SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2020

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Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

HMAJ/WDPL/MHM

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Siyapatha Finance PLC ("the Company"), which comprise the statement of financial position as at 31 December 2020, income statement, the statement of 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 gives a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables carried at amortised cost As at 31 December 2020 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 31,029 Million (Note 18, 20 and 21), net of total allowance for impairment of LKR 2,742 Million (Note 18, 20 and 21). These collectively contributed 74.7% to the total assets. As described in Note 3.1.9, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard - SLFRS 9 *Financial Instruments* (SLFRS 9). This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex manual calculations; and • the degree of assumptions, judgements and estimation uncertainty associated with the calculations. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following: • the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company); • the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances; and	We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following: • We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. • We evaluated the effectiveness of the Company's process around modifications to terms after initial granting, specially focusing on identifying rescheduled and restructured credit facilities. • We test-checked the underlying calculations. • In addition to the above, following focused procedures were performed: **For a sample of loans and advances individually assessed for impairment:** – Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and – Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows. **For loans and advances collectively assessed for impairment:** – Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and – As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic.

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Key audit matter	How our audit addressed the key audit matter
• forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.	**For loans and advances affected by government stimulus and debt moratorium relief measures granted:** – Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and – Evaluating the reasonableness of the interest income recognized on such affected loans and advances. • We assessed the adequacy of the related financial statement disclosures as set out in Note 3.1.9, 18, 20, 21, and 40.4.1
Company's controls over financial reporting process and related IT systems The Company uses multiple IT systems in its operations. The COVID-19 pandemic necessitated the company to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks. IT systems and controls relevant to financial reporting was a key audit matter due to: • A changed working environment of increased remote access; • The Company's financial reporting process being heavily dependent on information derived from its IT systems; and • Key financial statement disclosures involving the use of multiple system - generated reports, collation and spreadsheet - based calculations.	Our audit procedures included the following, amongst others: • Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access; • Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures; • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness; • Checking the underlying calculations and the reasonableness of classifications made by management; and Evaluating the management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

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Other information included in the 2020 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2020 annual report is expected to be made available to us after the date of this auditor's report.
Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available 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.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

1. 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.

2. 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 controls.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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4. 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.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1884.

15 February 2021
Colombo

INCOME STATEMENT

Year ended 31 December 2020

	Note	2020 Rs.'000	2019 Rs.'000
Interest income		6,814,216	7,229,612
Less: Interest expenses		(3,856,315)	(4,230,657)
Net interest income	5	2,957,901	2,998,955
Fee and commission income		278,704	311,765
Less: Fee and commission expenses		-	-
Net fee and commission income	6	278,704	311,765
Other operating income	7	486,775	378,528
Total operating income		3,723,380	3,689,248
Less:Credit loss expense on financial assets and other losses	8	(1,356,264)	(1,050,938)
Net operating income		2,367,116	2,638,310
Less: Operating expenses			
Personnel expenses	9	(873,311)	(777,688)
Other operating expenses	10	(589,235)	(655,723)
Operating profit before taxes on financial services		904,570	1,204,899
Less: Taxes on financial services	11	(226,551)	(406,369)
Profit before income tax		678,019	798,530
Less: Income tax expense	12	(268,528)	(318,336)
Profit for the year		409,491	480,194
Basic/Diluted earnings per share (Rs.)	13	5.37	6.56
Dividend per share (Rs.)	14	1.95	0.50

The Accounting policies and Notes to the Financial Statements from pages 11 to77 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2020

	Note	2020 Rs.'000	2019 Rs.'000
Profit for the year		409,491	480,194
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	34.3	901	(14,527)
Deferred tax effect on actuarial gain/(loss)	33	(252)	4,067
		649	(10,460)
Surplus from revaluation of property,plant & equipment		-	14,150
Deferred tax effect on revaluation surplus		-	(3,962)
	37	-	10,188
Other comprehensive income for the year,net of tax		649	(272)
Total comprehensive income for the year,net of tax		410,140	479,922
Attributable to :			
Equity holders of the parent company		410,140	479,922
		410,140	479,922

The Accounting policies and Notes to the Financial Statements from pages 11 to77 form an integral part of these Financial Statements.

Siyapatha Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

Assets	Note	2020 Rs. '000	2019 Rs. '000
Cash and bank balances	16	292,036	273,429
Securities purchased under repurchase agreements	17	2,781,162	2,304,392
Factoring receivables	18	261,944	655,141
Gold loan receivables	19	4,769,716	5,011,268
Loan receivables	20	1,750,116	1,533,713
Lease receivables	21	29,017,672	29,023,194
Hire purchase receivables	22	2,125	3,437
Other assets	23	851,671	653,710
Equity instruments at fair value through other comprehensive income	24	56	56
Debt instruments at amortised cost	25	34,145	15,301
Property, plant & equipment	26	1,353,815	1,013,625
Right-of-use assets	27	402,579	403,653
Intangible assets	28	34,623	56,426
Total Assets		41,551,660	40,947,345
Liabilities			
Bank overdraft		250,536	361,586
Due to other customers	29	17,279,614	13,221,026
Debt issued and other borrowed funds	30	17,049,706	21,342,227
Other payables	31	1,312,080	1,301,543
Current tax liabilities	32	118,150	407,066
Deferred tax liabilities	33	328,349	230,107
Retirement benefit obligations	34	87,260	67,965
Total Liabilities		36,425,695	36,931,520
Equity			
Stated capital	35	1,522,881	1,379,922
Share application money pending allotment	35.1	700,000	-
Statutory reserve fund	36	185,000	164,000
Revaluation reserve	37	117,951	117,951
Retained earnings	38	2,600,133	2,353,952
Total Equity		5,125,965	4,015,825
Total Liabilities and Equity		41,551,660	40,947,345
Net asset value per share (Rs.)		67.26	54.78
Commitments and contingencies	42	731,739	728,983

We certify that these Financial Statements are presented in compliance with the requirements of the Companies Act No.7 of 2007.

Managing Director

Head of Finance

The Board of Directors is responsible for these Financial Statements.Approved and signed for and on behalf of the Board by,

Chairman

Director

The Accounting policies and Notes to the Financial Statements from pages 11 to77 form an integral part of these Financial Statements.

ERNST & YOUNG
15 February 2021
Colombo
Chartered Accountants
COLOMBO

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Note	Stated Capital	Share Application Money Pending Allotment	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
		Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Balance as at 31 December 2018		948,666	400,000	139,000	107,763	1,945,561	3,540,990
Profit for the year		-	-	-	-	480,194	480,194
Other comprehensive income,net of tax		-	-	-	10,188	(10,460)	(272)
Transfer to Statutory Reserve Fund	36	-	-	25,000	-	(25,000)	-
Scrip dividend paid		31,256	-	-	-	(36,344)	(5,088)
Rights issue of shares		400,000	(400,000)	-	-	-	-
Balance as at 31 December 2019		1,379,922	-	164,000	117,951	2,353,951	4,015,824
Profit for the year		-	-	-	-	409,491	409,491
Other comprehensive income,net of tax		-	-	-	-	649	649
Transfer to Statutory Reserve Fund	36	-	-	21,000	-	(21,000)	-
Scrip dividend paid		142,959	-	-	-	(142,959)	-
Share application money pending allotment	35.1	-	700,000	-	-	-	700,000
Balance as at 31 December 2020		1,522,881	700,000	185,000	117,951	2,600,132	5,125,964

The Accounting policies and Notes to the Financial Statements from pages 11 to77 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

Cash flows from operating activities	Note	2020 Rs. '000	2019 Rs. '000
Profit before taxation from operations		678,019	798,530
Interest expenses	5.2	3,856,315	4,230,657
Fee & commission expenses	6	-	-
Credit loss expense on financial assets	8	1,356,264	1,050,938
Provision for staff gratuity	34.2	23,726	16,084
Provision for depreciation	26	62,899	58,116
Amortisation of software	28	23,119	23,273
Amortisation expenses on right-of-use assets	27	107,589	103,384
(Profit)/Loss on sale of motor vehicles		(1,280)	-
		5,428,632	5,482,452
Operating profit before working capital changes		6,106,651	6,280,982
(Increase)/Decrease in lease receivables		(915,686)	(3,699,109)
(Increase)/Decrease in hire purchase receivables		664	47,331
(Increase)/Decrease in factoring receivables		392,026	460,863
(Increase)/Decrease in gold loan receivables		240,304	(1,461,614)
(Increase)/Decrease in loan receivables		(497,150)	590,036
Increase/(Decrease) in due to other customers		4,018,841	3,212,525
(Increase)/Decrease in other assets		(466,116)	(936,801)
Increase/(Decrease) in other payables		150,361	834,067
		2,923,244	(952,702)
Cash generated from operating activities		9,029,895	5,328,280
Interest expense paid		(3,739,845)	(3,915,904)
Gratuity paid	34.1	(3,530)	(3,434)
Income tax paid	32	(449,053)	(238,240)
Dividend tax paid		-	(5,088)
Net cash outflow from operating activities		4,837,467	1,165,614
Cash flow from investing activities			
Net investments in government bonds & government securities		504,502	(1,754,282)
Purchase of property, plant and equipment and intangible assets		(404,405)	(415,926)
Proceeds from sale of property, plant and equipment		1,280	-
Net cash inflow/(outflow) from investing activities		101,377	(2,170,208)
Net cash outflow before financing activities		4,938,844	(1,004,594)
Cash flow from financing activities			
Proceeds from long term loans & securitizations	30.1	2,450,000	6,000,000
Repayments of long long term loans	30.1	(5,719,243)	(5,455,411)
Proceeds from debentures	30.3	2,000,000	1,500,000
Debentures redeemed	30.3	-	(2,421,990)
Share application money pending allotment	35.1	700,000	-
Net proceeds from short term borrowings	30.1	(3,100,000)	350,000
Repayment of principal portion of lease liabilities	31.1	(139,824)	(133,258)
Net cash inflow from financing activities		(3,809,067)	(160,659)
Net increase/(decrease) in cash and cash equivalents		1,129,777	(1,165,253)
Cash & cash equivalents at the beginning of the year		(88,146)	1,077,107
Cash and cash equivalents at end of the year		1,041,631	(88,146)
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 16)		292,051	273,440
Securities purchased under repurchase agreements less than three months		1,000,116	-
Bank overdraft		(250,536)	(361,586)
		1,041,631	(88,146)

The Accounting policies and Notes to the Financial Statements from pages 11 to77 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC (“The Company”), formerly known as Siyapatha Finance Limited is a domiciled, public limited liability company incorporated in Sri Lanka on 03 March 2005 under the Companies Act No. 17 of 1982. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James Pieris Mawatha, Colombo 02. The principal place of business is located at. No.46/12, Nawam Mawatha, Colombo 02.

The debentures of the Company were initially listed on the Colombo Stock Exchange on 2 January 2015.

The staff strength of the Company as at 31 December 2020 was 783 (710 as at 31 December 2019).

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing accepting deposits, providing finance lease, hire purchase, vehicle loan facilities, mortgage loans, gold loan, debt factoring, revolving loans and business/personal loans.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company’s parent undertaking /ultimate parent and the controlling party is Sampath Bank PLC, which is incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes to the Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs & LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 7 of 2007. The presentation of these Financial Statements is also in compliance with the requirements of Finance Business Act No 42 of 2011, Listing Rules of the Colombo Stock Exchange and the CBSL guidelines.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per Sri Lanka Accounting Standards and the provisions of the Companies Act No.7 of 2007.

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 December 2020 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 01 February 2021.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on a historical cost basis, except for the following items in the Statement of Financial Position.

- Financial Assets at fair value through other comprehensive income at fair value (Note 24)
- Freehold land, which is measured at cost at the time of acquisition subsequently, measured at revalued amounts, which are the fair values at the date of revaluation (Note 26)
- Liabilities for defined benefit obligations are recognized at the present value of the defined benefit obligation less the fair value of the plan assets (Note 34)

2.5 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees (Rs), which is the currency of the primary economic environment in which Siyapatha Finance PLC operates. The Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise. There was no change in the Company’s presentation and functional currency during the year under review.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presented in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 41.

2.7 Materiality, Aggregation and Offsetting

In compliance with Sri Lanka Accounting Standard -LKAS 01(Presentation of Financial Statements), each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

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

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation. However, the Company has not restated comparative information for 2019.

2.9 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been 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.

Cash and cash equivalents include cash in hand, balances with banks, placements with banks (less than 3 months), net of unfavourable bank balances and securities purchased under repurchase agreement (less than three months).

2.10 Events After the Reporting Date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 43 to the Financial Statements.

2.11 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

COVID-19 impact on the use of estimates and assumptions

On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Company has considered the impact of COVID-19 when preparing the financial statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of financial statements, it has resulted in increased estimation uncertainty and application of further judgment within those identified areas.

COVID-19 financial reporting considerations in the preparation of the financial statements

Given the increased economic uncertainties from COVID-19, the Company has enhanced its financial reporting procedures and governance practices surrounding the preparation of the financial statements. In addition to standard financial year end reporting practices, the Company has:

- Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the financial statements;
- Critically assessed estimates, judgments and assumptions used in the preparation of the financial statements, including updating the Company's outlook on economic conditions arising from COVID-19;
- Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the financial statements;
- Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the financial statements;
- Determined the impact of COVID-19 has had on the reported amounts and disclosures in the financial statements and updated these disclosures accordingly.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows.

2.11.1 Going Concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and does not intend either to liquidate or to cease operations. Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11.2 Impairment losses on loans and receivables

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

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively by categorising them, into groups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

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

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

- Selection of forward - looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary. The above assumptions and judgements are discussed in detail under Note 3.1.9 to the Financial Statements.

<u>Impact of COVID-19 on the provision for impairment on loans and receivables</u>

The COVID-19 pandemic, together with measures implemented to contain the virus, has had a profound impact on the Sri Lankan and global economy, driving heightened levels of market uncertainty and a significant deterioration, or expected deterioration, in macroeconomic conditions, notably unemployment, and gross domestic product(GDP). This, in turn, has resulted in a significant impact on the provision for impairment on financial assets, as forecast macroeconomic conditions are a key factor in determining the expected credit loss (ECL) for loans and advances.

In response to COVID-19 and the Company's expectations of economic impacts, the key assumptions used in the Company's calculation of ECL have been revised. The economic scenarios and forward - looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 3.1.9. At reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19.Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Company's calculation of ECL have remained consistent with prior periods.

A breakdown of the loans and advances of the Company classified under stage 2 is given in Note 40.4.1 (h) while an analysis of loans under phase II of the COVID-19 debt moratorium is given in Note 40.4.1(j). Sensitivity of individually significant loan impairment to recovery cash flows is given in Note 40.4.1 (e) while sensitivity of the collective impairment provision to the staging of the loans and advances is disclosed in Note 40.4.1 (f).

2.11.3 Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded in the Statement of Financial Position for which there is no observable market price is based on using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in Note 39 to the Financial Statements. The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements. The fair value hierarchy is given in Note 39 to the Financial Statements. The determination of the fair value of the financial instruments of the Company were not materially affected by the significant volatility in financial markets created by the COVID – 19 pandemic.

2.11.4 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instruments is given in Note 15 "Analysis of Financial Instruments by Measurement Basis". The COVID-19 pandemic has resulted in significant volatility in the financial markets. However, the Company did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

2.11.5 Taxation

The Company is subject to income tax and judgement is required to determine the total provision for current, deferred and other taxes due to the uncertainties that exist with respect to the interpretation of the applicable tax laws, at the time of preparation of these Financial Statements.

The details of the deferred tax computation are given in Note 33 to the Financial Statements.

2.11.6 Defined Benefit Plans

The cost of Defined Benefit Pension Plan and the present value of its obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions, which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables**.** Future salary increases are based on expected future inflation rate and expected future salary increase rate of the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 34 to the Financial Statements.

2.11.7 Fair value of Property, Plant & Equipment

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages an independent valuation specialist to determine the fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). The details of freehold land including methods of valuation are given in Note 26 to the Financial Statements. The Company has not revalued its freehold lands and buildings during this year for accounting purposes, on the basis that changes in property prices were not significant compared to the previous year.

2.11.8 Useful Life-time of the Property, Plant, Equipment and Intangible Assets

The Company reviews the residual values, useful lives and methods of depreciation and amortization of property, plant, equipment and intangible assets at each reporting date. The judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

2.11.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 42 to the Financial Statements.

3. GENERAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

3.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

3.1.1 Date of Recognition

Financial assets and liabilities are initially recognised on the trade date. i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes “regular way trades”. Regular way trades means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

3.1.2 Initial measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, and except in the case of financial assets and financial liabilities recorded at fair value through profit or loss (FVPL), transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Company accounts for “Day 1 profit or loss”, as described below.

3.1.3 ‘Day 1’ profit or loss

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

3.1.4 Measurement categories of Financial Assets and Financial Liabilities

The Company classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

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

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

(i). Financial Assets at Amortised cost:

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

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

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

The details of the above conditions are outlined below.

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

(ii) Equity instruments at FVOCI

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

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

Currently, the Company has recorded its non- quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 24 to the Financial Statements.

(iii) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. The company does not have compound financial instruments which contains both a liability and an equity component and require separation as at the date of the issue.

Currently, the Company has recorded Debt issued and other borrowed funds as Financial Liabilities at Amortised Cost in the form of term loans, short term loans, securitizations and debentures.

3.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are measured as,

(i) Financial liabilities at Fair Value through Profit or Loss (FVTPL)
  a) Financial liabilities held for trading
  b) Financial liabilities designated at fair value through profit or loss
(ii) Financial liabilities at amortised cost, when they are held for trading, derivative instruments or the fair value designation is applied.

The subsequent measurement of financial liabilities depends on their classification.

i. Financial Liabilities at Fair Value Through Profit or Loss (FVTPL)

Financial Liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes therein recognized in the Income Statement.

ii. Financial Liabilities at Amortised Cost

Financial Instruments issued by the Company that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost under 'bank overdraft', 'due to other customers', 'debt issued and other borrowed funds' and 'other payables' as appropriate, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of own equity shares at amortised cost using EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Income Statement. Gains and losses are recognized in the Income Statement when the liabilities are derecognised as well as through the EIR amortisation process.

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

3.1.6 Reclassifications of Financial assets and Financial Liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2020.

3.1.7 Derecognition of Financial Assets and Financial Liabilities

3.1.7.1 Derecognition due to substantial modification of terms and conditions

The Company derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be credit impaired at the date of inception.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors.

- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

As explained in Note 3.1.7 modification to the original terms and conditions of the loan due to COVID-19 moratorium resulted in a derecognition of the original loan as the Company concluded that the modifications was substantial. Consequently a new loan has been recognised and the EIR has also restated based on the original carrying value (before modification) and the revised cash flows. Accordingly, loss arising from modification has been differed through the remaining tenure of the loan.

3.1.7.2 Derecognition other than for substantial modification

(a)Derecognition of Financial Assets

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

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

- The Company has transferred its contractual rights to receive cash flows from the financial asset

  or

- It retains the rights to cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.

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

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

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset

  or

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

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

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

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

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

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

(b) Derecognition - Financial Liabilities

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

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

3.1.8. Determination of Fair Value

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

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

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

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

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

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

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

-Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
-Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
-Level 3 -Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

The disclosure of fair value of financial instruments is disclosed in Note 39 to the Financial Statements.

3.1.9 Impairment of Financial Assets

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

The Company recognises expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under SLFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 40.4.1.

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

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

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

Based on the above process, the Company groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below.

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

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

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

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

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

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls (the base case, best case and the worst case), discounted at an approximation to the EIR.A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

With the exception of debt factoring and other revolving facilities, for which the treatment is separately set out in Note 3.1.9 (d), the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

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

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

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

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

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from default events on a financial instrument that are possible with in the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation of the original EIR.

Stage2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Loan Commitments: When estimating LTECLs for undrawn loan commitments, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

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

Financial Guarantee contracts:

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

c. Debt instruments measured at fair value through OCI

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

d. Debt factoring and revolving loans

The Company's product offering includes debt factoring and revolving loan facilities, in which the Company has the right to cancel and/or reduce the facilities within a short notice. The Company does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Company's expectations of the customer behaviour, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

The ongoing assessment of whether a significant increase in credit risk has occurred for debt factoring and revolving loan facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, but greater emphasis is also given to qualitative factors such as changes in utilization.

e. Forward looking information

The COVID-19 pandemic has significantly impacted the local economy. The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment measures. To reflect these uncertainties in the calculation of expected credit losses, the Company has changed the weightages assigned for multiple economic scenarios during the year.The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

To ensure completeness and accuracy, the Company obtains the above data primarily from the Central Bank of Sri Lanka. Other third party sources such as World Bank and International Monetary Fund etc are also used when CBSL data is not available.

(ii) Reversals of impairment

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

(iii) Renegotiated Loans

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

When the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 40.4.1. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 3.1.9 (iii).

(iv) Relief Measures to assist COVID-19 affected businesses and individuals by the Central Bank of Sri Lanka (CBSL)

The COVID-19 pandemic has significantly impacted the local economy as the government had to impose travel bans and lockdowns on millions of people. Many people in many locations are still subjected to quarantine measures. Businesses are dealing with lost revenue and disrupted supply chains. As a result of the disruption to businesses, some people lost their jobs and many businesses have been adversely affected. The Central Bank of Sri Lanka has provided financial assistance to disrupted industry sectors and the affected businesses /individuals in the form of a debt moratorium through licensed banks/financial institutions in the country.

(a) COVID-19 Moratorium (First Wave): Circular No. 4 of 2020

The Central Bank of Sri Lanka issued Circular No. 4 of 2020 on 24th March 2020 instructing financial institutions to offer a debt moratorium to COVID - 19 affected segments of the economy. According to the above circular, financial institutions were required to offer moratoriums of 2 months, 3 months, 6 months for eligible borrowers under different qualifying criteria.

Instalment (both capital and interest) fallen due during the moratorium period have been converted to a new loan account which can be repaid by the borrowers after the moratorium period. Repayment period of the new loan varies based on the repayment capacity of each borrower and the terms and conditions of the loan agreement with the Company. When initially recognized, the new loans were recorded at their nominal value as the Company considers that it is representative of the fair value.

As per the Circular No. 4 of 2020 and the subsequent communication issued by the CBSL in this regard, finance companies were required to charge interest at a reduced rate of 11.5% per annum during the moratorium period .

As explained in Note 3.1.7 modification to the original terms and conditions of the loan due to COVID-19 moratorium resulted in a derecognition of the original loans as the Company concluded that the modification was substantial. Consequently a new loan has been recognised and the EIR has also been restated based on the original carrying value (before modification) and the revised cash flows. Accordingly, loss arising from modification has been differed through the remaining tenure of the loan.

(b).COVID-19 Moratorium (Second Wave): CBSL Circular No. 9 of 2020 / No. 11 of 2020

Second wave of the COVID-19 outbreak in the country resulted in reimposing the travel restrictions, leading to disruption of economic activities. Giving due consideration to the requests received from affected individuals and businesses, CBSL advised licensed finance companies, to extend the debt moratorium for a further period of six months commencing from 1 October 2020 to 31 March 2021. Finance Companies shall convert the capital and interest falling due during the moratorium period commencing from 1 October 2020 to 31 March 2021 into a term loan of which repayment shall commence from July 2021.Further, the finance companies are eligible to charge an interest rate for the converted loan, not exceeding the latest auction rate for 364-days Treasury Bills, available as at 1 April 2021,plus 5.5 percent per annum not exceeding 11.5 percent per annum. Repayment period of the new loan shall be two years in general; however this may vary based on the terms and conditions agreed with the borrower. The finance companies were also allowed to recover interest at the original EIR during the moratorium period and therefore did not recognize any modification loss on account of the second phase of the COVID-19 moratorium. An analysis of the loans eligible for the second phase of the COVID-19 moratorium is presented in Note 40.4.1 (j) to the Financial Statements.

The granting of the moratorium is directly related to the cash flow difficulties generated by the occurrence of the COVID-19 pandemic. However, it did not lead to an automatic transfer of these credit facilities into stage 2 or stage 3. A case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2 and stage 3. Further, the real impact of the pandemic on ECL allowance is expected to be realised upon the cessation of the moratorium.

(v) Write-off of Financial Assets at Amortised Cost

Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Income Statement. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

(vi) Collateral Valuation

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

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

(vii) Collateral repossessed

The Company's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations will be transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. The company did not transfer any repossessed assets to its property, plant and equipment during the year 2019 & 2020.

(viii) Offsetting Financial Assets and Liabilities

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

Income and expenses are presented on a net basis only when permitted under LKAS/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

3.2 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

a.The Company as lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

b. The Company as lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 27 Property and are subject to impairment in line with the Company's policy as described in Note 3.5 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

3.3 Property, Plant & Equipment and right -of- use assets

3.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period. The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured. Right- of -use assets are presented separately in the Statement of Financial Position.

3.3.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs 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 capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3.3.3 Cost Model

The Company applies the cost model to property, plant &equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.3.4 Revaluation Model

The Company applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land during the year 2019and details of the revaluation are given in Note 26 to the Financial Statements.

On revaluation of an asset, any increase in the carrying amount is recognised in ‘Other comprehensive income ‘and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

The decrease recognised in other comprehensive income reduces the amount accumulated in equity under revaluation reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings on retirement or disposal of the asset.

3.3.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Company and its cost can be reliably measured. The costs of the day to day servicing of property, plant and equipment are charged to the Income Statement as incurred.

3.3.6 Repairs and Maintenance

Repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

3.3.7 Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset 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 management. Capital work in progress is stated at cost less any accumulated impairment losses.

3.3.8 Borrowing Costs

As per Sri Lanka Accounting Standard- LKAS 23 on 'Borrowing Costs', the company capitalizes the borrowing costs that are directly attributable to acquisition, construction or production of qualifying assets as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the profit or loss in the period in which they occur.

During the year, he Company capitalized Rs.36.87 Million (2019- Rs.26.55 Million)as borrowing cost related to the acquisition of property, plant &equipment. The capitalisation rates used to determine the amount of eligible borrowing costs for capitalisation was 5.10%-11.76% (2019- 11.8% -14.0%).

3.3.9 De-recognition

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

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

3.3.10 Depreciation

Depreciation is recognized in the Income Statement on a straight line basis over the estimated useful lives of each part of an item of property, plant &equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	Period of Depreciation	
	2020	2019
Office Equipment	15.00 % p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Office furniture	15.00% p.a.	15.00% p.a.
Motor Vehicles (except Motor Bicycles)	12.50% p.a.	12.50% p.a.
Motor Bicycles	20.00% p.a.	20.00% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

Right-of-use assets are depreciated on a straight-line method from the commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term.

3.3.11 Change in Estimates

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

3.4 Intangible Assets

The Company's intangible assets include the value of computer software.

3.4.1 Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible assets.

Intangible assets acquired are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

3.4.2 Subsequent Expenditure

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

3.4.3 Useful Economic life, Amortization and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

3.4.4 Amortization

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual value over their estimated useful life as follows:

The Class of Intangible Assets	**Useful Life**	**Amortisation Method**
Computer software	4 Years	Straight line method

The unamortized balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

3.4.5 Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

3.5 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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.

For assets an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

3.6 Dividend Payable

Dividends on ordinary shares are recognised as a liability and deducted in equity when they are recommended and declared by the Board of Directors and approved by the shareholders.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 on ‘Events after the reporting period’.

3.7 Retirement Benefit Obligations

3.7.1 Defined Benefit Plan - Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The Company measures the present value of the promised retirement benefits for gratuity which is a defined benefit plan with the advice of an independent professional actuary using projected unit credit actuarial cost method as required by Sri Lanka Accounting Standard – LKAS 19 on “Employee Benefits”.

The item is stated under other liabilities in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses
The Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

Interest Cost
Interest cost is the expected increase due to interest at the end of the year. (The benefits are one year closer to settlement).

Funding Arrangements
The Gratuity liability is not externally funded.

3.7.2 Defined Contribution Plans

The Company also contributes to defined contribution plans. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's total earnings (as defined in the Employees' Provident Fund) to the Employees' Provident Fund.

Employees' Trust Fund

The Company contributes 3% of the employee's total earnings (as defined in the Employees' Trust Fund) to the Employees' Trust Fund.

3.8 Statutory Reserve Fund

The reserves recorded under equity on the Company's Statement of Financial Position includes the 'Statutory reserve fund' which has been created in accordance with the Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. Accordingly, 5% of the net profit for the period is transferred to the Statutory reserve fund during the financial year.

3.9 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with Sri Lanka Accounting Standard – LKAS 37 on 'provision, contingent liabilities and contingent assets'.

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligations at that date.

The expense relating to any provision is presented in the income statement net of any reimbursement.

3.10 Segment Information

An operating segment is a component of the Company that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the chief operating decision maker to make decisions about resources allocated to each segment.

For management purposes, the Company has identified three operating segments based on products and services, as follows.

- Leasing and hire purchase
- Gold Loan
- Others

Leasing, hire purchase represents the finance leasing, hire purchase businesses of the Company where as gold loan represents gold loan product offered to the customers. All other business activities other than the above are segmented under "Others".

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses, which in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on collective basis and not allocated to operating segments.

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Company's total revenue in 2019 & 2020.

The income, profit total assets and total liabilities of the Company's operating segments are presented in Note 46 to the Financial Statements.

3.11 Recognition of Interest Income/Expense

3.11.1 Interest Income/Expense

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

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

When a financial asset becomes credit-impaired (as set out in Note 40.4.1 and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

As explained in Note 3.1.7, modifications to the original terms and conditions of the loan due to COVID-19 moratorium, resulted in a derecognition of the original loan as the Company concluded that the modification was substantial. Consequently a new financial asset has recognized at revised EIR based on the modified cash flows. Accordingly, loss arising from modification has been differed through the remaining tenure of the loan.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

3.11.2 Interest Income on Overdue Rentals

Interest from overdue rentals has been accounted for on cash received basis.

3.12 Fee and Commission Income and Expenses

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

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

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.
The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

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

b) Fee Income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

3.13 Other operating income

(a) Dividend Income

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

(b) Recovery of Bad Debts Written Off

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

(c) Other Income

Other income is recognised on an accrual basis.

3.14 Personnel Expenses

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

3.15 Taxes

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 taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

3.15.1 Current tax

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted on the reporting date and any adjustment to the tax payable in respect of prior years.

Accordingly, provision for taxation is based on the profit for the year 2020 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017and the amendment thereto, at the rate specified in Note 12 to the Financial Statements.

3.15.2 Deferred tax

Deferred tax is recognisedusing the liability method in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses (if any), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carried forward unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each financial reporting date and reduced to the extent it is probable that sufficient taxable profit will be available to allow the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 32 and Note 33 to the Financial Statements respectively.

3.15.3 Value Added Tax (VAT) on Financial Services

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

3.15.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1st December 2019.

3.15.5 Debt Repayment Levy (DRL)

According to the Finance Act No.35 of 2018, every financial institution shall pay 7% on the value addition attributable to the supply of financial services by such institution as DRL with effect from 01 October 2018.DRL is calculated based on the value addition used for the purpose of VAT on financial services. This tax was abolished by the government with effect from 1st January 2020.

3.15.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized. At present, the rate of 14 % is deducted at source.

3.15.7 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006, and subsequent amendments thereto, the ESC is payable at 0.5% on liable gross turnover of the Company and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years. This tax was abolished by the government with effect from 1st January 2020.

3.16 Regulatory provisions

3.16.1 Deposit Insurance and Liquidity Support Scheme

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

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

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

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

3.16.2 Crop Insurance Levy (CIL)

In terms of the Finance Act No. 12 of 2013, all institutions under the purview of Banking Act No.30 of 1988, Finance Business Act No.42 of 2011 and Regulation of Insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 01 April 2013.

3.17 Earnings per Share (EPS)

Basic EPS is calculated by dividing the net profit or loss attributable to ordinary equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

3.18 Commitments and Contingencies

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard – LKAS 37 on ‘Provisions, Contingent liabilities and Contingent assets’.

Financial guarantees and undrawn loan commitments

The Company issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and ECL Provision under SLFRS 9.

The premium received is recognised in the Income Statement in Net fees and commission income on a straight line basis over the life of the guarantee.

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded - in the Statement of Financial Position. The nominal values of these instruments are disclosed in Note 42.

4. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2020

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31 December 2020. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

1. Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 – Interest Rate Benchmark Reform (Phase 1 and Phase 2)

The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

IBOR reforms Phase 2 include number of reliefs and additional disclosures. Amendments support companies in applying SLFRS when changes are made to contractual cash flows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021. The Company is in process of assessing the potential impact of implementation of the aforementioned amendments.

2. SLFRS 17 Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

5. NET INTEREST INCOME

	2020 Rs. '000	2019 Rs. '000
5.1 Interest income		
Interest income on lease receivables	5,013,181	4,949,834
Interest income on hire purchase receivables	182	1,843
Interest income on factoring receivables	88,253	144,844
Interest income accrued on impaired financial assets	14,640	84,210
Interest income on loan receivables	135,233	299,672
Interest income on gold loan receivables	1,102,334	1,048,070
Interest income on government securities	185,937	214,972
Interest income on overdue rentals	234,310	446,069
Interest income on staff loans	35,007	37,019
Interest income on placements with banks	5,139	3,079
Total interest income	6,814,216	7,229,612
5.2 Interest expenses		
Bank overdraft	13,933	22,587
Short term borrowings	242,521	540,975
Lease liabilities	53,007	45,493
Customer deposits	1,667,917	1,530,374
Long term borrowings	1,267,447	1,516,871
Securitization loans	26,504	-
Redeemable debentures	584,986	574,357
Total interest expenses	3,856,315	4,230,657
Net interest income	2,957,901	2,998,955

6. NET FEE AND COMMISSION INCOME

	2020 Rs. '000	2019 Rs. '000
Documentation charges	72,648	86,689
Insurance commission	108,852	117,083
Service charges-Gold loan	93,634	101,497
Processing fees	318	2,372
Other fee & commission income	3,252	4,124
Total fee and commission income	278,704	311,765
Fee and commission expenses		
Guarantee fee	-	-
Total fee and commission expenses	-	-
Net fee and commission income	278,704	311,765

7. OTHER OPERATING INCOME

	2020 Rs. '000	2019 Rs. '000
Profit on early terminations	333,835	257,016
Profit on disposal of motor vehicles	1,280	-
Recovery of bad debts written off	29,327	12,838
Recovery of charges	33,937	41,132
Sundry income	88,396	67,542
Total other operating income	486,775	378,528

8. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

The below shows the expected credit loss (ECL) charges for financial instruments for the year recorded in the income statement.

	2020 Rs. '000 Stage 1	2020 Rs. '000 Stage 2	2020 Rs. '000 Stage 3	2020 Rs. '000 Total
Lease receivables	20,959	153,865	746,384	921,208
Hire purchase receivables	(5)	1,848	(1,195)	648
Factoring receivables	(934)	(13,823)	15,928	1,171
Loan receivables	17,780	18,388	244,579	280,747
Gold loan receivables	(181)	(156)	1,585	1,248
Repossessed stock	-	-	150,397	150,397
Bank balances	4	-	-	4
Credit related commitments & contingencies	635	206	-	841
	38,258	160,328	1,157,678	1,356,264

	2019 Rs. '000 Stage 1	2019 Rs. '000 Stage 2	2019 Rs. '000 Stage 3	2019 Rs. '000 Total
Lease receivables	35,459	14,778	227,610	277,847
Hire purchase receivables	(11)	(15)	(2,217)	(2,243)
Factoring receivables	(20,804)	14,405	222,705	216,306
Loan receivables	(5,049)	(2,756)	365,631	357,826
Gold loan receivables	(1,410)	(884)	1,306	(988)
Repossessed stock	-	-	201,908	201,908
Bank balances	7	-	-	7
Credit related commitments & contingencies	117	158	-	275
	8,309	25,686	1,016,943	1,050,938

9. PERSONNEL EXPENSES

	2020 Rs. '000	2019 Rs. '000
Salaries and bonus	710,674	629,481
Contribution to defined contribution plan	73,279	60,927
Gratuity charge for the year	23,726	16,084
Others	65,632	71,196
	873,311	777,688

10. OTHER OPERATING EXPENSES

	2020 Rs. '000	2019 Rs. '000
Directors' emoluments	28,385	42,228
Auditors' remuneration	1,430	1,430
Non- audit fees to auditors	4,087	2,508
Professional & legal expenses	20,002	19,411
Depreciation on property, plant & equipment	62,899	58,116
Amortization of intangible assets	23,119	23,273
Deposit insurance premium	22,115	17,391
Amortisation expenses on right-of-use assets	107,589	103,384
Office administration & establishment expenses	248,716	251,183
Advertising expenses	28,918	54,963
Other expenses	41,975	81,836
	589,235	655,723

11. TAXES ON FINANCIAL SERVICES

	2020 Rs. '000	2019 Rs. '000
Value added tax	226,551	234,698
Nation building tax	-	33,680
Debt repayment levy	-	137,991
	226,551	406,369

12. INCOME TAX EXPENSE

12.1 The major components of income tax expense for the year ended 31 December are as follows.

Income statement	2020 Rs. '000	2019 Rs. '000
Current tax expense		
Income tax for the year	280,949	572,894
Under/ (Over) provision of current taxes in respect of previous years	(110,411)	(35,169)
	170,538	537,725
Deferred tax expense		
Deferred taxation charge/(reversal) (refer note 33)	97,990	(219,389)
	268,528	318,336
Effective tax rate	39.60%	39.87%

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

	2020 Rs. '000	2019 Rs. '000
Accounting profit before income taxation	678,019	798,530
At the statutory income tax rate of 28%	189,845	223,588
Tax effect of non deductible expenses	896,810	404,482
Tax effect of other allowable credits	(805,706)	(55,177)
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	(110,411)	(35,169)
Deferred tax charge/(reversal)	97,990	(219,389)
	268,528	318,336

The Company's income is taxed at the rate of 28% during the years 2019 and 2020 respectively.

12.3 Amendments to the Income Tax Law announced by the Government

As per the announcement dated 12 February 2020, income tax rate applicable for the Finance sector has been reduced to 24% with effect from 01 January 2020. However, as the said amendment is yet to be enacted, both income tax and deferred tax were calculated at the rate of 28% for the year ended 31 December 2020.

Had we considered the revised rate of 24%, the income tax charge recognized in the Income Statement would have decreased by LKR.100.49 Million. This includes a reversal of LKR.56.64 Million against current tax expense and reversal of LKR.43.85 Million against deferred tax. In addition, the deferred tax charge to OCI would have reduced by Rs 3.06 Million.

13. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED (Rs.)

	2020 Rs. '000	2019 Rs. '000
Profit attributable to ordinary shareholders (Rs. 000)	409,491	480,194
Weighted average number of ordinary shares during the year (13.1)	76,212,072	73,248,186
Basic/Diluted earnings per ordinary share- (Rs.)	5.37	6.56

13.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2020	2019	2020	2019
Number of shares in issue as at 1 January	73,312,409	63,596,388	73,312,409	63,596,388
Add:				
Number of shares issued due to scrip dividend 2019	-	625,111	-	625,111
Number of shares issued under rights issue 2019	-	9,090,910	-	6,127,024
Number of shares issued due to scrip dividend 2020	2,899,663	-	2,899,663	2,899,663
Number of shares in issue/weighted average number of ordinary shares at 31st December	76,212,072	73,312,409	76,212,072	73,248,186

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

14. DIVIDEND PAID

	2020 Rs. '000	2019 Rs. '000
Scrip dividends paid (Rs. 000)	142,959	36,344
Number of Ordinary Shares	73,312,409	72,687,298
Dividends per Ordinary Share (Rs.)	1.95	0.50

A scrip dividend of Rs. 1.95 per share for the year 2019 was paid in June 2020. (A scrip dividend of Rs. 0.50 per share for the year 2018 was paid in May 2019).

15. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

Financial Instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of Significant Accounting Policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised.The following table provides a reconciliation between line items in the Statement of Financial Position and categories of financial instruments.

As at 31 December 2020	Amortised Cost Rs'000	Equity instruments-FVOCI Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	292,036	-	292,036
Securities purchased under repurchase agreements	2,781,162	-	2,781,162
Factoring receivables	261,944	-	261,944
Gold loan receivables	4,769,716	-	4,769,716
Loan Receivables	1,750,116	-	1,750,116
Lease receivables	29,017,672	-	29,017,672
Hire purchase receivables	2,125	-	2,125
Other assets	747,028	-	747,028
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	34,145	-	34,145
Total Financial Assets	39,655,944	56	39,656,000
Financial Liabilities			
Bank overdraft	250,536	-	250,536
Due to other customers	17,279,614	-	17,279,614
Debt issued and other borrowed funds	17,049,706	-	17,049,706
Other payables	1,192,954	-	1,192,954
Total Financial Liabilities	35,772,810	-	35,772,810

As at 31 December 2019	Amortised Cost Rs'000	Equity instruments-FVOCI Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	273,429	-	273,429
Securities purchased under repurchase agreements	2,304,392	-	2,304,392
Factoring receivables	655,141	-	655,141
Gold loan receivables	5,011,268	-	5,011,268
Loan Receivables	1,533,713	-	1,533,713
Lease receivables	29,023,194	-	29,023,194
Hire purchase receivables	3,437	-	3,437
Other assets	539,784	-	539,784
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	15,301	-	15,301
Total Financial Assets	39,359,659	56	39,359,715
Financial Liabilities			
Bank overdraft	361,586	-	361,586
Due to other customers	13,221,026	-	13,221,026
Debt issued and other borrowed funds	21,342,227	-	21,342,227
Other payables	1,100,634	-	1,100,634
Total Financial Liabilities	36,025,473	-	36,025,473

16. CASH AND BANK BALANCES

	2020 Rs. '000	2019 Rs. '000
Cash in hand	119,237	149,917
Balances with local banks	172,814	123,523
Less: Allowance for expected credit losses	(15)	(11)
	292,036	273,429

16.1 The movement in provision for expected credit losses is as follows.

	2020 Rs. '000 Stage 1	2019 Rs. '000 Stage 1
Balance as at 01 January	11	4
Charge/(Reversal) for the year	4	7
Balance as at 31 December	15	11

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2020 Rs. '000	2019 Rs. '000
Securities purchased under repurchase agreements	2,781,162	2,304,392
	2,781,162	2,304,392

18. FACTORING RECEIVABLES

	2020 Rs. '000	2019 Rs. '000
Factoring receivables	604,825	1,001,610
Less: VAT suspense	(293)	(293)
Gross factoring receivable	604,532	1,001,317
Less : Allowance for expected credit losses/ individual impairment(Note 18.3)	(333,028)	(322,948)
Allowance for expected credit losses/ collective impairment(Note 18.4)	(9,560)	(23,228)
	261,944	655,141

18.1 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	-	162,485	426,618	589,103
Factoring receivables subject to collective impairment	15,429	-	-	15,429
Gross factoring receivables	15,429	162,485	426,618	604,532
Allowance for expected credit losses(ECL)	(160)	(9,401)	(333,027)	(342,588)
	15,269	153,084	93,591	261,944

18.2 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	-	501,574	387,448	889,022
Factoring receivables subject to collective impairment	112,295	-	-	112,295
Gross factoring receivables	112,295	501,574	387,448	1,001,317
Allowance for expected credit losses(ECL)	(1,094)	(23,224)	(321,858)	(346,176)
	111,201	478,350	65,590	655,141

18.3 Allowance for expected credit losses/Impairment
Individually impaired loans

	2020 Rs. '000	2019 Rs. '000
Balance as at 01 January	322,948	586,145
Charge/ (Reversal) to income statement	14,839	222,842
Write-off during the year	-	(443,881)
Interest income accrued on impaired loans(Note 5.1)	(14,640)	(84,210)
Other movements	9,881	42,052
Balance as at 31 December	333,028	322,948

18. FACTORING RECEIVABLES (Contd..)

18.4 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs. '000	2019 Rs. '000
Balance as at 01 January	23,228	29,764
Charge/ (Reversal) to income statement	(13,668)	(6,536)
Balance as at 31 December	9,560	23,228

18.5 Movement in allowance for expected credit losses
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2020	1,094	23,224	321,858	346,176
Charge/ (Reversal) to income statement (Note 8)	(934)	(13,823)	15,928	1,171
Write-off during the year	-	-	-	-
Interest income accrued on impaired loans(Note 5.1)	-	-	(14,640)	(14,640)
Other movements	-	-	9,881	9,881
Balance as at 31 December 2020	160	9,401	333,027	342,588

18.6 Movement in allowance for expected credit losses
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2019	21,898	8,819	585,192	615,909
Charge/ (Reversal) to income statement (Note 8)	(20,804)	14,405	222,705	216,306
Write-off during the year	-	-	(443,881)	(443,881)
Interest income accrued on impaired loans(Note 5.1)	-	-	(84,210)	(84,210)
Other movements	-	-	42,052	42,052
Balance as at 31 December 2019	1,094	23,224	321,858	346,176

19. GOLD LOAN RECEIVABLES

	2020 Rs. '000	2019 Rs. '000
Gold loan receivables	4,780,476	5,020,780
Less : Allowance for expected credit losses/ collective impairment(Note 19.3)	(10,760)	(9,512)
	4,769,716	5,011,268

19.1 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gold loan receivables- subject to collective impairment	3,531,089	693,108	556,279	4,780,476
Allowance for expected credit losses(ECL)	(3,586)	(2,987)	(4,187)	(10,760)
	3,527,503	690,121	552,092	4,769,716

19.2 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gold loan receivables- subject to collective impairment	3,721,436	1,207,720	91,624	5,020,780
Allowance for expected credit losses(ECL)	(3,767)	(3,143)	(2,602)	(9,512)
	3,717,669	1,204,577	89,022	5,011,268

19. GOLD LOAN RECEIVABLES (Contd..)

19.3 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs. '000	2019 Rs. '000
Balance as at 01 January	9,512	10,500
Charge/ (Reversal) to income statement	1,248	(988)
Balance as at 31 December	10,760	9,512

19.4 Movement in allowance for expected credit losses
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2020	3,767	3,143	2,602	9,512
Charge/ (Reversal) to income statement (Note 8)	(181)	(156)	1,585	1,248
Balance as at 31 December 2020	3,586	2,987	4,187	10,760

19.5 Movement in allowance for expected credit losses
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2019	5,177	4,027	1,296	10,500
Charge/ (Reversal) to income statement (Note 8)	(1,410)	(884)	1,306	(988)
Balance as at 31 December 2019	3,767	3,143	2,602	9,512

20. LOAN RECEIVABLES

	2020 Rs. '000	2019 Rs. '000
Revolving loan receivables	91,272	120,899
Vehicle loan receivables	-	1,723
Personal/Business loan receivables	2,543,323	2,014,823
Gross loan receivables	2,634,595	2,137,445
Less : Allowance for expected credit losses/ individual impairment(Note 20.3)	(538,525)	(369,638)
Less : Allowance for expected credit losses/ collective impairment(Note 20.4)	(345,954)	(234,094)
	1,750,116	1,533,713

20.1 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	-	167,053	901,637	1,068,690
Loan receivables subject to collective impairment	698,980	37,714	829,211	1,565,905
Allowance for expected credit losses(ECL)	(20,210)	(23,449)	(840,820)	(884,479)
	678,770	181,318	890,028	1,750,116

20.2 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	10,173	136,480	680,734	827,387
Loan receivables subject to collective impairment	425,078	188,486	696,494	1,310,058
Allowance for expected credit losses(ECL)	(2,430)	(5,061)	(596,241)	(603,732)
	432,821	319,905	780,987	1,533,713

20. LOAN RECEIVABLES (Contd..)

20.3 Allowance for expected credit losses/Impairment

Individually impaired loans	**2020 Rs. '000**	**2019 Rs. '000**
Balance as at 01 January	369,638	94,778
Charge/ (Reversal) to income statement	168,887	274,860
Balance as at 31 December	538,525	369,638

20.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	**2020 Rs. '000**	**2019 Rs. '000**
Balance as at 01 January	234,094	151,128
Charge/ (Reversal) to income statement	111,860	82,966
Balance as at 31 December	345,954	234,094

20.5 Movement in allowance for expected credit losses

As at 31 December 2020	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 01 January 2020	2,430	5,061	596,241	603,732
Charge/ (Reversal) to income statement (Note 8)	17,780	18,388	244,579	280,747
Balance as at 31 December 2020	20,210	23,449	840,820	884,479

20.6 Movement in allowance for expected credit losses

As at 31 December 2019	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 01 January 2019	7,479	7,817	230,610	245,906
Charge/ (Reversal) to income statement (Note 8)	(5,049)	(2,756)	365,631	357,826
Balance as at 31 December 2019	2,430	5,061	596,241	603,732

21. LEASE RECEIVABLES

At Amortized cost	**2020 Rs. '000**	**2019 Rs. '000**
Total lease rentals receivable	39,486,385	39,335,106
Less: Unearned lease interest income	(8,952,904)	(9,620,205)
Less: VAT suspense	(802)	(802)
Less: Prepaid rentals	-	(23)
Gross lease receivable	30,532,679	29,714,076
Less: Allowance for expected credit losses/ collective impairment(Note 21.5)	(1,515,007)	(690,882)
Net lease receivable (Note 21.1 & 21.2)	29,017,672	29,023,194

Lease receivables include receivables amounting to Rs.12,753,269,099/- (2019- Rs.21,835,678,192/-) that have been assigned under term loan funding arrangement.

21. LEASE RECEIVABLES (Contd..)

21.1 Maturity analysis of net lease receivable
As at 31 December 2020

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,096,350	23,327,826	61,407	39,485,583
Less: Unearned lease interest income	(4,157,620)	(4,791,295)	(3,989)	(8,952,904)
Gross lease receivable	11,938,730	18,536,531	57,418	30,532,679
Less: Allowance for expected credit losses	(598,218)	(913,653)	(3,136)	(1,515,007)
Net lease receivable	11,340,512	17,622,878	54,282	29,017,672

21.2 Maturity analysis of net lease receivable
As at 31 December 2019

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,171,148	23,087,858	75,280	39,334,286
Less: Unearned lease interest income	(4,313,462)	(5,299,388)	(7,360)	(9,620,210)
Gross lease receivable	11,857,686	17,788,470	67,920	29,714,076
Less: Provision for collective impairment	(276,456)	(412,824)	(1,602)	(690,882)
Net lease receivable	11,581,230	17,375,646	66,318	29,023,194

21.3 Analysis of lease receivables on maximum exposure to credit risk
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	10,846,414	11,561,610	8,124,655	30,532,679
Allowance for expected credit losses(ECL)	(96,115)	(258,109)	(1,160,783)	(1,515,007)
	10,750,299	11,303,501	6,963,872	29,017,672

21.4 Analysis of lease receivables on maximum exposure to credit risk
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	17,993,628	7,806,361	3,914,087	29,714,076
Allowance for expected credit losses(ECL)	(75,156)	(104,244)	(511,482)	(690,882)
	17,918,472	7,702,117	3,402,605	29,023,194

21.5 Allowance for expected credit losses/Impairment
Loans subject to collective impairment

	2020 Rs. '000	2019 Rs. '000
Balance as at 01 January	690,882	614,508
Charge/ (Reversal) to income statement	921,208	277,847
Write-off during the year	(97,083)	(201,473)
Balance as at 31 December	1,515,007	690,882

21.6 Movement in allowance for expected credit losses
As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2020	75,156	104,244	511,482	690,882
Charge/ (Reversal) to income statement (Note 8)	20,959	153,865	746,384	921,208
Write-off during the year	-	-	(97,083)	(97,083)
Balance as at 31 December 2020	96,115	258,109	1,160,783	1,515,007

21. LEASE RECEIVABLES (Contd..)

21.7 Movement in allowance for expected credit losses

As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2019	39,697	89,466	485,345	614,508
Charge/ (Reversal) to income statement (Note 8)	35,459	14,778	227,610	277,847
Write-off during the year	-	-	(201,473)	(201,473)
Balance as at 31 December 2019	75,156	104,244	511,482	690,882

22. HIRE PURCHASE RECEIVABLES

	2020 Rs. '000	2019 Rs. '000
Total hire purchase rentals receivable	4,729	5,659
Less: Unearned hire purchase interest income	(754)	(1,020)
Gross hire purchase receivable	3,975	4,639
Less: Allowance for expected credit losses/ collective impairment(Note 22.5)	(1,850)	(1,202)
Net hire purchase receivable (Note 22.1 & 22.2)	2,125	3,437

No hire purchase receivables have been assigned under term loan funding arrangements as at 31 December 2020.(2019-Nil).

22.1 Maturity analysis of net hire purchase receivable

As at 31 December 2020

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	2,996	1,734	-	4,730
Less: Unearned hire purchase interest income	(269)	(486)		(755)
Gross hire purchase receivable	2,727	1,248	-	3,975
Less: Allowance for expected credit losses	(1,289)	(561)	-	(1,850)
	1,438	687	-	2,125

22.2 Maturity analysis of net hire purchase receivable

As at 31 December 2019

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	3,490	2,169	-	5,659
Less: Unearned hire purchase interest income	(284)	(736)	-	(1,020)
Gross hire purchase receivable	3,205	1,433	-	4,639
Less: Allowance for expected credit losses	(838)	(364)	-	(1,202)
	2,368	1,069	-	3,437

22.3 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2020

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	-	3,975	-	3,975
Allowance for expected credit losses(ECL)	-	(1,850)	-	(1,850)
	-	2,125	-	2,125

22.4 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	1,757	381	2,501	4,639
Allowance for expected credit losses(ECL)	(5)	(2)	(1,195)	(1,202)
	1,752	379	1,306	3,437

22. HIRE PURCHASE RECEIVABLES (Contd..)

22.5 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	**2020 Rs. '000**	**2019 Rs. '000**
Balance as at 01 January	1,202	33,125
Charge/ (Reversal) to income statement	648	(2,243)
Write-off during the year	-	(29,680)
Balance as at 31 December	1,850	1,202

22.6 Movement in allowance for expected credit losses

As at 31 December 2020	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 01 January 2020	5	2	1,195	1,202
Charge/ (Reversal) to income statement (Note 8)	(5)	1,848	(1,195)	648
Write-off during the year	-	-	-	-
Balance as at 31 December 2020	-	1,850	-	1,850

22.7 Movement in allowance for expected credit losses

As at 31 December 2019	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 01 January 2019	16	17	33,092	33,125
Charge/ (Reversal) to income statement (Note 8)	(11)	(15)	(2,217)	(2,243)
Write-off during the year	-	-	(29,680)	(29,680)
Balance as at 31 December 2019	5	2	1,195	1,202

23. OTHER ASSETS

	2020 Rs. '000	**2019 Rs. '000**
Financial Assets		
Repossessed stock	163,950	133,234
Less: Provision for repossessed stock (Note 23.1 & 23.2)	(163,950)	(133,234)
Insurance premium receivable	487,876	290,847
Staff loan	160,444	203,558
Less: Staff loan fair value adjustment	(16,417)	(18,392)
Insurance commission receivable	62,872	52,350
Other financial assets	52,253	11,421
	747,028	539,784
Non Financial Assets		
Pre paid expenses	35,542	42,592
Pre-paid staff cost (Note 23.3)	16,417	18,392
Advance payments	19,132	6,034
Inventories	3,001	3,356
Taxes receivable	250	20,980
Other non financial assets	30,301	22,572
	104,643	113,926
	851,671	653,710

23. OTHER ASSETS (Contd..)

23.1 Movement in provision for repossessed stock
As at 31 December 2020

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January	128,473	4,614	82	66	133,235
Charge/ (Reversal) during the year	147,119	761	1,773	744	150,397
Write-off during the year	(116,150)	(3,532)	-	-	(119,682)
Balance as at 31 December	159,442	1,843	1,855	810	163,950

23.2 Movement in provision for repossessed stock
As at 31 December 2019

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January	138,934	31,581	4,901	2,239	177,654
Charge/ (Reversal) during the year	200,883	744	80	201	201,908
Write-off during the year	(211,344)	(27,711)	(4,899)	(2,374)	(246,328)
Balance as at 31 December	128,473	4,614	82	66	133,234

Repossessed stock of the Company and the corresponding ECL allowances are grouped under Stage 3.

23.3 The movement in the pre-paid staff cost

	2020	2019
	Rs. '000	Rs. '000
Balance as at 1 January	18,392	23,716
Add:Adjustment for new grants (net of settlements)	11,734	10,219
Charge to personnel expenses	(13,709)	(15,543)
Balance as at 31 December	16,417	18,392

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2020	2019
	Rs. '000	Rs. '000
Equity instruments at fair value through OCI	56	56
	56	56

Unquoted equity instruments at FVOCI are recorded at cost, since there is no market value for these investments and the company intends to hold them for the long run.

In 2020, the Company received dividends of Rs.320,000/-(2019-Rs.240,800/-) from these unquoted equity investments, recorded as other operating income.

25. DEBT INSTRUMENTS AT AMORTISED COST

	2020	2019
	Rs. '000	Rs. '000
Government debt securities - treasury bills & bonds	34,145	15,301
	34,145	15,301

26. PROPERTY, PLANT & EQUIPMENT

26.1 Cost/Valuation

Cost/Valuation	Freehold Land Rs. '000	Fixtures Rs. '000	Office furniture Rs. '000	Office equipment Rs. '000	Motor vehicles Rs. '000	Computer equipment Rs. '000	Capital work-in progress Rs. '000	Total Rs. '000
Balance as at 1 January 2019	353,750	155,647	36,704	76,311	8,529	95,014	104,609	830,564
Additions and improvements	-	37,112	6,044	22,571	-	17,859	358,606	442,192
Revaluation surplus	14,150	-	-	-	-	-	-	14,150
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	41	(41)	6	(1)	(99)	-	(94)
Balance as at 31 December 2019	367,900	192,800	42,707	98,888	8,528	112,774	463,215	1,286,812
Additions and improvements	-	26,522	3,761	5,860	0	11,803	355,143	403,089
Revaluation surplus	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	(2,730)	-	-	(2,730)
Transfers/Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2020	367,900	219,322	46,468	104,748	5,798	124,577	818,358	1,687,171
Accumulated Depreciation								
Balance as at 1 January 2019	-	90,839	19,894	40,535	7,244	56,650	-	215,162
Depreciation charge for the year	-	27,877	4,793	11,975	536	12,935	-	58,116
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	(7)	(34)	(46)	-	(4)	-	(91)
Balance as at 31 December 2019	-	118,709	24,653	52,464	7,780	69,581	-	273,187
Depreciation charge for the year	-	31,012	4,724	12,662	191	14,310	-	62,899
Disposals during the year	-	-	-	-	(2,730)	-	-	(2,730)
Transfers/Adjustments	-	-	-	-		-	-	-
Balance as at 31 December 2020	-	149,721	29,377	65,126	5,241	83,891	-	333,356
Net book value as at 31 December 2020	367,900	69,601	17,091	39,622	557	40,686	818,358	1,353,815
Net book value as at 31 December 2019	367,900	74,091	18,054	46,424	748	43,193	463,215	1,013,625

26.2 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.403.09 Million (2019- Rs.442.19 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2020 is Rs.151.17 Million (2019 - Rs.116.07 Million).

26. PROPERTY, PLANT & EQUIPMENT(Contd..)

26.3 Fair value related disclosures of freehold land

Freehold land is carried at the revalued amount, being the fair value at the valuation date less any subsequent accumulated impairment losses. The independent valuers provide the fair value of land and buildings once in three years or more frequently if the fair values are substantially different from carrying amounts according to the Company policy.The Company revalued its freehold land as of 31 December 2019,the details of which are given below.

Valuer/Location	Date of Valuation	Net Book Value before Revaluation	Revaluation Amount	Revaluation Gain	Revaluation Gain Recognized in OCI
		Rs'000	**Rs'000**	**Rs'000**	**Rs'000**
Valuer -C Wellappilli					
No:534, Baudhaloka Mawatha, Colombo 08	31.12.2019	353,750	367,900	14,150	14,150

Fair value hierarchy

The fair value of the Company's freehold land is categorised into Level 3 of the fair value hierarchy.

Valuation techniques and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of freehold land, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Range (weighted average) 2019
Market Comparable Method	Estimated price per perch Land extent: 28.3 perches	Rs.5 Million-Rs.18 Million

26.4 The carrying value of Company's revalued freehold land,if it was carried at cost,would be as follows.

	2020 Cost Rs. '000	2020 Carrying value Rs. '000	2019 Cost Rs. '000	2019 Carrying value Rs. '000
Freehold land	204,079	204,079	204,079	204,079
	204,079	204,079	204,079	204,079

27. RIGHT-OF-USE ASSETS

	2020 Rs. '000	2019 Rs. '000
Cost as at 01 January	507,037	-
Effect of adoption of SLFRS 16 as at 1 January 2019	-	306,410
Additions and improvements	106,515	200,627
Cost as at 31 December	613,552	507,037
Amortisation as at 01 January	103,384	-
Amortisation expenses for the year	107,589	103,384
Accumulated amortisation as at 31 December	210,973	103,384
Net book value as at 31 December	402,579	403,653

The Company had total cash outflows for leases of Rs.139.8 Million (2019-Rs.133.2 Million).The initial application of SLFRS 16 resulted in non cash additions to right-of-use assets and lease liabilities of Rs.306.41 Million at 1st January 2019.

28. INTANGIBLE ASSETS

	2020 Rs. '000	2019 Rs. '000
Cost as at 01 January	130,057	142,164
Additions and improvements	1,316	293
Write off during the year	-	(12,400)
Cost as at 31 December	131,373	130,057
Amortisation as at 01 January	73,631	58,192
Amortisation for the year	23,119	23,273
Write off during the year	-	(7,835)
Accumulated amortisation as at 31 December	96,750	73,631
Net book value as at 31 December	34,623	56,426

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.1.31 Million (2019 - Rs.0.29 Million).Cost of fully amortised intangible assets of the Company as at 31 December 2020 which are still in use is Rs. 39.7 Million (2019 - Rs. 38.38 Million). Useful life of the above is estimated as 4 years.

29. DUE TO OTHER CUSTOMERS

	2020 Rs. '000	2019 Rs. '000
Fixed deposits	17,199,403	13,159,472
Saving deposits	80,211	61,554
	17,279,614	13,221,026

30. DEBT ISSUED AND OTHER BORROWED FUNDS

	2020 Rs. '000	2019 Rs. '000
Loans (30.2)	10,761,230	17,612,690
Securitizations (30.2.2)	447,924	-
Redeemable debentures (30.3)	5,840,552	3,729,537
	17,049,706	21,342,227

The company has not had any default of principal, interest or other breaches with regard to any liability during 2019 & 2020.

30.1 Movement in Debt issued and other borrowed funds

	2019 Rs. '000	Grantings/ Accrual Rs. '000	Repayments Rs. '000	2020 Rs. '000
Long-term borrowings & securitizations	13,112,681	2,450,000	(5,719,243)	9,843,438
Short-term borrowings	4,450,000	(3,100,000)	-	1,350,000
Redeemable debentures	3,578,010	2,000,000	-	5,578,010
Capital outstanding of debt issued and other borrowed funds	21,140,691	1,350,000	(5,719,243)	16,771,448
Interest on debt issued and other borrowed funds	201,536	2,188,398	(2,111,676)	278,258
	21,342,227	3,538,398	(7,830,919)	17,049,706

30.2 Loans - on terms

	Period	Amortised cost 2020 Rs. '000	Amortised cost 2019 Rs. '000
Short term loans			
Sampath Bank PLC	01 Month	-	1,202,441
Hatton National Bank PLC	03 Months	-	751,817
Muslim Commercial Bank	03 Months	-	100,034
Nations Trust Bank PLC	03 Months	550,524	1,710,530
Seylan Bank PLC	03 Months	800,562	500,262
Union Bank PLC	03 Months	-	200,362
		1,351,086	4,465,446
Long term loans			
Sampath Bank PLC	60 Months	2,974,556	4,930,762
Commercial Bank PLC	60 Months	1,986,961	1,186,478
Hatton National Bank PLC	60 Months	3,277,467	4,782,065
Seylan Bank PLC	60 Months	1,171,160	2,147,452
Muslim Commercial Bank	60 Months	-	100,487
		9,410,144	13,147,244
		10,761,230	17,612,690

The above short term loans and long lerm loans were institution wise aggregated values as at 31 December 2020 and 31 December 2019.

30. DEBT ISSUED AND OTHER BORROWED FUNDS (Contd..)

30.2.1 Loans - on maturity

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long lerm loans payable	5,368,511	5,392,719	10,761,230
	5,368,511	5,392,719	10,761,230

30.2.2 Securitizations - on maturity

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Securitizations payable	87,924	360,000	447,924
	87,924	360,000	447,924

30.3 Redeemable debentures - movement

	2020 Rs'000	2019 Rs'000
Balance as at 01st January	3,578,010	4,500,000
Debentures issued	2,000,000	1,500,000
Debentures redeemed	-	(2,421,990)
	5,578,010	3,578,010
Interest payable	670,023	734,292
Interest paid	(407,481)	(582,765)
Balance as at 31st December	5,840,552	3,729,537

30.3.1 Redeemable debentures - maturity

	Payable within 1 Year Rs'000	Payable after 1 Year Rs'000	Total Rs'000
Debentures payable	1,340,552	4,500,000	5,840,552
	1,340,552	4,500,000	5,840,552

30.3.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of Interest	Amortised cost 2020 Rs'000	Amortised cost 2019 Rs'000
Rated unsecured senior redeemable debentures	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,476	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	04-Oct-17	04-Oct-22	12.50%	1,030,822	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	08-Aug-19	08-Aug-24	13.33%	1,580,528	1,579,981
Rated unsecured senior redeemable debentures	20,000,000	07-Jul-20	07-Jul-23	11.25%	2,109,726	-
					5,840,552	3,729,537

31. OTHER PAYABLES	**2020 Rs'000**	**2019 Rs'000**
Financial Liabilities		
Vendor payable	238,610	239,136
Insurance premium payable	198,664	164,746
Lease liabilities(Note 31.1 & 31.2)	441,322	421,624
Other financial liabilities	314,358	275,128
	1,192,954	1,100,634
Non Financial Liabilities		
VAT payable	-	73
Other taxes payable	69,494	147,802
Accrued expenses	22,837	24,488
Deposit insurance premium	2,007	1,513
Deferred guarantee income	48	28
Other non financial liabilities	24,740	27,005
	119,126	200,909
	1,312,080	1,301,543

31.1 Movement of lease liabilities during the year is as follows.	**2020 Rs'000**	**2019 Rs'000**
As at 1 January	421,624	-
Effect of adoption of SLFRS 16 as at 1 January	-	306,410
Additions	106,515	202,979
Accretion of interest	53,007	45,493
Payments during the year	(139,824)	(133,258)
Balance as at 31 December	441,322	421,624

31.2 Maturity analysis of lease liabilites	**2020 Rs'000**	**2019 Rs'000**
Less than one year	159,950	140,707
One to five years	244,864	215,675
More than five years	36,508	65,242
Total lease liabilities as at 31 December	441,322	421,624

32. CURRENT TAX LIABILITIES	**2020 Rs'000**	**2019 Rs'000**
Balance as at 1 January	407,066	149,015
Less: Tax paid	(449,053)	(238,240)
Adjustment (ESC/WHT/Notional Tax etc.)	(10,401)	(41,434)
Provision for the year (Note 12)	170,538	537,725
Balance as at 31 December	118,150	407,066

33. DEFERRED TAX LIABILITIES/(ASSETS)

Deferred Tax (Assets), Liabilities and Income Tax relates to the following

	Accelerated depreciation for tax purposes		Provision for loan losses	Revaluation on land	Retirement benefit obligation	Tax losses on leasing operation	Total
	Property, plant & equipment	Leased assets					
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 31 December 2018	20,024	492,892	(93,801)	41,908	(11,420)	-	449,603
Income statement(Note 12.1)	(9,547)	(206,301)	-	-	(3,543)	-	(219,391)
Other comprehensive income	-	-	-	3,962	(4,067)	-	(105)
Balance as at 31 December 2019	10,477	286,591	(93,801)	45,870	(19,030)	-	230,107
Income statement(Note 12.1)	(7,206)	(82,609)	193,460	-	(5,655)	-	97,990
Other comprehensive income	-	-	-	-	252	-	252
Balance as at 31 December 2020	3,271	203,982	99,659	45,870	(24,433)	-	328,349

34. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2020 by Messrs. Piyal S Goonethilleke & Associates, a firm of professional actuaries. The valuation method used by the actuary to value the fund is the "Projected Unit Credit Actuarial Cost Method", recommended by Sri Lanka Accounting Standard-LKAS 19 (Employee Benefits).

34.1 Defined benefit obligation reconciliation

	2020 Rs'000	2019 Rs'000
Balance as at 01 January	67,965	40,789
Amount recognised in the income statement (34.2)	23,726	16,083
Amounts recognised in other comprehensive income (34.3)	(901)	14,527
Benefits paid by the plan	(3,530)	(3,434)
Balance as at 31 December	87,260	67,965

34.2 Amount recognised in the Income Statement

	2020 Rs'000	2019 Rs'000
Current service cost for the year	16,529	11,095
Interest on the defined benefit liability	7,197	4,988
Total amount recognised in income statement	23,726	16,083

34.3 Amounts recognised in Other Comprehensive Income (OCI)

	2020 Rs'000	2019 Rs'000
Liability (gains)/losses due to changes in assumptions	(1,292)	11,308
Liability experience (gains)/losses arising during the year	391	3,219
Total amount recognized in OCI	(901)	14,527

34.4 Assumptions

	2020	2019
Discount rate	8.00%	10.59%
Future salary increment rate	7.41%	10.00%
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater

Expected average future working life of the active participants is 14.0 years. (2019: 14.1 years)

34. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

34.5 Sensitivity assumptions employed in actuarial valuation

The 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.

The sensitivity of the Income Statement and Gratuity liability is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

		2020		2019	
Variable	**Rate Change**	**Sensitivity Effect on gratuity liability-Increase/(Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**
Discount rate	1.00%	(9.25 Million)	9.25 Million	(7.35 Million)	7.35 Million
Discount rate	-1.00%	10.93 Million	(10.93 Million)	8.68 Million	(8.68 Million)
Salary Increment rate	1.00%	10.64 Million	(10.64 Million)	8.44 Million	(8.44 Million)
Salary Increment rate	-1.00%	(9.20 Million)	9.20 Million	(7.29 Million)	7.29 Million

35. STATED CAPITAL

	2020		2019	
	No. of shares	**Rs.000**	**No. of shares**	**Rs.000**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01 January	73,312,409	1,379,922	63,596,388	948,666
Rights issue	-	-	9,090,910	400,000
Scrip dividend	2,899,663	142,959	625,111	31,256
Ordinary shares as at 31 December	76,212,072	1,522,881	73,312,409	1,379,922

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

35.1 Share application money pending allotment

Share application money pending allotment as at 31st December 2020 represented applications received from existing shareholders on rights issue of shares.The equity shares are yet to be allotted against the aforementioned share application money.

36. STATUTORY RESERVE FUND

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

As at 31 December	**2020 Rs.000**	**2019 Rs.000**
Balance as at 01 January	164,000	139,000
Transfer during the year	21,000	25,000
Balance as at 31 December	185,000	164,000

37. REVALUATION RESERVE

Revaluation Reserve represents the fair value changes of freehold land as at the date of revaluation.

As at 31 December	**2020 Rs.000**	**2019 Rs.000**
Balance as at 01 January	117,951	107,763
Revaluation surplus(net of tax)	-	10,188
Balance as at 31 December	117,951	117,951

38. RETAINED EARNINGS

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

39. FAIR VALUE OF ASSET AND LIABILITIES

The following describes the methodologies and assumptions used to determine fair value of those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than a year) it is assumed that the carrying amounts approximate their fair value.

Equity instruments at fair value through OCI/Financial Assets-Available for Sale

Equity instruments at fair value through OCI/Available for sale financial assets primarily consist of unquoted equity securities. Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

Fixed Rate Financial Instruments

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

Variable rate Financial Instruments

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

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value and non financial assets carried at fair value in the financial statements.

	2020 Rs. '000					2019 Rs. '000				
		Fair value measurement using					Fair value measurement using			
	Carrying value	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**	**Carrying value**	**Quoted prices in active markets (Level I)**	**Significant observable inputs (Level 2)**	**Siginificant unobservable inputs (Level 3)**	**Total**
FINANCIAL ASSETS										
Factoring receivables	261,944	-	889,022	-	889,022	655,141	-	1,097,360	-	1,097,360
Gold loan receivables	4,769,716	-	4,745,591	-	4,745,591	5,011,268	-	4,956,505	-	4,956,505
Loan receivables	1,750,116	-	2,576,936	-	2,576,936	1,533,713	-	1,863,505	-	1,863,505
Lease receivables	29,017,672	-	31,582,949	-	31,582,949	29,023,194	-	30,154,672	-	30,154,672
Debt instruments at amortised cost	34,145	-	34,609	-	34,609	15,301	-	14,940	-	14,940
Equity instruments at fair value through OCI	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	2,125	-	4,163	-	4,163	3,437	-	4,885	-	4,885
TOTAL FINANCIAL ASSETS	35,835,774	-	39,833,270	56	39,833,326	36,242,110	-	38,091,867	56	38,091,923
FINANCIAL LIABILITIES										
Due to other customers	17,279,614	-	18,405,585	-	18,405,585	13,221,026	-	14,037,157	-	14,037,157
Debt instruments issued and other borrowed funds	17,049,706	-	17,515,667	-	17,515,667	21,342,227	-	21,421,317	-	21,421,317
TOTAL FINANCIAL LIABILITIES	34,329,320	-	35,921,252	-	35,921,252	34,563,253	-	35,458,474	-	35,458,474

There were no transfers between levels of fair value hierachy during 2019 and 2020.

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

<u>Assets</u>

Cash and bank balances
Securities purchased under repurchase agreements
Placements with banks
Other assets

<u>Liabilities</u>

Bank overdraft
Other payables

40. RISK MANAGEMENT

40.1 Introduction

Risk is inherent in the financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is mainly exposed to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk, Regulatory & Compliance Risk, Reputation Risk and Environmental Risk.

40.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated its authority to Board Integrated Risk Management Committee (BIRMC), which is a sub-committee of the Board, oversees the risk management function in line with the Board approved policies and strategies.The Integrated Risk Management Committee shall develop the policy and operations for Company-wide risk management. The Committee comprises of Executive and Non-Executive Directors. Meeting of the BIRMC are held regularly, and the Board of Directors are duly updated of its activities.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, continuously updates and maintains a disciplined and constructive control environment, in which all employees are assigned and made to understand their respective roles and responsibilities.

Risk appetite of the Company is defined in both qualitative and quantitative terms. These risk appetite parameters are dynamic and subject to changes in line with the changing business strategies of the Company and changing market conditions. Risk appetite of the Company is defined through the Risk tolerance limits approved by the Board of Directors.

The BIRMC was set up to fulfil the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance for Finance Companies issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act, No. 42 of 2011.

The said Committee consists of such number of members, as the Board may determine from time to time. The Committee currently consists of membership of 4 Directors, Managing Director and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, the Risk Management function is managed by the Risk Management Department (RMD). The RMD is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The Department works closely with the Risk Committee to ensure that procedures are compliant with the overall framework. The RMD is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

Responding to COVID-19 pandemic risks

The Company's risk measurement and reporting functions were further strengthened during the year amidst the COVID-19 pandemic. The credit risk of the Company's loan book increased as the loan repayments were impacted by the lock downs and movement restrictions imposed locally and globally. Further, the Company monitored the liquidity position with concern as it was under pressure due to the payment holidays offered under moratoriums. The operational risks too increased owing to the work from home arrangements etc. during the lock down periods.

In this back drop, the Company took additional measures to ensure that the risks caused by the pandemic are adequately managed.

Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- Reviewed risk elevated industries in the context of COVID-19 pandemic.
- Assessed the impact of the COVID-19 lock downs and moratoriums (payment holidays) on the portfolio staging.
- Used of a range of additional stress tests to assess the impact on Company's performance and capital.
- Strengthened Cyber Security Management in light of the increase in use of digital platforms.
- Ensured adequate liquidity resources were held to meet Company's obligations, given the uncertainties caused by the pandemic.

40. RISK MANAGEMENT (Contd…)

40.3 Risk measurement & Reporting System and Risk Mitigation

Prudent management of risk exposures relevant to the Company's business operations would be ensured through a mechanism of "Three Lines of Defence". These levels consist of management of risk by the relevant risk-assuming function, independent risk management & compliance functions and internal & external audit functions.

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigating measures suggested.

Credit Risk	**1.Default Risk** Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations **2. Concentration Risk** Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	· Probability of Default · Loss Given Default · Sector / Asset / Client / Branch Concentrations of Lending Portfolio · Concentrations in Repossessed assets · Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	· Board approved credit policies/ procedures/ framework and annual review · Delegated authority levels/ segregation of duties · Setting Prudential limits on maximum exposure - Overall NPL Ratio setting based on risk appetite - Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios - Concentration limits for clients/ groups, asset types · Monitoring of exposures against the limits · Trend analysis reported to BIRMC Strict compliance with CBSL Guidelines
Interest rate risk	Adverse effect on Net Interest Income	· Net Interest Yield and Movement in Net Interest Yield · Lending to Borrowing Ratio · Tracking of Movements in Money Market rates · Marginal Cost of funds / Risk based Pricing · Gaps in asset Liability Re-Pricing · Cumulative Gaps as a % of Cumulative Liabilities	· Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets · Setting of Lending to Borrowing ratios
Liquidity Risk	Inability to meet obligations as they fall due	· Gaps in dynamic liquidity flows · Stocks of high quality liquid assets	· Gaps limits for structural liquidity, · Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets · Volatile Liability Dependency measures · Balance sheet ratios

40. RISK MANAGEMENT (Contd…)

40.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's credit facilities given to customers and investments in debt securities. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate credit risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the level of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

Management of Credit Risk

In credit risk management, the rigorous credit screening process adopted has been a core competency of the Company. The multiple layers of approving lines ensure that credit risk is mitigated in all aspects.

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

Post approval pre-disbursement stage is covered by the Credit Administration department under which security documentation and disbursement is done. Post disbursement monitoring is efficiently carried out by both the branch network and the recoveries department based on the repayment pattern.

Early warnings signals captured through trigger lists done by credit risk management is also shared with respective departments to aid the post disbursement monitoring. Further timely reviews of facilities also ensure that any early warning signs are captured and required corrective steps are taken to arrest any unexpected default.

40.4.1 Impairment Assessment

The methodology of the impairment assessment has explained in Note 3.1.9 under Accounting policies.The references below should be read in conjunction with those Accounting policies.

40. RISK MANAGEMENT (Contd…)

40.4.1. (a) Definition of default and cure

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

* Internal assessment of the borrower indicating default or near-default
* The borrower requesting emergency funding from the Company
* The borrower having past due liabilities to public creditors or employees
* The borrower is deceased
* A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
* A material decrease in the borrower's turnover or the loss of a major customer
* A covenant breach not waived by the Company
* The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
* Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Company's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

40.4.1(b) Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the SLFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Company is focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka. As per industry guidance given by the Central Bank and the Institute of Chartered Accountants of Sri Lanka, eligibility for the debt moratorium does not automatically result in a significant increase in credit risk (SICR) which moves an exposure from stage 1 (12-month ECL) to stage 2 (lifetime ECL). Accordingly, as explained in Note 3.1.9, a case-by-case analysis has been conducted on the most significant exposures and only those exposures with increased credit risk has been moved to stage 2. The Company has identified industries such as tourism, manufacturing,construction (including condominiums), and transportation as industries carrying an increased credit risk. Accordingly, exposures outstanding from the borrowers operating in these industries have been classified as stage 2 unless such exposures are individually significant and has specifically identified as stage 1.

This approach ensures the volume of exposures in stage 2 reflects a forward-looking view of the economy and not just what is observable as at the reporting date.

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1 (c) Analysis of the total allowance for expected credit losses is as follows.

As at 31st December	2020				2019			
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000
Cash & cash equivalents	15	-	-	15	11	-	-	11
Factoring receivables	160	9,401	333,027	342,588	9,963	14,355	321,858	346,176
Gold loan receivables	3,586	2,987	4,187	10,760	3,767	3,143	2,602	9,512
Loan receivables	20,210	23,449	840,820	884,479	3,251	4,087	596,394	603,732
Lease receivables	96,115	258,109	1,160,783	1,515,007	75,156	104,244	511,482	690,882
Hire purchase receivables	-	1,850	-	1,850	5	2	1,195	1,202
Repossessed stock	-	-	163,950	163,950	-	-	133,234	133,234
Other undrawn credit lines	753	364	-	1,117	117	158	-	275
Total impairment for expected credit losses	120,839	296,160	2,502,767	2,919,766	92,270	125,989	1,566,765	1,785,024

The methodology used in the determination of expected credit losses is explained in Note 3.1.9 to Financial Statements.As explained in the said Note, the compant has made allowances for overlays where required to address the uncertainties and potential implications of COVID-19.

40.4.1(d) Movement of the total allowance for expected credit losses during the period

	2020 Rs.000	2019 Rs.000
Balance as at 01 January	1,785,024	1,697,606
Net charge to profit or loss (Note 8)	1,356,264	1,050,938
Write-off during the year	(216,763)	(921,362)
Interest income accrued on impaired loans & receivables (Note 5)	(14,640)	(84,210)
Other movements	9,881	42,052
Balance as at 31 December	2,919,766	1,785,024

40.4.1(e) Sensitivity Analysis : Impact of extending the recovery of cash flows by further one year for individually significant impaired loans

Had the Company further extended the recovery of cash flows by one year, only for instances where cash flows is forecasted based on collateral realization, the cumulative impairment provision for individually significant impaired loans would have increased by Rs.29.1 Million.

40.4.1(f) Sensitivity Analysis : Impact of staging of loans on collective allowance for expected credit losses

The following table illustrates the impact of staging of loans by comparing the allowance, if all performing financial assets were in stage 1 or if all such assets were in stage 2 to the actual expected credit loss recorded on these assets.

	2020			2019		
	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	416,999	244,885	(172,114)	218,259	146,752	(71,507)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	416,999	621,430	204,431	218,259	479,525	261,266

The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

40. RISK MANAGEMENT (Contd…)

40.4.1(g) Loans past due but not impaired

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are contractually past due but not classified as impaired because they are less than 90 days past due.Loans past due 30 days or less are not presented in this analysis as they are not administratively considered past due.

As at 31st December	2020			2019		
	31- 60 Days	61- 90 Days	Total	31- 60 Days	61- 90 Days	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Factoring receivables	152,927	9,558	162,485	16,894	21,994	38,888
Gold loan receivables	520,799	172,309	693,108	1,127,637	80,083	1,207,720
Loan receivables	51,460	153,307	204,767	171,584	70,306	241,890
Lease receivables	8,771,825	2,789,785	11,561,610	4,355,173	3,451,028	7,806,201
Hire purchase receivables	-	3,975	3,975	136,314	244,756	381,070
	9,497,011	3,128,934	12,625,945	5,807,602	3,868,167	9,675,769

40.4.1(h) Breakdown of loans classified under stage 2

Loans classified under stage 2 include contractually past due loans and loans which have been pushed to stage 2 due to underlying industry risk of the borrowers (not contractually past due). As explained in Note 3.1.9 (iv), the Company identified certain industries as risk elevated industries during the year 2020. Accordingly, loans outstanding from customers operating in risk elevated industries amounting to Rs 5,425.87 Mn have been classified under stage 2 as at 31 December 2020 even though such loans are not contractually past due as at that date.

	2020				2019
	Not Contractually Past due	Contractually Past due		Total	Total
		31 - 60 Days	61 - 90 Days		
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Factoring receivables	152,927	-	9,558	162,485	38,888
Gold loan receivables	-	520,799	172,309	693,108	1,207,720
Loan receivables	120,925	25,598	58,244	204,767	241,890
Lease receivables	5,152,021	3,619,804	2,789,785	11,561,610	7,806,201
Hire purchase receivables	-	-	3,975	3,975	381,070
	5,425,873	4,166,201	3,033,871	12,625,945	9,675,769

40.4.1(i) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st December	2020							2019						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value	Gross Carrying Value			Allowance for ECL			Net Carrying
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total		Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Loan receivables	6,726	196,578	203,304	100	60,101	60,201	143,103	9,061	116,534	125,595	183	17,874	18,057	107,538
Lease receivables	258,632	1,060,755	1,319,387	5,101	138,940	144,041	1,175,346	308,427	543,129	851,556	3,566	51,599	55,165	796,391
	265,358	1,257,333	1,522,691	5,201	199,041	204,242	1,318,449	317,488	659,663	977,151	3,749	69,473	73,222	903,929

40.4.1(j) Analysis of the loans and advances eligible for the second phase of the COVID-19 Debt Moratorium

An analysis of the loans and advances eligible for the second phase of the COVID-19 moratorium is as follows.

As at 31st December 2020	Amortised Cost	Allowance for ECL
	Rs 000	Rs 000
Stage 1	1,991,719	27,129
Stage 2	1,756,034	40,836
Stage 3	2,398,885	264,417
	6,146,638	332,382

40. RISK MANAGEMENT (Contd…)

40.4.2 Maximum Exposure to Credit Risk

As at 31 December	2020 MAXIMUM EXPOSURE TO CREDIT RISK	2020 NET EXPOSURE	2019 MAXIMUM EXPOSURE TO CREDIT RISK	2019 NET EXPOSURE
	Rs'000	Rs. '000	Rs'000	Rs. '000
Financial Assets				
Cash and bank balances	292,036	172,814	273,429	123,523
Securities purchased under repurchase agreements	2,781,162	-	2,304,392	-
Factoring receivables	261,944	215,056	655,141	560,254
Gold loan receivables	4,769,716	-	5,011,268	-
Loan receivables	1,750,116	427,872	1,533,713	688,943
Lease receivables	29,017,672	-	29,023,194	-
Hire purchase receivables	2,125	-	3,437	-
Other assets	747,028	603,001	539,784	354,618
Equity instruments at fair value through OCI	56	56	56	56
Debt instruments at amortised cost	34,145	-	15,301	-
Total Financial Assets	**39,656,000**	**1,418,799**	**39,359,715**	**1,727,394**

Approximately 91.6% of the loans and receivables are secured against securities including movable property, gold, lease receivables etc.Further, 2.0% and 0.7% of the loans and receivables of the Company are secured against immovable property and deposits held within the Company respectively.

40.4.3 The table below sets out the carrying amounts of stage 3 loans and receivables, grouped based on the collateral held against those loans and advances.

As at 31 December 2020	Gross amount	Type of collateral: Vehicles	Gold articles	Land security	Offsetting agreements	Other securities	Total collateral
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Factoring receivables	426,618	-	-	-	16,898	-	16,898
Gold loan receivables	556,279	-	556,279	-	-	-	556,279
Loan receivables	1,730,848	22,171	-	652,133	56,683	67,490	798,477
Lease receivables	8,124,655	8,124,655	-	-	-	-	8,124,655
Hire purchase receivables	-	-	-	-	-	-	-
Total	10,838,400	8,146,826	556,279	652,133	73,581	67,490	9,496,309

As at 31 December 2019	Gross amount	Type of collateral: Vehicles	Gold articles	Land security	Offsetting agreements	Other securities	Total collateral
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Factoring receivables	387,448	-	-	-	-	-	-
Gold loan receivables	91,624	-	91,624	-	-	-	91,624
Loan receivables	1,377,228	22,187	-	577,927	15,860	34,466	650,440
Lease receivables	3,914,087	3,914,087	-	-	-	-	3,914,087
Hire purchase receivables	2,501	2,501	-	-	-	-	2,501
Total	5,772,888	3,938,775	91,624	577,927	15,860	34,466	4,658,652

40.4.4 Offsetting financial assets and liabilities

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed.

	2020 Gross amount	2020 Amount subject to netting but do not qualify for offsettling	2020 Net amount	2019 Gross amount	2019 Amount subject to netting but do not qualify for offsettling	2019 Net amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets						
Loan receivables	265,800	237,673	28,127	448,315	223,496	224,819

40. RISK MANAGEMENT (Contd…)

40.4.5 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position, including geography of counterparty and industry.

As at 31 December 2020 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	292,036	-	-	292,036
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	2,781,162	-	-	-	2,781,162
Factoring receivables	171,184	-	22,786	34,774	2,880	-	30,320	-	-	-	-	261,944
Gold loan receivables	-	-	-	-	-	-	-	-	-	4,769,716	-	4,769,716
Loan receivables	304,918	36,681	54,084	463,637	279,491	63,740	164,121	-	-	228,111	155,333	1,750,116
Lease receivables	2,420,865	1,380,914	2,987,262	5,055,334	2,023,709	2,725,798	8,655,739	-	1,561,661	1,720,932	485,458	29,017,672
Hire purchase receivables	-	-	267	555	-	-	-	-	1,303	-	-	2,125
Other assets	-	-	-	-	-	-	-	-	-	-	747,028	747,028
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	34,145	-	-	-	34,145
	2,896,967	1,417,595	3,064,399	5,554,300	2,306,080	2,789,538	8,850,180	2,815,307	1,855,056	6,718,759	1,387,819	39,656,000

As at 31 December 2019 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	273,429	-	-	273,429
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	2,304,392	-	-	-	2,304,392
Factoring receivables	517,664	-	28,839	64,639	7,582	6,497	29,920	-	-	-	-	655,141
Gold loan receivables	-	-	-	-	-	-	-	-	-	5,011,268	-	5,011,268
Loan receivables	241,948	39,268	18,575	337,980	355,622	10,084	66,333	-	32,269	333,952	97,682	1,533,713
Lease receivables	2,152,456	1,613,277	2,779,404	5,178,806	1,942,742	2,396,162	8,735,858	-	1,848,115	1,931,003	445,371	29,023,194
Hire purchase receivables	838	116	-	633	-	-	1,809	-	-	41	-	3,437
Other assets	-	-	-	-	-	-	-	-	-	-	539,784	539,784
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	15,301	-	-	-	15,301
	2,912,906	1,652,661	2,826,818	5,582,058	2,305,946	2,412,743	8,833,920	2,319,693	2,153,869	7,276,264	1,082,837	39,359,715

The provisional breakdown for factoring,gold loan,loans,leasing and hire purchases is as follows.

Province	**2020**	**2019**
	Rs.'000	**Rs.'000**
Central	4,496,306	4,613,554
Eastern	3,049,502	3,189,322
North Central	1,464,198	1,412,054
North Western	3,796,590	3,831,622
Northern	759,466	558,629
Sabaragamuwa	2,118,583	2,102,081
Southern	2,614,071	2,669,789
Uva	419,484	411,811
Western	17,083,373	17,437,891
Total	35,801,573	36,226,753

40. RISK MANAGEMENT (Contd…)

40.5 Interest Rate Risk

Interest Rate Risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institution's financial condition due to the movement in interest rates. Changes in interest rate affect earnings, value of assets, liability, off-balance sheet items and cash flow. Hence, the objective of interest rate risk management is to maintain earnings, improve the capability, ability to absorb potential loss and to ensure the adequacy of the compensation received for the risk taken.

The fluctuation of interest rates is an external factor which is beyond the control of the Company. Though the Company is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Management of Interest Rate Risk

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing brands. ALCO is the monitoring body for compliance with these limits and assisted by Finance Department. Monitoring includes changes in the Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations. Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing.

Asset liability management encompasses the complete set of techniques used to manage interest rate risk within the broad risk management framework. Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of the Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.

- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

40.5.1 Interest Rate Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Income Statement & Equity.

			Rs. Million
Currency of Borrowings/ Advance	**Increase (Decrease) in basis points**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2020	**2020**	**2020**
Long Term Loans linked to AWPLR	1/ (-1)	(87.59)/87.59	1.71%
	0.5 / (0.5)	(43.79)/43.79	0.85%
	0.25 / (0.25)	(21.90)/21.90	0.43%
	2019	**2019**	**2019**
Long Term Loans linked to AWPLR	1/ (-1)	(106.05)/106.05	2.64%
	0.5 / (0.5)	(53.02)/53.02	1.32%
	0.25 / (0.25)	(26.51)/26.51	0.66%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 52.22% (2019-50.16%) of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity, due to changes in the Average Weighted Prime Lending Rate.

40. RISK MANAGEMENT (Contd…)

40.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

The table below analyses the Company's interest rate risk exposure on financial assets & liabilities. The Company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

As at 31 December 2020	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	292,036	-	-	-	-	-	292,036
Securities purchased under repurchase agreements	1,773,880	1,007,282	-	-	-	-	2,781,162
Factoring receivables	93,230	168,714	-	-	-	-	261,944
Lease receivables	4,789,880	6,550,631	13,019,480	4,603,397	54,284	-	29,017,672
Hire purchase receivables	1,361	78	270	416	-	-	2,125
Gold loan receivables	3,178,579	1,591,137	-	-	-	-	4,769,716
Loan receivables	79,749	1,099,262	355,553	130,719	84,833	-	1,750,116
Other assets	482,418	26,189	68,854	47,850	6,591	115,126	747,028
Equity instruments at FVOCI	-	-	-	-	56	-	56
Debt instruments at amortised cost	-	34,145	-	-	-	-	34,145
Total Financial Assets	10,691,133	10,477,438	13,444,157	4,782,382	145,764	115,126	39,656,000
Financial Liabilities							
Bank overdraft	250,536	-	-	-	-	-	250,536
Due to other customers	5,859,184	8,125,050	2,742,597	551,520	1,263	-	17,279,614
Debt instruments issued and other borrowed funds	10,657,396	1,532,310	3,360,000	1,500,000	-	-	17,049,706
Other payables	-	-	-	-	-	1,192,954	1,192,954
Total Financial Liabilities	16,767,116	9,657,360	6,102,597	2,051,520	1,263	1,192,954	35,772,810
Interest Sensitivity Gap	(6,075,983)	820,078	7,341,560	2,730,862	144,501	(1,077,828)	3,883,190

As at 31 December 2019	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	273,429	-	-	-	-	-	273,429
Securities purchased under repurchase agreements	742,787	1,561,605	-	-	-	-	2,304,392
Factoring receivables	119,761	410,025	125,355	-	-	-	655,141
Lease receivables	5,145,073	6,436,157	12,676,723	4,698,922	66,319	-	29,023,194
Hire purchase receivables	2,279	88	305	765	-	-	3,437
Gold loan receivables	2,818,770	2,192,498	-	-	-	-	5,011,268
Loan receivables	877,032	446,574	57,735	150,193	2,179	-	1,533,713
Other assets	17,388	35,054	96,490	52,948	1,678	336,226	539,784
Equity instruments at FVOCI	-	-	-	-	-	56	56
Debt instruments at amortised cost	-	10,771	4,530	-	-	-	15,301
Total Financial Assets	9,996,519	11,092,772	12,961,138	4,902,828	70,176	336,282	39,359,715
Financial Liabilities							
Bank overdraft	361,586	-	-	-	-	-	361,586
Due to other customers	4,144,657	6,942,222	1,392,284	741,311	552	-	13,221,026
Debt instruments issued and other borrowed funds	15,722,595	1,404,622	2,715,010	1,500,000	-	-	21,342,227
Other payables	-	-	-	-	-	1,100,634	1,100,634
Total Financial Liabilities	20,228,838	8,346,844	4,107,294	2,241,311	552	1,100,634	36,025,473
Interest Sensitivity Gap	(10,232,319)	2,745,928	8,853,844	2,661,517	69,624	(764,352)	3,334,242

40. RISK MANAGEMENT (Contd…)

40.6 Liquidity Risk

Liquidity is generally defined as the ability of a financial institution to meet its debt obligations without incurring unacceptably large losses. Liquidity risk refers to the non-availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments.

An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causing counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

Management of Liquidity Risk

The Company's risk for managing liquidity risk and oversight of the implementation is administered by ALCO. Finance Department manages the Company's liquidity position on a day to day basis.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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

The key elements of the Company's liquidity strategy are as follows.

Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.

- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.

- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more sensitive market conditions.

40. RISK MANAGEMENT (Contd…)

40.6 Liquidity Risk (Contd..)

40.6.1 Statutory Liquid Asset Ratio

Statutory Liquid Asset Calculation is performed based on the following calculations as prescribed in section 2, 3 & 4 of the Finance Companies (Liquid Assets) Direction No.04 of 2013 and amendments thereto.

The Company's liquid asset ratio is 5.0% (2019-7.5%) of average of month end deposit liabilities and borrowings of the twelve months of the preceding financial year (as per section 4 of the said direction and amendments thereto). Liquid assets are maintained with Sri Lanka Government securities.

40.6.2 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Companies financial assets and liabilities as at 31 December 2020.

Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

As at 31 December 2020	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	292,036	-	-	-	-	292,036
Securities purchased under repurchase agreements	1,775,053	1,058,498	-	-	-	2,833,551
Factoring receivables	740,450	176,128	-	-	-	916,578
Lease receivables	6,351,638	9,982,117	17,839,167	5,488,658	61,408	39,722,988
Hire purchase receivables	2,808	327	871	863	-	4,869
Gold loan receivables	3,227,263	1,769,928	-	-	-	4,997,191
Loan receivables	375,122	1,635,423	529,269	194,585	126,282	2,860,681
Other assets	775,990	44,723	90,054	55,312	7,240	973,319
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	33,465	-	-	-	33,465
Total Financial Assets	13,540,360	14,700,609	18,459,361	5,739,418	194,986	52,634,734
Financial Liabilities						
Bank overdraft	250,536	-	-	-	-	250,536
Due to other customers	6,429,062	8,935,343	3,312,952	632,573	1,263	19,311,193
Debt instruments issued and other borrowed funds	2,694,922	5,175,730	8,959,502	3,018,801	-	19,848,955
Other payables	869,627	96,767	176,928	149,445	209,311	1,502,078
Total Financial Liabilities	10,244,147	14,207,840	12,449,382	3,800,819	210,574	40,912,762
Net Financial Asset/Liabilities	3,296,213	492,769	6,009,979	1,938,599	(15,588)	11,721,972

As at 31 December 2019	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Financial Assets						
Cash and bank balances	273,440	-	-	-	-	273,440
Securities purchased under repurchase agreements	743,966	1,674,996	-	-	-	2,418,962
Factoring receivables	605,319	430,923	126,466	-	-	1,162,708
Lease receivables	6,458,034	9,815,448	17,494,241	5,593,617	75,280	39,436,620
Hire purchase receivables	3,437	327	871	1,298	-	5,933
Gold loan receivables	2,865,168	2,480,427	-	-	-	5,345,595
Loan receivables	282,599	1,290,440	535,923	150,193	2,179	2,261,334
Other assets	499,281	40,959	96,543	52,947	1,678	691,408
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	11,507	4,300	-	-	15,807
Total Financial Assets	11,731,244	15,745,027	18,258,344	5,798,055	79,193	51,611,863
Financial Liabilities						
Bank overdraft	361,586	-	-	-	-	361,586
Due to other customers	4,589,851	7,852,600	1,929,306	869,296	552	15,241,605
Debt instruments issued and other borrowed funds	6,406,427	5,196,483	9,584,526	4,175,238	-	25,362,674
Other payables	747,968	98,289	198,360	132,048	167,124	1,343,789
Total Financial Liabilities	12,105,832	13,147,372	11,712,192	5,176,582	167,676	42,309,654
Net Financial Asset/Liabilities	(374,588)	2,597,655	6,546,152	621,473	(88,483)	9,302,209

41. MATURITY ANALYSIS

As at 31 December 2020	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	292,036	-	-	-	-	292,036
Securities purchased under repurchase	1,773,880	1,007,282	-	-	-	2,781,162
Factoring receivables	93,230	168,714	-	-	-	261,944
Lease receivables	4,789,880	6,550,631	13,019,480	4,603,397	54,284	29,017,672
Hire purchase receivables	1,361	78	270	416	-	2,125
Gold loan receivables	3,178,579	1,591,137	-	-	-	4,769,716
Loan receivables	79,749	1,099,262	355,553	130,719	84,833	1,750,116
Other assets	623,044	51,587	99,272	55,676	22,092	851,671
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	34,145	-	-	-	34,145
Property, plant & equipment	-	-	-	-	1,353,815	1,353,815
Right-of-use assets	-	-	-	-	402,579	402,579
Intangible assets	-	-	-	-	34,623	34,623
Total Assets	10,831,759	10,502,836	13,474,575	4,790,208	1,952,282	41,551,660
Liabilities						
Bank overdraft	250,536	-	-	-	-	250,536
Due to other customers	5,859,184	8,125,050	2,742,597	551,520	1,263	17,279,614
Debt instruments issued and other borrowed	2,510,459	4,286,528	7,469,416	2,783,303	-	17,049,706
Other payables	961,183	69,526	194,555	50,308	36,508	1,312,080
Deferred taxation liability	-		-	-	328,349	328,349
Income taxation payable	-	118,150	-	-		118,150
Retirement benefit obligations	-		-	-	87,260	87,260
Total Liabilities	9,581,362	12,599,254	10,406,568	3,385,131	453,380	36,425,695

As at 31 December 2019	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	273,429	-	-	-	-	273,429
Securities purchased under repurchase	742,787	1,561,605	-	-	-	2,304,392
Factoring receivables	119,761	410,025	125,355	-	-	655,141
Lease receivables	5,145,073	6,436,157	12,676,723	4,698,922	66,319	29,023,194
Hire purchase receivables	2,279	88	305	765	-	3,437
Gold loan receivables	2,818,770	2,192,498	-	-	-	5,011,268
Loan receivables	877,032	446,574	57,735	150,193	2,179	1,533,713
Other assets	385,729	70,150	122,766	62,887	12,178	653,710
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	10,771	4,530	-	-	15,301
Property, plant & equipment	-	-	-	-	1,013,625	1,013,625
Right-of-use assets	-	-	-	-	403,653	403,653
Intangible assets	-	-	-	-	56,426	56,426
Total Assets	10,364,860	11,127,868	12,987,414	4,912,767	1,554,436	40,947,345
Total Liabilities						
Bank overdraft	361,586	-	-	-	-	361,586
Due to other customers	4,144,657	6,942,222	1,392,284	741,311	552	13,221,026
Debt instruments issued and other borrowed funds	5,992,795	3,995,905	7,770,004	3,583,523	-	21,342,227
Other payables	927,721	92,906	142,810	72,864	65,242	1,301,543
Deferred taxation liability	-	-	-	-	230,107	230,107
Income taxation payable	-	407,066	-	-	-	407,066
Retirement benefit obligations	-	-	-	-	67,965	67,965
Total Liabilities	11,426,759	11,438,099	9,305,098	4,397,698	363,866	36,931,520

42. COMMITMENTS AND CONTINGENCIES

	2020					2019				
	Rs. '000					Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	44,663	-	-	-	44,663	11,780	-	-	-	11,780
-Revolving Loans	4,569	-	-	-	4,569	12,750	-	-	-	12,750
Capital commitments(Note 42.1)	-	677,124	-	-	677,124	-	699,528	-	-	699,528
	49,232	677,124	-	-	726,356	24,530	699,528	-	-	724,058
Contingent Liabilities										
Guarantees	-	6,500	-	-	6,500	-	5,200	-	-	5,200
	-	6,500	-	-	6,500	-	5,200	-	-	5,200
Total gross commitments & contingencies	49,232	683,624	-	-	732,856	24,530	704,728	-	-	729,258
Impairment for expected credit losses - credit related commitments & contingencies	(1,117)	-	-	-	(1,117)	(275)	-	-	-	(275)
Commitments & contingencies net of impairment for expected credit losses	48,115	683,624	-	-	731,739	24,255	704,728	-	-	728,983

42.1 Capital commitments

Capital expenditure approved by the Board of Directors, for which provisions have not been made in the Financial Statements are detailed below.

	2020	2019
	Rs'000	Rs'000
Approved and contracted for	670,247	699,528
Approved but not contracted for	6,877	-
	677,124	699,528

42.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 December 2019 which would have a material impact on the Financial Statements.

43. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements.

44. COMPARATIVE INFORMATION

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

45. RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related Party Disclosure, details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

45.1 Parent and Ultimate Controlling Party

The Company is 100% owned by Sampath Bank PLC. Hence, Sampath Bank PLC is the parent company and the ultimate controlling party.

45.2 Transactions with Key Managerial Personnel

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

	2020 Rs'000	2019 Rs'000
Directors' fees & short term employee benefits	49,013	48,423
Total	49,013	48,423

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

45.3 Transactions, Arrangements and Agreements involving KMP and their Close Family Members (CFMs)

45.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2019- Nil).

45.3.2 Deposits and Borrowings from KMPs are detailed below.

	2020 Rs'000	2019 Rs'000
Term/Savings deposits	216,751	45,873
Interest on term/savings deposits	20,520	2,388

45.3.3 Borrowings through Debt Instruments

	2020 Rs'000	2019 Rs'000
Debentures	22,500	22,500
Interest on Debentures	2,875	2,275

45.4 Transactions with Group Companies

45.4.1 Sampath Bank PLC - Parent Company

The Company has obtained short term loans, term loans and overdraft facilities from the bank. All the transactions with the bank were on terms and conditions similar to facilities obtained through other banks.

Balance outstanding as at 31 December	2020 Rs'000	2019 Rs'000
Investment in government securities - REPOs/Treasury bills		
Opening Balance	10,772	9,733
Net investments during the year	989,345	1,039
Closing Balance	1,000,116	10,772
Other receivables	505	333

45. RELATED PARTY TRANSACTIONS (Contd..)

45.4 Transactions with Group Companies (Contd..)

45.4.1 Sampath Bank PLC (Contd..)

	2020 Rs'000	2019 Rs'000
Term Loan (Only capital)		
Opening Balance	4,920,733	3,488,300
Granted during the year	-	3,000,000
Less : Repayment during the year	(1,950,400)	(1,567,567)
Closing Balance	2,970,333	4,920,733
Short Term Loan (Only capital)	-	1,200,000
Bank Overdraft	249,605	325,033
Total Accommodation obtained	3,219,938	6,445,766
Less : Favourable balances in current accounts with bank	132,895	85,263
Net Accommodation	3,087,043	6,360,503
Net Accommodation as a percentage of Capital Funds	60.22%	158.39%

Transaction during the year	**Rs'000**	**Rs'000**
Expenses		
Interest paid	522,879	619,290
Rent paid (for the branch located within Sampath Bank premises)	416	3,923
Fees paid for acting as Bankers to the debentures issued in year 2020 & 2019.	324	315
Other expenses	156	149
Income		
Fee for locating ATM machines at Company's branch premises operations	56	293
Interest Income on short term government securities	852	1,039
Interest Income on call/savings deposits	5,139	3,079

The company has invested in short term government securities through Sampath Bank PLC.

Issue of shares/Dividend		
Proceeds for rights issue of shares	700,000	-
Scrip Dividend(Gross)-number of shares-2,899,663 (2019-625,111)	142,959	36,344

45.4.2 Sampath Information Technology Solutions Ltd

Sampath Information Technology Solutions Ltd is a subsidiary of Sampath Bank PLC which is the parent undertaking of Siyapatha Finance PLC.

The Company has obtained Hardware/ Software maintenance services from SITS and payments were made as per the maintenance agreement. The Company has purchased Leasing/ Loan Management & Pawning software and the same is disclosed below.

Balance outstanding as at 31 December	**2020 Rs'000**	**2019 Rs'000**
Other receivables	134	309
Transaction during the year		
Hardware/Software maintenance paid	1,183	833
Operating lease expenses(Computer hire charges)	64	93

45.4.3 The Company had the following receivable/payable balances with other Group companies

	2020 Rs'000	**2019 Rs'000**
Transactions during the year		
Interest expenses on deposits	25	6,825
Receivables as at 31 December		
SC Securities Pvt Ltd	67	154
Sampath Centre Ltd	201	463
Payables as at 31 December		
Sampath Centre Ltd:		
Fixed deposits	-	100,000
Interest payable on fixed deposits	-	4,625
Consultancy fees payable	153	190

46. SEGMENT INFORMATION

The following table presents income,profit,total assets and total liabilities of the Company's operating segments.

	Leasing and Hire Purchase		Gold Loan		Others		Total	
For the year ended 31 December	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Interest Income	5,414,925	5,583,704	1,125,558	1,073,790	273,733	572,118	6,814,216	7,229,612
Less: Interest expenses	(3,017,256)	(3,189,707)	(468,710)	(525,590)	(370,349)	(515,360)	(3,856,315)	(4,230,657)
Net interest income	2,397,669	2,393,997	656,848	548,200	(96,616)	56,758	2,957,901	2,998,955
Net fee and commission income	184,667	206,707	93,638	102,669	399	2,389	278,704	311,765
Other operating income	469,757	359,184	-	-	17,018	19,344	486,775	378,528
Total operating income	3,052,093	2,959,888	750,486	650,869	(79,199)	78,491	3,723,380	3,689,248
Less: Impairment (charges)/reversal on loans and losses	(1,072,252)	(477,513)	(1,247)	988	(282,765)	(574,413)	(1,356,264)	(1,050,938)
Net operating income	1,979,841	2,482,375	749,239	651,857	(361,964)	(495,922)	2,367,116	2,638,310
Less: Total operating expenses (Including taxes on financial services)	(180,029)	(1,420,987)	(38,132)	(250,340)	(1,470,936)	(168,453)	(1,689,097)	(1,839,780)
Operating profit before taxes	1,799,812	1,061,388	711,107	401,517	(1,832,900)	(664,375)	678,019	798,530
Less: Income tax expenses							(268,528)	(318,336)
Profit for the year							409,491	480,194
Non-controlling interest							-	-
Profit attributable to equity holders of the Company							409,491	480,194
As at 31 December	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Segment assets	29,019,797	29,026,631	4,769,716	5,011,268	7,762,147	6,909,447	41,551,660	40,947,345
Total assets	29,019,797	29,026,631	4,769,716	5,011,268	7,762,147	6,909,447	41,551,660	40,947,345
Segment liabilities	25,442,444	26,179,905	4,181,514	4,519,798	6,801,737	6,231,817	36,425,695	36,931,520
Total liabilities	25,442,444	26,179,905	4,181,514	4,519,798	6,801,737	6,231,817	36,425,695	36,931,520

47. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy is to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Regulatory Capital

The Company manages its capital considering the regulatory capital requirements. The Central Bank of Sri Lanka(CBSL)sets and monitors capital requirements for licensed finance companies. Accordingly, finance companies in Sri Lanka need to maintain a minimum total capital adequacy ratio of 10.50% and a minimum core capital adequacy ratio (Tier I) of 6.50%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.