652	780,038,887	779,968,652
Less : Impairment Charges on Financial Assets	(416,141)	-	(416,141)	-
	779,622,746	779,968,652	779,622,746	779,968,652
Financial Investments at Amortised Cost - Current	429,907,203	-	429,907,203	-
Financial Investments at Amortised Cost - Non Current	349,715,543	779,968,652	349,715,543	779,968,652
	779,622,746	779,968,652	779,622,746	779,668,652

14. INVESTMENT IN LFSB

Investment in LFSB classified under Available-for-sale as per LKAS - 39 Financial Instruments: Recognition and Measurements has been reclassified to financial assets measured at fair value through OCI (FVTOCI) during the current year.

Refer Notes 3.16 (Transition Note) for more details on transition to SLFRS 09

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Ordinary Shares	1,000,000	1,000,000	-	-
	1,000,000	1,000,000	-	-
Fair Value Gain on Financial Assets Measured at FVTOCI	165,965	-	-	-
	1,165,965	1,000,000	-	-

NOTES TO THE FINANCIAL STATEMENTS

This represents the 100,000 Ordinary Shares purchased from Lanka Financial Services Bureau Ltd (LFSB) by the Central Depository Systems (Pvt) Ltd. LFSB is the SWIFT Service Bureau for Sri Lanka which facilitates inter-bank transactions.

15. SETTLEMENT GUARANTEE FUND

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Settlement Guarantee Fund	100,000,000	100,000,000	100,000,000	100,000,000
	100,000,000	100,000,000	100,000,000	100,000,000

This fund was established as a Trust on 22 May 1988 to guarantee the settlement of trades between clearing members of the Central Depository System of the Colombo Stock Exchange and to provide for matters connected therewith and incidental thereto. Current trustees of the fund are Securities Exchange Commission of Sri Lanka (SEC) and Colombo Stock Exchange (CSE). The CSE has decided to transfer Rs. 100 Million to strengthen the Settlement Guarantee Fund subsequent to the fund meeting held on 20 December 2011 and transferred the funds on 18 January 2012.

16. DEFERRED TAX ASSETS

As at 31 December	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Deferred Tax Liabilities	61,394,218	69,316,345	61,394,218	69,316,345
Deferred Tax Assets	(61,394,218)	(69,316,345)	(61,394,218)	(69,316,345)
	-	-	-	-

Deferred tax assets and Liabilities are attributable to the following temporary differences;

Property, equipment & intangible assets	61,394,218	69,316,345	61,394,218	69,316,345
Retirement Benefit Obligation	(14,844,550)	(16,491,047)	(14,844,550)	(16,491,047)
Brought Forward Tax Loss	(46,549,668)	(52,825,298)	(46,549,668)	(52,825,298)
Total Taxable Temporary Difference	-	-	-	-
Applicable Tax Rate	28%	28%	28%	28%
Deferred Tax Assets	-	-	-	-

Deferred Tax Assets arising from the unused tax losses has been recognized only to the extent of entity's taxable temporary differences. Hence, the full amount of deferred tax asset arising from the unused tax loss has not been recognized in the Financial Statements in accordance with the LKAS 12 - "Income taxes" due to the unavailability of convincing other evidence that sufficient taxable profits will be available against which the unused tax loss can be utilized by the entity.

17. TRADE & OTHER RECEIVABLES

Trade Receivables classified under Loans and Receivables as per LKAS - 39 Financial Instruments: Recognition and Measurements has been reclassified to financial assets measured at amortised cost during the year.

Refer Notes 3.16 (Transition Note) for more details on transition to SLFRS 09

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Trade Receivables	51,537,750	52,156,060	17,045,137	18,890,989
Provision for Impairment	(11,530,933)	(8,005,978)	(6,768,234)	(4,370,914)
	40,006,817	44,150,082	10,276,903	14,520,075
CSE & CDS Fees Receivable	2,112,183	1,850,536	1,642,810	1,439,306
Prepayments	47,670,946	63,267,113	47,494,356	63,069,116
Advance Payments	7,637,267	718,830	7,468,157	620,830
Refundable Deposits	38,332,874	49,208,320	38,332,874	49,208,320
Sundry Debtors	36,856,558	37,024,054	35,561,572	36,294,446
Other Receivable	269,628	269,628	269,628	269,628
Interest Receivable	63,624	79,506	38,178	79,506
Staff Loans	77,004,721	53,446,312	77,004,721	53,446,312
Prepaid Staff Cost	20,564,696	12,412,019	20,564,696	12,412,019
VAT Receivable	286,032	-	-	-
WHT Receivable	244,054	51	244,054	36
	271,049,400	262,426,451	238,897,949	231,359,594

18. FINANCIAL ASSETS -AVAILABLE-FOR-SALE (LKAS 39)

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - FVTPL (SLFRS 9)

Investments in Unit Trusts classified under Available-for-sale as per LKAS - 39 Financial Instruments: Recognition and Measurements has been reclassified to financial assets measured at FVTPL during the current year.

Refer Notes 3.16 (Transition Note) for more details on transition to SLFRS 09

As at 31 December	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
NDB Wealth Money Plus Fund	-	208,917,524	-	124,420,613
JB Vantage Money Market Fund	80,584,345	189,551,452	-	-
Guardian Acuity Money Market Fund	73,822,447	141,512,675	-	56,963,863
	154,406,792	539,981,651	-	181,384,476

NOTES TO THE FINANCIAL STATEMENTS

Group	2018	2017
Financial Assets -Available-for-Sale (LKAS 39)	No. of Units	No. of Units
	Rs.	Rs.
Financial Assets at Fair Value Through Profit or Loss - FVTPL (SLFRS 9)		
CSE		
NDB Wealth Money Plus Fund	-	7,237,081
Guardian Acuity Money Market Fund	-	3,714,655
	-	-
		181,384,476
CDS		
NDB Wealth Money Plus Fund	-	4,914,869
JB Vantage Money Market Fund	3,705,658	80,584,345
Guardian Acuity Money Market Fund	4,318,340	73,822,447
	154,406,792	358,597,176
Total	154,406,792	539,981,652

19. OTHER INVESTMENTS

Investments in Fixed Deposit classified under Loans and Receivables as per LKAS - 39 Financial Instruments: Recognition and Measurements has been reclassified to financial assets measured at amortised cost during the current year.

Refer Notes 3.16 (Transition Note) for more details on transition to SLFRS 09

As at 31 December	2018	Group	2017	Company	2017
	Rs.		Rs.	Rs.	Rs.
Investments in Fixed Deposits	1,300,000,000	975,000,000	900,000,000	825,000,000	
Interest Receivable	76,595,291	56,246,881	59,464,170	53,953,665	
	1,376,595,291	1,031,246,881	959,464,170	878,953,665	
Less : Impairment Charges on Financial Assets	(118,468)	-	(49,138)	-	
	1,376,476,823	1,031,246,881	959,415,032	878,953,665	

20. CASH & CASH EQUIVALENTS

Overnight Repos	195,655,827	128,138,000	162,239,000	128,138,000
Cash at Bank	15,742,039	11,346,663	14,549,370	10,613,736
RTGS Account	17,600	17,600	-	-
Cash in Hand	275,050	275,050	250,050	250,050
Favourable balance	211,690,516	139,777,313	177,038,420	139,001,786
Bank Overdraft	(7,811,638)	(8,577,679)	(7,811,638)	(8,506,805)
Cash & Cash Equivalents in the Statement of Cash Flows	203,878,878	131,199,634	169,226,782	130,494,981

As at 31 December	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

21. OTHER RESERVES

Capital Reserve (Note 21.1)	99,975,000	99,975,000	-	-
Available-for-Sale Reserve (Note 21.2)	-	396,858	-	126,365
Other Reserve (Note 21.3)	165,965	-	-	-
	100,140,965	100,371,858	-	126,365

21.1 Capital Reserve

This represents 4,997,500 Ordinary Shares issued by CDS on capitalisation of its Revenue Reserves in Year 2004 and the transfer of its Capital Redemption Reserve in Year 2009.

21.2 Available-for-Sale Reserve

This represents the reserves generated from valuation of Available For Sale financial Assets as per LKAS 39. Refer Notes 3.16

21.3 Other Reserve

This represents the reserves generated from valuation of financial assets measured at Fair Value Through Other Comprehensive Income (FVTOCI). Refer Note 14.

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

22. BROKER DEPOSITS IN LIEU OF BANK GUARANTEE

Non Current Liability

Deposits for Computer Facility	111,670	111,670	111,670	111,670
Entrance Deposits	640,000	640,000	640,000	640,000
Deposits for Telephones	188,300	188,300	188,300	188,300
	939,970	939,970	939,970	939,970

Current Liability

Broker Deposits (Note 22.1)	78,250,000	83,500,000	78,250,000	83,500,000
Dex Liquidity Deposits (Note 22.2)	1,295,000	5,330,000	-	-
15% Margin Deposit (Note 22.3)	33,416,827	-	-	-
	112,961,827	88,830,000	78,250,000	83,500,000

NOTES TO THE FINANCIAL STATEMENTS

22.1 This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 03 of Member Regulations of the Colombo Stock Exchange.

22.2 This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 18 of CDS Regulations of the Colombo Stock Exchange.

22.3 This is the cash deposit maintained by broker firms as part of their Liquidity Requirement in terms of Section 5 of CDS Regulations of the Colombo Stock Exchange.

	Group		Company	
	2018	2017	2018	2017
	Rs.	Rs.	Rs.	Rs.
23. RETIREMENT BENEFIT OBLIGATIONS				
Balance as at 01 January	58,896,598	43,230,230	58,896,598	43,230,230
Charge for the year	5,289,308	6,127,022	4,790,406	5,615,339
Interest for the year	6,489,112	4,215,978	5,613,882	3,659,518
Actuarial (Gains) / Losses recognized in OCI	(14,375,628)	7,450,118	(12,732,644)	6,320,361
Provision transferred to Subsidiary	-	-	(268,852)	2,197,900
Payments made during the year	(1,935,004)	(2,126,750)	(1,935,004)	(2,126,750)
Balance as at 31 December	54,364,386	58,896,598	54,364,386	58,896,598

As required by the Sri Lanka Accounting Standard LKAS 19 - "Employee Benefits", the Company has provided gratuity liability based on the Projected Unit Credit Method.

The principal assumptions used to arrive above gratuity liability are as follows;

	2018	2017
Expected Annual Average Salary Increment	0%, 5% & 8%	7%
Discounting Rate / Interest Rate	11.50%	10.50%
Staff Turnover Factor	11.90%	10%

23.1 Sensitivity of Assumptions Used in Calculating Employee Benefit liability

Assumptions regarding discount rate and salary increment rate have a significant effect on the amounts recognised in profit or loss and statement of financial position.

Following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

	Discount Rate +1%	Discount Rate -1%	Salary Increases +1%	Salary Increases -1%
Effect on the Aggregate Service and Interest Cost	277,230	(255,950)	572,735	(91,447)
Effect on Defined Benefit Obligation	(2,803,665)	2,998,151	5,608,452	(625,372)

	Group		Company	
As at 31 December,	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.

24. OTHER PAYABLES

Interest Payable to Brokers	1,704,654	2,056,437	1,679,195	2,056,425
Payments Received in Advance	3,238,100	1,162,765	3,219,374	1,131,995
Sundry Creditors & Accrued Expenses	111,798,392	100,613,945	105,740,452	97,683,079
	116,741,146	103,833,147	110,639,021	100,871,499

25. AMOUNTS DUE TO RELATED COMPANY

	Relationship			
Central Depository Systems (Pvt) Limited	Subsidiary	-	-	19,769,314
		-	-	58,045,786
		-	-	19,769,314
		-	-	58,045,786

26. CONTINGENCIES & COMMITMENTS

26.1 Litigation Against the CSE

- 1) Mr. I. B. Isaac (Plaintiff) claimed Rs.21,784,454.97 (Including consequential damages) from the CSE stating that the CSE has failed to properly execute duty, was negligent and failed to exercise due diligence (Prior to the announcement of 2006 bonus issue of Touchwood Investments PLC) to safeguard Plaintiff's interest and thereby lead to cause direct loss and damage to the plaintiff.

On 17th October 2016, the District Court of Colombo pronounced the judgement in favour of the Plaintiff granting him the reliefs prayed under a,c and d of prayer to the plaint,namely,

- An amount of Rs. 11,784,454.97 with interest in respect of the losses made by him due to the investments in shares of Touchwood;
- The aggregate interest up until the settlement of the dues as prescribed above;and,
- Legal fees.

NOTES TO THE FINANCIAL STATEMENTS

The CSE, on 09th December 2016, filed a petition of Appeal in the High Court of Civil Appeal of the Western Province praying to set aside the judgement of the District Court dated 17th October 2016.

The appeal No.WP/HCCA/COL/115/16 is coming up for Argument on 17th July 2019.

Based on the legal advice, the directors do not expect outcome of the pending litigations to have material effect on the Statement of Financial Position.

26.2 Tax Assessments Against the CSE

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs. 16.1 million for the Year of Assessment 2005/2006, Rs.17.6 million for the Year of Assessment 2006/2007, Rs. 0.3 million for the Year of Assessment 2007/2008 and Rs.0.4 million for the Year of Assessment 2009/2010. In addition to the above the Department of Inland Revenue has issued taxes in default notice for income tax amounting to Rs. 2.84 million, Rs.0.04 million, Rs. 0.027 million & Rs. 4.5 million for the Year of Assessment 1997/1998, 1999/2000, 2003/2004, 2008/2009 respectively. The CSE has appealed to quash the income tax assessments issued by the Department of Inland Revenue. Based on the consultant opinion, Board of Directors of the Company is of the view that, no liability would arise to the Company since the said assessments are outside the scope of chargeability of taxation.

26.3 Tax Assessments Against the CDS

The Department of Inland Revenue has issued assessment notices for income tax amounting to Rs. 3.94 million for the Year of Assessment 2008/2009 and Rs.3.03 million for the Year of Assessment 2009/2010 respectively. The CDS has appealed to quash the income tax assessment issued by the Department of Inland Revenue. Based on the consultant opinion, Board of Directors of the Company is of the view that, no liability would arise to the Company since the said assessments are outside the scope of chargeability of taxation.

27. CAPITAL COMMITMENTS

The Group and the Company has following purchase commitments in the ordinary course of business as at 31 December as follows:

As at 31 December,	Group		Company	
	2018 Rs.	2017 Rs.	2018 Rs.	2017 Rs.
Property and Equipment				
- approved & contracted	9,493,340	30,140,745	9,493,340	30,140,745
	9,493,340	30,140,745	9,493,340	30,140,745

28. FINANCIAL INSTRUMENTS

28.1 Financial Risk Management

Overview

The Group has exposure to the following risks from financial instruments:

- a) Credit Risk
- b) Liquidity Risk
- c) Market Risk
- d) Operational Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. In discharging its governance responsibility it operates through Risk & Audit Committee. The primary function of the Committee is to ensure the establishment of appropriate risk management framework within the Group. The Risk & Audit Committee is assisted in these functions by Internal Audit and the results are reported to the Risk & Audit Committee. The Risk & Audit Committee provides its assessment on the effectiveness of internal audit and external disclosure of accounting policies and financial reporting to the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group has developed an Enterprise Risk Management framework & policy and currently in the process of re-viewing the framework.

(a) Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk primarily from investment in unit trusts, investment in fixed deposits, staff loans receivable, trade and other receivables which are financial assets and cash and bank balances with financial institutions. Fact sheets of the unit trusts are observed and reported to investment committee. Fixed deposit investments are in financial institutions which are having good credit ratings. Receivables are monitored to ensure that exposure to bad debts are minimised. Staff loans are given to permanent confirmed employees and are deducted from the salaries as per the terms of granting loans.

(b) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to honour its financial obligations as they fall due.

Finance division monitors the cash flow forecasts of the Group to ensure sufficient cash availability to meet operational needs. The Group is able to meet all working capital requirements with its short term investments in Overnight Repo and money market unit trusts. Brokers' Deposits in lieu of Bank Guarantee is the cash deposit maintained by broker firms as part of their Liquidity Requirement and have been invested in Overnight Repo investments in order to meet liquidity as and when required.

Surplus cash held over and above balance required for working capital management is invested in Overnight Repos and money market unit trusts.

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The following are the remaining contractual maturities at the end of the reporting period of financial assets and liabilities, including estimated interest payments.

Non -Derivative Financial Assets	Carrying Amount (Rs.)	Total (Rs.)	03 Months or Less (Rs.)	03-12 Months (Rs.)	Over 01 Year (Rs.)
Group					
31 December 2018					
Cash in hand	275,050	275,050	275,050	-	-
Balances with Banks & Financial Institutions	211,415,466	211,415,466	211,415,466	-	-
Financial Assets at FVTPL	154,406,792	154,406,792	154,406,792	-	-
Investments in Corporate Debenture	779,622,746	779,622,746	-	429,907,203	349,715,543
Investments in LFBSB	1,165,965	1,165,965	-	-	1,165,965
Other Investments	1,376,476,823	1,376,476,823	-	1,376,476,823	-
Trade and Other Receivables	271,049,400	271,049,400	271,049,400	-	-
	2,794,412,242	2,794,412,242	637,146,708	1,806,384,026	350,881,508
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	113,901,797	113,901,797	34,711,827	-	79,189,970
Trade Payables	116,741,146	116,741,146	116,741,146	-	-
Bank Overdraft	7,811,638	7,811,638	7,811,638	-	-
	238,454,581	238,454,581	159,264,611	-	79,189,970
31 December 2017					
Cash in hand	275,050	275,050	275,050	-	-
Balances with Banks & Financial Institutions	139,502,263	139,502,263	139,502,263	-	-
Financial Investments - Available-for-Sale	539,981,652	539,981,652	539,981,652	-	-
Investments in Corporate Debenture	779,968,652	779,968,652	-	-	779,968,652
Investments in LFBSB	1,000,000	1,000,000	-	-	1,000,000
Other Investment	1,031,246,881	1,031,246,881	-	1,031,246,881	-
Trade and Other Receivables	262,426,451	262,426,451	262,426,451	-	-
	2,754,400,949	2,754,400,949	942,185,416	1,031,246,881	780,968,652
Finacial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	88,830,000	88,830,000	-	-	88,830,000
Trade Payables	103,833,147	103,833,147	103,833,147	-	-
Bank Overdraft	8,577,679	8,577,679	8,577,679	-	-
	201,240,826	201,240,826	112,410,826	-	88,830,000

Non -Derivative Financial Assets	Carrying Amount (Rs.)	Total (Rs.)	03 Months or Less (Rs.)	03-12 Months (Rs.)	Over 01 Year (Rs.)
Company					
31 December 2018					
Cash in Hand	250,050	250,050	250,050	-	-
Balances with Banks & Financial Institutions	176,788,370	176,788,370	176,788,370	-	-
Financial Assets at FVTPL	-	-	-	-	-
Investments in Corporate Debentures	779,622,746	779,622,746	-	429,907,203	349,715,543
Other Investments	959,415,032	959,415,032	-	959,415,032	-
Trade and Other Receivables	238,897,949	238,897,949	238,897,949	-	-
	2,154,974,147	2,154,974,147	415,936,369	1,389,322,235	349,715,543
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	79,189,970	78,250,000	-	-	78,250,000
Trade Payable	110,639,021	110,639,021	110,639,021	-	-
Bank Overdraft	7,811,638	7,811,638	7,811,638	-	-
	197,640,629	196,700,659	118,450,659	-	78,250,000
31 December 2017					
Cash in Hand	250,050	250,050	250,050	-	-
Balances with Banks & Financial Institutions	138,751,736	138,751,736	138,751,736	-	-
Financial Investments - Available-for-Sale	181,384,476	181,384,476	181,384,476	-	-
Investments in Corporate Debentures	779,968,652	779,968,652	-	-	779,968,652
Other Investment	878,953,665	878,953,665	-	878,953,665	-
Trade and Other Receivables	231,359,594	231,359,594	231,359,594	-	-
	2,210,668,173	2,210,668,173	551,745,856	878,953,665	779,968,652
Financial Liabilities					
Brokers' Deposits in lieu of Bank Guarantee	83,500,000	83,500,000	-	-	83,500,000
Trade Payable	100,871,499	100,871,499	100,871,499	-	-
Bank Overdraft	8,506,805	8,506,805	8,506,805	-	-
	192,878,304	192,878,304	109,378,304	-	83,500,000

(c) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates that will affect the Group's income. The objective of the market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The CSE has placed a special emphasis on the effect of market risk on fixed income securities and investments. Further, a board approved investment policy and an investment procedure manual are in place at the Group to mitigate the market risk. The Group has set up a risk management division.

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Currency Risk

The Group is exposed to currency risk on purchasing of assets and obtaining of services that are denominated in a currency other than the respective functional currency of the Group. The currency in which transactions take place primarily are denominated in U.S. Dollars. The currency risk is limited by the short term nature of the period between the dates of the purchase and the settlement of the related liability.

However, the Group is not exposed to a significant currency risk due to the reason that there are no foreign currency exposures as at the reporting date.

Interest Rate Risk

Interest rate risk arises due to fluctuations in the interest rates resulting in adverse impact to future cash flows or the fair values of financial instruments of the Group.

The Group's approach in managing interest rate risk is to continuously monitor positions on a daily basis to a level that are viable and prudent. When analysing impacts of interest rate movements on profitability, Management resorted to the techniques of sensitivity analysis carried out on Group financial assets and liabilities, taking into account various interest rate scenarios.

Given below is a sensitivity analysis carried out as at 31 December 2018 that demonstrates possible impact to Group profitability due to a given change in interest rates, keeping all other variables constant.

	Market Rates up by 1% Effect to the Interest Income	Market Rates drop by 1% Effect to the Interest Income
Effect on Profit or Loss	1,983,817	(1,983,817)

(d) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology, infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Group is in the process of developing the procedure manuals in order to strengthen the systems, processes and internal controls.

28.2 Accounting Classification and Fair Values

Group	Note	Classification of Financial Assets				Total Carrying Amount	Fair Value
		Financial Assets at Amortised Cost	Financial Assets at FVTPL	Financial Assets at FVOCI	Financial Liabilities measured at Amortized Cost		
As at 31 December 2018		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	20	275,050	-	-	-	275,050	275,050
Balances with Banks & Financial Institutions	20	211,397,866	-	-	-	211,397,866	211,397,866
Financial Assets at FVTPL	18	-	154,406,792	-	-	154,406,792	154,406,792
Financial Investments	13	779,622,746	-	-	-	779,622,746	779,622,746
Investment in Fixed Deposit	19	1,376,476,823	-	-	-	1,376,476,823	1,376,476,823
Investments in LFSB	14	-	-	1,165,965	-	1,165,965	1,165,965
Trade and Other Receivables	17	271,049,400	-	-	-	271,049,400	271,049,400
Total Financial Assets		2,638,821,885	154,406,792	1,165,965	-	2,794,394,642	2,794,394,642
Liabilities							
Due to Customers		-	-	-	4,242,353	4,242,353	4,242,353
Due to Brokers	22	-	-	-	115,606,451	115,606,451	115,606,451
Due to Banks	20	-	-	-	7,811,638	7,811,638	7,811,638
Other Financial Liabilities		-	-	-	110,794,139	110,794,139	110,794,139
Total Financial Liabilities		-	-	-	238,454,581	238,454,581	238,454,581

NOTES TO THE FINANCIAL STATEMENTS

Group		Classification of Financial Assets				Total Carrying Amount	Fair Value
		Held to Maturity	Loans and Receivables	Available for Sale	Financial Liabilities measured at Amortized Cost		
	Note						
As at 31 December 2017		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	20	-	275,050	-	-	275,050	275,050
Balances with Banks & Financial Institutions	20	-	139,502,263	-	-	139,502,263	139,502,263
Financial Investments - Available-for-Sale	18	-	-	539,981,652	-	539,981,652	539,981,652
Investments in Corporate Debenture	13	779,968,652	-	-	-	779,968,652	779,968,652
Investment in Fixed Deposit	19	-	1,031,246,881	-	-	1,031,246,881	1,031,246,881
Investments in LFSB	14	-	-	1,000,000	-	1,000,000	1,000,000
Trade and Other Receivables	17	-	262,426,450	-	-	262,426,450	262,426,450
Total Financial Assets		779,968,652	1,433,450,644	540,981,652	-	2,754,400,948	2,754,400,948
Liabilities							
Due to Customers		-	-	-	1,941,734	1,941,734	1,941,734
Due to Brokers	22	-	-	-	91,826,407	91,826,407	91,826,407
Due to Banks	20	-	-	-	8,577,679	8,577,679	8,577,679
Other Financial Liabilities		-	-	-	99,834,976	99,834,976	99,834,976
Total Financial Liabilities		-	-	-	202,180,796	202,180,796	202,180,796

28.2 Accounting Classification and Fair Values

Company	Note	Classification of Financial Assets				Total Carrying Amount	Fair Value
		Financial Assets at Amortised Cost	Financial Assets at FVTPL	Financial Assets at FVOCI	Financial Liabilities measured at Amortized Cost		
As at 31 December 2018		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	20	250,050	-	-	-	250,050	250,050
Balances with Banks & Financial Institutions	20	176,788,370	-	-	-	176,788,370	176,788,370
Financial Assets at FVTPL	18	-	-	-	-	-	-
Financial Investments	13	779,622,746	-	-	-	779,622,746	779,622,746
Other Investments	19	959,415,032	-	-	-	959,415,032	959,415,032
Trade and Other Receivables	17	238,897,949	-	-	-	238,897,949	238,897,949
Total Financial Assets		2,154,974,147	-	-	-	2,154,974,147	2,154,974,147
Liabilities							
Due to Customers		-	-	-	4,242,353	4,242,353	4,242,353
Due to Brokers	22	-	-	-	80,869,165	80,869,165	80,869,165
Due to Banks	20	-	-	-	7,811,638	7,811,638	7,811,638
Due to Related Parties	25	-	-	-	19,769,314	19,769,314	19,769,314
Other Financial Liabilities		-	-	-	104,717,474	104,717,474	104,717,474
Total Financial Liabilities		-	-	-	217,409,944	217,409,944	217,409,944

Company	Note	Held to Maturity	Loans and Receivables	Available for Sale	Other Financial Liabilities	Total Carrying Amount	Fair Value
As at 31 December 2017		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets							
Cash in Hand	20	-	250,050	-	-	250,050	250,050
Balances with Banks & Financial Institutions	20	-	138,751,736	-	-	138,751,736	138,751,736
Financial Investments - Available-for-Sale	18	-	-	181,384,476	-	181,384,476	181,384,476
Investments in Corporate Debenture	13	779,968,652	-	-	-	779,968,652	779,968,652
Other Investments	19	-	878,953,665	-	-	878,953,665	878,953,665
Trade and Other Receivables	17	-	231,359,594	-	-	231,359,594	231,359,594
Total Financial Assets		779,968,652	1,249,315,045	181,384,476	-	2,210,668,173	2,210,668,173
Liabilities							
Due to Customers		-	-	-	1,212,126	1,212,126	1,212,126
Due to Brokers	22	-	-	-	86,496,395	86,496,395	86,496,395
Due to Banks	20	-	-	-	8,506,805	8,506,805	8,506,805
Due to Related Parties	25	-	-	-	58,045,786	58,045,786	58,045,786
Other Financial Liabilities		-	-	-	97,602,948	97,602,948	97,602,948
Total Financial Liabilities		-	-	-	251,864,060	251,864,060	251,864,060

NOTES TO THE FINANCIAL STATEMENTS

28.3 Fair Values of Financial Instruments

28.3.1 Valuation Models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- **Level 3:** Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs that have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

28.3.2 Financial instruments Measured at Fair Value – Fair Value Hierarchy

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position.

Group	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
31 December 2018				
Financial Assets at FVTPL	-	154,406,792	-	154,406,792
Investments in LFSB	-	-	1,165,965	1,165,965
Total Financial Assets	-	154,406,792	1,165,965	155,572,757
Liabilities	-	-	-	-
31 December 2017				
Financial Investments - Available -for-sale	-	539,981,652	-	539,981,652
Total Financial Assets	-	539,981,652	-	539,981,652
Liabilities	-	-	-	-

Financial instruments Measured at Fair Value – Fair Value Hierarchy

Company	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
31 December 2018				
Financial Assets at FVTPL	-	-	-	-
Total Financial Assets	-	-	-	-
Liabilities	-	-	-	-
31 December 2017				
Financial Investments - Available-for-Sale	-	181,384,476	-	181,384,476
Total Financial Assets	-	181,384,476	-	181,384,476
Liabilities	-	-	-	-

Level 2 fair Value Measurements

28.3.3.1 Reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 2 of the fair value hierarchy.

	Financial Assets at FVTPL	
	Group Rs.	Company Rs.
Balance at 01 January 2018	539,981,651	181,384,477
Total gains or losses:		
- in profit or loss	39,501,881	10,970,292
Purchases	683,833,963	315,974,267
Redemption	(1,108,910,704)	(508,329,036)
Balance at 31 December 2018	154,406,791	-

	Unit Trust Available for Sale	
	Group Rs.	Company Rs.
Balance at 01 January 2017	793,239,975	624,310,213
Total gains or losses:		
- in profit or loss	129,881,138	86,554,455
- in OCI	48,822,356	24,154,943
Purchases	1,054,683,547	357,878,331
Redemption	(1,356,764,227)	(824,959,010)
Balance at 31 December 2017	539,981,651	181,384,477

Total gains or losses for the year in the above table are presented in the statement of profit or loss and OCI as follows.

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	Unit Trust Available for Sale	
	Group	Company
	Rs.	Rs.
Total gains and losses recognised in profit or loss:		
Net trading income	129,881,138	86,554,455
Total gains and losses recognised in OCI:		
Net change in fair value of available-for-sale financial assets	48,822,356	24,154,943

28.3.3.2 Unobservable Inputs Used in Measuring Fair Value

The fair value of Unit Trust investments are determined by the relevant Unit Trust Fund Management Company. The Unit Trust Fund Management Company provides the fair value of the Group's investment portfolio monthly.

Financial Instruments Not Measured at Fair Value

This table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Group	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
31 December 2018	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	275,050	275,050	275,050
Balances with Banks & Financial Institutions	-	-	211,415,466	211,415,466	211,415,466
Trade and Other Receivables	-	-	271,049,400	271,049,400	271,049,400
Total Financial Assets	-	-	482,739,916	482,739,916	482,739,916
Liabilities					
Due to Customers	-	-	4,242,353	4,242,353	4,242,353
Due to Brokers	-	-	115,606,451	115,606,451	115,606,451
Due to Banks	-	-	7,811,638	7,811,638	7,811,638
Other Financial Liabilities	-	-	110,794,139	110,794,139	110,794,139
Total Financial Liabilities	-	-	238,454,581	238,454,581	238,454,581

Group	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
31 December 2017	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	250,050	250,050	250,050
Balances with Banks & Financial Institutions	-	-	138,769,336	138,769,336	138,769,336
Investments in LFBSB	-	-	1,000,000	1,000,000	1,000,000
Other Receivables	-	-	262,426,451	262,426,451	262,426,451
Total Financial Assets	-	-	402,445,837	402,445,837	402,445,837
Liabilities					
Due to Customers	-	-	1,941,734	1,941,734	1,941,734
Due to Brokers	-	-	91,826,407	91,826,407	91,826,407
Due to Banks	-	-	8,577,679	8,577,679	8,577,679
Other Financial Liabilities	-	-	99,834,976	99,834,976	99,834,976
Total Financial Liabilities	-	-	202,180,796	202,180,796	202,180,796

28.3.3.3 Financial Instruments Not Measured at Fair Value

This table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

Company	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
31 December 2018	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	-250,050	250,050	250,050
Balances with Banks & Financial Institutions	-	-	176,788,370	176,788,370	176,788,370
Other Receivables	-	-	238,897,949	238,897,949	238,897,949
Total Financial Assets	-	-	415,936,369	415,936,369	415,936,369
Liabilities					
Due to Customers	-	-	4,242,353	4,242,353	4,242,353
Due to Brokers	-	-	80,869,165	80,869,165	80,869,165
Due to Banks	-	-	7,811,638	7,811,638	7,811,638
Due to Related Parties	-	-	19,769,314	19,769,314	19,769,314
Other Financial Liabilities	-	-	104,717,474	104,717,474	104,717,474
Total Financial Liabilities	-	-	217,409,944	217,409,944	217,409,944

NOTES TO THE FINANCIAL STATEMENTS

Company	Level 01	Level 02	Level 03	Total Fair Values	Total Carrying Amount
31 December 2017	Rs.	Rs.	Rs.	Rs.	Rs.
Assets					
Cash & Cash Equivalents	-	-	250,050	250,050	250,050
Balances with Banks & Financial Institutions	-	-	139,502,263	139,502,263	139,502,263
Other Receivables	-	-	262,426,451	262,426,451	262,426,451
Total Financial Assets	-	-	402,178,764	402,178,764	402,178,764
Liabilities					
Due to Customers	-	-	1,212,126	1,212,126	1,212,126
Due to Brokers	-	-	86,496,395	86,496,395	86,496,395
Due to Banks	-	-	8,506,805	8,506,805	8,506,805
Due to Related Parties	-	-	58,045,786	58,045,786	58,045,786
Other Financial Liabilities	-	-	97,602,948	97,602,948	97,602,948
Total Financial Liabilities	-	-	251,864,060	251,864,060	251,864,060

Assets for which Fair Value approximates Carrying Value

For Financial assets and Financial liabilities that have a short term maturity (original maturity less than a year), it is assumed that the carrying amount approximate their values.

29. RELATED PARTY DISCLOSURES

29.1 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard (LKAS 24) "Related Party Disclosures", Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including Executive and Non-Executive Directors) and Senior Management who can influence the planning & decision making process have been classified as Key Management Personnel of the Company.

Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependants of the KMPs domestic partner.

There were no transactions made with CFMs during the year ended 31 December 2018

CSE paid Rs. 8,358,000 /- during the year as Directors' Expenses. (Rs. 9,909,000 /- in 2017)

The Company has incurred following costs for the CEO, CRO, CIO, Senior Managers and Managers during the year.

	Company	
	2018	2017
	Amount Rs.	Amount Rs.
Short Term Employee Benefits	111,962,899	101,149,862
Long Term Employee Benefits	11,889,025	13,018,769

29.2 Transactions with Group Companies and Director Related Entities

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
a) Mr. Ray Abeywardena					
Acuity Stockbrokers (Pvt) Ltd	Chairman	CSE	Member fee, data communication charges & other charges	1,027,753	1,614,771
			Member fee, data communication & other charges receivable	75,361	233,860
			Sponsorship for Singapore Investor forum	592,400	-
			Interest payment for Member Firms' liquidity deposit	275,104	289,823
			Member Firms' liquidity deposit & entrance deposit as at year end	3,540,000	3,540,000
			Interest payable for Member Firms' liquidity deposit as at year end	73,687	68,139
			Order Management systems & Broker Back office Systems - Subsidy	1,000,000	1,000,000
			Order Management systems & Broker Back office Systems - Subsidy Payable	750,000	83,333
		CDS	Sale of CDS forms & Other CDS Charges	14,915	24,784
			Amount receivable on sale of CDS forms as at year end	909	5,134
			Interest paid for Member Firms' margin deposit	37,630	43,818
Lanka Ventures PLC	Director	CSE	Annual listing fee and ISIN Fee	117,934	117,347
			ISIN Fee receivable as at year end	587	-
		CDS	Listed company fees	25,510	25,510
			Receipts for computer information & other CDS Charges	9,388	9,388
			Amount receivable for computer information provided as at year end	3,520	3,520
			Listed company fees receivable as at year end	25,510	25,510

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
Softlogic Life Insurance PLC	Director	CSE	Annual listing fees	277,232	273,271
			Web Banner and ISIN Fee	300,587	-
			Web Banner and ISIN Fee receivable as at year end	587	-
		CDS	Listed Company fee	109,148	45,153
			Computer information & other CDS Charges	43,418	312,143
			Listed Company fee receivable as at year end	109,148	45,153
			Amount receivable for computer information provided as at year end	5,867	73,929
Acuity Securities Ltd	Chairman	CSE	Member fee, data communication charges & other charges	-	425,112
Guardian Acuity Asset Management Ltd	Director	CSE	Investment in Unit Trust made during the year	118,460,526	109,262,863
			Redemption of Unit Trust made during the year	180,735,804	109,262,863
			Investment in Unit Trust as at year end	-	56,963,864
		CDS	Investment in Unit Trust made during the year	86,758,068	167,023,451
			Redemption of Unit Trust made during the year	106,758,068	84,548,813
			Investment in Unit Trust as at year end	73,822,447	84,548,813
The Associated Newspapers of Ceylon Limited	Director	CSE	Payment for Advertisement	451,001	163,276
LVL Energy Fund Limited	Director	CSE	Annual listing fee and ISIN Fee	115,362	-
			ISIN Fee receivable as at year end	587	-
		CDS	Listed Company fee	31,684	-
			Computer information & other CDS Charges	69,434	-
			Listed Company fee receivable as at year end	31,684	-
			Amount receivable for computer information provided as at year end	5,867	-

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
b) Mr. Vajira Kulatilaka (Director until 26th May 2017 (CSE) & 9th June 2017 (CDS))					
NDB Securities (Pvt) Ltd	Director	CSE	Member fees, data communication charges & other charges.	-	380,856
			Interest paid for Member Firms' liquidity deposit	-	79,133
			Member Firms' liquidity deposit & entrance deposit receivable as at period end	-	2,290,000
			Interest payable for Member Firms' liquidity deposit as at period end	-	32,239
			Order Management systems & Broker Back office Systems - Subsidy	-	375,000
		CDS	Sale of CDS Forms	-	868
			Interest paid for Member Firms' margin deposit	-	89,216
NDB Wealth Management Ltd	Director	CSE	Investment during the Period	-	124,304,134
			Redemptions during the Period	-	248,348,579
			Investment in Unit Trusts as at Period end	-	126,607,603
Resus Energy PLC	Director	CSE	Annual listing fee & Subscription for CSE Ticker data received	-	48,895
			Annual listing fee receivable as at period end	-	48,895
		CDS	Listed Company fee	-	10,629
			Listed Company fee receivable as at period end	-	10,629
			Computer Information Charges	-	2,378
South Asia Federation of Exchanges	Chairman up to May 2017	CSE	Annual Membership Fee	-	771,020

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
c) Mr. M. R. Prelis (Director until 1st June 2017 (CSE) & 27th July 2017 (CDS))					
Capital Trust Securities (Pvt) Ltd.	Director	CSE	Member fee, data communication charges & other charges	-	1,101,326
			Interest paid for Member Firms' liquidity deposit	-	147,760
			Member Firms' liquidity deposits & entrance deposit as at period end	-	3,540,000
			Interest payable for Member Firms' liquidity deposit as at period end	-	74,812
			Order Management systems & Broker Back office Systems - Subsidy	-	375,000
			Order Management systems & Broker Back office Systems - Subsidy payable	-	150,000
		CDS	Sale of CDS Forms	-	14,086
			Interest paid for Member Firms' margin deposit	-	31,432
Dialog Axiata PLC	Director	CSE	Annual listing fee & fee for high speed data signal fee	-	1,222,364
			Amount receivable for high speed data signal Income	-	97,789
			Payment made during the year for E1 link charges, mobile phone charges & broad band charges	-	543,721
			Amount payable for mobile phone charges as at period end	-	112,643
		CDS	Listed Company fee	-	51,045
			Listed Company fee receivable as at period end	-	51,045
			Computer Information Income & SMS Alert revenue share	-	1,227,267
			Amount receivable for Computer Information Income & SMS Alert revenue share	-	173,684

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
d) Mr. A. C. Seneviratne (Director until 21st November 2017 (CSE))					
Nation Lanka Equities (Pvt) Ltd	Chairman	CSE	Member fee, data communication charges & other charges	-	1,097,262
			Member fees and other charges receivable as at period end	-	836,495
			Interest paid for Member Firms' liquidity deposit	-	260,197
			Member Firms' liquidity deposit & entrance deposit as at period end	-	3,540,000
			Interest payable for Member Firms' liquidity deposit as at period end	-	38,513
			Order Management systems & Broker Back office Systems - Subsidy	-	890,110
			Order Management systems & Broker Back office Systems - Subsidy payable as at period end	-	400,000
		CDS	Sale of CDS forms	-	3,837
Anilana Hotels & Properties Ltd	Managing Director	CSE	Annual listing fees received for the pe-riod	-	308,536
		CDS	Listed Company fees	-	64,883
			Computer Information Charges	-	21,592
			Computer Information Charges Receivable as at year end	-	20,418
			Listed Company fee receivable as at year end	-	64,883

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
e) Mr. A. Perera (Director until 7th December 2017 (CSE))					
S C Securities (Pvt) Ltd	Director until 8th December 2017	CSE	Member fees, photocopy charges & data communication charges	-	1,058,900
			Member fees and other charges receivable as at period end	-	88,533
			Interest paid for Member Firms' liquidity deposit	-	347,019
			Member Firms' liquidity deposit & entrance deposit as at period end	-	1,790,000
			Interest payable for Member Firms' liquidity deposit as at period end	-	41,486
			Order Management systems & Broker Back office Systems - Subsidy	-	935,484
			Order Management systems & Broker Back office Systems - Subsidy payable as at period end	-	83,333
		CDS	Sale of CDS Forms	-	14,475
			Amount Receivable for Sale of CDS Forms	-	7,939
			Interest paid for Member Firms' margin deposit	-	33,609
			Dex Liquidity deposit as at period end	-	120,000
Royal Ceramics Lanka PLC	Managing Director from 14th March 2017	CSE	Annual Listing Fee for the period	-	330,433
		CDS	Charges for computer information	-	25,850
			CDS Service Charges	-	30,880
			Amount Receivable for computer information charges	-	16,071
			Amount Receivable for service charges	-	30,880

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
f) Mr. D. Wirasekara (From 21st November 2017 (CSE) & From 6th December 2017 (CDS))					
First Capital Holding PLC	Director/ CEO	CSE	Annual Listing Fee	354,458	39,653
			Sponsorship, Registration for CSE Quiz ,ISIN and Advertising on CSE web site fee	456,173	-
			Amount Receivable for ISIN Fee	1,173	-
		CDS	Charges for computer information	71,816	1,995
			CDS Service Charges	114,367	18,196
			Amount Receivable for computer information charges	5,868	5,985
			Amount Receivable for service charges	114,367	213,658
First Capital Limited	Director/ CEO	CSE	Member Fees and Photocopy Charges	-	58,685
			Amount Receivable for member fees and photocopy charges	-	29,349
First Capital Markets Limited	Director/ CEO	CSE	Member fees, photocopy charges & data, WAN charges	463,625	152,063
			Amount receivable for Member fees, photocopy & data WAN charges	-	165,534
First Capital Equities (Pvt) Limited	Director	CSE	Member fees, Data Link cost - IDC and WAN charges	790,854	123,358
			Interest paid for Member Firms' liquidity deposit	137,553	15,066
			Member Firms' liquidity deposit & entrance deposit as at year end	1,790,000	1,790,000
			Interest payable for Member Firms' liquidity deposit as at year end	36,845	34,069
			Order Management systems & Broker Back office Systems - Subsidy	1,000,000	166,666
			Order Management systems & Broker Back office Systems - Subsidy payable	166,669	83,333
			Amount receivable for Member fees, Data Link cost - IDC and WAN charges	208,639	-
		CDS	Sale of CDS Forms	3,567	158
			Amount Receivable for Sale of CDS Forms	-	475
			Interest paid for Member Firms' margin deposit	71,633	-

NOTES TO THE FINANCIAL STATEMENTS

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
First Capital Treasuries PLC	Director/ CEO	CSE	Annual Listing Fee for the period	235,281	26,435
			Amount receivable for ISIN fee	587	-
		CDS	Charges for computer information	7,393	489
			CDS Service Charges for the period	25,510	2,126
			Amount Receivable for computer information charges	3,520	1,467
			Amount Receivable for service charges	25,510	25,510
g) Mr. D. Fernando (From 26th May 2017 (CSE) & 05th July 2017 (CDS))					
Singer (Sri Lanka) PLC	Director	CSE	Annual Listing Fee for the period	809,923	461,399
			Renewal Of Ticker Service and ISIN Fee	119,847	-
			Amount Receivable for ISIN Fee	2,347	-
		CDS	Charges for computer information, Direct Deposit Shares, New Listing Fee and Charges for mandatory and voluntary offers	212,132	231,002
			CDS Service Charges	29,878	27,235
			Amount Receivable for computer information charges	64,541	138,231
			Amount Receivable for service charges	29,878	27,235
Asia Securities (Pvt) Ltd	Chairman	CSE	Member fees, Data Communication charges, photo-copy charges Data Link charges and WAN charges	1,531,923	624,566
			Amount Receivable for Member fees, Data Communication charges, photocopy charges Data Link charges and WAN charges	142,238	141,511
			Interest paid for Member Firms' liquidity deposit	276,546	184,749
			Member Firms' liquidity deposit & entrance deposit as at year end	3,540,000	3,540,000
			Interest payable for Member Firms' liquidity deposit as at year end	73,687	68,139
			Order Management systems & Broker Back office Systems - Subsidy	1,000,000	583,333
			Order Management systems & Broker Back office Systems - Subsidy payable	166,668	175,000
			Sponsorship - Invest Sri Lanka	1,169,300	2,000,000

Company	Relationship		Nature of Transaction	2018 Amount Rs.	2017 Amount Rs.
		CDS	Sale of CDS Forms	11,834	3,256
			Amount Receivable for Sale of CDS Forms	-	3,256
			Payment of interest for Member Firm's Margin Requirement	541,240	1,046,425
			Interest Payable for Member Firm's Margin Requirement	987	
			Dex Liquidity Deposit as at year end	120,000	120,000
			15% Margin deposit as at year end	4,616,827	-
Union Assurance PLC	Director	CSE	Annual listing fee	280,061	-
			Registration for CSE Quiz ,ISIN and My CSE	42,587	-
			Payment for Electricity and Rent	2,417,453	-
			Amount Receivable for ISIN Fee	587	-
		CDS	Charges for Computer information charges and Daily weekly Charges	22,296	-
			CDS Service Charges	69,214	-
			Amount Receivable for computer information charges	9,388	-
			Amount Receivable for service charges	69,214	-
h) Central Depository Systems (Pvt) Ltd	Fully owned Subsidiary		Fund Transfer In	(618,518,718)	(618,212,048)
			Fund Transfer Out	505,217,983	457,003,891
			Expenses transferred	108,008,594	109,614,523
			Cheque received on behalf of CDS	(1,241,755)	(539,563)
			Cheque received on behalf of CSE	480,908	1,887,765
			Interest Expense	(452,558)	(790,935)
			CDS Rental Income & Management Fee	44,782,019	44,782,019

NOTES TO THE FINANCIAL STATEMENTS

30. EVENTS OCCURING AFTER THE REPORTING PERIOD

There were no material events after the Reporting Period, which require adjustments to or disclosure in the Financial Statements.

31. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors of the Company and its Subsidiary is responsible for the preparation and fair presentation of these Financial Statements in accordance with LKASs and SLFRSs.

32. COMPARATIVE FIGURES

To facilitate comparison, relevant balances pertaining to the previous year have been reclassified to confirm to current year classification and presentation where necessary.

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[stock_broking.php](http://www.arpico.com/contents/services_stock_broking.php)

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NOTES

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NOTICE OF MEETING

The 34th Annual General Meeting of the Colombo Stock Exchange will be held on 28 June 2019 at 4.30 pm at the Colombo Stock Exchange, Auditorium, 4-1, West Block, World Trade Center, Colombo 01 for the following purposes: -

AGENDA

1. To receive and consider the Annual Report of the Directors and Financial Statement of the Company for the year ended 31st December 2018 together with the Report of the Auditors thereon.
2. Election / Re-election of Directors
 - a. To re-elect Mr. Dilshan Wirasekara who retires in terms of Article 50 of the Articles of Association. (Mr. Dilshan Wirasekara being eligible is offering himself for re-election) subject to the approval of the Securities & Exchange Commission of Sri Lanka.
 - b. To re-elect Mr. Dumith Fernando who retires in terms of Article 50 of the Articles of Association. (Mr. Dumith Fernando being eligible is offering himself for re-election) subject to the approval of the Securities & Exchange Commission of Sri Lanka.
3. To re-appoint the retiring Auditors Messrs. KPMG, Chartered Accountants, as the Auditors of the Company, to hold office until the conclusion of the next Annual General Meeting of the Company, to audit the Financial Statements of the Company for the ensuing year and authorize the Directors to determine their remuneration.
4. To authorize the Directors to determine donations for the year ending 31st December 2019 and up to the date of the next Annual General Meeting.

By order of the Board



Secretary

JACEY AND COMPANY

Secretaries to Colombo Stock Exchange

04 June 2019.

NOTE:

Any member entitled to attend, and vote is entitled to appoint corporate representative instead (please see attached form of resolution).

CORPORATE REPRESENTATION

COLOMBO STOCK EXCHANGE

In terms of Article 46 of the Articles of Association of the Colombo Stock Exchange a body corporate, which is a member of the Exchange, may by resolution of its Board authorize any such person to act as its representative at a general meeting of the Exchange.

Specimen Resolution

A certified true copy of a Resolution passed by the Board of Directors of on day of 2019.

IT IS HEREBY RESOLVED that pursuant to Article 46 of the Articles of Association of Colombo Stock Exchange to appoint (holder of National Identity Card No.) of to act as our representative, to vote for us and to speak on our behalf and to exercise the same powers on our behalf which we would exercise if we were individual Members of the Colombo Stock Exchange, at the Annual General Meeting of the Colombo Stock Exchange to be held on 2019, and at any adjournment thereof.

.....
Director

.....
Director/Secretary

NOTE:

A copy of the Board Resolution as set out above, certified as specified by the Articles of the Member Firm should be deposited at the Office of the Colombo Stock Exchange, 04 – 01, West Block, World Trade Centre, Echelon Square, Colombo 1, either before or at the time of the meeting.

CORPORATE INFORMATION

GRI 102-3, 4, 5

Name

Colombo Stock Exchange

Legal Status

A Company Incorporated in Sri Lanka and Limited by Guarantee

Company Registration Number

GL12

Subsidiary

Central Depository Systems (Private) Limited.

Registered Office

04-01, West Block, World Trade Center, Echelon Square, Colombo 1, Sri Lanka.

Secretaries

Jacey and Company

Auditors

KPMG

Lawyers

M/s Julius & Creasy, Attorneys-at-Law
M/s FJ and G de Saram, Attorneys-at-Law

Bankers/ Settlement Banks

Bank of Ceylon
Commercial Bank of Ceylon PLC
Sampath Bank PLC

Colombo Stock Exchange Contact

Tel : +94 11 2356456

Fax

Clearing and Settlement : +94 11 2440396

Finance : +94 11 2448921

Administration : +94 11 2325804

Information Technology : +94 11 2440162

Trading and Market Surveillance : +94 11 2448925

Market Development : +94 11 2445279

Listing and Corporate Affairs : +94 11 2391128

Human Resources : +94 11 2440163

Legal : +94 11 2440539

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