SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2021

Building a better working world

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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 2021, 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 2021, 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
Provision for credit impairment on financial assets carried at amortised cost Provision for credit impairment on financial assets carried at amortised cost as stated in Note 40.4.1 is determined by management in accordance with the accounting policies described in Note 3.1.8 This was a key audit matter due to: • materiality of the reported provision for credit impairment which involved complex calculations; and • degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement Key areas of significant judgements, estimates and assumptions used by management in the assessment of the provision for credit impairment included the following; • management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as government stimulus packages and debt moratorium relief measures granted by the company; the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios	We assessed the alignment of the company's provision for credit impairment computations and underlying methodology including consideration of COVID 19 impacts and related industry responses with its accounting policies, 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 over estimation of impairment, which included assessing the level of oversight, review and approval of provision for credit impairment policies and procedures by the Board and management • We checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the company. We also checked the underlying calculations. • In addition to the above, the following procedures were performed: ▪ For loans and advances assessed on an individual basis for impairment: - We assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances - We evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values ▪ For financial assets assessed on a collective basis for impairment: • We tested the key calculations used in the provision for credit impairment. • We assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology and the management overlays were reasonable. Our testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered and probability weighting assigned to each of those scenarios • We assessed the adequacy of the related financial statement disclosures set out in notes 40.4.1

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Information Technology (IT) systems and controls over financial reporting A significant part of the client's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.	Our audit procedures included the following: - We obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. - We identified and test checked relevant controls of key IT systems related to the Bank's financial reporting process. - We involved our internal specialized resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management - We checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. - We also obtained a high-level understanding, primarily through inquiry, of the cybersecurity risks affecting the company and the actions taken to address these risks. Further, we checked changes if any have been made to security monitoring procedures, given the increase in remote workers including the clien's monitoring on remote workers activities.

Other information included in the 2021 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2021 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.

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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.

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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.

11 February 2022
Colombo

INCOME STATEMENT

Year ended 31 December 2021

	Note	2021 Rs.'000	2020 Rs.'000
Interest income		6,786,436	6,814,216
Less: Interest expenses		(2,813,728)	(3,856,315)
Net interest income	6	3,972,708	2,957,901
Fee and commission income		281,024	278,704
Less: Fee and commission expenses		-	-
Net fee and commission income	7	281,024	278,704
Other operating income	8	1,079,871	486,775
Total operating income		5,333,603	3,723,380
Less:Credit loss expense on financial assets and other losses	9	(1,618,176)	(1,356,264)
Net operating income		3,715,427	2,367,116
Less: Operating expenses			
Personnel expenses	10	(1,172,942)	(873,311)
Other operating expenses	11	(617,056)	(589,235)
Operating profit before VAT on financial services		1,925,429	904,570
Less: VAT on financial services		(399,355)	(226,551)
Profit before income tax		1,526,074	678,019
Less: Income tax expense	12	(431,531)	(268,528)
Profit for the year		1,094,543	409,491
Basic/Diluted earnings per share (Rs.)	13	12.35	5.23
Dividend per share (Rs.)	14	1.37	1.95

The Accounting policies and Notes to the Financial Statements from pages 11 to 83 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 Rs.'000	2020 Rs.'000
Profit for the year		1,094,543	409,491
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	34.3	(123)	901
Deferred tax effect including the effect of tax rate change on the opening balance	28	(843)	(252)
		(966)	649
Surplus from revaluation of property, plant & equipment		-	-
Deferred tax effect of tax rate change on the opening balance		6,553	-
	37	6,553	-
Other comprehensive income for the year, net of tax		5,587	649
Total comprehensive income for the year, net of tax		1,100,130	410,140
Attributable to :			
Equity holders of the parent company		1,100,130	410,140
		1,100,130	410,140

The Accounting policies and Notes to the Financial Statements from pages 11 to 83 form an integral part of these Financial Statements.

Siyapatha Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 Rs. '000	2020 Rs. '000
Assets			
Cash and bank balances	16	250,277	292,036
Securities purchased under repurchase agreements	17	1,839,911	2,781,162
Factoring receivables	18	153,483	261,944
Gold loan receivables	19	5,781,780	4,769,716
Loan receivables	20	1,643,806	1,750,116
Lease receivables	21	29,088,209	29,017,672
Hire purchase receivables	22	934	2,125
Other assets	23	637,127	851,671
Equity instruments at fair value through other comprehensive income	24	56	56
Debt instruments at amortised cost	25	900,241	34,145
Property, plant & equipment	26	1,992,215	1,353,815
Right-of-use assets	27	362,870	402,579
Deferred tax assets	28	78,492	-
Intangible assets	29	20,847	34,623
Total Assets		42,750,248	41,551,660
Liabilities			
Bank overdraft		191,266	250,536
Due to other customers	30	17,114,923	17,279,614
Debt issued and other borrowed funds	31	17,077,514	17,049,706
Other payables	32	1,267,671	1,312,080
Current tax liabilities	33	768,927	118,150
Deferred tax liabilities	28	-	328,349
Retirement benefit obligations	34	103,853	87,260
Total Liabilities		36,524,154	36,425,695
Equity			
Stated capital	35	2,346,095	1,522,881
Share application money pending allotment	35.1	-	700,000
Statutory reserve fund	36	240,000	185,000
Revaluation reserve	37	124,504	117,951
Retained earnings	38	3,515,495	2,600,133
Total Equity		6,226,094	5,125,965
Total Liabilities and Equity		42,750,248	41,551,660
Net asset value per share (Rs.)		67.69	67.26
Commitments and contingencies	42	432,361	731,739

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 to 83 form an integral part of these Financial Statements.

11 February 2022
Colombo

ERNST & YOUNG
Chartered Accountants
COLOMBO

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

	Note	Stated Capital Rs'000	Share Application Money Pending Allotment Rs'000	Statutory Reserve Fund Rs'000	Revaluation Reserve Rs'000	Retained Earnings Rs'000	Total Rs'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
Profit for the year		-	-	-	-	1,094,543	1,094,543
Other comprehensive income, net of tax		-	-	-	6,553	(966)	5,587
Transfer to Statutory Reserve Fund	36	-	-	55,000	-	(55,000)	-
Scrip dividend paid		123,214	-	-	-	(123,214)	-
Rights issue of shares	35.1	700,000	(700,000)	-	-	-	-
Balance as at 31 December 2021		2,346,095	-	240,000	124,504	3,515,495	6,226,094

The Accounting policies and Notes to the Financial Statements from pages 11 to 83 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021	2020
Cash flows from operating activities		**Rs. '000**	**Rs. '000**
Profit before taxation from operations		1,526,074	678,019
Interest expenses	6.2	2,813,728	3,856,315
Fee & commission expenses	7	-	-
Credit loss expense on financial assets	9	1,618,176	1,356,264
Provision for staff gratuity	34.2	22,247	23,726
Provision for depreciation	26	62,182	62,899
Amortisation of software	29	23,993	23,119
Amortisation expenses on right-of-use assets	27	117,083	107,589
(Profit)/Loss on sale of motor vehicles		(1,452)	(1,280)
		4,655,957	5,428,632
Operating profit before working capital changes		6,182,031	6,106,651
(Increase)/Decrease in lease receivables		(1,137,250)	(915,686)
(Increase)/Decrease in hire purchase receivables		1,045	664
(Increase)/Decrease in factoring receivables		86,682	392,026
(Increase)/Decrease in gold loan receivables		(1,026,590)	240,304
(Increase)/Decrease in loan receivables		(310,483)	(497,150)
Increase/(Decrease) in due to other customers		62,776	4,018,841
(Increase)/Decrease in other assets		(35,220)	(466,116)
Increase/(Decrease) in other payables		184,022	150,361
		(2,175,018)	2,923,244
Cash generated from operating activities		4,007,013	9,029,895
Interest expense paid		(3,026,325)	(3,739,845)
Gratuity paid	34.1	(5,777)	(3,530)
Income tax paid	33	(181,885)	(449,053)
Net cash inflow from operating activities		793,026	4,837,467
Cash flow from investing activities			
Net investments in government bonds & government securities		(924,961)	504,502
Purchase of property, plant and equipment and intangible assets		(711,109)	(404,405)
Proceeds from sale of property, plant and equipment		1,761	1,280
Net cash inflow/(outflow) from investing activities		(1,634,309)	101,377
Net cash inflow/(outflow) before financing activities		(841,283)	4,938,844
Cash flow from financing activities			
Proceeds from long term loans & securitizations	31.1	1,000,000	2,450,000
Repayments of long long term loans & securitizations	31.1	(4,459,052)	(5,719,243)
Proceeds from debentures	31.3	1,500,000	2,000,000
Debentures redeemed	31.3	(1,078,010)	-
Share application money pending allotment	35.1	-	700,000
Net proceeds from short term borrowings	31.1	3,050,000	(3,100,000)
Repayment of principal portion of lease liabilities	32.1	(154,255)	(139,824)
Net cash outflow from financing activities		(141,317)	(3,809,067)
Net increase/(decrease) in cash and cash equivalents		(982,600)	1,129,777
Cash & cash equivalents at the beginning of the year		1,041,631	(88,146)
Cash and cash equivalents at end of the year		59,031	1,041,631
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 16)		250,297	292,051
Securities purchased under repurchase agreements less than three months		-	1,000,116
Bank overdraft		(191,266)	(250,536)
		59,031	1,041,631

The Accounting policies and Notes to the Financial Statements from pages 11 to 83 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 2021 was 804 (2020:783).

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 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 2021 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 11 February 2022.

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 to the financial statements.

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 classification in order to provide a better presentation.

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 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 judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

2.10.1 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. 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. 10.2 Impairment losses on loans and receivables

The measurement of impairment losses under Sri Lanka Accounting Standard - 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, the management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss.

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).

It has been 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 3.1.8 to the Financial Statements.

Impact of COVID-19 on the provision for impairment on loans and receivables

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 3.1.8 while the impact on changing the weightages of different macroeconomic scenarios during the year are given in Note 40.4.1(h). 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.

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).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. 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 that 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.

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

2.10.3 Impairment of Other Financial Assets

The Company reviews its debt securities classified as amortised cost, at each reporting date to assess whether they are impaired. Objective evidence that a debt security held at amortised cost is impaired includes among other things significant financial difficulty of the issuer, a breach of contract such as a default or delinquency in interest or principal payments etc.

Equity instruments classified as FVOCI are not subjective for impairment assessment.

2.10.4 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 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.

2.10.5 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.

2.10.6 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 28 to the Financial Statements.

2.10.7 Defined Benefit Plans

The cost of defined benefit pension plan and the present value of its obligation are determined using actuarial valuation. 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.

2.10.8 Fair Value of Property, Plant & Equipment

The freehold 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 freehold 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 land during this year for accounting purposes, on the basis that changes in property price was not significant compared to the previous year.

2.10.9 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.

2.10.10 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.

2.10.11 Classification of Investment Properties

Management requires using its judgment to determine whether a property qualifies as an investment property. The Company has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Company are accounted for as investment properties. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a standalone asset are accounted for as property, plant and equipment. The Company assesses on an annual basis, the accounting classification of its properties taking into consideration the current use of such properties. Currently the Company does not have any investment property.

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.

3.1.2.1 ‘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 (‘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.

3.1.3 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.

3.1.3.1 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.

3.1.3.1(a) 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.

3.1.3.1 (b) 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.

3.1.3.2 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 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.

3.1.3.3 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.

3.1.3.4 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 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.

3.1.4 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, securitizations and debentures.

3.1.5 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 2021.

3.1.6 Derecognition of Financial Assets and Financial Liabilities

3.1.6.1 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.

3.1.6.2 Derecognition other than for substantial modification

3.1.6.2(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.

3.1.6.2(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.

3.1.7 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.

3.1.8 Impairment of Financial Assets

3.1.8.1 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(b).

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.

3.1.8.2 The Calculation of Expected Credit Loss (ECL)

The Company calculates ECL based on three probability-weighted scenarios to measure the expected cash shortfall (the base case, best case and the worst case), discounted at an approximation to the EIR. Each of these is associated with different loss rates. The assessment of multiple scenarios incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

Key elements of the ECL calculations are outlined below.

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. The concept of PD is further explained in Note 3.1.8.4(a).

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. The EAD is further explained in Note 3.1.8.4(b).

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 LGD is further explained in Note 3.1.8.4(c).

With the exception of debt factoring and other revolving facilities, for which the treatment is separately set out in Note 3.1.8.7 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.

3.1.8.3 Calculation of ECLs for individually significant loans

The Company first assesses ECLs individually for financial assets that are individually significant to the Company. In the event the Company determines that such assets are not impaired, moves in to a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. However, assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The criteria used to determine whether individually significant customer is in default is discussed in Note 40.4.1(a).

If the asset is impaired, the amount of the loss is measured by discounting the expected future cash flows of a financial asset at its original effective interest rate and comparing the resultant present value with the financial asset's current carrying amount. In determining the expected future cash flows, the Company takes in to account the base case, the best case and the worst case scenarios considering various modes of settlement of the impaired credit facilities. The impairment on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment is only released when there is reasonable and objective evidence of a reduction in the established loss estimate. Interest on individually impaired assets continues to be recognised through the unwinding of the discount.

When ECLs are determined for individually significant financial assets, following factors are considered:

- Aggregate exposure to the customer including any undrawn exposures;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flows to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realizable value of security (or other credit mitigants) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding;
- The likely dividend available on liquidation or bankruptcy

3.1.8.4 Grouping financial assets measured on a collective basis

The Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

All customers whose exposure is more than or equal to the internal threshold for classifying them as individually significant. However, if the customer is determined to be not impaired such customers are moved back to collective ECL calculation.

For all other asset classes, the Company calculates ECL on a collective basis. The Company categorises these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

- Product type
- Type of collateral
- Industry of the borrower
- Whether the facility is restructured/ rescheduled

3.1.8.4(a) The internal rating and PD estimation process

The Company has its own internal rating models. These models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Although these PDs are used for regulatory purposes, the same is not used for PD estimation under SLFRS 9.

PD estimation for loans and advances under SLFRS 9 is largely based on the Days Past Due (DPD) of the customers which is common for most Banks and Non-Bank Financial Institutions in the country at present.

Accordingly, exposures are categorized among 5 groups based on the DPD as follows.

- Zero days past due
- 1 - 30 days past due
- 31 - 60 days past due
- 61 - 90 days past due
- Above 90 days past due

The movement of the customers into bad DPD categories are tracked at each account level over the periods and it is used to estimate the amount of loans that will eventually be written off.

However, for loans granted to banks, debt & other financial instruments classified as amortised cost/FVOCI, the Company relies on external credit ratings in determining their respective PDs. Due to limited stage movements in loan portfolios under moratorium schemes, the Company has used additional assessments of SICR as explained in Note 40.4.1(b) to build an allowance of overlay to better reflect the portfolio position.

3.1.8.4(b) Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Company assesses the possible default events within 12 months. However, if a Stage 1 loan that is expected to default within the 12 months from the balance sheet date is also expected to cure and subsequently default again, then all linked default events are considered. For Stage 2 and Stage 3 financial assets and credit impaired financial assets at origination, events over the lifetime of the instruments are considered. The Company determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The SLFRS 9 PDs are then assigned to each economic scenario based on the outcome of Company's models.

3.1.8.4(c) Loss given default

LGD values are assessed at least annually for each material collateral type. The Company segregates its customer loan book based on following major types of collaterals when calculating the LGD.

- Secured against cash/deposits held within the Company
- Secured against immovable property
- Secured against motor vehicles and other movable properties
- Secured against gold
- Secured against lease receivables

These LGD rates consider the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. Historically collected loss data is used for LGD calculation and involves a wider set of transaction characteristics (e.g. product type, collateral type) as well as borrower characteristics. Further, recent data and forward-looking economic scenarios are used in order to determine the LGD for each collateral type. The LGD rates, where possible, are calibrated through back testing against recent recoveries.

3.1.8.5 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.

3.1.8.6 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.

3.1.8.7 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.

3.1.8.8 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 2021. Weightages assigned for each scenario is given below along with the weightages used in 2020.

	2021	2020
Base Case	30%	30%
Best Case	10%	25%
Worst Case	60%	45%

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.

3.1.8.9 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.

3.1.8.10 Rescheduled and restructured 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. Reschedule/restrucuture 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 rescheduled/restructured 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 rescheduled/restructured asset until it collected or written off.

When the loan has been rescheduled/restructured 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(b). 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 3.1.8.10.

3.1.8.11 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).Extension of concessions for COVID-19 affected businesses and individuals: Circular No. 9 of 2021

The Central Bank of Sri Lanka issued Circular No: 09 of 2021 instructing Licensed Finane Companies and Specialised Leasing Companies (thereinafter referred to as Non-Bank Financial Institutions (NBFIs) to extend the concessions for COVID-19 affected businesses and individuals under different qualifying criteria. The eligible borrowers of transportation and tourism sectors, who have availed the concessions under the Circular No. 04 and No. 05 2021, were also eligible to obtain concessions under this scheme. Eligible borrowers for concessions under this scheme shall entitle one of the three options given below.

<u>Option I: Restructuring of credit facilities</u>

NBFIs shall restructure the existing credit facilities (performing and non performing as at 01 October 2021) over a longer period, considering the repayment capacity of the borrower and an acceptable revival plan agreed by both parties. The NBFIs were allowed to charge interest at the original contractual interest rate minus 3% per annum.Further, a minimum of 3 months grace period shall be granted to commence repaying original portion of the instalment as per the restructured terms. In addition,any interest charged on inability to repay the instalment as per agreed terms, shall not exceed 2% per annum and charged only on the amount in arrears.

<u>Option II: Facilitating early settlement</u>

If any eligible borrower is willing to settle the existing credit facilities on or before 31 March 2022, NBFIs shall fully waive-off future interest, fees and applicable charges.

<u>Option III: Extending the moratorium for performing credit facilities as at 01 October 2021</u>

The NBFIs shall convert the capital and interest falling due during the moratorium period from 01 October 2021 to 31 March 2022 into a term loan of which repayment shall commence from July 2022 with a minimum repayment period of 12 months. However, the borrower shall commence the repayment of the original loan instalment from 01 April 2022.The NBFIs were allowed to charge an interest of the new loan, not exceeding 11.5% per annum.

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 COVID-19 moratorium. An analysis of the loans eligible under Circular No.9 of 2021 is presented in Note 40.4.1(l) 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.

3.1.8.12 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.

3.1.8.13 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 valuation specialists, Audited Financial Statements and other independent sources.

3.1.8.14 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 years ended 31 December 2021 and 2020.

3.1.9 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.

3.1.10 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2 Leases

At inception of a contract, the Company assesses whether the contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company considers whether:

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Company has right to obtain substantially all of the economic benefits from use of asset throughout the period of use; and
- The Company has right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either;
- The Company has the right to operate the asset; or
- The Company designed the asset in a way that predetermines how and for what purpose it will be used.

3.2.1 Company as the Lessee

The Company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying assets or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is subsequently depreciated using straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property plant and equipment and are in the range of 1 to 10 years.

In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company' incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments such as company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Company presents right of use assets under Note 27 to the financial statements while the corresponding lease liability is presented in Note 32, 'Other Liabilities'.

3.2.1(a) Short term leases and leases of low value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short term leases (that have a lease term of 12 months or less) and leases of low value assets. The Company recognises lease payments associated with these leases as an expense on a straight line basis over the lease term.

3.2.2 Company as the Lessor

When the Company acts as a lessor, it determines at least inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease. If not it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the assets.

When the Company is the lessor under a finance lease contract, the amounts due under the leases, after deduction of unearned interest income, are included in Note 21, ‘Lease receivables’. Interest income receivable is recognised in 'Net interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

The Company recognises lease payments received under operating leases as income on a straight line basis over the lease term as part of other income.

3.3 Provisions

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

The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured as the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract. The expense relating to any provision is presented in the Income Statement net of any reimbursement.

3.4 Operational Risk Events

Provisions for operational risk events are recognised for losses incurred by the Company which do not relate directly to the amounts of principal outstanding for loans and advances. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date, taking into account the risks and uncertainties that surround the events and circumstances that affect the provision.

3.5 Impairment of Non-Financial Assets

The carrying amounts of the Company’s nonfinancial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists or when annual impairment testing for an asset is required, the Company estimates the asset’s recoverable amount. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3.6 Recognition of Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Specific recognition criteria that must be met before revenue is recognized is discussed under Note 6 - Net Interest Income, Note 7- Net Fee and Commission Income, Note 8 - Other Operating Income.

3.7 Other Taxes

3.7.1 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.

In the Budget proposals 2022, the Government has proposed to increase the rate of Value Added Tax (VAT) on financial services from 15% to 18% with effect from 1 January 2022. However, the said proposal is yet to be enacted by the Parliament.

3.8 Regulatory provisions

3.8.1 Deposit Insurance and Liquidity Support Scheme

In terms of the "Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulations, No. 02 of 2021" issued on 06 August 2021, all Finance Companies are required to insure their deposit liabilities in the "Sri Lanka Deposit Insurance and Liquidity Support Scheme".

The deposits to be insured shall include demand, time and savings and certificates of deposit liabilities inclusive of any interest accrued and exclude the following.

- Deposit liabilities to member institutions
- Deposit liabilities maintained individually or jointly with any other party, by Directors, Key Management Personnel, other related parties, excluding shareholders as defined in the Finance Companies Act (Corporate Governance) Direction, No. 3 of 2008 for Licensed Finance Companies
- Deposit liabilities maintained either individually or jointly with any other party, by former Directors or Key Management Personnel
- 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.

3.8.2 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.

4. NEW ACCOUNTING STANDARDS ISSUED DURING THE YEAR/CHANGES TO ALREADY EXISTING ACCOUNTING STANDARDS

The Company applied for the first-time certain standards and amendments, if applicable, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4.1 Amendments to SLFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

On 4 December 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued COVID-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, On 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

However, the amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions also did not have a material impact on the Financial Statements of the Company.

4.2 Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

- **IBOR reform Phase 1**

On 15 January 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

Highly Probable Requirement:
According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

Prospective assessments:
A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

LKAS 39 retrospective assessment:
To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.

Separately identifiable risk components:

While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

- **IBOR reform Phase 2**

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients.

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such.

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

- The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time and
- At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment

The Company is in the process of assessing potential impact of implementation of the aforementioned amendments.

The Company has applied all relevant accounting standards which have been issued up to 31 December 2021 in the preparation of the Financial Statements for the year ended 31 December 2021.

5. ACCOUNTING STANDARDS/CBSL DIRECTIVES ISSUED BUT NOT YET EFFECTIVE AS AT 31 DECEMBER 2021

5.1 Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka

The new and amended standards and interpretations that are issued up to the date of issuance of the Company's financial statements but are not effective for the current annual reporting period, are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- **SLFRS 17 Insurance Contracts**

On 8 January 2020, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued SLFRS 17 Insurance Contracts (SLFRS 17). SLFRS 17 was amended by Amendments to SLFRS 17 - Insurance Contracts, issued on 28 June 2021. SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 Insurance Contracts (SLFRS 4) that was issued in 2005. 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. A few scope exceptions will apply. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in SLFRS 4, which are largely based on grandfathering previous local accounting policies, SLFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of SLFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

SLFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted; provided the entity also applies SLFRS 9 and SLFRS 15 on or before the date it first applies SLFRS 17.

The Financial Statements of the Company is not expected to have a material impact from SLFRS 17 - Insurance Contracts.

- **Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts – Costs of Fulfilling a Contract**

On 25 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

The Financial Statements of the Company is not expected to have a material impact from the Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Costs of Fulfilling a Contract.

- **Amendments to LKAS 16 Property, Plant & Equipment : Proceeds before Intended Use**

On 25 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Financial Statements of the Company is not expected to have a material impact from the Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use.

- **Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework**

On 23 March 2021, The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

The Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework is not applicable to the Company.

The following amendments to the existing accounting standards which have been issued by the Institute of Chartered Accountants of Sri Lanka are also effective for annual periods beginning on or after 1 January 2022.

- **SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards – Subsidiary as a first-time adopter**

- **SLFRS 9 Financial Instruments – Fees in the ’10 per cent’ test for derecognition of financial liabilities**

- **LKAS 41 Agriculture – Taxation in fair value measurements**

5.2 Finance Business Act Directions issued by the Central Bank of Sri Lanka

The Central Bank of Sri Lanka issued the Finance Business Act Direction No. 1 of 2020 (Classification and Measurement of Credit Facilities) with the intention of harmonizing regulatory reporting framework with the Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) and establishing consistent and prudent practices in the Licensed Finance Companies (LFCs). This Direction is effective for financial years beginning on or after 1 April 2022.

6. NET INTEREST INCOME

ACCOUNTING POLICY

Recognition of Interest Income

The Company recognises interest income for all financial instruments measured at amortised cost, financial instruments designated at FVPL and interest-bearing financial assets measured at FVOCI using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) 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 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 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. The adjustment is subsequently amortised through interest and similar income in the income statement.

When a financial asset becomes credit-impaired (as set out in Note 40.4.1. (a)) and is, therefore, regarded as ‘Stage 3’, the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis. Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate under net interest income.

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 COVID-19 moratorium.

Interest Income on Overdue Rentals

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

		2021 Rs. '000	2020 Rs. '000
6.1	**Interest income**		
	Interest income on lease receivables	4,924,340	5,013,181
	Interest income on hire purchase receivables	488	182
	Interest income on factoring receivables	33,141	88,253
	Interest income accrued on impaired financial assets	17,441	14,640
	Interest income on loan receivables	198,896	135,233
	Interest income on gold loan receivables	948,639	1,102,334
	Interest income on government securities	116,884	185,937
	Interest income on overdue rentals	513,901	234,310
	Interest income on staff loans	31,321	35,007
	Interest income on placements with banks	1,385	5,139
	Total interest income	6,786,436	6,814,216
6.2	**Interest expenses**		
	Bank overdraft	3,320	13,933
	Short term borrowings	144,317	242,521
	Lease liabilities	50,219	53,007
	Customer deposits	1,366,686	1,667,917
	Long term borrowings	534,029	1,267,447
	Securitization loans	9,513	26,504
	Redeemable debentures	705,644	584,986
	Total interest expenses	2,813,728	3,856,315
	Net interest income	3,972,708	2,957,901

7. NET FEE AND COMMISSION INCOME

ACCOUNTING POLICY

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. These fees include professional fees, trade service fees, commission income and asset management fees etc. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate of the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of an acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Other fee and commission expense
Other fee and commission expense relate mainly to transactions and services fees which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

	2021 Rs. '000	2020 Rs. '000
Documentation charges	81,453	72,648
Insurance commission	95,185	108,852
Service charges-Gold loan	99,656	93,634
Processing fees	417	318
Fee based income-Savings	19	82
Other fee & commission income	4,294	3,170
Total fee and commission income	281,024	278,704
Fee and commission expenses		
Guarantee fee	-	-
Total fee and commission expenses	-	-
Net fee and commission income	281,024	278,704

8. OTHER OPERATING INCOME

ACCOUNTING POLICY

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.

Recovery of Bad Debts Written Off
Recovery of amounts written off as bad and doubtful debts is recognised when received.

Other Income
Other income is recognised on an accrual basis.

	2021 Rs. '000	2020 Rs. '000
Profit on early terminations	840,461	333,835
Profit on disposal of motor vehicles	1,452	1,280
Recovery of bad debts written off	61,295	29,327
Recovery of charges	40,924	33,937
Sundry income	135,739	88,396
Total other operating income	1,079,871	486,775

9. 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.

	2021 Rs. '000	2020 Rs. '000
Bank balances (Note 16.1)		
Stage 1	5	4
Stage 2	-	-
Stage 3	-	-
	5	4
Factoring receivables (Note 18.5 & 18.6)		
Stage 1	8,680	(934)
Stage 2	(9,401)	(13,823)
Stage 3	22,501	15,928
	21,780	1,171
Gold loan receivables (Note 19.4 & 19.5)		
Stage 1	4,013	(181)
Stage 2	6,954	(156)
Stage 3	3,560	1,585
	14,527	1,248
Loan receivables (Note 20.5 & 20.6)		
Stage 1	(18,161)	17,780
Stage 2	42,385	18,388
Stage 3	392,569	244,579
	416,793	280,747
Lease receivables (Note 21.6 & 21.7)		
Stage 1	26,004	20,959
Stage 2	415,885	153,865
Stage 3	624,824	746,384
	1,066,713	921,208
Hire purchase receivables (Note 22.6 & 22.7)		
Stage 1	-	(5)
Stage 2	(1,827)	1,848
Stage 3	1,973	(1,195)
	146	648
Repossessed stock (Note 23.1 & 23.2)		
Stage 1	-	-
Stage 2	-	-
Stage 3	68,780	150,397
	68,780	150,397
Other receivables (Note 23.3)		
Stage 1	-	-
Stage 2	-	-
Stage 3	25,118	-
	25,118	-
Credit related commitments & contingencies (Note 42.2)		
Stage 1	4,679	635
Stage 2	(365)	206
Stage 3	-	-
	4,314	841
	1,618,176	1,356,264

10. PERSONNEL EXPENSES

ACCOUNTING POLICY

Short term employee benefits
Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short term cash bonus 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.

Defined Contribution Plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods, as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

The contribution payable by the employer 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’ as and when they become due. Unpaid contributions are recorded as a liability under ‘Other liabilities’ .

The Company contributes 3% of the salary of each employee to the Employees’ Trust Fund. Further, the Company also contributes 12% on the salary of each employee to the Employees’ Provident Fund. The above expenses are identified as contributions to “Defined Contribution Plans” as defined in the Sri Lanka Accounting Standard - LKAS 19 (Employee Benefits).

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 Basic 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.

An actuarial valuation is carried out at every year end to ascertain the full liability under gratuity.

Funding Arrangements
The gratuity liability is not externally funded.

The Company determines the interest expense on this defined benefit liability by applying the discount rate used to measure the defined benefit liability at the beginning of the annual period to the defined benefit liability at the beginning of the annual period. The discount rate is the yield at the reporting date on government bonds (10 years) that have maturity dates approximating to the terms of the Company’s obligations.

The increase in gratuity liabilities attributable to the services provided by employees during the year ended 31 December 2021 (current service cost) has been recognised in the Income Statement under ‘Personnel expenses’ together with the net interest expense. The Company recognises the total actuarial gain/loss that arises in calculating the Company’s obligation in respect of gratuity in other comprehensive income during the period in which it occurs. There were no plan amendments or curtailments affecting the Company’s gratuity liabilities during the year ended 31 December 2021 other than those disclosed in Note 34.4 to the Financial Statements.

The demographic assumptions underlying the valuation are retirement age (2021:60 years & 2020:55 years), early withdrawals from service and retirement on medical grounds etc.

	2021 **Rs. '000**	**2020** **Rs. '000**
Salaries and bonus	980,641	710,674
Contribution to defined contribution plan	82,643	73,279
Gratuity charge for the year	22,247	23,726
Others	87,411	65,632
	1,172,942	873,311

11. OTHER OPERATING EXPENSES

	2021 Rs. '000	2020 Rs. '000
Directors' emoluments	31,477	28,385
Auditors' remuneration (Note 11.1)	4,877	5,517
Professional & legal expenses	22,735	20,002
Depreciation & amortization expenses (Note 11.2)	203,258	193,607
Deposit insurance premium	24,455	22,115
Office administration & establishment expenses	258,327	248,716
Advertising expenses	24,638	28,918
Other expenses	47,289	41,975
	617,056	589,235

11.1 Auditors' remuneration

	2021 Rs. '000	2020 Rs. '000
Audit fees	1,540	1,430
Audit related fees & expenses	1,426	1,399
Non - audit expenses	1,911	2,688
	4,877	5,517

11.2 Depreciation & amortization expenses

ACCOUNTING POLICY

Depreciation of Property, Plant and Equipment

The Company provides depreciation from the date the assets are available for use up to the date of disposal, at the following rates, on a straight-line basis, over the periods appropriate to the estimated useful lives, based on the pattern in which the asset's future economic benefits are expected to be consumed by the Company. Freehold land of the Company not depreciated.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Asset Category	Depreciation Rate per Annum (%)	
	2021	2020
Office equipment	15.00	15.00
Computer equipment	16.67	16.67
Office furniture	15.00	15.00
Motor Vehicles (except Motor Bicycles)	12.50	12.50
Motor Bicycles	20.00	20.00
Fixtures	20.00	20.00

Amortisation of Intangible Assets

Intangible assets, except for goodwill, are amortised on a straight-line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life, based on a pattern in which the asset's economic benefits are consumed by the Company. The Company assumes that there is no residual value for its intangible assets.

Asset Category	Amortisation Rate per Annum (%)	
	2021	2020
Computer software & Licenses	25.00	25.00

Amortisation of Right-of-Use Assets

The right of use assets are depreciated using 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. The estimated useful lives of right of use assets are determined on the same basis as those of property plant and equipment and are in the range of 1 to 10 years.

Changes in Estimates

Depreciation/amortization methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate. During the year ended 31 December 2021, the Company conducted an operational efficiency review and estimates were revised accordingly.

	2021 Rs. '000	2020 Rs. '000
Depreciation on property, plant & equipment	62,182	62,899
Amortization of intangible assets	23,993	23,119
Amortisation expenses on right-of-use assets	117,083	107,589
	203,258	193,607

12. INCOME TAX EXPENSE

ACCOUNTING POLICY

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. The Company applied IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment” in the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over the income tax treatment. However, the application of IFRIC 23 did not have any significant impact on the financial statements of the Company to provide additional disclosures in the financial statements.

Current Taxation

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 substantively enacted on the reporting date and any adjustment to tax payable in respect of prior years. Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 12.2 to the Financial Statements.

Deferred Taxation

Deferred tax is provided on 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 33 and Note 28 to the Financial Statements respectively.

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

		2021 Rs. '000	2020 Rs. '000
12.1.1	**Current tax expense**		
	Current tax based on profit for the year (Note 33)	876,882	280,949
	(Over)/Under provision of current taxes in respect of previous years (Note 33)		
	- Due to income tax rate reduction from 28% to 24%	(56,646)	-
	- Due to others	12,426	(110,411)
	Current tax expense	832,662	170,538
12.1.2	**Deferred tax expense**		
	- Impact on opening deferred assets/liabilities due to income tax rate reduction from 28% to 24%	(41,227)	-
	- Impact due to current year movement	(359,904)	97,990
	Deferred taxation charge/(reversal) (Note 28)	(401,131)	97,990
	Income tax expense (Note 12.2)	431,531	268,528
	Effective tax rate	28.3%	39.6%

12.2	**Reconciliation of the accounting profit to current tax expense**	**2021** %	**2021** Rs. '000	**2020** %	**2020** Rs. '000
	Profit before tax		1,526,074		678,019
	Tax effect on accounting profit before tax	24.0%	366,258	28.0%	189,845
	Tax effect of non deductible expenses	44.5%	679,653	132.3%	896,810
	Tax effect of other allowable credits	-11.1%	(169,029)	-118.8%	(805,706)
	(Over)/ Under provision of current taxes in respect of previous years	-2.9%	(44,220)	-16.3%	(110,411)
	Deferred tax charge/(reversal)	-26.3%	(401,131)	14.5%	97,990
		28.3%	431,531	39.6%	268,528

The Company's income is taxed at the rate of 24% and 28% during the years 2021 and 2020 respectively.

12. INCOME TAX EXPENSE (Contd…)

12.3 Change of the Income Tax Rate from 28% to 24%

The Company applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No. 10 of 2021 to calculate the income tax and deferred tax liabilities of the Company as at 31 December 2021. Although these amendments were effective from 1 January 2020, both income tax and deferred tax assets/liabilities for the comparative year have been calculated on the basis that these amendments were not legally enacted in 2020. Accordingly, with the adoption of the new Act, additional tax expense of Rs.97.87 Mn booked in the previous financial year was reversed to the Income Statement in 2021, while Rs 5.68 Mn was reversed to the Statement of Other Comprehensive Income.

12.4 Imposition of a Surcharge Tax at the rate of 25%

In the Budget Proposals 2022, the Government has proposed to impose a surcharge tax at the rate of 25%, on individuals or companies with a taxable income over Rs.2,000 Million for the year of assessment 2020/2021.However, this proposal has not yet been substantively enacted. As such, the Company has not recognized any liability in 2021 financial statements against the proposed surcharge tax.

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

ACCOUNTING POLICY

The Company presents basic /diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the 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 both the profit attributable to the ordinary equity shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares, if any.

	2021 Rs. '000	2020 Rs. '000
Profit attributable to ordinary shareholders (Rs. 000)	1,094,543	409,491
Weighted average number of ordinary shares during the year	88,626,393	78,247,666
Basic/Diluted earnings per ordinary share- (Rs.)	12.35	5.23

13.1 Weighted average number of ordinary shares (basic)

	Outstanding No: of Shares		Weighted Average No: of Shares	
	2021	**2020**	**2021**	**2020**
Number of shares in issue as at 1 January	76,212,072	73,312,409	76,212,072	73,312,409
Add:				
Number of shares issued due to scrip dividend 2020	-	2,899,663	-	2,899,663
Number of shares issued under rights issue 2021	13,725,490	-	10,378,727	-
Number of shares issued due to scrip dividend 2021	2,035,594	-	2,035,594	2,035,594
Number of shares in issue/weighted average number of ordinary shares at 31st December	91,973,156	76,212,072	88,626,393	78,247,666

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

ACCOUNTING POLICY

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'.

	2021 Rs. '000	2020 Rs. '000
Scrip dividends paid (Rs. 000)	123,214	142,959
Number of Ordinary Shares	89,937,562	73,312,409
Dividends per Ordinary Share (Rs.)	1.37	1.95

A scrip dividend of Rs. 1.37 per share for the year 2020 was paid in May 2021. (A scrip dividend of Rs. 1.95 per share for the year 2019 was paid in June 2020).

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 Accounting Policies describe how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) under headings of the Statement of Financial Position.

As at 31 December 2021	Amortised Cost Rs'000	Equity instruments- FVOCI Rs'000	Total Rs'000
Financial Assets			
Cash and bank balances	250,277	-	250,277
Securities purchased under repurchase agreements	1,839,911	-	1,839,911
Factoring receivables	153,483	-	153,483
Gold loan receivables	5,781,780	-	5,781,780
Loan Receivables	1,643,806	-	1,643,806
Lease receivables	29,088,209	-	29,088,209
Hire purchase receivables	934	-	934
Other assets	487,930	-	487,930
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	900,241	-	900,241
Total Financial Assets	40,146,571	56	40,146,627
Financial Liabilities			
Bank overdraft	191,266	-	191,266
Due to other customers	17,114,923	-	17,114,923
Debt issued and other borrowed funds	17,077,514	-	17,077,514
Other payables	1,049,054	-	1,049,054
Total Financial Liabilities	35,432,757	-	35,432,757

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

16. CASH AND BANK BALANCES

ACCOUNTING POLICY

Cash and bank balances comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and bank balances are carried at amortised cost in the Statement of Financial Position.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash and short term deposits as defined above, placements with banks (less than 3 months) net of unfavourable balances with local banks.

	2021 Rs. '000	2020 Rs. '000
Cash in hand	134,617	119,237
Balances with local banks	115,680	172,814
Less: Allowance for expected credit losses(Note 16.1)	(20)	(15)
	250,277	292,036

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

	2021 Rs. '000	2020 Rs. '000
Stage 1		
Balance as at 01 January	15	11
Charge/(Reversal) for the year (Note 9)	5	4
Balance as at 31 December	20	15

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2021 Rs. '000	2020 Rs. '000
Securities purchased under repurchase agreements	1,839,911	2,781,162
	1,839,911	2,781,162

18. FACTORING RECEIVABLES

	2021 Rs. '000	2020 Rs. '000
Factoring receivables	506,840	604,825
Less: VAT suspense	(293)	(293)
Gross factoring receivable	506,547	604,532
Less : Allowance for expected credit losses/ individual impairment(Note 18.3)	(344,224)	(333,028)
Allowance for expected credit losses/ collective impairment(Note 18.4)	(8,840)	(9,560)
	153,483	261,944

18.1 Analysis of factoring receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	-	-	358,533	358,533
Factoring receivables subject to collective impairment	148,014	-	-	148,014
Gross factoring receivables	148,014	-	358,533	506,547
Allowance for expected credit losses(ECL)	(8,840)	-	(344,224)	(353,064)
	139,174	-	14,309	153,483

18.2 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. FACTORING RECEIVABLES (Contd..)

18.3 Allowance for expected credit losses/Impairment
Individually impaired loans

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	333,028	322,948
Charge/ (Reversal) to income statement	22,500	14,839
Write-off during the year	-	-
Interest income accrued on impaired loans(Note 6.1)	(17,441)	(14,640)
Other movements	6,137	9,881
Balance as at 31 December	344,224	333,028

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

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	9,560	23,228
Charge/ (Reversal) to income statement	(720)	(13,668)
Balance as at 31 December	8,840	9,560

18.5 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	160	9,401	333,027	342,588
Charge/ (Reversal) to income statement (Note 9)	8,680	(9,401)	22,501	21,780
Write-off during the year	-	-	-	-
Interest income accrued on impaired loans(Note 6.1)	-	-	(17,441)	(17,441)
Other movements	-	-	6,137	6,137
Balance as at 31 December 2021	8,840	-	344,224	353,064

18.6 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	1,094	23,224	321,858	346,176
Charge/ (Reversal) to income statement (Note 9)	(934)	(13,823)	15,928	1,171
Write-off during the year	-	-	-	-
Interest income accrued on impaired loans(Note 6.1)	-	-	(14,640)	(14,640)
Other movements	-	-	9,881	9,881
Balance as at 31 December 2020	160	9,401	333,027	342,588

19. GOLD LOAN RECEIVABLES

	2021 Rs. '000	2020 Rs. '000
Gold loan receivables	5,807,067	4,780,476
Less : Allowance for expected credit losses/ collective impairment(Note 19.3)	(25,287)	(10,760)
	5,781,780	4,769,716

19.1 Analysis of gold loan receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gold loan receivables- subject to collective impairment	3,257,576	1,518,376	1,031,115	5,807,067
Allowance for expected credit losses(ECL)	(7,599)	(9,941)	(7,747)	(25,287)
	3,249,977	1,508,435	1,023,368	5,781,780

19. GOLD LOAN RECEIVABLES (Contd..)

19.2 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

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

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	10,760	9,512
Charge/ (Reversal) to income statement	14,527	1,248
Balance as at 31 December	25,287	10,760

19.4 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	3,586	2,987	4,187	10,760
Charge/ (Reversal) to income statement (Note 9)	4,013	6,954	3,560	14,527
Balance as at 31 December 2021	7,599	9,941	7,747	25,287

19.5 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	3,767	3,143	2,602	9,512
Charge/ (Reversal) to income statement (Note 9)	(181)	(156)	1,585	1,248
Balance as at 31 December 2020	3,586	2,987	4,187	10,760

20. LOAN RECEIVABLES

	2021 Rs. '000	2020 Rs. '000
Revolving loan receivables	85,481	91,272
Personal/Business loan receivables	2,859,597	2,543,323
Gross loan receivables	2,945,078	2,634,595
Less : Allowance for expected credit losses/ individual impairment(Note 20.3)	(947,444)	(538,525)
Less : Allowance for expected credit losses/ collective impairment(Note 20.4)	(353,828)	(345,954)
	1,643,806	1,750,116

20.1 Analysis of loan receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired loan receivables	-	129,203	1,157,635	1,286,838
Loan receivables subject to collective impairment	447,328	267,364	943,548	1,658,240
Allowance for expected credit losses(ECL)	(2,049)	(65,834)	(1,233,389)	(1,301,272)
	445,279	330,733	867,794	1,643,806

20. LOAN RECEIVABLES (Contd..)

20.2 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

20.3 Allowance for expected credit losses/Impairment
Individually impaired loans

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	538,525	369,638
Charge/ (Reversal) to income statement	408,919	168,887
Balance as at 31 December	947,444	538,525

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

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	345,954	234,094
Charge/ (Reversal) to income statement	7,874	111,860
Balance as at 31 December	353,828	345,954

20.5 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	20,210	23,449	840,820	884,479
Charge/ (Reversal) to income statement (Note 9)	(18,161)	42,385	392,569	416,793
Balance as at 31 December 2021	2,049	65,834	1,233,389	1,301,272

20.6 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	2,430	5,061	596,241	603,732
Charge/ (Reversal) to income statement (Note 9)	17,780	18,388	244,579	280,747
Balance as at 31 December 2020	20,210	23,449	840,820	884,479

21. LEASE RECEIVABLES
At Amortized cost

	2021 Rs. '000	2020 Rs. '000
Total lease rentals receivable	40,237,489	39,486,385
Less: Unearned lease interest income	(8,567,560)	(8,952,904)
Less: VAT suspense	(0)	(802)
Gross lease receivable	31,669,929	30,532,679
Less: Allowance for expected credit losses/ collective impairment(Note 21.5)	(2,581,720)	(1,515,007)
Net lease receivable (Note 21.1 & 21.2)	29,088,209	29,017,672

Lease receivables include receivables amounting to Rs.12,654,759,247/- (2020- Rs.12,753,269,099/-) 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 2021

	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)	16,449,751	23,682,021	105,717	40,237,489
Less: Unearned lease interest income	(3,968,093)	(4,592,412)	(7,055)	(8,567,560)
Gross lease receivable	12,481,658	19,089,609	98,662	31,669,929
Less: Allowance for expected credit losses	(1,025,453)	(1,548,178)	(8,089)	(2,581,720)
Net lease receivable	11,456,205	17,541,431	90,573	29,088,209

21.2 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: Provision for collective impairment	(598,218)	(913,653)	(3,136)	(1,515,007)
Net lease receivable	11,340,512	17,622,878	54,282	29,017,672

21.3 Analysis of lease receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	10,177,965	14,215,847	7,276,117	31,669,929
Allowance for expected credit losses(ECL)	(122,119)	(673,994)	(1,785,607)	(2,581,720)
	10,055,846	13,541,853	5,490,510	29,088,209

21.4 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

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

	2021 Rs. '000	2020 Rs. '000
Balance as at 01 January	1,515,007	690,882
Charge/ (Reversal) to income statement(Note 9)	1,066,713	921,208
Write-off during the year	-	(97,083)
Balance as at 31 December	2,581,720	1,515,007

21.6 Movement in allowance for expected credit losses
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 01 January 2021	96,115	258,109	1,160,783	1,515,007
Charge/ (Reversal) to income statement (Note 9)	26,004	415,885	624,824	1,066,713
Write-off during the year	-	-		-
Balance as at 31 December 2021	122,119	673,994	1,785,607	2,581,720

21. LEASE RECEIVABLES (Contd..)

21.7 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 9)	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

22. HIRE PURCHASE RECEIVABLES

	2021 Rs. '000	2020 Rs. '000
Total hire purchase rentals receivable	3,432	4,729
Less: Unearned hire purchase interest income	(502)	(754)
Gross hire purchase receivable	2,930	3,975
Less: Allowance for expected credit losses/ collective impairment(Note 22.5)	(1,996)	(1,850)
Net hire purchase receivable (Note 22.1 & 22.2)	934	2,125

No hire purchase receivables have been assigned under term loan funding arrangements as at 31 December 2021.(2020-Nil).

22.1 Maturity analysis of net hire purchase receivable
As at 31 December 2021

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total hire purchase rentals receivable	2,134	1,298	-	3,432
Less: Unearned hire purchase interest income	(228)	(274)		(502)
Gross hire purchase receivable	1,906	1,024	-	2,930
Less: Allowance for expected credit losses	(1,354)	(642)	-	(1,996)
	552	382	-	934

22.2 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

22.3 Analysis of hire purchase receivables on maximum exposure to credit risk
As at 31 December 2021

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross hire purchase receivables- subject to collective impairment	-	1,331	1,599	2,930
Allowance for expected credit losses(ECL)	-	(23)	(1,973)	(1,996)
	-	1,308	(374)	934

22.4 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. HIRE PURCHASE RECEIVABLES (Contd..)

22.5 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	**2021 Rs. '000**	**2020 Rs. '000**
Balance as at 01 January	1,850	1,202
Charge/ (Reversal) to income statement (Note 9)	146	648
Write-off during the year	-	-
Balance as at 31 December	1,996	1,850

22.6 Movement in allowance for expected credit losses

As at 31 December 2021	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 01 January 2021	-	1,850	-	1,850
Charge/ (Reversal) to income statement (Note 9)	-	(1,827)	1,973	146
Write-off during the year	-	-	-	-
Balance as at 31 December 2021	-	23	1,973	1,996

22.7 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 9)	(5)	1,848	(1,195)	648
Write-off during the year	-	-	-	-
Balance as at 31 December 2020	-	1,850	-	1,850

23. OTHER ASSETS

	2021 Rs. '000	**2020 Rs. '000**
Financial Assets		
Repossessed stock	85,699	163,950
Less: Provision for repossessed stock (Note 23.1 & 23.2)	(85,699)	(163,950)
Insurance premium receivable	301,467	487,876
Less: Provision for insurance premium receivable	(4,901)	-
Staff loan	191,927	160,444
Less: Staff loan fair value adjustment	(23,225)	(16,417)
Insurance commission receivable	33,507	62,872
Less: Provision for insurance commission receivable	(20,217)	-
Other financial assets	9,372	52,253
	487,930	747,028
Non Financial Assets		
Pre paid expenses	37,870	35,542
Pre-paid staff cost (Note 23.4)	23,225	16,417
Advance payments	56,920	19,132
Inventories	3,838	3,001
Taxes receivable	250	250
Other non financial assets	27,094	30,301
	149,197	104,643
	637,127	851,671

23. OTHER ASSETS (Contd..)

23.1 Movement in provision for repossessed stock
As at 31 December 2021

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January	159,442	1,843	1,855	810	163,950
Charge/ (Reversal) during the year (Note 9)	67,029	478	875	398	68,780
Write-off during the year	(147,031)	-	-	-	(147,031)
Balance as at 31 December	79,440	2,321	2,730	1,208	85,699

23.2 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 (Note 9)	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

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

23.3 Movement in provision for other receivables

	2021	2020
	Rs. '000	Rs. '000
Stage 3		
Balance as at 01 January	-	-
Charge/(Reversal) for the year (Note 9)	25,118	-
Balance as at 31 December	25,118	-

23.4 The movement in the pre-paid staff cost

	2021	2020
	Rs. '000	Rs. '000
Balance as at 1 January	16,417	18,392
Add:Adjustment for new grants (net of settlements)	20,259	11,734
Charge to personnel expenses	(13,451)	(13,709)
Balance as at 31 December	23,225	16,417

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021	2020
	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 2021, the Company received dividends of Rs.240,000/-(2020-Rs.320,000/-) from these unquoted equity investments, recorded as other operating income.

25. DEBT INSTRUMENTS AT AMORTISED COST

	2021	2020
	Rs. '000	Rs. '000
Government debt securities - treasury bills	900,241	-
Government debt securities - treasury bonds	-	34,145
	900,241	34,145

25.1 Analysis of debt instruments at amortised cost

	2021	2020
	Rs. '000	Rs. '000
By collateralisation		
Pledged as collateral	-	-
Unencumbered	900,241	34,145
	900,241	34,145

26. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

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.

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.

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

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 2019 and details of the revaluation are given in Note 26.3 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.

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.

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.

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.

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.53.34 Million (2020- Rs.36.87 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 5.0%-8.6% (2020- 5.1%-11.7%).

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.

Rates of depreciation for each category of property, plant and equipment are given in Note 11.2, 'Depreciation & amortization expenses'.

26. PROPERTY, PLANT & EQUIPMENT (Contd…)

26.1 Cost/Valuation	**Freehold Land**	**Fixtures**	**Office furniture**	**Office equipment**	**Motor vehicles**	**Computer equipment**	**Capital work-in progress**	**Total**
	Rs. '000	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**
Balance as at 1 January 2020	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	-	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
Additions and improvements	-	11,570	2,362	3,791	-	74,222	608,946	700,891
Revaluation surplus	-	-	-	-	-	-	-	-
Disposals during the year	-	(364)	(132)	(4,694)	(3,077)	(6,029)	-	(14,296)
Transfers/Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	367,900	230,528	48,698	103,845	2,721	192,770	1,427,304	2,373,766
Accumulated Depreciation								
Balance as at 1 January 2020	-	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
Depreciation charge for the year	-	25,669	4,848	11,704	181	19,780	-	62,182
Disposals during the year	-	(331)	(124)	(4,668)	(3,077)	(5,787)		(13,987)
Transfers/Adjustments	-	-	-	-		-	-	-
Balance as at 31 December 2021	-	175,059	34,101	72,162	2,345	97,884	-	381,551
Net book value as at 31 December 2021	367,900	55,469	14,597	31,683	376	94,886	1,427,304	1,992,215
Net book value as at 31 December 2020	367,900	69,601	17,091	39,622	557	40,686	818,358	1,353,815

The Company's Head Office building is under work-in-progress as at 31 December 2021. Cost incurred up to the reporting date on the building is included under capital work-in-progress of the Company.

26.2 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.700.89 Million (2020- Rs.403.09 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2021 is Rs.205.58 Million (2020 - Rs.151.17 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:111,Dudley Senanayake 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: 29.1 perches	Rs.5 Million-Rs.18 Million

“Significant increases/ (decreases) of significant unobservable input (Estimated price per perch) would result in a significantly higher/ (lower) fair value”.

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

	2021 Cost	2021 Carrying value	2020 Cost	2020 Carrying value
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Freehold land	204,079	204,079	204,079	204,079
	204,079	204,079	204,079	204,079

26.5 Temporarily idle Property, Plant and Equipment
The Company does not have any temporarily idle property, plant & equipment as at 31 December 2021 (2020-NIL).

26.6 Property, Plant and Equipment retired from active use
No any property, plant and equipment have been retired from active use as at 31 December 2021 (2020-NIL).

26.7 Title restriction on Property, Plant and Equipment
There were no restrictions on the title of property, plant and equipment as at 31 December 2021 (2020: NIL).

26.8 Property, Plant and Equipment pledged as security against liabilities
The freehold land of the Company has been pledged as a security against a term loan arrangement with the Parent Company - Sampath Bank PLC (2020-NIL).

26.9 Compensation from third parties for items of Property, Plant and Equipment
There were no compensations received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2020: NIL).

27. RIGHT-OF-USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year.

	2021 Rs. '000	2020 Rs. '000
Cost		
Balance as at 01 January	613,552	507,037
Additions and improvements	77,374	106,515
Cost as at 31 December	690,926	613,552
Accumulated amortisation		
Balance as at 01 January	210,973	103,384
Amortisation expenses for the year	117,083	107,589
Accumulated amortisation as at 31 December	328,056	210,973
Net book value as at 31 December	362,870	402,579

27.1 Sensitivity of Right-of-Use Assets/Lease Liability to Key Assumptions

27.1.1 Sensitivity to Discount Rates

1% increase/(decrease) in discount rate as at 31 December 2021 would have (decreased)/increased the lease liability by approximately Rs 2.0 Million with a similar (decrease)/increase in the right-of-use asset. Had the Company increased/(decreased) the discount rate by 1%, the Company's profit before tax for the year would have (decreased)/increased by approximately Rs.0.13 Million

27.1.2 Sensitivity to Lease Term

Had the lease term of all existing lease agreements been increased by further one year, lease liability of the Company as at 31 December 2021 would have increased by Rs. 51.57 Million with a similar increase in the right-of-use assets. Further, this would reduce the profit before tax of the Company by Rs. 10.00 Million.

28. 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	Total
	Property, plant & equipment Rs.000	Leased assets Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
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
Income statement(Note 12.1)	(5,751)	(119,044)	(275,001)	-	(1,335)	(401,131)
Other comprehensive income	-	-	-	(6,553)	843	(5,710)
Balance as at 31 December 2021	(2,480)	84,938	(175,342)	39,317	(24,925)	(78,492)

29. INTANGIBLE ASSETS

ACCOUNTING POLICY

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.

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.

Derecognition of Intangible Assets
The carrying amount of an item of intangible asset is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss arising from de-recognition of an item of intangible asset is included in the Income Statement when the item is derecognised.

There were no restrictions on the title of the intangible assets as at the reporting date. Further, there were no items pledged as securities for liabilities.

Intangible assets of the Company as at 31 December 2021 only include computer software and cost of licenses. Rates of amortization for computer software and licenses are given in Note 11.2, 'Depreciation & amortization expenses'.

	2021 Rs. '000	2020 Rs. '000
Cost		
Balance as at 01 January	131,373	130,057
Additions and improvements	10,217	1,316
Write off during the year	-	-
Cost as at 31 December	141,590	131,373
Accumulated amortisation		
Balance as at 01 January	96,750	73,631
Amortisation for the year	23,993	23,119
Write off during the year	-	-
Accumulated amortisation as at 31 December	120,743	96,750
Net book value as at 31 December	20,847	34,623

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs.10.21 Million (2020 - Rs.1.31 Million).Cost of fully amortised intangible assets of the Company as at 31 December 2021 which are still in use is Rs. 41.16 Million (2020 - Rs. 39.7 Million). Useful life of the above is estimated as 4 years.

30. DUE TO OTHER CUSTOMERS

	2021 Rs. '000	2020 Rs. '000
Term deposits	16,977,557	17,199,403
Saving deposits	137,366	80,211
	17,114,923	17,279,614

31. DEBT ISSUED AND OTHER BORROWED FUNDS

	2021 Rs. '000	2020 Rs. '000
Loans (31.2)	10,809,899	10,761,230
Securitizations	-	447,924
Redeemable debentures (31.3)	6,267,615	5,840,552
	17,077,514	17,049,706

The company has not had any default of principal, interest or other breaches with regard to any liability during 2020 & 2021.

31.1 Movement in Debt issued and other borrowed funds

	2020 Rs. '000	Grantings/ Accrual Rs. '000	Repayments Rs. '000	2021 Rs. '000
Long-term borrowings & securitizations	9,843,438	1,000,000	(4,459,052)	6,384,386
Short-term borrowings	1,350,000	3,050,000	-	4,400,000
Redeemable debentures	5,578,010	1,500,000	(1,078,010)	6,000,000
Capital outstanding of debt issued and other borrowed funds	16,771,448	5,550,000	(5,537,062)	16,784,386
Interest on debt issued and other borrowed funds	278,258	1,447,041	(1,432,171)	293,128
	17,049,706	6,997,041	(6,969,233)	17,077,514

31.2 Loans - on terms

	Period	Amortised cost 2021 Rs. '000	Amortised cost 2020 Rs. '000
Short term loans			
Sampath Bank PLC	01 Month	700,997	-
Nations Trust Bank PLC	03 Months	1,703,158	550,524
Seylan Bank PLC	03 Months	2,007,257	800,562
		4,411,412	1,351,086
Long term loans			
Sampath Bank PLC	60 Months	2,236,741	2,974,556
Commercial Bank PLC	60 Months	1,882,482	1,986,961
Hatton National Bank PLC	60 Months	1,776,800	3,277,467
Seylan Bank PLC	60 Months	502,464	1,171,160
		6,398,487	9,410,144
		10,809,899	10,761,230

The above short term loans and long lerm loans were institution wise aggregated values as at 31 December 2021 and 31 December 2020.

31.2.1 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	6,934,731	3,875,168	10,809,899
	6,934,731	3,875,168	10,809,899

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

31.3 Redeemable debentures - movement

	2021 Rs. '000	2020 Rs. '000
Balance as at 01st January	5,840,552	3,578,010
Debentures issued	1,500,000	2,000,000
Debentures redeemed	(1,078,010)	-
	6,262,542	5,578,010
Interest payable	700,554	670,023
Interest paid	(695,481)	(407,481)
Balance as at 31st December	6,267,615	5,840,552

31.3.1 Redeemable debentures - maturity

	Payable within 1 Year Rs'000	Payable after 1 Year Rs'000	Total Rs'000
Debentures payable	1,267,615	5,000,000	6,267,615
	1,267,615	5,000,000	6,267,615

31.3.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of Interest	Amortised cost 2021 Rs. '000	Amortised cost 2020 Rs'000
Rated unsecured senior redeemable debentures*	10,780,100	20-Sep-16	20-Sep-21	13.50%	-	1,119,476
Rated unsecured subordinated redeemable debentures	10,000,000	04-Oct-17	04-Oct-22	12.50%	1,030,479	1,030,822
Rated unsecured subordinated redeemable debentures	15,000,000	08-Aug-19	08-Aug-24	13.33%	1,579,980	1,580,528
Rated unsecured senior redeemable debentures	20,000,000	07-Jul-20	07-Jul-23	11.25%	2,109,726	2,109,726
Rated unsecured subordinated redeemable debentures	15,000,000	01-Sep-21	01-Sep-26	9.46%	1,547,430	-
					6,267,615	5,840,552

*The Company has redeemed these debentures on 20 September 2021.

32. OTHER PAYABLES

	2021 Rs'000	2020 Rs'000
Financial Liabilities		
Vendor payable	260,998	238,610
Insurance premium payable	100,489	198,664
Lease liabilities(Note 32.1 & 32.2)	414,660	441,322
Other financial liabilities	272,907	314,358
	1,049,054	1,192,954
Non Financial Liabilities		
Other taxes payable	111,953	69,494
Accrued expenses	36,604	22,837
Deposit insurance premium	2,116	2,007
Deferred guarantee income	49	48
Other non financial liabilities	67,895	24,740
	218,617	119,126
	1,267,671	1,312,080

32.1 Movement of lease liabilities during the year is as follows.

	2021 Rs'000	2020 Rs'000
Balance as at 1 January	441,322	421,624
Additions	77,374	106,515
Accretion of interest (Note 6.2)	50,219	53,007
Payments during the year	(154,255)	(139,824)
Balance as at 31 December	414,660	441,322

32.2 Maturity analysis of lease liabilities

	2021 Rs'000	2020 Rs'000
Less than 1 year	146,845	159,950
1 to 5 years	193,371	244,864
More than 5 years	74,444	36,508
Total lease liabilities as at 31 December	414,660	441,322

33. CURRENT TAX LIABILITIES

	2021 Rs'000	2020 Rs'000
Balance as at 1 January	118,150	407,066
Adjustment (ESC/WHT/Notional Tax etc.)	-	(10,401)
Current tax based on profit for the year (Note 12.1)	876,882	280,949
Over provision in respect of previous years (Note 12.1)	(44,220)	(110,411)
Payment of tax	(181,885)	(449,053)
Balance as at 31 December	768,927	118,150

34. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2021 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

	2021 Rs'000	2020 Rs'000
Balance as at 01 January	87,260	67,965
Amount recognised in the income statement (34.2)	22,247	23,726
Amounts recognised in other comprehensive income (34.3)	123	(901)
Benefits paid by the plan	(5,777)	(3,530)
Balance as at 31 December	103,853	87,260

34.2 Amount recognised in the Income Statement

	2021 Rs'000	2020 Rs'000
Current service cost for the year	18,496	16,529
Interest on the defined benefit liability	6,980	7,197
Gain on plan amendment during the year	(3,229)	-
Total amount recognised in income statement	22,247	23,726

34.3 Amounts recognised in Other Comprehensive Income (OCI)

	2021 Rs'000	2020 Rs'000
Actuarial (gain)/loss due to changes in assumptions		
-Financial assumptions	(601)	(1,292)
-Demographic assumptions	-	-
Liability experience (gains)/losses arising during the year	724	391
Total amount recognized in OCI	123	(901)

34.4 Assumptions

	2021	2020
Financial assumptions*		
Discount rate	11.50%	8.00%
Future salary increment rate	10.90%	7.41%
Demographic assumptions		
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age **	60 years	55 years

*Discount rate used for the actuarial valuation was revised during the year due to changes in market interest rates. Future salary increment rate too was revised to fall in line with the change in market interest rates.

Expected average future working life of the active participants is 16.4 years. (2020: 14.0 years)
The weighted average duration of the defined benefit obligation is 15.7 years(2020:12.7 years)

**The minimum retirement age has been extended up to 60 years with effect from 17 November 2021 as per the "Minimum Retirement Age of Workers Act, No. 28 of 2021" .

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.

		2021		2020	
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%	(13.04 Million)	13.04 Million	(9.25 Million)	9.25 Million
Discount rate	-1.00%	15.80 Million	(15.80 Million)	10.93 Million	(10.93 Million)
Salary Increment rate	1.00%	15.50 Million	(15.50 Million)	10.64 Million	(10.64 Million)
Salary Increment rate	-1.00%	(13.04 Million)	13.04 Million	(9.20 Million)	9.20 Million

35. STATED CAPITAL

	2021		2020	
	No. of shares	**Rs.000**	**No. of shares**	**Rs.000**
Issued and Fully Paid-Ordinary shares				
Ordinary shares as at 01 January	76,212,072	1,522,881	73,312,409	1,379,922
Rights issue	13,725,490	700,000	-	-
Scrip dividend	2,035,594	123,214	2,899,663	142,959
Ordinary shares as at 31 December	91,973,156	2,346,095	76,212,072	1,522,881

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 31 December 2020 represented applications received from existing shareholders on rights issue of shares. The equity shares have been allotted against the aforementioned share application money during the year 2021.

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	**2021 Rs.000**	**2020 Rs.000**
Balance as at 01 January	185,000	164,000
Transfer during the year	55,000	21,000
Balance as at 31 December	240,000	185,000

37. REVALUATION RESERVE

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

As at 31 December	**2021 Rs.000**	**2020 Rs.000**
Balance as at 01 January	117,951	117,951
Revaluation surplus(net of tax)	-	-
Deferred tax effect of rate change on the opening balance	6,553	-
Balance as at 31 December	124,504	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.

	2021 Rs. '000					2020 Rs. '000				
		Fair value measurement using					Fair value measurement using			
FINANCIAL ASSETS	**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**
Factoring receivables	153,483	-	950,530	-	950,530	261,944	-	889,022	-	889,022
Gold loan receivables	5,781,780	-	5,781,405	-	5,781,405	4,769,716	-	4,745,591	-	4,745,591
Loan receivables	1,643,806	-	3,015,054	-	3,015,054	1,750,116	-	2,576,936	-	2,576,936
Lease receivables	29,088,209	-	32,175,996	-	32,175,996	29,017,672	-	31,582,949	-	31,582,949
Debt instruments at amortised cost	900,241	-	900,241	-	900,241	34,145	-	34,609	-	34,609
Equity instruments at fair value through OCI	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	934	-	3,300	-	3,300	2,125	-	4,163	-	4,163
TOTAL FINANCIAL ASSETS	37,568,509	-	42,826,526	56	42,826,582	35,835,774	-	39,833,270	56	39,833,326
FINANCIAL LIABILITIES										
Due to other customers	17,114,923	-	17,632,330	-	17,632,330	17,279,614	-	18,405,585	-	18,405,585
Debt instruments issued and other borrowed funds	17,077,514	-	17,112,936	-	17,112,936	17,049,706	-	17,515,667	-	17,515,667
TOTAL FINANCIAL LIABILITIES	34,192,437	-	34,745,266	-	34,745,266	34,329,320	-	35,921,252	-	35,921,252

There were no transfers between levels of fair value hierarchy during 2020 and 2021.

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

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

Liabilities
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 Defense". 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 · Gaps limits for structural liquidity, · Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets
Liquidity Risk	Inability to meet obligations as they fall due	· Gaps in dynamic liquidity flows · 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 3.1.8 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 3.1.8, 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	2021				2020			
	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	20	-	-	20	15	-	-	15
Loans & Advances:								
Factoring receivables	8,840	-	344,224	353,064	160	9,401	333,027	342,588
Gold loan receivables	7,599	9,941	7,747	25,287	3,586	2,987	4,187	10,760
Loan receivables	2,049	65,834	1,233,389	1,301,272	20,210	23,449	840,820	884,479
Lease receivables	122,119	673,994	1,785,607	2,581,720	96,115	258,109	1,160,783	1,515,007
Hire purchase receivables	-	23	1,973	1,996	-	1,850	-	1,850
Repossessed stock	-	-	85,699	85,699	-	-	163,950	163,950
Other receivables	-	-	25,118	25,118	-	-	-	-
Credit related commitments & contingencies	5,431	-	-	5,431	753	364	-	1,117
Total impairment for expected credit losses	146,058	749,792	3,483,757	4,379,607	120,839	296,160	2,502,767	2,919,766

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

	2021 Rs.000	2020 Rs.000
Balance as at 01 January	2,919,766	1,785,024
Net charge to profit or loss (Note 9)	1,618,176	1,356,264
Write-off during the year	(147,031)	(216,763)
Interest income accrued on impaired loans & receivables (Note 6.1)	(17,441)	(14,640)
Other movements	6,137	9,881
Balance as at 31 December	4,379,607	2,919,766

The methodology used in the determination of expected credit losses is explained in Note 3.1.8 to Financial Statements. As explained in the said Note, the company has made allowances for overlays where required to address the uncertainties and potential implications of COVID-19.

40.4.1(e) Credit exposure & provision for impairment (ECL) movement-Loans & Advances

The following tables show reconciliations from the opening to closing balance of the gross carrying amounts and provision for impairment of loans and advances.

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000
Loans and advances at amortised cost								
Balance as at 1 January 2021	15,091,718	120,071	12,625,946	295,797	11,002,542	2,502,765	38,720,206	2,918,633
- Transfer to stage 1	(3,338,221)	(35,325)	2,485,127	26,517	853,094	8,808	-	-
- Transfer to stage 2	653,257	11,005	(3,059,849)	(73,285)	2,406,592	62,280	-	-
- Transfer to stage 3	15,302	93	471,684	23,662	(486,986)	(23,755)	-	-
Net remeasurement of impairment	-	(4,543)	-	66,872	-	724,826	-	787,155
New financial assets originated or purchased	9,770,242	90,187	10,129,263	495,164	3,106,676	1,022,400	23,006,181	1,607,751
Financial assets that have been derecognised	(8,161,415)	(40,881)	(6,574,245)	(91,794)	(5,902,236)	(695,594)	(20,637,896)	(828,269)
Write-offs	-	-	-	-	(147,031)	(147,031)	(147,031)	(147,031)
Interest accrued on impaired loans and advances	-	-	-	-	-	(17,441)	-	(17,441)
Other changes	-	-	-	-	-	6,137	-	6,137
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	54,195	6,859	21,595	15,244	75,790	22,103
Balance as at 31 December 2021	14,030,883	140,607	16,132,121	749,792	10,854,246	3,458,639	41,017,250	4,349,038

40. RISK MANAGEMENT (Contd…)

40.4.1 Assessment of Expected Credit Losses

40.4.1(e) Credit exposure & provision for impairment (ECL) movement-Loans & Advances (Contd…)

	2020							
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000	Gross carrying amount Rs.000	ECL Rs.000
Loans and advances at amortised cost							-	-
Balance as at 1 January 2020	22,804,869	92,297	9,300,501	125,830	5,906,121	1,566,611	38,011,491	1,784,738
- Transfer to stage 1	(6,850,835)	(22,031)	4,320,859	18,682	2,529,976	3,349	-	-
- Transfer to stage 2	189,792	(708)	(14,662)	(8,925)	(175,130)	9,633	-	-
- Transfer to stage 3	(189,922)	3,657	(3,031,031)	(11,393)	3,220,953	7,736	-	-
Net remeasurement of impairment	-	7,486	-	4,146	-	243,567	-	255,199
New financial assets originated or purchased	10,416,756	71,788	7,631,863	213,434	2,292,216	1,029,260	20,340,835	1,314,482
Financial assets that have been derecognised	(11,278,748)	(32,415)	(5,607,045)	(46,496)	(2,753,864)	(224,759)	(19,639,657)	(303,670)
Write-offs	-	-	-	-	(216,765)	(216,765)	(216,765)	(216,765)
Interest accrued on impaired loans and advances	-	-	-	-	-	(14,640)	-	(14,640)
Other changes	-	-	-	-	-	9,882	-	9,882
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	25,460	518	198,843	88,893	224,303	89,411
Balance as at 31 December 2020	15,091,912	120,074	12,625,945	295,796	11,002,350	2,502,767	38,720,207	2,918,637

40.4.1(f) 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.54.78 Million (2020:Rs.29.1 Million).

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

As explained in Note 3.1.8.1, the Company categorises its loans into stage 1, stage 2, stage 3 and originated credit impaired when determining the collective impairment provision under SLFRS 9. The sensitivity of collective impairment provision to staging of the loans is given below.

*If all loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Company as at 31 December 2021 would have reduced by approximately 28% (2020 - 12%). The total loans and advances in stage 2 as at 31 December 2021 amounts to Rs.16.21 Billion.

*If all loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Company as at 31 December 2021 would have further increased by approximately 7% (2020 - 15%). The total loans and advances in stage 1 as at 31 December 2021 amounts to Rs.14.25 Billion. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 is highly unlikely.

40.4.1(h) Sensitivity Analysis: Impact on collective impairment (loans & advances, credit related commitment & contingencies) due to changes in forward looking information

The Company calculates expected credit losses based on three probability-weighted scenarios. The weightages used by the Company as at 31 December 2021 are disclosed in Note 3.1.8.8 along with the weightages used in 2020. During the year, due to the uncertainties created by COVID-19 pandemic, the Company further increased the weightage assigned to the worst case scenario by 15%, decreasing the weightage of the best case scenario by 15% .

A further 20% increase in the worst case scenario with a similar decrease in the base case scenario would have increased the collective impairment provision of the Company by approximately Rs. 5.9 Mn as at 31 December 2021.

40. RISK MANAGEMENT (Contd…)

40.4.1(i) Breakdown of loans classified under stage 2

Loans classified under the Stage 2 includes contractually past due loans and loans which have been pushed to Stage 2 based on the criteria specified in the Note 3.1.8.4(b).

	2021				2020			
	Not Contractually Past due	Contractually Past due		Total	Not Contractually Past due	Contractually Past due		Total
		31 - 60 Days	61 - 90 Days			31 - 60 Days	61 - 90 Days	
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Factoring receivables	-	-	-	-	152,927	-	9,558	162,485
Gold loan receivables	-	859,324	659,051	1,518,375	-	520,799	172,309	693,108
Loan receivables	235,415	67,193	93,960	396,568	120,925	25,598	58,244	204,767
Lease receivables	8,331,771	3,498,377	2,385,699	14,215,847	5,152,021	3,619,804	2,789,785	11,561,610
Hire purchase receivables	-	1,331	-	1,331	-	-	3,975	3,975
	8,567,186	4,426,225	3,138,710	16,132,121	5,425,873	4,166,201	3,033,871	12,625,945

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

An analysis of rescheduled/restructured loans and advances of the Company which are in stage 2 and stage 3 is given below along with the impairment for ECL. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

As at 31st December	2021							2020						
	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	2,535	62,152	64,687	156	8,972	9,128	55,559	6,726	196,578	203,304	100	60,101	60,201	143,103
Lease receivables	455,497	832,926	1,288,423	17,325	334,014	351,339	937,084	258,632	1,060,755	1,319,387	5,101	138,940	144,041	1,175,346
	458,032	895,078	1,353,110	17,481	342,986	360,467	992,643	265,358	1,257,333	1,522,691	5,201	199,041	204,242	1,318,449

40.4.1(k) Analysis of upgraded rescheduled / restructured loans and advances during the year (except individually impaired loans and advances)

	2021		2020	
	Amortised Cost	Amortised Cost	Allowance for ECL	Allowance for ECL
	Rs 000	Rs 000	Rs 000	Rs 000
Loan receivables	170	574	3	301
Lease receivables	80,712	106,800	977	7,659
	80,882	107,374	980	7,960

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

Following table shows the stage-wise analysis of loan and advances which are under COVID -19 debt moratorium.

As at 31st December	2021		2020	
	Amortised Cost	Allowance for ECL	Amortised Cost	Allowance for ECL
	Rs 000	Rs 000	Rs 000	Rs 000
Stage 1	759,704	29,764	1,991,719	27,129
Stage 2	1,909,637	125,662	1,756,034	40,836
Stage 3	3,341,707	645,763	2,398,885	264,417
	6,011,048	801,189	6,146,638	332,382

Impairment for expected credit losses for loans and advances classified under all stage 1 and stage 2 includes, an additional provision of approximately Rs. 382.4 Mn by way of an allowance for overlay, in anticipation that some of these loans would move into Stage 3 after the end of the COVID-19 moratorium.

40. RISK MANAGEMENT (Contd…)

40.4.2 Risks on Credit-related Commitments

The Company makes available to its customers, guarantees that may require the Company to make payments on behalf of customers and enters into commitments to extend credit lines to secure their liquidity needs. Letters of guarantees are commitments to make payments on behalf of customers in the event of a specific act. Such commitments expose the Company to risks similar to loans and are mitigated by the same control processes and policies.

40.4.3 Maximum Exposure to Credit Risk

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained include mortgages over residential properties, motor vehicles, gold etc.

The Company also obtains guarantees from parent companies as securities against loans granted to their subsidiaries.

Management monitors the market value of collateral and will request additional collateral if the market values are not sufficient in accordance with the underlying agreement. It is the Company’s policy to dispose repossessed properties in an orderly manner. The proceeds are used to recover the outstanding claim.

The following table shows the maximum exposure and net exposure to credit risk by class of financial assets.

	2021		2020	
As at 31 December	**MAXIMUM EXPOSURE TO CREDIT RISK**	**NET EXPOSURE**	**MAXIMUM EXPOSURE TO CREDIT RISK**	**NET EXPOSURE**
	Rs'000	**Rs. '000**	**Rs'000**	**Rs. '000**
Financial Assets				
Cash and bank balances	250,277	115,680	292,036	172,814
Securities purchased under repurchase agreements	1,839,911	-	2,781,162	-
Factoring receivables	153,483	100,370	261,944	215,056
Gold loan receivables	5,781,780	-	4,769,716	-
Loan receivables	1,643,806	164,427	1,750,116	427,872
Lease receivables	29,088,209	-	29,017,672	-
Hire purchase receivables	934	-	2,125	-
Other assets	487,930	296,003	747,028	603,001
Equity instruments at fair value through OCI	56	56	56	56
Debt instruments at amortised cost	900,241	-	34,145	-
Total Financial Assets	**40,146,627**	**676,536**	**39,656,000**	**1,418,799**

Approximately 97% (2020:91.6%) of the loans and receivables are secured against securities including movable property, gold, lease receivables etc. Further, 1.2% and 1.3% (2020:2.0% and 0.7%) of the loans and receivables of the Company are secured against immovable property and deposits held within the Company respectively.

40. RISK MANAGEMENT (Contd…)

40.4.4 Collateral and other credit enhancements - Stage 3 loans

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 2021

	Gross amount	Type of collateral						Associated ECL
		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	Rs'000
Factoring receivables	358,533	-	-	-	1,924	-	1,924	344,224
Gold loan receivables	1,031,114	-	1,031,114	-	-	-	1,031,114	7,747
Loan receivables	2,101,183	463,782	-	653,953	39,661	36,508	1,193,904	1,233,389
Lease receivables	7,276,117	7,276,117	-	-	-	-	7,276,117	1,785,607
Hire purchase receivables	1,599	1,599	-	-	-	-	1,599	1,973
Total	10,768,546	7,741,498	1,031,114	653,953	41,585	36,508	9,504,658	3,372,940

As at 31 December 2020

	Gross amount	Type of collateral						Associated ECL
		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	Rs'000
Factoring receivables	426,618	-	-	-	16,898	-	16,898	333,027
Gold loan receivables	556,279	-	556,279	-	-	-	556,279	4,187
Loan receivables	1,730,848	22,171	-	652,133	56,683	67,490	798,477	840,820
Lease receivables	8,124,655	8,124,655	-	-	-	-	8,124,655	1,160,783
Hire purchase receivables	-	-	-	-	-	-	-	-
Total	10,838,400	8,146,826	556,279	652,133	73,581	67,490	9,496,309	2,338,817

40.4.5 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.

	2021			2020		
	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount	Gross amount	Amount subject to netting but do not qualify for offsetting	Net amount
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets						
Loan receivables	583,026	482,737	100,289	265,800	237,673	28,127

40. RISK MANAGEMENT (Contd…)

40.4.6 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 2021 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
Cash and bank balances	-	-	-	-	-	-	-	-	250,277	-	-	250,277
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,839,911	-	-	-	1,839,911
Factoring receivables	91,297	-	21,227	22,111	1,924	-	16,924	-	-	-	-	153,483
Gold loan receivables	-	-	-	-	-	-	-	-	-	5,781,780	-	5,781,780
Loan receivables	175,070	43,193	68,673	345,905	240,439	95,928	313,874	-	-	179,861	180,863	1,643,806
Lease receivables	2,810,907	969,467	3,363,755	5,308,071	2,027,471	2,985,648	8,563,301	-	1,063,539	1,529,408	466,642	29,088,209
Hire purchase receivables	-	-	-	-	-	-	-	-	934	-	-	934
Other assets	24,744	18,739	28,910	55,661	25,780	32,586	74,952	-	104,579	106,412	15,567	487,930
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	900,241	-	-	-	900,241
	3,102,018	1,031,399	3,482,565	5,731,748	2,295,614	3,114,162	8,969,051	2,740,152	1,419,385	7,597,461	663,072	40,146,627

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

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

Province	**2021**	**2020**
	Rs.'000	**Rs.'000**
Central	4,907,336	4,496,306
Eastern	3,439,816	3,049,502
North Central	1,534,123	1,464,198
North Western	3,883,754	3,796,590
Northern	1,062,923	759,466
Sabaragamuwa	2,283,725	2,118,583
Southern	2,587,624	2,614,071
Uva	524,493	419,484
Western	16,444,418	17,083,373
Total	36,668,212	35,801,573

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

- 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**
	2021	**2021**	**2021**
Long Term Loans linked to AWPLR	1/ (-1)	(102.93)/102.93	1.65%
	0.5 / (0.5)	(51.46)/51.46	0.83%
	0.25 / (0.25)	(25.73)/25.73	0.41%
	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%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 61.32% (2020-52.22%) 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 2021	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	250,277	-	-	-	-	-	250,277
Securities purchased under repurchase agreements	369,283	1,470,628	-	-	-	-	1,839,911
Factoring receivables	25,477	128,006	-	-	-	-	153,483
Lease receivables	4,362,727	7,093,477	12,546,582	4,994,849	90,574	-	29,088,209
Hire purchase receivables	489	63	382	-	-	-	934
Gold loan receivables	4,554,911	1,226,869	-	-	-	-	5,781,780
Loan receivables	790,478	349,767	356,338	94,732	52,491	-	1,643,806
Other assets	5,671	39,538	80,997	63,894	1,828	296,002	487,930
Equity instruments at FVOCI	-	-	-	-	56	-	56
Debt instruments at amortised cost	-	900,241	-	-	-	-	900,241
Total Financial Assets	10,359,313	11,208,589	12,984,299	5,153,475	144,949	296,002	40,146,627
Financial Liabilities							
Bank overdraft	191,266	-	-	-	-	-	191,266
Due to other customers	5,626,382	9,510,671	1,521,150	454,795	1,925	-	17,114,923
Debt instruments issued and other borrowed funds	10,343,232	1,342,615	3,700,000	1,691,667	-	-	17,077,514
Other payables	-	-	-	-	-	1,049,054	1,049,054
Total Financial Liabilities	16,160,880	10,853,286	5,221,150	2,146,462	1,925	1,049,054	35,432,757
Interest Sensitivity Gap	(5,801,567)	355,303	7,763,149	3,007,013	143,024	(753,052)	4,713,870

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

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 7.50% (2020-5.00%) 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 2021.
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 2021	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	250,277	-	-	-	-	250,277
Securities purchased under repurchase agreements	370,074	1,508,366	-	-	-	1,878,440
Factoring receivables	824,958	149,040	-	-	-	973,998
Lease receivables	6,004,703	10,658,366	17,555,952	6,126,068	105,718	40,450,807
Hire purchase receivables	2,064	327	1,298	-	-	3,689
Gold loan receivables	4,613,821	1,378,991	-	-	-	5,992,812
Loan receivables	1,756,890	615,796	628,596	167,112	92,597	3,260,991
Other assets	298,555	58,806	100,227	70,977	1,882	530,447
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	918,000	-	-	-	918,000
Total Financial Assets	14,121,342	15,287,692	18,286,073	6,364,157	200,253	54,259,517
Financial Liabilities						
Bank overdraft	191,266	-	-	-	-	191,266
Due to other customers	6,015,351	10,373,097	1,800,534	492,804	1,925	18,683,711
Debt instruments issued and other borrowed funds	5,406,486	3,823,034	7,985,187	2,318,245	436,089	19,969,041
Other payables	638,512	72,466	187,472	151,106	173,549	1,223,105
Total Financial Liabilities	12,251,615	14,268,597	9,973,193	2,962,155	611,563	40,067,123
Net Financial Asset/Liabilities	1,869,727	1,019,095	8,312,880	3,402,002	(411,310)	14,192,394

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

41. MATURITY ANALYSIS

As at 31 December 2021	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	250,277	-	-	-	-	250,277
Securities purchased under repurchase agreements	369,283	1,470,628	-	-	-	1,839,911
Factoring receivables	25,477	128,006	-	-	-	153,483
Lease receivables	4,362,727	7,093,477	12,546,582	4,994,849	90,574	29,088,209
Hire purchase receivables	489	63	382	-	-	934
Gold loan receivables	4,554,911	1,226,869	-	-	-	5,781,780
Loan receivables	790,478	349,767	356,338	94,732	52,491	1,643,806
Other assets	380,923	70,333	97,150	71,157	17,564	637,127
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	900,241	-	-	-	900,241
Property, plant & equipment	-	-	-	-	1,992,215	1,992,215
Right-of-use assets	-	-	-	-	362,870	362,870
Deferred tax assets	-	-	-	-	78,492	78,492
Intangible assets	-	-	-	-	20,847	20,847
Total Assets	10,734,565	11,239,384	13,000,452	5,160,738	2,615,109	42,750,248
Liabilities						
Bank overdraft	191,266	-	-	-	-	191,266
Due to other customers	5,626,382	9,510,671	1,521,150	454,795	1,925	17,114,923
Debt instruments issued and other borrowed funds	5,225,455	2,976,891	6,600,639	1,928,429	346,100	17,077,514
Other payables	948,493	51,362	115,788	77,583	74,445	1,267,671
Income taxation payable	-	768,927	-	-	-	768,927
Retirement benefit obligations	-	-	-	-	103,853	103,853
Total Liabilities	11,991,596	13,307,851	8,237,577	2,460,807	526,323	36,524,154

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 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	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
Total 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	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

42. COMMITMENTS AND CONTINGENCIES

	2021					2020				
	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
Credit related commitments & contingencies										
Undrawn-direct credit facilities										
- Factoring	37,998	-	-	-	37,998	44,663	-	-	-	44,663
-Revolving Loans	-	-	-	-	-	4,569	-	-	-	4,569
Guarantees	-	6,200	-	-	6,200	-	6,500	-	-	6,500
Impairment for expected credit losses - credit related commitments & contingencies	(5,431)	-	-	-	(5,431)	(1,117)	-	-	-	(1,117)
	32,567	6,200	-	-	38,767	48,115	6,500	-	-	54,615
Other commitments & contingencies										
Capital commitments(Note 42.3)	-	393,594	-	-	393,594	-	677,124	-	-	677,124
Commitments & contingencies net of impairment for expected credit losses	32,567	399,794	-	-	432,361	48,115	683,624	-	-	731,739

42.1 Analysis of Credit Related Commitments and Contingencies based on the Exposure to Credit Risk

	2021				2020			
	Rs'000 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
Unutilised facilities-Direct credit facilities	37,998	-	-	37,998	48,790	442	-	49,232
Guarantees	6,200	-	-	6,200	6,500	-	-	6,500
Impairment for Expected Credit Losses	(5,431)	-	-	(5,431)	(752)	(365)	-	(1,117)
	38,767	-	-	38,767	54,538	77	-	54,615

42.2 Impairment for Expected Credit Losses- Credit Related Commitments and Contingencies

	2021				2020			
	Rs'000 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
Balance as at 1st January	752	365	-	1,117	117	159	-	276
Net charge for the year (Note 9)	4,679	(365)	-	4,314	635	206	-	841
Balance as at 31st December	5,431	-	-	5,431	752	365	-	1,117

42.3 Capital commitments

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

	2021 Rs'000	2020 Rs'000
Approved and contracted for	383,792	670,247
Approved but not contracted for	9,802	6,877
	393,594	677,124

42.3 Other Contingent Liabilities

42.3.1 Litigation against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken and in that light, the Company has formal controls and policies for managing and defending the legal actions instituted against it. Pursuant to obtaining professional advice and estimating any loss likely to be incurred, adjustments are made to the accounts of the Company in order to accommodate any adverse effects that such claims may have on its financial standing. There was no pending litigation against the Company as at 31 December 2021 which would have a material impact on the Financial Statements other than those disclosed below.

The following case instituted against the Company is currently being adjudicated before Court:

D C Kandy Case No. DLM/213/2018

Previous owner of the customer's property has filed an action against the present owner and Siyapatha Finance PLC, challenging the Deed of Transfer between herself and the customer. Siyapatha Finance PLC has already filed action against the customer under case No. CHC/452/18/MR demanding a sum of Rs.19,363,739.24, which is fixed for trial on 28/02/2022.

The maximum possible loss to Siyapatha would be Rs.20 Mn in the event the judgment is delivered in favour of the Plaintiff.

42.3.2 Litigation on Employment and Industrial Relations

There are no material legal issues outstanding against the Company on employment and industrial relations as at 31 December 2021.

43. EVENTS AFTER THE REPORTING PERIOD

ACCOUNTING POLICY

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 below.

43.1 Surcharge Tax

The Government of Sri Lanka in its Budget proposals 2022 has proposed a one-time tax, to be called as 'Surcharge Tax' at the rate of 25% to be imposed on companies earned a taxable income in excess of Rs. 2,000 Million for the Year of Assessment 2020/2021. If the aggregate taxable income of a group of companies exceeds Rs. 2,000 Million, each company of the group of companies will be liable for surcharge tax. The proposed tax shall be deemed to be an expenditure in the Financial Statements of 2020.

The Bill introducing the proposed tax was published on 07 February 2022. Accordingly, the proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

44. 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.

44.1 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.

44.2 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.

	2021 Rs'000	2020 Rs'000
Directors' fees & short term employee benefits	57,042	49,013
Total	57,042	49,013

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.

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

CFMs of the KMP are those family members who may be expected to influence the KMP or be influenced by that KMP in their dealings with the entity. They may include KMP's spouse, children, domestic partner, children of the KMP's spouse/domestic partner and dependents of the KMP, KMP's spouse/domestic partner. Aggregate value of the transactions with KMP and their CFMs are disclosed below.

As at 31 December	2021 Rs'000	2020 Rs'000
Loans and advances	-	-
Term/Savings deposits	238,970	216,751
Debentures	22,500	22,500

For the year ended 31 December	2021 Rs'000	2020 Rs'000
Interest on term/savings deposits	17,870	20,520
Interest on Debentures	2,875	2,875

44.4 Transactions with Group Companies

44.4.1 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.

As at 31 December	2021 Rs'000	2020 Rs'000
Investment in government securities - REPOs/Treasury bills		
Opening Balance	1,000,116	10,772
Net investments during the year	(1,000,116)	989,345
Closing Balance	-	1,000,116
Other receivables	-	505

44. RELATED PARTY TRANSACTIONS (Contd..)

44.4 Transactions with Group Companies (Contd..)

44.4.1 Sampath Bank PLC (Contd..)

	2021 Rs'000	2020 Rs'000
Term Loan (Only capital)		
Opening Balance	2,970,333	4,920,733
Granted during the year	500,000	-
Less : Repayment during the year	(1,237,000)	(1,950,400)
Closing Balance	2,233,333	2,970,333
Short Term Loan (Only capital)	700,000	-
Bank Overdraft	191,266	249,605
Total Accommodation obtained	3,124,599	3,219,938
Less : Favourable balances in current accounts with bank	(107,438)	(132,895)
Net Accommodation	3,017,161	3,087,043
Net Accommodation as a percentage of Capital Funds	48.46%	60.22%

For the year ended 31 December	2021 Rs'000	2020 Rs'000
Expenses		
Interest expenses	219,852	522,879
Rent paid (for the branch located within Sampath Bank premises)	-	416
Fees paid for acting as Bankers to the debentures issued in year 2021 & 2020.	298	324
Other expenses	1,626	156
Income		
Fee for locating ATM machines at Company's branch premises operations	480	56
Interest Income on short term government securities	1,096	852
Interest Income on call/savings deposits	1,385	5,139

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

Issue of shares/Dividend	2021 Rs'000	2020 Rs'000
Proceeds for rights issue of shares	-	700,000
Scrip Dividend(Gross)-number of shares-2,035,594(2020-2,899,663)	123,214	142,959

44.4.2 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.

As at 31 December	2021 Rs'000	2020 Rs'000
Facilities granted	3,976	5,600
Other receivables	-	134

For the year ended 31 December	2021 Rs'000	2020 Rs'000
Interest Income on leasing facility granted	641	-
Hardware/Software maintenance paid	4,192	1,183
Operating lease expenses(Computer hire charges)	23	64

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

	2021 Rs'000	2020 Rs'000
For the year ended 31 December		
Interest expenses on deposits	-	25
Fees paid for acting as Managers to the debentures issued in year 2021	1,125	-
Receivables as at 31 December		
SC Securities Pvt Ltd	-	67
Sampath Centre Ltd	-	201
Payables as at 31 December		
Sampath Centre Ltd:		
Consultancy fees payable	-	153

45. SEGMENT INFORMATION

ACCOUNTING POLICY

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 2020 & 2021.

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	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Interest Income	5,503,942	5,414,925	963,655	1,125,558	318,839	273,733	6,786,436	6,814,216
Less: Interest expenses	(2,193,075)	(3,017,256)	(339,936)	(468,710)	(280,717)	(370,349)	(2,813,728)	(3,856,315)
Net interest income	3,310,867	2,397,669	623,719	656,848	38,122	(96,616)	3,972,708	2,957,901
Net fee and commission income	180,867	184,667	99,656	93,638	501	399	281,024	278,704
Other operating income	1,000,141	469,757	-	-	79,730	17,018	1,079,871	486,775
Total operating income	4,491,875	3,052,093	723,375	750,486	118,353	(79,199)	5,333,603	3,723,380
Less: Impairment (charges)/reversal on loans and losses	(1,135,639)	(1,072,252)	(14,529)	(1,247)	(468,008)	(282,765)	(1,618,176)	(1,356,264)
Net operating income	3,356,236	1,979,841	708,846	749,239	(349,655)	(361,964)	3,715,427	2,367,116
Less: Total operating expenses (Including VAT on financial services)*	(1,694,030)	(1,170,427)	(316,560)	(241,329)	(178,763)	(277,341)	(2,189,353)	(1,689,097)
Operating profit before taxes	1,662,206	809,414	392,286	507,910	(528,418)	(639,305)	1,526,074	678,019
Less: Income tax expenses							(431,531)	(268,528)
Profit for the year							1,094,543	409,491
Non-controlling interest							-	-
Profit attributable to equity holders of the Company							1,094,543	409,491
As at 31 December	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
	Rs'000	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**	**Rs'000**
Segment assets	29,089,143	29,019,797	5,781,780	4,769,716	7,879,325	7,762,147	42,750,248	41,551,660
Total assets	29,089,143	29,019,797	5,781,780	4,769,716	7,879,325	7,762,147	42,750,248	41,551,660
Segment liabilities	24,852,636	25,442,444	4,939,728	4,181,514	6,731,790	6,801,737	36,524,154	36,425,695
Total liabilities	24,852,636	25,442,444	4,939,728	4,181,514	6,731,790	6,801,737	36,524,154	36,425,695

*The Comparative information is re-classified wherever necessary to comply with the current year presentation.However,this re-classification did not have any impact on Income Statement and operating cash flows for the year ended 31 December 2021.

46. 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 11.0% and a minimum core capital adequacy ratio (Tier I) of 7.0%.The Company has always maintained the Capital Adequacy Ratio above the minimum regulatory requirements.