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Siyapatha Finance

(Finance Company of Sampath Bank Group)

SIYAPATHA FINANCE PLC
ANNUAL REPORT 2019



A Holistic Approach
that garners holistic solutions – that is how we
take responsibility
for your life's goals, dreams and aspirations.

Fortified with the solid foundation
provided by our parent company – Sampath Bank
we are with you, every step of the way.

That in essence is the difference,
what makes us Siyapatha Finance.

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ABOUT US

OUR VALUES

- **L**OYALTY
- **O**PENNESS
- **T**RUST
- **U**NITY
- **S**ERVICE EXCELLENCE

04

COMPANY PROFILE

Siyapatha Finance PLC, formerly known as Sampath Leasing & Factoring Limited a fully owned subsidiary of Sampath Bank PLC, was established in March 2005 as a specialized leasing company, licensed and regulated by the Central Bank of Sri Lanka (CBSL) to service the lower end of the SME/Retail customer segment. Over its 14 years in operation, Siyapatha Finance has grown into the largest subsidiary of Sampath Bank and in September 2013 the entity was rebranded to its current name subsequent to receiving the finance company license by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. The company's lending portfolio consists of finance leases, hire purchase financing, loans, gold financing, factoring (debt financing) operations and deposits.

Siyapatha Finance PLC is a key player in the country's Non-Bank Financial Institutions sector with a network of 35 branches in principal cities and towns, powered by a dynamic team of 710 employees.

Rating (Issued by Fitch Ratings Lanka) : National Long-Term Rating of 'A-(lka)', Outlook – Stable

OUR VISION

TO BE THE MOST INNOVATIVE AND TRUSTED PREMIER
FINANCIAL SERVICES PROVIDER.

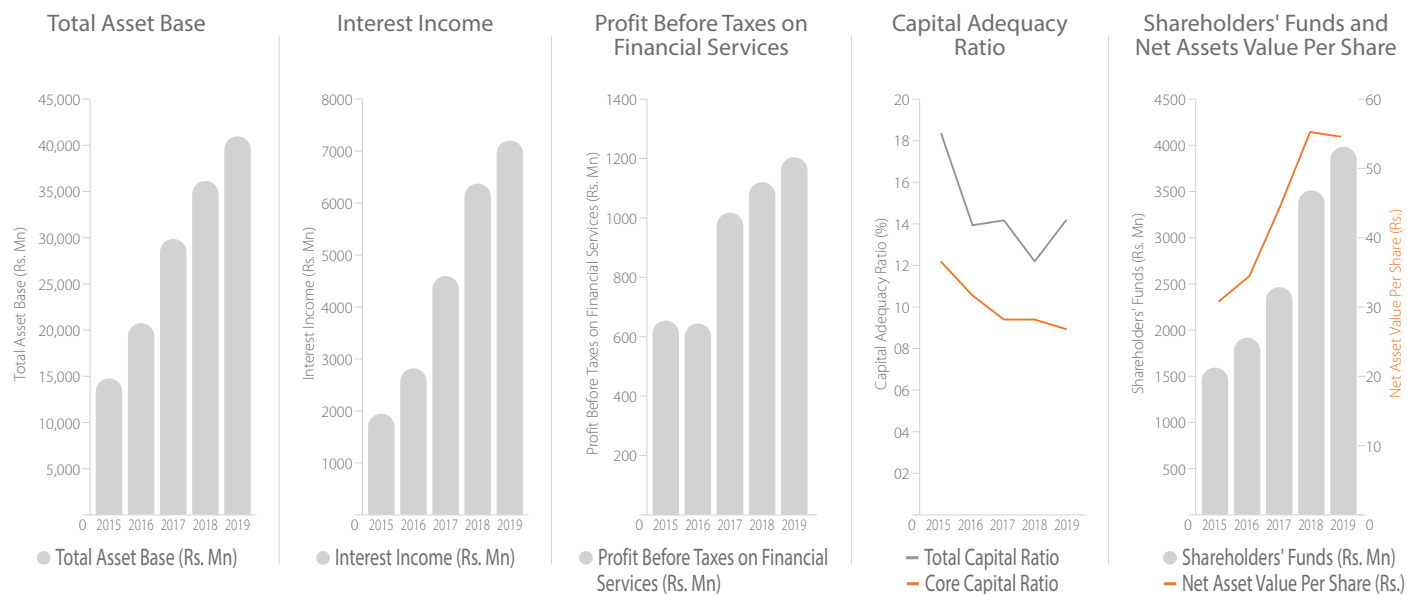
OUR MISSION

05

TO PROVIDE FLEXIBLE AND CREATIVE SOLUTIONS TO CUSTOMERS
AND GENERATE GREATER VALUES TO OUR STAKEHOLDERS
WHILE ASSURING CORPORATE GOVERNANCE THROUGH AN
EMPOWERED PROFESSIONAL TEAM.

YEAR IN REVIEW

FINANCIAL SPOTLIGHT



06

Profit After Tax

Rs.480Mn

Total Assets

Rs.40,947Mn

Deposits

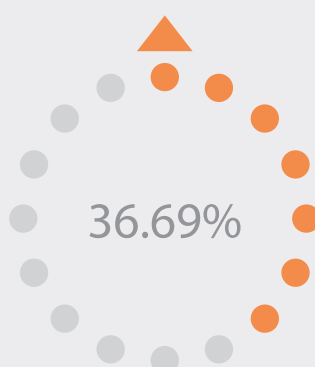
Rs.13,221Mn

Shareholders' Funds

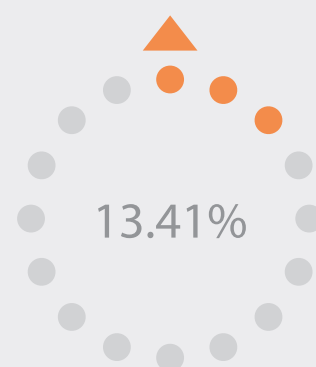
Rs.4,016Mn



Growth in Net Interest Income



Deposits Growth



Growth in Shareholders' Funds

FINANCIAL HIGHLIGHTS

	2019	2018	Change (%)
Financial Performance (Rs. Mn)			
Interest income	7,230	6,396	13.0
Net interest income	2,999	2,716	10.4
Total operating income	3,689	3,283	12.4
Operating expenses, credit loss expense and taxes on financial services	2,891	2,450	18.0
Net profit before taxation	799	834	(4.2)
Tax expense	318	317	0.3
Net profit after taxation	480	517	(7.0)
Financial Position (Rs. Mn)			
Due to other customers	13,221	9,672	36.7
Total lending portfolio after credit loss expense	36,227	33,013	9.7
Total equity (Capital and reserves)	4,016	3,541	13.4
Total assets	40,947	36,166	13.2
Profitability (%)			
Return on assets	1.22	1.50	(18.7)
Return on equity	12.88	16.84	(23.5)
Cost to income ratio	38.85	40.46	(4.0)
Investor Information (Rs.)			
Earnings per share	6.83	8.43	(19.0)
Net assets value per share	54.78	55.68	(1.6)
Dividend per share	1.95	0.50	290.0
Regulatory Ratios (%)			
Core capital ratio (Tier I)	8.96	9.40	(4.7)
Total capital ratio (Tier I + Tier II)	14.16	12.21	16.0
Liquid assets ratio	7.67	7.68	(0.1)

	2019	2018	2017	2016	2015
Financial Achievements					
Return on average assets (%)	1.22	1.50	1.91	1.81	2.87
Return on average equity (%)	12.88	16.84	23.05	18.35	25.91
Growth in profit before taxes on financial services (%)	7.10	10.73	57.84	(1.34)	39.69
Growth in profit after tax (%)	(7.03)	3.54	52.43	(14.89)	47.79
Growth in assets (%)	13.22	21.32	43.38	42.02	40.52
Cost to income ratio (%)	38.85	40.46	45.56	52.78	49.21
Capital adequacy ratio (%)					
Tier I	8.96	9.40	9.44	10.62	12.25
Tier I + Tier II	14.16	12.21	14.16	13.93	18.34

MILESTONES

08

1. Incorporation of the Company & obtained 'Specialised Leasing Company' status
2. Opening of branches in Kandy & Matara

2005

1. Appointment of New Corporate Management

2010

1. Received the 'Registered Finance Company' status
2. Rebranded as "Siyapatha Finance Limited"
3. Launch of Gold Financing business
4. Expanded the branch network to 18 Branches

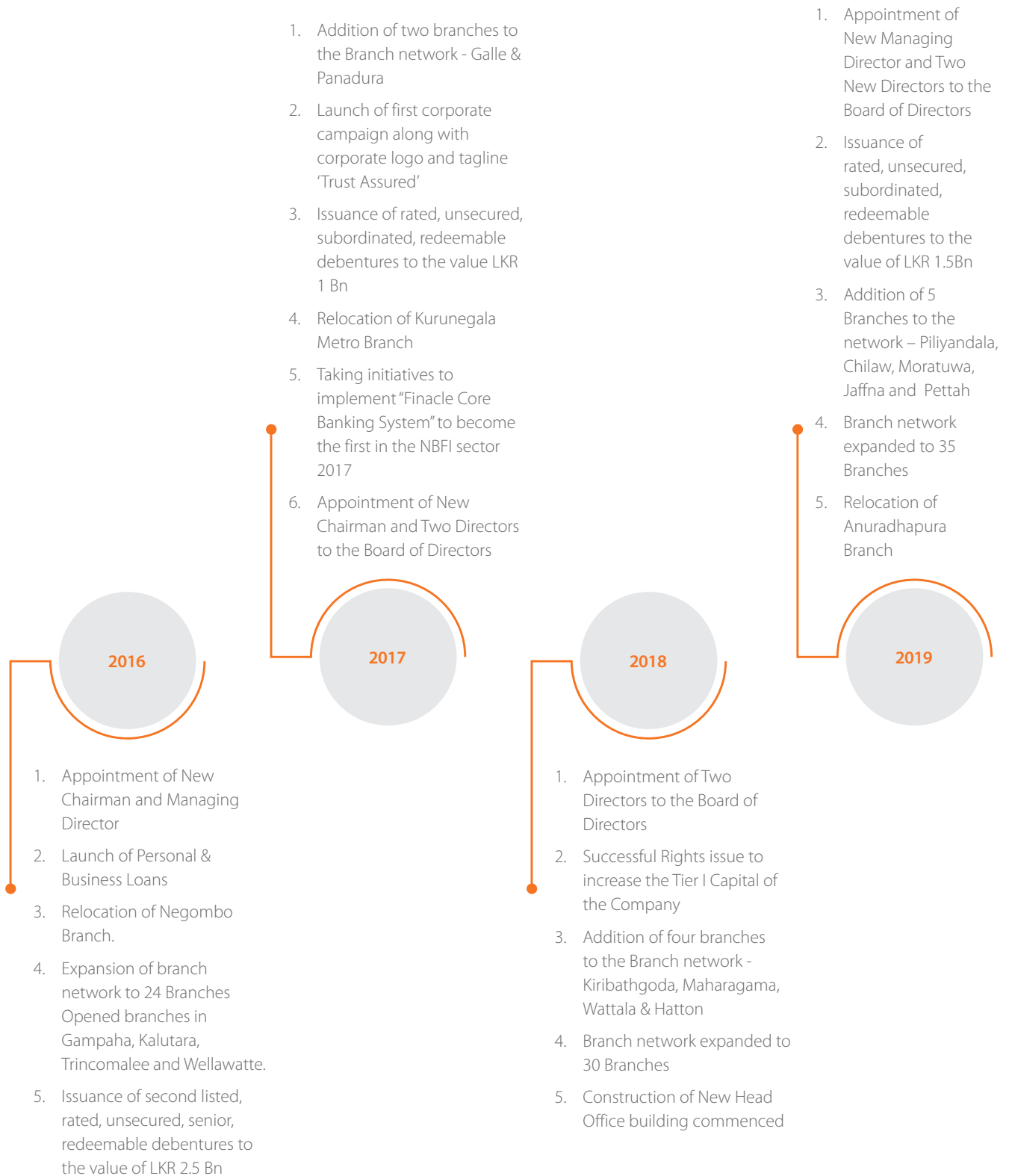
2013

1. Appointment of New Chairman to Board of Directors
2. Issuance of its first listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1 Bn

2014

1. Changed the name as "Siyapatha Finance PLC"
2. Commenced Deposit Mobilization from the general public

2015



CHAIRMAN'S REVIEW



"Regardless of the weak NBFIs sector performance, Siyapatha Finance recorded a robust asset growth of 13% - well above that of the industry. The performance was not too far off from projections for the year despite the prevailing unfavourable circumstances. Notwithstanding the broader challenges, the company's profit before financial taxes grew by 7% whereas the topline grew by 13%."

I am pleased to welcome you to the 15th Annual General Meeting and place before you the Audited Financial Statements for the year ended 31st December 2019. Overall, the expectations for achieving a strong national economic recovery in the year under review remained unfulfilled due to a host of challenges that beset the nation, namely, the April Terrorist attacks of 2019 and the Presidential elections. As a result, the financial year was characterized by subdued economic growth, while the Non-Banking Financial Institutions (NBFI) sector mirrored prevailing macro-economic conditions by recording negative credit growth, declining profitability and an increase in Non-Performing Loans (NPLs).

In order to cushion the sector, the Central Bank of Sri Lanka (CBSL) continued to take action on distressed and high risk Licensed Finance Companies (LFCs), including cancellation of licenses and appointment of management panels in order to safeguard depositors. Gross Non Performing Advances to Total Advances rose to 10.59% in the year under review as compared to 7.66% in 2018/19. Although the industry's total assets grew slightly by 0.09% - with deposits improving by 5.56% - loans and advances recorded a negative growth of 3.02% as reported by CBSL. The marginal asset growth in the industry can be attributed in part to improved business confidence and optimism in the post-presidential elections period.

COMPANY PERFORMANCE

Regardless of the weak NBFI sector performance, Siyapatha Finance recorded a robust asset growth of 13% - well above that of the industry. The performance was not too far off from projections for the year despite the prevailing unfavourable circumstances. Notwithstanding the broader challenges, the company's profit before financial taxes grew by 7% whereas the topline grew by 13%. Impairment rose by 27% during the year. Eventually,

the company ended the financial year under review with equanimity as macro conditions improved. Profit after tax for the 2nd half of the year 2019 was recorded as Rs. 348.33Mn, reflecting a growth of 164% over the first half of the year under review.

Early in the year, the impact of the April attacks and ensuing impairment levels dampened the momentum and enthusiasm built up through March. Nevertheless, the efficient Board and Management Team took a long and hard look at the business and came up with a clear strategy. Under the leadership of the Chairman, the Board and the Corporate Management, spearheaded by the Managing Director, a decision was taken to re-focus on two key market segments for which Siyapatha Finance holds appropriate competencies.

Consequently, Micro Leasing was included in the core business areas in addition to the existing Leasing services. The focus on Micro Leasing sector involves providing leases for mini trucks, three and two wheelers. It is a segment of potential that is not unduly impacted by weak economic conditions which demonstrates a sound repayment history. As an NBFI, we continue to be mindful of our mandate to cater to this segment and to fund and uplift them while at the same time ensuring that our depositors are secured.

The company ensured sustainability of its operations by focusing on its core strengths of serving the targeted segments with a range of financial products suited to their needs. The new strategy resulted in effecting a strong turnaround in the second half of the year under consideration and will, we believe, protect the company and its stakeholders from unnecessary risks as now our portfolio consists of a judicious mix of smaller and larger ticket business.

DEBENTURE ISSUE OVERSUBSCRIBED

During the year under consideration, Siyapatha Finance PLC successfully raised Rs.1.5 billion through a listed debenture issue. The rated, unsecured subordinated, five-year debenture issue had an initial tranche of Rs.1 billion with an option to raise to Rs.500 million, in the event the initial tranche was oversubscribed.

TOTAL COMPLIANCE WITH GOVERNANCE STANDARDS

As part of the Sampath Bank Group, we aspire to maintain high standards of governance and are proud to be compliant with all statutory governance standards applicable to the industry. During the year under review, there were no departures from any of the provisions of the Finance Companies Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka or to the listing rules of the Colombo Stock Exchange. The company voluntarily adopted The Code of Best Practices on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Siyapatha Finance PLC recognizes and embraces the benefits of a diverse Board, and views diversity at Board level as an essential element in maintaining competitive advantage. The effectiveness of the Board, the Board Committees and the individual Directors has been assessed. The Nominations Committee reviews the composition of the Board and considers the core competencies, skills, diversity and experience required for the Board to deliver its strategic aims and govern Siyapatha Finance PLC effectively. During 2019, an initiative was undertaken to strengthen the Risk and Compliance Divisions of the company by forming two separate divisions for each respective function.

CHAIRMAN'S REVIEW

STRENGTHENING RISK FRAMEWORK

During the year under review, the Board provided strategic direction with a focus on improving the risk management and credit evaluation processes, without hampering targeted credit growth and primary objectives of business development functions of the company. Some of the goals of introducing such advanced risk management were:

- ▶ To assist in risk management relating to accepting, transferring, mitigating and minimizing risk and recommending most advanced methods to carry out such activities to ensure faster decisions are taken in the company
- ▶ To evaluate the risk profile against the approved risk appetite on an ongoing basis to closely monitor any deviations and to take appropriate action if required
- ▶ To estimate potential losses that could arise from risk exposure assumed and propose remedial action for corrections
- ▶ Periodically conduct stress testing to ensure that the company holds sufficient buffers in the event of extreme market/economic situations

FUTURE STRATEGIES FOR GROWTH

Siyapatha Finance PLC's key strategy will be enabling financial inclusivity of targeted customer groups, including small and medium clientele, through finance leasing, gold financing and deposit mobilisation. The asset and deposit growth relative to the industry as explained above and the remarkable turnaround achieved during the second half of the period under consideration in terms of growth in net profit after tax, improvement in income, operating profit and net operating profit before income tax, despite the rise in impairment, relative to the previous year, is creditable.

The decision to diversify the company's lending mix of leasing products was taken to spread the risk and was driven

via geographical expansion and market penetration. This has improved the risk spread of the total lending portfolio while enhancing the total portfolio yield, efficiency and bottom line of the operation to make a noticeable improvement in Return on Investment (ROI) and Net Lending Yield. Further, we are committed to increasing market presence in terms of digital platforms and utilization of IT infrastructure to create customer convenience.

Looking ahead, Siyapatha expects to expand and sustain the quality of its portfolio by focusing on these clearly defined market segments, which will be served with an appropriate mix of products. Funding will be judiciously managed to optimize cost and tenor. Continuing improvement in the effectiveness of recoveries will be a priority, to ensure stability and secure quality of earnings. Moreover, emphasis on productivity will enhance competitiveness through faster response times, thereby facilitating the acquisition and retention of customers, while also lowering cost to income ratio.

FUTURE OUTLOOK FOR ECONOMY, SECTOR AND COMPANY

The more optimistic predictions for the economy in the year 2020 have been negated by the severe impact that COVID-19 is having on businesses and livelihoods. The focus will rather be on an economic recovery and resumption of normal economic activity for the rest of the year, albeit under the shadow of the pandemic.

As for the industry, voluntary consolidation among LFCs will be encouraged in order to meet the minimum capital requirements. Also, in the future, CBSL plans to disclose the names of LFCs subject to regulatory concerns. Key priorities for the medium term in respect of the NBFI sector are strengthening the existing regulatory framework in line with current market developments and international best practice, establishing resilient and well performing LFCs, resolution of existing

"The asset and deposit growth relative to the industry as explained above and the remarkable turnaround achieved during the second half of the period under consideration in terms of growth in net profit after tax, improvement in income, operating profit and net operating profit before income tax, despite the rise in impairment, relative to the previous year, is creditable."

distressed and high risk companies, and initiating legal action against wrongdoers. However, in the short-term, the impact of COVID-19 on the sector will need to be assessed and addressed by the players in the sector with strong support from the government and regulator.

Nevertheless, the Board of Directors and the Management remain determined to mitigate the impact and recover through effective remedial action to sustain the company's strong momentum going into 2020.

VALUABLE CONTRIBUTIONS

Siyapatha Finance PLC yet again distinguished its operations in the industry by posting an impressive performance despite the odds in the industry and the wider economy. The company owes its success to its unrivalled resources led by an extremely eminent and diverse Board and Corporate Management which has the required experience and visionary approach to navigate any crisis.

The 2019 year was characterized by hectic activity, with strategic appointments to the Board. I would like to welcome three eminent corporate personalities - Mr. Jayantha Gunawardena, who has been appointed as Independent Non-Executive Director; Mr. Deepal Sooriyaarachchi, joining the Board as Non-Independent Non-Executive Director and Mr. Ananda Seneviratne, who was appointed Managing Director during the year under review. All three leaders have remarkable track records and I am confident their contribution in the months and years ahead will prove invaluable to the company's growth and expansion.

Post financial year ending 31st December 2019, several Board appointments also took place, with Mr. Shiran Perera being appointed Non-Independent Non-Executive Director w.e.f. 16th January 2020 and Mrs. Sriyani Ranatunga joining the Board as Independent Non-Executive Director w.e.f. 28th January 2020. I warmly welcome them all and am pleased to see

the wealth of experience and technical skills they bring to the Board of the company which will hold us in good stead.

We also had to unfortunately bid goodbye to several valuable members of the Board during the year under review. Mr. Saman Herath relinquished his duties as Managing Director at the end of his contract period on 28th February 2019, leaving behind a valuable legacy. During his tenure, he implemented key initiatives to position the company for growth.

Ms. Aroshi Nanayakkara, Independent Non-Executive Director, left the Board to take up an assignment on the Board of the parent company, Sampath Bank. Also, Dr. Dilanjan Soysa, Independent Non-Executive Director, retired after completing 9 years on the Board. He was appointed to the Board as an Independent Non-Executive Director on 1st January 2011 and subsequently appointed as the Senior Director of the Company. Dr. Soysa retired from the Board with effect from 1st January 2020. We value his immense contribution.

The end of the financial year under review witnessed the retirement of Mr. Channa Palansuriya, who served as Chairman of Siyapatha Finance PLC since 20th May 2014. He stepped down as the Chairman on 6th October 2016 while continuing as a Director of the Company. He was reappointed as the Chairman on 15th November 2017 and served until 31st January 2020. The company remains indebted to his valuable guidance and leadership and to his dedication to ensure the well-being of the organization. I look forward to building on his legacy.

Lastly, we bade goodbye to Mr. Prasantha Lal De Alwis who was appointed to the Board as an Independent Non-Executive Director on 25th February 2011 and as the Deputy Chairman to the Board on 15th November 2017, serving the Board for nine years and retiring w.e.f. from 24th February 2020. Siyapatha Finance PLC has been truly fortunate to have had these distinguished persons at its helm.

ACKNOWLEDGEMENTS

I would like to thank my colleagues on the Board for their unwavering support through the year. The Corporate Management Team led by the Managing Director and the entire staff need to be commended for leaving no stone unturned to deliver strong financial results for the company. Our successful journey in 2019 was ably supported by the officials of the Central Bank of Sri Lanka, in particular, the Department of Supervision of Non-Bank Financial Institutions, Securities Exchange Commission, Colombo Stock Exchange and Ministry of Finance who provided valuable guidance.

Customers are our lifeblood and we thank them for maintaining their confidence in the company, while also thanking suppliers and service providers whose support is vital in achieving our vision.

In conclusion, I would like to, on behalf of the entire company, express gratitude to our shareholders for their unstinted faith in us. I express my gratitude to everyone responsible for oversubscribing our debenture issue and making it a success. Led by an excellent team with a strong strategy, Siyapatha Finance PLC looks ahead with optimism.



Sumith Cumaranatunga
Chairman

24 February 2020

MANAGING DIRECTOR'S REVIEW



"I am pleased to report on a successful year achieved by the company during which we managed to improve the topline and enhance operating profit, successfully growing market share despite political instability ahead of the presidential election, challenging market conditions and slow industry growth."

The resilience of an organization can be assessed by how it weathers turbulence in the industry and the wider economy it operates in; essentially, how it navigates the speed bumps along the journey. By this measure, our performance during the FY2019 was nothing short of heroic - as the company distinguished itself in the Non Banking Financial Institutions (NBFI) industry through its response, trumping the negative growth experienced in the industry to record a robust performance.

I am pleased to report on a successful year achieved by the company during which we managed to improve the topline and enhance operating profit, successfully growing market share despite political instability ahead of the presidential election, challenging market conditions and slow industry growth. Although we felt the adverse impact of the April terrorist attacks by way of rising impairment, the second half of the financial year under consideration proved to be a turnaround. The company's exposure to the tourism sector impacted collections which is chiefly why impairment rose. However, in terms of debt recovery and NPAs, the company remains on par with the industry.

Through FY2019, Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) demonstrated a sluggish performance. Negative credit growth, declining profitability and an increase in Non Performing Loans (NPLs) were some common characteristics. Subdued economic growth and a decline in commercial activities were a direct result of the April Terrorist Attacks.

FINANCIAL PERFORMANCE

Undeterred by these challenges, Siyapatha Finance PLC recorded strong disbursement through the year under review, although profitability declined marginally in comparison to the preceding year due to impairment and higher taxes. The company's Profit after Tax declined by 7%

from Rs. 517Mn in 2018 to Rs. 480Mn in 2019. The Debt Repayment Levy, which was approximately Rs. 30Mn in 2018 (Imposed with effect from 01 October 2018), grew significantly to reach Rs. 138Mn in 2019, eroding the company's profitability. However, operating profit before taxes on financial services improved by 7%.

The company continues to comply with tier 1 and total capital requirements. Its capital raising efforts were successful during the year under review as the debenture issue, which was oversubscribed, raised Rs. 1.5Bn, thereby strengthening the company's capital position. The success of this effort has encouraged Siyapatha Finance PLC to consider raising debt in foreign capital markets.

OPERATIONAL REVIEW

During the year under review, the company drilled down to ensure that its future growth strategy was in line with its core strengths and capabilities. Keeping in mind the core competencies and analyzing the trends in the NBFI sector, a strategic decision was taken to concentrate solely on Micro Leasing and Gold Loans. The company effectively exited less profitable segments such as Loans and Factoring to reduce exposure to risk and instead consolidated training and development needed to cater to the newly-identified market segments. The decision resulted in the company taking on small ticket business spread across a wider customer base where we have identified growth opportunities.

The company's strong performance was the direct result of four key growth pillars adopted during the year which drove all the decisions across the company, namely, Diversification of Lending Mix; Market Penetration into Small Ticket Leases; Market Penetration into Registered four-wheel leases; and Market Development via geographical penetration.

The Gold Loans business segment performed strongly during the year, propelling the company to be positioned prominently as the No. 2 leading NBFI in the sector when it comes to Gold Loans. The upsurge in profitability in this segment can be attributed to the dedicated and highly skilled staff that manages to retain market leadership and drive business by identifying the needs of the people and devising suitable products for different communities which helped distinguish our offering. The continuous learning and development culture prevalent in the organization ensures management skills of frontline staff are regularly upgraded and refreshed in line with evolving customer needs.

DELIVERING VALUE TO CUSTOMERS

The new strategy of the company has enhanced its vision for financial inclusiveness and customer centricity as it maintains and expands its presence in strategic locations around the country. The existing branch network was expanded with the addition of 5 new branches in Piliyandala, Chilaw, Moratuwa, Jaffna and Pettah. The addition of these 5 branches takes the total number of branches to 35. The Anuradhapura branch was also relocated during the year.

Adding further value to customers, an ATM card for savings account holders will be launched in 2020, which greatly enhances their ability to access funds from their savings account 24/7 via the network of all ATMs connected to Lankapay.

The company has made great strides in the process of digitalization, automation of manual tasks and leveraging on technology to provide greater efficiency and convenience to customers and staff. As a result of the existing group synergies with Sampath Bank, Siyapatha Finance PLC is the first NBFI to have implemented a Core Banking System (Finacle) to power its leasing services. This online lease origination system has vastly improved

MANAGING DIRECTOR'S REVIEW

the speed with which staff is able to serve customers. During the year under review, we upgraded the MIS portal to enhance the information and launched a dashboard to support decision-makers.

Going a step further, Siyapatha Finance PLC has commissioned the construction of its own headquarters building at Borella in 2019 - and the impressive facility is to be ready for occupation in 2021. We are proud of this project as it truly heralds the financial stability and stature of the company and will enhance the corporate brand image while providing a central and accessible location for customers in Colombo.

Driving our vision for financial inclusiveness, which is aligned to the Central Bank's vision to make access to finance a reality across the country, the company successfully penetrated into rural markets by delivering products and services that fulfill aspirations of its customer base in those areas. The year witnessed a strong customer response to the company's deposit mobilization efforts, strongly supported by the backing of parent Sampath Bank and high levels of customer confidence.

In order to enhance customer care further, the company conducts analysis of customer needs and then customizes products as opposed to offering generic products. For example, our study revealed that in metro areas people need leasing services for passenger cars, but in rural areas they need agri equipment, registered cars and two and three-wheelers. Continuous dialogue with regional managers is maintained to understand regional needs for different communities.

RISKS TO THE COMPANY & MITIGATION MEASURES

The company's risk management tools were sharpened during the year under review to ensure that growth is properly compensated with returns during the year.

The company took several measures to improve credit quality by establishing a different authority for credit approvals and a centralized credit risk management. A post-monitoring system which was set up has helped improve our credit quality to a great extent compared to previous years. We are confident that the positive results of these measures will become apparent in the following year.

Segregation of duties according to credit, market and operational risks for enhanced risk management were redefined during the year. Stringent evaluations considering the market and industry changes were introduced for a better portfolio and low risk investments with prudent returns. Balanced Asset & Liability Management was helpful to ensure maximum returns from income earning assets, thereby incurring low cost on liabilities created in the balance sheet. The company was able to adopt best practices in risk management after on-boarding new Information Technology systems and Management Information Systems. The corporate management and Board ensures that risk tolerance limits are maintained within limits and avoids any changes to risk appetite set out at the beginning, irrespective of the changes in the environment by properly adapting to changes. Proper controls and monitoring systems are used by the company to take appropriate corrective action in the event of market threats that impact the company and ensure it is well-prepared with proper contingency plans to ensure business continuity without disruption.

ECONOMIC & SOCIAL SUSTAINABILITY

In addition to supporting economic development activities by empowering entrepreneurs through our main business, branch managers are engaged in various social activities under the guidance of the CSR Steering Committee. This included helping the flood victims, supporting annual religious ceremonies and school

development activities, and helping in organizing and funding events for differently-abled communities. Siyapatha Finance PLC maintains a close relationship with all major universities by offering six-month internships for university students reading for various degree programmes, thereby extending to them the opportunity to learn the dynamics of the real business environment, helping them put their theoretical learning into practice.

EMPOWERING EMPLOYEES WITH TRAINING & TECHNOLOGY

A well-informed, skilled and passionate group of employees has been the key differentiator for the company in the market. The competent and professional team members are fully-gearred with the targeted knowledge, skills and positive customer centric mindset to support each other to drive company strategic objectives. The majority of our staff consists of young team members who are energetic and eager to learn and grow.

With the strategic guidance of the Chairman and the Board of Directors, the company's HR strategy focuses on a sustainable, profitable and value-driven culture in order to create a culture where employees are effectively engaged in providing innovative and creative workplace solutions. The company's key objective is to inculcate a learning culture among employees. A wide range of training and development opportunities both internal and external to enhance employee soft and technical skills are made available after critically evaluating the organizational, departmental and individual-level needs.

During the year under review, we recruited new talent to the corporate management team and they are already making a valuable contribution to the upliftment of the organization. Delivering value to all stakeholders, the company has set its HR vision to be the 'Best HR Managed Finance Company in Sri Lanka' by attracting,

sustaining and inspiring great people working together to make Siyapatha Finance PLC an employer of choice.

LOOKING AHEAD

The prospects for the market are not particularly promising considering the economic effects of COVID-19, the global pandemic sweeping the world. It is nearly impossible at this point in time to forecast economic growth into the future, as a lot will depend on how fast the pandemic is contained in Sri Lanka. The present government has already placed the country on a more business-friendly platform through reduced taxation and we remain optimistic that once the pandemic is quelled, the economy should hopefully bounce back, strongly supported by a raft of incentives and economic stimulus from the government.

After undergoing restructuring of the business strategy and putting the right people in the right place, Siyapatha Finance PLC is confident of growing market share based on its distinctive service offerings. To improve market share and profitability in the following financial year, we are in the process of introducing new software to streamline operations while arming field staff with mobile devices to speed up customer service. Our investment in digitalization will continue into the foreseeable future.

The company will continue to place emphasis on recoveries by strengthening the recoveries team and enhancing call centre services to reduce NPLs. We also expect multiple benefits from the new online lease origination system now in place. All these initiatives position the company strategically as it is poised to celebrate its 15th anniversary in the year 2020 through some unique events to commemorate the milestone in its dynamic history.

APPRECIATION

I would like to express my gratitude to the Chairman and Directors of the Board for setting the company on a clear path to bringing about financial inclusiveness in the country. The former Managing Director, Mr. Saman Herath, deserves much appreciation for his contribution to the company over the last three years.

Indeed, the corporate management team has been a great source of support through a challenging year.

The successful year can also be credited to the passion and dedication of our professional and skilled staff that refuses to give up in the face of odds.

I would also like to welcome the new Board appointees while wishing farewell to several directors who stepped down from the Board during the year.

I would like to express my gratitude to the Central Bank team and other valued partners for their continuous support and guidance through a difficult year in which the company successfully managed to uplift customers from grassroots to enjoy a better quality of life.



Ananda Seneviratne
Managing Director

24 February 2020

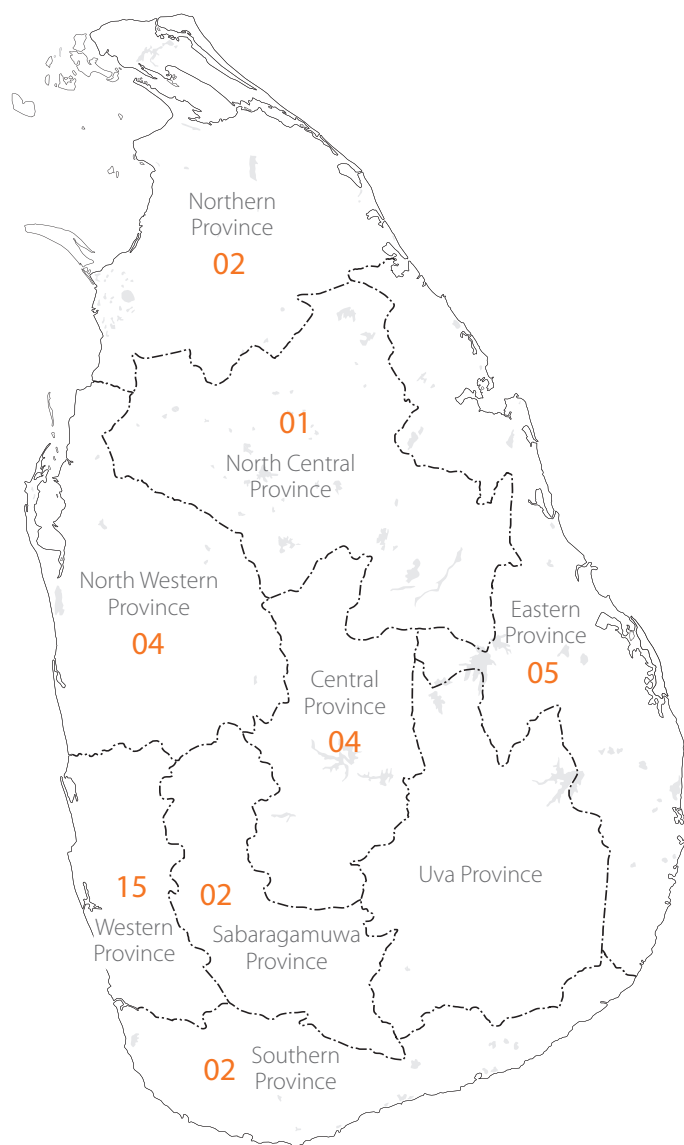
MANAGEMENT DISCUSSION AND ANALYSIS

As a fully-owned subsidiary of Sampath Bank PLC, Siyapatha Finance PLC was established in March 2005 as a specialized leasing company, licensed and regulated by the Central Bank of Sri Lanka (CBSL) to service the micro SME/retail customer segment. As the company prepares to celebrate its 15th anniversary in the year 2020, it can look back on a successful year gone by which has positioned the company for achieving greater milestones in the future.

PRODUCT PORTFOLIO (& SUB BRANDS)

- ▶ Deposits
- ▶ Leasing
- ▶ Micro Leasing
- ▶ Gold Financing
- ▶ Factoring
- ▶ Loans

BRANCH NETWORK



Branch Locations and Addresses

#	Branch	Address
1	Head Office	No. 46/12, Nawam Mawatha, Colombo 2
2	Matara	No. 5B, Hakmana Road, Matara
3	Kalutara	No. 169, 169/1/1, Main Street, Kalutara
4	Wellawatte	No. 226, Galle Road, Wellawatte
5	Galle	No. 27, Old Matara Road, Pettigala Watte, Galle
6	Panadura	No. 414, Galle Road, Panadura
7	Kurunegala Metro	No. 36, Negombo Road, Kurunegala
8	Kurunegala	No. 254C, Colombo Road, Kurunegala
9	Anuradhapura	No. 213/4, Maithreepala Senanayaka Mawatha, Anuradhapura
10	Vavuniya	No. 156, Bazaar Street, Vavuniya
11	Kegalle	No. 137, Kandy Road, Kegalle
12	Nuwara-Eliya	No. 28, Kandy Road, Nuwara eliya
13	Sainthamaruthu	No. 1610, Main Street, Sainthamaruthu
14	Kalmunai	No. 172/4, Batticaloa Rd, Kalmunai
15	Batticaloa	No. 257, 259, Trinco Road, Batticaloa
16	Trincomalee	No. 273/A, 273/1/1, Central Road, Trincomalee
17	Negombo	No. 287, Main Street, Negombo
18	Gampaha	No. 3A, Mangala Road, Gampaha
19	Peliyagoda	No. 304, Negombo Road, Peliyagoda
20	Kuliyapitiya	No. 50/52, Kurunegala road, Kuliyapitiya
21	Katugasthota	No. 274/A, Katugasthota Rd, Kandy

#	Branch	Address
22	Kandy	No. 192/1/1, Kotugodella Street, Kandy
23	Ampara	No. 32, D S Senanayake Street, Ampara
24	Nugegoda	No. 189, Stanley Thilakarathne Mawatha, Nugegoda
25	Rathnapura	No. 186, Main Street Rathnapura
26	Avissawella	No. 20, Rathnapura Road, Avissawella
27	Kiribathgoda	No. 211/1/1, Kandy Road, Kiribathgoda
28	Maharagama	No. 137, Piliyandala Road, Maharagama
29	Wattala	No. 540, Negombo Road, Wattala
30	Hatton	No. 07, Circular Road, Hatton
31	Piliyandala	No. 88, Moratuwa Road, Piliyandala
32	Chilaw	No. 111A, Colombo Road, Chilaw
33	Moratuwa	No. 168 Galle Road, Idama, Moratuwa
34	Jaffna	No. 388, Hospital Road, Jaffna
35	Pettah	No. 341, Main Street, Colombo 11

EXTERNAL OPERATING ENVIRONMENT

The Sri Lankan economy slowed to a historic low in 2019, reflecting the state of the global economy as well as domestic developments. In Sri Lanka, the fiscal and monetary measures instituted to stabilise balance of payments and fiscal balances, and adverse consequences of the Easter Sunday Attack in tandem with prevailing political upheaval put pressure on the GDP growth, which slowed to about 2.3% during the period under consideration. Private sector credit growth decelerated sharply, particularly during the first half of 2019, which prompted the Central Bank to take regulatory action of imposing caps on deposit interest rates of financial institutions to address the issue of weak transmission of monetary policy measures. With deposit interest rates and cost of funds declining, the Central Bank removed the caps on deposit interest rates of licensed banks and imposed caps on lending rates, in September 2019 to induce a sizable reduction in lending rates, thereby increasing credit flows to revive economic growth. As a result, most market interest rates declined notably during the second half of 2019. 1,913,702 tourists visited Sri Lanka during 2019, marking a decline of 18% over the previous year, which witnessed 2,333,796 tourist arrivals. On an upbeat note, agricultural production benefited from favourable weather conditions and exports too contributed positively to growth. Nevertheless, the IMF approved a new credit tranche of US\$164 million in June 2019, thereby boosting investor sentiment slightly about the prospects for economic recovery.

INDUSTRY PERFORMANCE

Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) delivered a sub-standard performance in 2019. Negative credit growth, declining profitability and an increase in Non Performing Loans (NPLs) were common characteristics witnessed during the year under review amongst the Non Banking Financial Institutions (NBFIs). The Central Bank introduced various policies aimed at reviving economic growth and monitoring the NBFIs sector due to rising NPLs. These included cancellation of licenses and appointment of management panels, in order to safeguard depositors. Regulatory actions were initiated against the wrongdoers to recover losses they caused to companies and repayment of deposits of two distressed finance companies was facilitated. Key priorities for the medium term in respect of the NBFIs for the Central Bank are, strengthening the existing regulatory framework in line with current market developments and international best practices, establishing resilient and well performing LFCs, resolution of existing distressed and high risk companies, and initiating legal action against wrongdoers.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL CAPITAL

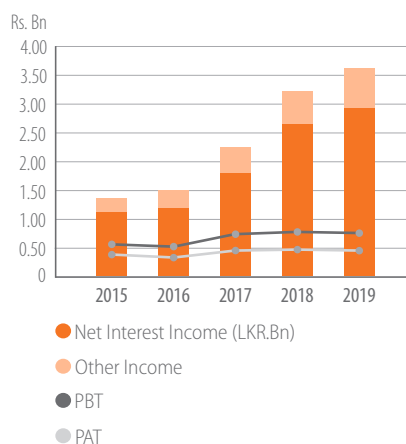
Siyapatha Finance PLC earned a Profit after Tax of Rs. 480.19 Mn during 2019, recording a marginal reduction of 7.03% while the industry reduction stood at 31.93 %. Asset growth of 13.22% depicted a remarkable increase in comparison to industry growth of 0.09%.

For the year ended	2019	2018	YOY Change		Industry Growth% / (Decline %)
	LKR Mn	LKR Mn	LKR Mn	%	
Net interest income (NII)	2,998.96	2,715.84	283.12	10.42	7.88
Other income	690.29	567.46	122.83	21.65	3.44
Total operating income	3,689.25	3,283.30	405.95	12.36	7.02
Credit loss expense on financial assets and other losses	(1,050.94)	(829.75)	(221.19)	26.66	16.24
Operating expenses	(1,433.41)	(1,328.50)	(104.91)	7.90	15.45
Operating profit before taxes on financial services	1,204.90	1,125.05	79.85	7.10	
Profit before tax (PBT)	798.53	833.79	(35.26)	(4.23)	(17.33)
Profit after tax (PAT)	480.19	516.52	(36.33)	(7.03)	(31.93)
Total assets	40,947.35	36,166.33	4,781.02	13.22	0.09
Total liabilities	36,931.52	32,625.34	4,306.18	13.20	(1.46)
Total borrowings from banks and issued debt	21,703.81	21,713.19	(9.38)	(0.04)	(12.55)
Depositors' funds	13,221.03	9,672.01	3,549.02	36.69	5.56
Total shareholders' funds	4,015.82	3,540.99	474.83	13.41	10.64
Earnings per share (EPS) - LKR	6.83	8.43			
Return on equity (ROE) - %	12.88	16.84			
Pre-tax return on capital employed (ROCE) - %	2.03	2.41			
Debt/Equity - (Times)	3.33	3.38			

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INCOME STATEMENT ANALYSIS

Total Operating Income and Profitability - Siyapatha Finance PLC



Net Interest Income (NII)

Profitability of the entity relies on NII, which accounts for 81.29% of total operating income. NII increased by 10.42% to Rs. 2.99 Bn supported by growth in the leasing portfolio and gold loan portfolio, comparing favourably with industry NII growth of 7.88%.

Other Income

Other income recorded as 18.71% of total operating income mainly consisted of Net fee and commission income contribution of 8.45% to total operating income. Net fee and commission income has gone up by 11.90% during the year in comparison to 2018, supported by documentation charges and insurance commission.

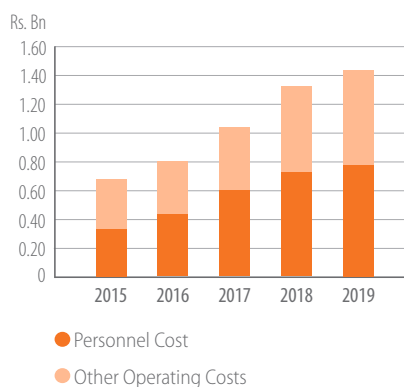
Credit Loss Expense

Credit loss expense increased by 26.66% with an absolute value of Rs. 1050.94 Mn in comparison to Rs. 829.75 Mn in 2018. Out of the total provisioning figure, 45.55% is attributable to the leasing portfolio followed by the loan portfolio by 34.06% and factoring portfolio by 20.60%. Despite the stringent policies and processes adopted in loan approvals and disbursements, the NPL ratio increased from 7.57% in 2018 to 9.80% in 2019, against a NBFI industry average of 10.59%.

Operating Expenses

Operating expenses amounted to 38.85% and 54.33% of Total Operating Income and Net Operating Income respectively in 2019 compared to 40.46% and 54.14% in 2018. Operating expenses increased by 7.90% to Rs.1.43 Bn. Personnel expenses account for 54.25% of total operating expenses and amounted to Rs. 777.69 Mn. In comparison to the previous year, it has increased by 6.06% due to growth in our team and annual increments. Other Operating expenses grew with our footprint and inflation by 10.16% to Rs. 655.72 Mn.

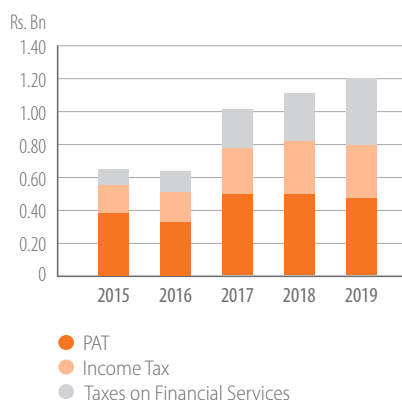
Operating Expenses



Profitability and Taxation

Profit before taxes on financial services increased by 7.10% to Rs. 1.2 Bn despite increases in loan loss provision and increased operating expenses. Taxes on financial services amounted to Rs. 406.37 Mn resulting in a profit before tax of Rs. 798.53 Mn, which is a decrease of 4.23% compared to 2018. Income tax amounted to Rs. 318.34 Mn as the effective tax rate increased from 38.05% in 2018 to 39.87% in 2019. This was mainly due to non-availability of carry forward losses as in the previous year. Income Tax and Taxes on financial services amounted to 60.15% of Profit before taxes on financial services. Consequently, profit after tax decreased by 7.03% to Rs. 480.19 Mn, resulting in an Earnings Per Share of Rs. 6.83.

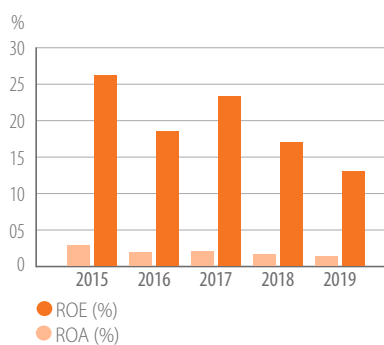
Distribution of Profitability and Taxation



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

ROA declined from 1.50% in 2018 to 1.22% in 2019 as a result of the increase in the total asset base with a 13.36 % increase in lease receivables and 41.22% in gold loan receivables. ROE decelerated with enhanced equity due to the rights issue and scrip dividend. ROA and ROE were impacted by the reduced net income in line with the high credit loss expense on financial assets.

ROE / ROA



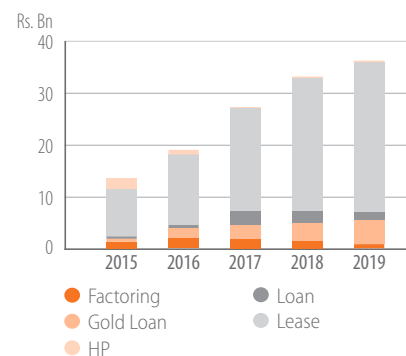
ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

Total Assets

Total assets grew by 13.22% to Rs. 40.94 Bn supported by strong growth of the leasing portfolio and gold loan portfolio which increased by 13.36% (Rs. 3.42 Bn) and 41.22% (Rs. 1.46 Bn) respectively. The

lending portfolios of Siyapatha account for 88.47% of Total Assets with the Leasing portfolio accounting for 70.88%.

Lending Portfolio



Asset Portfolio Mix

Siyapatha Finance PLC's forte remains in providing leasing facilities. Leasing portfolio accounts for Rs. 29.02 Bn or 70.88% of the total asset portfolio, which is an increase of 13.36% in comparison to 2018, while factoring and personal, business & revolving loan portfolios reduced by 50.83% and 38.20% respectively, owing to the subdued domestic economic conditions. Gold Financing portfolio continued to be supported significantly at Rs. 5 Bn, growing by 41.22% during 2019. Contribution to the total lending portfolio from Gold Financing increased to 13.83% from 10.75% from 2018.

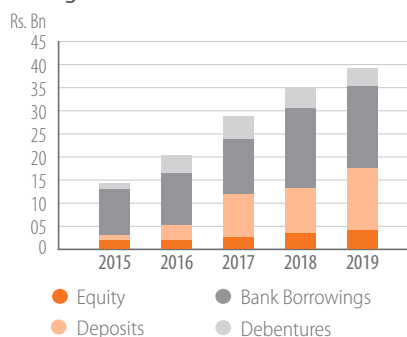
Funding Growth

The deposit base has grown to Rs. 13.22 Bn since our transformation into a Finance Company in 2015 in a significant manner. Our growing domestic franchise was supported by the strength of the parent company and a sound rating of A- (Ika) with a stable outlook. Deposit growth in 2019 was remarkable at 36.69% in 2019, significantly above the industry growth rate of 5.56%. Deposits account for 32.29% of Total Liabilities & Equity at the end of 2019 compared to 26.74% at the close of the 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Debt issued & borrowed funds decreased by 0.23% during the year to Rs. 21.34 Bn accounting for 52.12% of Total Liabilities & Equity. The reduction was mainly due to redemption of Rs. 2.4 Bn debenture. Value of fresh debentures issued during the year amounted to Rs 1.5 Bn. Equity growth of 13.41% was supported by the increase in retained earnings and a scrip dividend of Rs. 31.25 Mn.

Funding Base



Net Asset Value per Share and Earnings per Share

Net Assets per share decreased from Rs. 55.68 to Rs.54.78 during the year as the asset growth was marginally lower than the increase in equity. Earnings per share declined from Rs. 8.43 in 2018 to Rs. 6.83 in 2019 due to the decrease in profitability and the increase in number of shares.

Dividends

Dividends per share decreased from Rs.1.25 in 2018 to Rs. 0.50 which was paid as a scrip dividend, facilitating value to shareholders and capital formation for growth plans of the company.

OPERATIONAL REVIEW

In light of the challenges that abounded during the year under consideration, Siyapatha Finance PLC's robust financial performance reflects the positive effects of the shift in strategy and resource

allocation undertaken over the past few months. The year under review was characterized by operational excellence across all parameters, led by taking rapid steps to assess emerging risks in the form of external economic conditions or new policies and mitigating any negative impact on the company's profitability to the greatest extent possible. The Company undertook a slew of people and process improvements to better align the company to meet customer aspirations and to enhance the brand image of the company as one that is on the cutting edge of brand credentials, with parent Sampath Bank. Advanced IT and digitalization, and being the only NBFIs to have an online loan origination system inspired greater trust and confidence amongst investors and depositors. The addition of 5 new branches in Piliyandala, Chilaw, Moratuwa, Pettah and Jaffna further enhanced access to its products and services.

The table below indicates the challenges faced during the year by the company and the mitigating action taken to avoid a negative impact on operations:

Challenges	Our Response
Deposits <ul style="list-style-type: none"> ▶ High rates offered by commercial banks ▶ CBSL ceiling rate of commercial banks were almost the same as finance companies up to about three-quarters of the year. ▶ Doubts created about the stability of finance companies in the minds of general public. ▶ Fear of investing funds in finance companies due to the rumors circulated in the market. 	<ul style="list-style-type: none"> ▶ Expansion of branch network and improvements in doorstep service and service levels in general. 5 new branches were added during the year to widen geographic footprint and increase brand visibility and presence in new markets. ▶ Leveraging on the group synergy and backing of Sampath Bank, one of the largest banks in the country, which distinguishes Siyapatha Finance PLC from the rest of the industry. ▶ Decentralizing of some services to branches enabling them to provide speedy service to depositors. ▶ Maximum utilization of core Finacle system which has ideal banking solutions to offer greater efficiency and handle increased volumes effectively with the existing resources by automation of most manual functions.

Challenges	Our Response
Leasing <ul style="list-style-type: none"> ▶ Poor performance of the economy; lack of economic stability across different economic sectors. ▶ Crisis of April terrorist attacks of 2019 affected both top line business drive and rental collection of customers who were involved in affected industries. ▶ Intense competition from banking sector for NBFi customer segment. ▶ Underperformance of the vehicle trade industry 	<ul style="list-style-type: none"> ▶ Upgrading credit assessment and evaluation criteria to adapt to changes taken place in the wider economy. ▶ Strengthening portfolio monitoring and recovery initiatives. ▶ Process efficiency of facility approval was increased through delegation of authority. ▶ Certain stages of credit file processing were automated via the new lease origination system and core financial system now in operation. ▶ Facility confirmation process was decentralized for small ticket leases to gain processing time efficiencies.
Gold Loan <ul style="list-style-type: none"> ▶ World Gold Market price fluctuation ▶ Intensified competition from new entries ▶ Non availability of skilled applicants for new recruitments 	<ul style="list-style-type: none"> ▶ Focused on long term products and created special schemes to deal with all customer segments. Encouraged inactive customers with novel options and recruited 4 independent gold inspection officers to maintain the quality of the portfolio. ▶ Recruited skilled cadre to meet the service demand during the year and trained and developed existing staff for the process effectively.

Product Performance

The company engages closely with its customers to understand their key requirements and designs new products accordingly to uplift their quality of life. As a company led by a vision for financial inclusiveness, new products improve access to finance while simultaneously delivering the convenience customers seek to enhance their day-to-day lives. During the year under review, the company introduced several new improvements to its products to help customers overcome the challenging economic conditions to sustain and enhance their lifestyles:

Gold Loan

With the aim of increasing business volumes in the gold loan product, Siyapatha Finance PLC conducted an interest waived off draw campaign for the year. 20,219 new customers were added during the year and as at 31st December 2019, total Gold loan customers totaled 96,372.

Leasing

Siyapatha has conducted joint promotions with, DIMO, Indra Traders and other regional vehicle sales vendors at regular intervals. The customer segment of Small Ticket leases (Micro leases) grew during the year with enhanced focus. Product solutions were developed with the view of capturing market opportunities in this segment.

Deposits

The company conducted various deposit mobilization drives to attract more customers to invest in fixed deposits to facilitate their financial security. A children's savings account, 'Siyapatha Kirula' was introduced on World Children's Day on 1st October 2019 with the participation of all branches. By promoting the attractiveness of fixed deposits, the company is also contributing towards developing the savings habit amongst its customer base.

New Debit Card

Infusing further convenience for the sake of customers, the process to introduce a savings account debit card was initiated with the aim of enabling customers to access their savings 365 days a year from any ATM connected Lankapay network. Currently, LankaPay connects over 99.95% of all ATMs in the country.

Digital Marketing Initiatives in 2019

As the usage of social media increases in the country and more and more people conduct financial transactions through digital means; maintaining a digital presence is a growing requirement in order to engage with this new segment of our customer base. The company has been steadily growing its presence on digital media and during 2019 ramped up its presence through some unique engagements. The promotions launched by the company, namely, Gold loans and Fixed Deposits, were boosted through the company's Facebook page, with the

MANAGEMENT DISCUSSION AND ANALYSIS

number of followers growing to 16,972. A total of 128 posts were published on the company Facebook page while the number of post impressions for the Instagram posts reached 26,623. Further, a linkedin page was launched for the company as well. The company remains focused on building Digital Marketing resources in order to maximize its social media influence to communicate with existing and potential customers about its products and services and their benefits.

IT and Innovation Report

At Siyapatha Finance PLC, we believe becoming more technologically advanced will help us defend and grow market share while extending greater conveniences for customers and internal efficiencies for staff. As a result, the company is committed to driving IT and Innovation to help develop financial solutions that leverage on digital technologies and novel delivery platforms. This forward thinking has led us to implement an online Leasing - Core Banking System called Finacle in 2019. Thus, the Lease origination system has improved the efficiency of customer service through digitalization. Going further, manual internal process such as petty cash/ procurement and inventory management were digitalized further by upgrading Microsoft Dynamics' latest version. The company's MIS portal was upgraded further to enhance the information and Dash Board to support decision-makers. Achieving greater digitalization will help the company attract the next generation which is comfortable conducting digital financial transactions while catering to and supporting their lifestyles and aspirations.

GREENING FOOTPRINT

Siyapatha Finance PLC has adopted a sustainable approach towards optimizing natural resources it uses in the best way possible so as to reduce its carbon footprint. As a finance company, the main resource it uses is energy.

Energy Conservation

As an effective way of saving electricity, the company is in the process of using LED lights in the office premises to reduce the consumption of electricity.

Waste Management

Systems are in place to dispose all waste in a more methodical manner whereby all branches are provided with waste bins to dump waste and hand over same to respective collectors. Paper collected as waste is sent for recycling.

Water Usage Management

Water is utilized only for consumption needs of staff and customers and is properly managed by maintaining daily records at all branches ensuring water is not wasted.

Renewable Energy

As a common objective, every staff member is advised to pay attention to use of electricity and a system is in place to monitor the usage of power to reduce waste of electricity.

Cost Control Measures

Procurement is strictly assessed and photo copiers were sourced only on need basis which resulted in optimizing a considerable sum for procuring equipment and for consumables on regular basis. After analyzing cost for maintenance of machines, the company entered into an agreement to outsource this service on favourable terms which resulted in a minimum net saving of Rs. 0.650 Mn per annum.

FUTURE OUTLOOK

Going by its performance in FY2019, the company is poised to deliver stronger growth in the upcoming financial year through greater customer engagement and focused marketing efforts. We have planned a host of product and service rollouts in FY2020 to further enhance convenience for customers, such as the launch of a Debit Card and 4 savings products targeting children, senior citizens, general public and

investors. These initiatives will form a major thrust for the company during the next 12 months as we consolidate our customer base. Meanwhile, efforts will be sustained to conduct awareness programmes on deposit products highlighting benefits of savings and to create a savings culture. Special benefits will be offered for young executives, senior citizens and children – three critical customer segments that need to consolidate their savings. We hope to emphasize savings further through CSR projects to educate and inculcate on benefits of savings. Plans are being drawn up to introduce a digital form for depositors to enable online access to their accounts so that they can remain connected with the company anytime, anywhere.

In times of economic uncertainty, Gold Financing is increasingly being seen as a safe haven and Siyapatha Finance PLC possesses the necessary technical skills and knowledge in this segment as evidenced from the company's position as the 2nd largest gold financing portfolio in the NBFI sector.

As a company that understands the leasing needs of the micro leasing customer segment in which it operates, the company aims to expand its branch network in the next few months while increasing penetration into Small Ticket leasing segment. Further emphasis will be placed on the 4-wheel vehicle market while discouraging unsecured lending via term loans and business loans due to the current situation of the macro environment. The company has ambitious plans and the required momentum to achieve greater profitability. However, prevailing external economic conditions both local and global amidst the threat of Covid-19 will determine the course in the future. Notwithstanding this, Siyapatha Finance PLC remains committed to enhancing its identity as a sustainability-minded NBFI that is geared to uplift people at the grassroots to achieve greater financial inclusion.

HUMAN RESOURCES

The Human Resources (HR) team at Siyapatha Finance PLC is the force behind the success of the company over the years and especially during the high pressure environment in FY2019 despite which the company delivered a robust financial performance. The company has in place advanced talent recruitment and retention strategies, with a clear-cut career progression plan supported by a transparent employee appraisal process. A key contributor to the high levels of motivation and drive amongst our employees is the stimulating workplace and learning and development culture fostered in the company.

During the year under consideration a range of training programmes were conducted:

- ▶ Technical Training programmes for operational excellence in Credit Management, Credit Process, Operating Systems (Finacle core banking system, Petty cash module, Navision 2016 and Lease Origination), on-the-job training for branch operations staff and product knowledge improvement.
- ▶ Training programmes on Compliance and Risk mitigation (AML/CFT Training, SLFRS 9 Financial Instrument & Credit Risk Management, Impact of IFRS-9 with a speedy recovery process, Risk management, Cyber Security Compliance).
- ▶ Orientation and reorientation programs to orient employees to Siyapatha workplace culture and values.
- ▶ Soft skill training programmes conducted for the development of personality, well-being, language proficiency, communication skills, stress management and work-life balance and development of cognitive skills through law of attraction.
- ▶ Management development and Leadership Development Programs conducted for Branch Managers,

Regional Managers and Senior managers as residential, outbound training, Management Development and Individual Development Programmes

- ▶ Training programmes conducted for improvement of Occupational Health and Safety and knowledge sharing and training sessions on product and system development to improve productivity, covering almost all team members at different locations.

Performance Management System

Siyapatha Finance PLC promotes a performance-driven work culture. Managing employees' performance is a vital activity for managers/ immediate supervisors/ HOD. The performance management process is conducted in two ways - for Probationers, after 6 months of their service they are evaluated to gauge how they interacted with organizational values and culture; and permanent staff, whereby their performance will be reviewed annually and biannually. At the beginning of the year all the employees will have their KPIs to measure their performance with soft skills. Currently performance evaluation for staff is conducted in 180° whilst performance evaluation of senior managers will be evaluated in 360° scale.

HRIS

Our desire is to transform Siyapatha into a tech-savvy culture and transfer HR activities into digital platform especially with the implementation of HRIS, which is user-friendly and accurate. HR Mobile app, e-recruitment, employee welfare benefits, performance management system and employee communication are more effective through HRIS to liaise with the strategic objectives of the Company. Furthermore, the Finacle implementation and granting tabs to marketing and recovery staff enhanced the effectiveness and efficiency of the company's business activities while uplifting customer service as well

E-Learning

Siyapatha values and believes that E-learning supports teaching and learning via a digital platform. It bridges the competency gap between the current and expected job responsibilities through self-development models and also eliminates regional and geographical disparities.

Rewards and Recognition

Employee performance is measured periodically against their KPIs across departments and branches. Employees are recognized on their performance and their initiatives to enhance productivity and efficiency by, rewarding them with new opportunities, responsibilities and annual promotions to enhance their job roles. Their engagement in social activities, sports, memberships, special skills and talents are also recognized, rewarded and appreciated at annual staff gatherings.

Employee benefits and welfare initiatives

The health and well-being of employees is of paramount importance to the company, which has put into place an array of health and welfare incentives to ensure a happy and healthy workforce. Some of these are:

▶ Medical reimbursement

Hospitalization covers for employee and immediate family members and OPD reimbursement for employee and family members.

▶ Reimbursement of travelling, meal and accommodation

Reimbursement schemes for travelling, meal and accommodation are introduced to initiate employees to achieve set targets and encourage employees go the extra mile on their work scope. Implementation of these reimbursement schemes has set the transparent and fair procedure for payments within company.

MANAGEMENT DISCUSSION AND ANALYSIS

▶ Death Donation scheme

Siyapatha Finance PLC provides financial aid in the event of the death of a family member or a Siyapatha team member.

▶ Insurance scheme

▶ Staff loan facility

▶ Distress loan policy

Financial aid is extended when employees are in a difficult situation, such as medical treatments, recovery from natural disasters or other situations where the Distress loan committee agrees to grant the facility.

▶ Staff vehicle Lease Policy

Employees of Siyapatha are able to obtain a lease facility based on their job category, for which two wheel and four wheel vehicles are facilitated.

▶ Maternity benefits

▶ Membership subscription

▶ Medical campaign

Work-Life Balance

The company encourages employees to maintain a robust work-life balance to remain motivated and passionate about their job roles while attending to their personal and social commitments in a stress-free manner. Ensuring that this critical balance is maintained regardless of work pressures, the company has instituted some key policies such as Attendance and leave policy, Occupational health and safety policy, Transfer, secondment and job rotation policy and Learning and development policy, which help to deliver an encouraging work atmosphere.

Team Building Initiatives

Siyapatha believes that Team building is the process of turning a group of individual contributing employees into a cohesive team. A team is a group of people organized to work together interdependently and cooperatively to meet the needs of their

customers by accomplishing their purpose and goals. To ensure this virtue Siyapatha has organized collaborative initiatives for its employees. Departmental get-togethers organized during the year and learning development initiatives have enhanced the interaction and cooperation within teams. Some of the key events during the year under review were:

- ▶ Branch managers and regional managers get-together
- ▶ Cross functional team get-togethers
- ▶ Inter departmental get-together
- ▶ Cross functional training
- ▶ Learning and development initiatives
- ▶ Engagement events which covers all the departments
- ▶ CSR initiatives
- ▶ Product launch and campaigns with cross functional teams
- ▶ Employee's special events and achievements and recognition
- ▶ Blood donation and medical campaign
- ▶ Birthday email and new staff welcome email
- ▶ Orientation and reorientation program
- ▶ We care branch visits
- ▶ New Year Celebration
- ▶ Religious Activities

Employee Survey

As an initiative towards acquiring the status of 'Great Place to Work', an employee satisfaction survey will be conducted to evaluate satisfaction of employees over their job and working environments. Any observations and details received in 'We care' branch visits will be used to develop and improve the current job environment. Moreover, discount, leasing and loan schemes for staff such as Festival advance and Distress loan help them to fulfill their aspirations while allowing the company to demonstrate how much it values its employees.

Rest and Recreation

Socialising outside of the office provides a great boost to team spirit and enhances cooperation. The company organizes a host of social events to enable employees to get together outside of work and along with their respective families and have an enjoyable time. During the year under consideration, the Lotus Night 2019 annual staff get-together was held with great success. The Gold financing department conducted its annual outing at Hotel Girithale, Polonnaruwa and awarded the best performers. Residential training was held for Branch managers, Regional managers and Management at the Hotel Pegasus Reef, Wattala. A valuable one-day Outbound Training programme was conducted for Finance, MIS and Treasury departments at Hotel Pegasus Reef, Wattala, as well. Besides these, individual departments organized their own get-togethers.

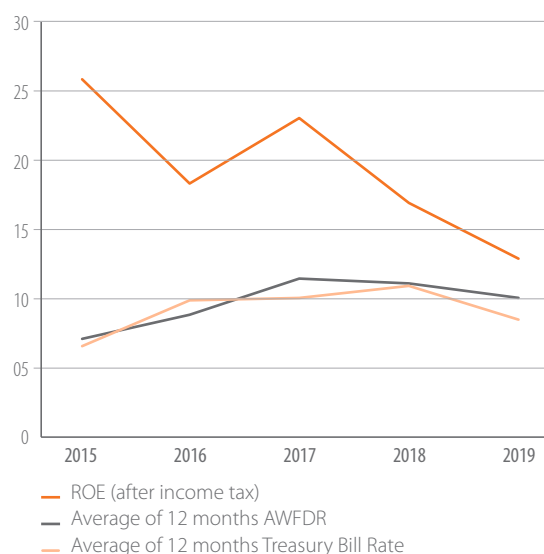
INVESTOR INFORMATION

01. VALUE CREATION FOR SHAREHOLDERS

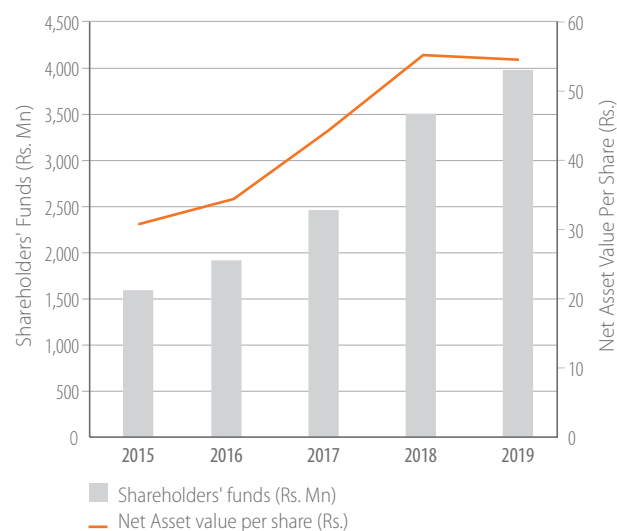
	2019	2018	Change %
Profit for the year (Rs. Mn)	480.19	516.52	(7.03)
Earnings per share (Rs.)	6.83	8.43	(18.98)
Shareholders funds (Rs. Mn)	4,015.83	3,540.99	13.41
Net asset value per share (Rs.)	54.78	55.68	(1.62)
Dividend per share (Rs.)	1.95*	0.50	290.00

* The Board of Directors have recommended a scrip dividend of Rs.1.95 per share on 73,312,409 ordinary shares, totaling Rs.142.95 Million subject to approval of Shareholders of the Company.

Company's ROE & Market Interest Rates



Shareholders' funds (Rs. Mn) and Net asset value per share (Rs.)



02. INFORMATION ON SHARES

Stated Capital as at 31 December 2019 was represented by the number of shares in issue as given below.

	As at 31 December 2019		As at 31 December 2018	
	Number	LKR	Number	LKR
Ordinary Shares	73,312,409	1,379,921,654/-	63,596,388	948,666,116/-
Total	73,312,409	1,379,921,654/-	63,596,388	948,666,116/-

INVESTOR INFORMATION

Shareholder Information

Shareholders' list as at 31 December 2019

Name	No: of Shares	%
(01). Sampath Bank PLC	73,312,402	100.00%
(02). Mr. C.P. Palansuriya	01	0.00%
(03). Mr. W.M.P.L. De Alwis	01	0.00%
(04). Dr. H.S.D. Soysa	01	0.00%
(05). Mr. Y.S.H.R.S. Silva	01	0.00%
(06). Mr. P.S. Cumaranatunga	01	0.00%
(07). Ms. Aroshi Nanayakkara	01	0.00%
(08). Mr. S. Sudarshan	01	0.00%
	73,312,409	100.00%

Public Holdings

The percentage of ordinary shares held by the public as at 31 December 2019 was 0%.

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Directors'/ CEO's Holding in Shares as at 31 December 2019

Name	Position	No: of Shares
Mr. C.P. Palansuriya	Chairman	01
Dr. H.S.D. Soysa	Director	01
Mr. W.M.P.L. De Alwis	Director	01
Mr. P.S. Cumaranatunga	Director	01
Mr. Y.S.H.R.S. Silva	Director	01

03. DISTRIBUTION OF SHARE OWNERSHIP

	31 December 2019				31 December 2018			
	No: of shareholders	%	No: of shares	%	No: of shareholders	%	No: of shares	%
1-1,000 shares	7	87.50%	7	0.00%	7	87.50%	7	0.00%
1,001-10,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
10,001-100,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100,001- 1,000,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
over 1,000,000 shares	1	12.50%	73,312,402	100.00%	1	12.50%	63,596,381	100.00%
	8	100.00%	73,312,409	100.00%	8	100.00%	63,596,388	100.00%

Record of Scrip Issues

Year	Issue	Basis / Proportion	No. of Shares Issued	Consideration per share (Rs)	Consideration to Stated Capital (Rs Mn)	Reason for Issue
2016	Final Scrip Dividend for 2015	1 for 32.31	1,624,726	31.99	51.98	Increase Stated Capital
2017	Final Scrip Dividend for 2016	1 for 32.75	1,652,420	35.67	58.94	Increase Stated Capital
2018	Final Scrip Dividend for 2017	1 for 35.54	1,569,242	39.99	62.75	Increase Stated Capital
2019	Final Scrip Dividend for 2018	1 for 116.28	625,111	50.00	31.25	Increase Stated Capital

Record of Rights Issues

Year	Issue	Basis /Proportion	No. of Shares Issued	Price per share (Rs)	Consideration to Stated Capital (Rs Mn)
2018	Rights Issue 2018	40 for 367 held	6,250,000	40.00	250
2019	Rights Issue 2019	44 for 308 held	9,090,910	44.00	400

Related Party Transactions Exceeding 10% of The Equity or 5% of The Total Assets of the Company

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholder's equity of the Company or 5% of the total assets of the Company as at 31 December 2019.

04. INFORMATION ON LISTED DEBENTURES**(i) Market Values**

	Highest (LKR)		Lowest (LKR)		Period End (LKR)	
	2019	2018	2019	2018	2019	2018
Debentures-2016/2021	103.00	Not Traded	100.00	Not Traded	100.00	Not Traded
Debentures-2017/2022	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures-2019/2024	Not Traded	N/A	Not Traded	N/A	Not Traded	N/A

N/A - Not Applicable

Note A: The Company has redeemed following debentures during the year 2019.

Type	No: of debentures	Issue date	Redeem date	Amount (LKR'Million)
Rated unsecured subordinated redeemable debentures	10,000,000	24-12-2014	24-12-2019	1,000.00
Rated unsecured senior redeemable debentures	14,219,900	20-09-2016	20-09-2019	1,421.99

(ii) Interest Rates

	2019		2018	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Debentures -2016/2021	13.50%	13.50%	13.50%	13.50%
Debentures -2017/2022	12.50%	12.50%	12.50%	12.50%
Debentures -2019/2024	13.33%	13.33%	N/A	N/A

N/A – Not Applicable

INVESTOR INFORMATION

(iii) Interest rates of comparable Government Securities

	31-12-2019	31-12-2018
6 months treasury bill	7.95%	10.02%
1 year treasury bill	8.47%	11.01%
5 year treasury bond	9.94%	11.56%

(iv) Current Yield & Yield to maturity

	2019		2018	
	Current Yield (%)	Yield to Maturity (%)	Current Yield (%)	Yield to Maturity (%)
Debentures Issued-September 2016 5 year Fixed rated(13.50% p.a. payable annually)	13.50%	13.40%	13.50%	Not Traded
Debentures Issued-October 2017 5 year Fixed rated(12.50% p.a. payable annually)	12.50%	Not Traded	12.50%	Not Traded
Debentures Issued-August 2019 5 year Fixed rated(13.33% p.a. payable annually)	13.33%	Not Traded	N/A	N/A

N/A – Not Applicable

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(v) The funds raised from debenture issue - 2019

Objective Number	Objective as per Prospectus	Amount allocated as per Prospectus (LKR)	Proposed date of utilization as per Prospectus	Amount Allocated from proceeds in (LKR)(A)	% of total proceeds	Amount utilized in LKR (B)	% of utilization against allocation (B/A)	Clarification if not fully utilized including where the funds are invested
1.	To expand and strengthen the capital base of the Company	716.61Mn	08 Aug 2019	716.61 Mn	47.77%	716.61 Mn	100%	Fully Utilized
		200.00 Mn	31 Oct 2019	200.00 Mn	13.33%	200.00 Mn	100%	
		200.00 Mn	31 Dec 2019	200.00 Mn	13.33%	200.00 Mn	100%	
		383.39 Mn	31 Oct 2020	383.39 Mn	25.57%	187.62 Mn	48.94%	
2.	To expand future operations and the asset base of the Company	1.5 Bn	08 Sep 2019	1.5 Bn	100.00%	1.5Bn	100.00%	Fully Utilized

Note A:

As per CBSL Capital Adequacy computation guidelines, the maximum eligible amount was limited to LKR 187.62 Million. However, the balance LKR 195.77 Million will be utilized by 31 October 2020.

(vi) Ratios

	31-12-2019	31-12-2018
Debt to Equity Ratio (Times)	3.33	3.38
Interest Cover(Times)	1.19	1.23
Quick Asset Ratio (%)	78.11%	88.44%

BOARD OF DIRECTORS



MR. SUMITH CUMARANATUNGA
CHAIRMAN

Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 30th October 2017 and appointed as the Chairman of the Company with effect from 12th February 2020.

Qualifications, Skills & Experience

He was formerly the Chairman & Managing Director of the David Pieris Group of Companies, where he served for 30 years and 9 months - 24 years as a Director and 2 years prior to that as General Manager. He retired as Chairman on 31st March 2016, having joined as Accountant on 01st July 1985.

During his tenure at the David Pieris Group of Companies, the organisation transformed from a relatively small business unit in a single location with a turnover of Rs. 43.3 million and a net profit of Rs. 311,000 in 1985/86, to one of the most profitable, professionally managed conglomerates in Sri Lanka, with a turnover of Rs. 86.2 billion and a net profit of Rs. 11.1 billion in 2015/16, an island-wide reach and a consistent track record of exceptional performance, successfully overcoming numerous challenges. The David Pieris Group of Companies was at the forefront of automotive, financial services, information technology and logistics businesses, with industry leadership in many spheres, breaching Rs. 10 billion in net profit thrice in five years, from 2011/12 to 2015/16.

He also served as Chairman of Assetline Leasing Company from 12th October 2010 to 05th April 2015, during this period the Company was among the most profitable entities in the finance leasing industry.

He was appointed as a Member of the Council, the University of Colombo with effect from 27th January 2020.

He is a Chartered Management Accountant (ACMA CGMA), a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

Current Appointments

Presently, he serves as the Chairman of Suvimie Associates (Pvt) Ltd, a Company engaged in local retailing, global trading, manufacturing and plantations.

Former Appointments

He commenced his career as an Executive at Ceylon Shipping Lines in 1981. Thereafter, he joined Richard Pieris & Company as the first Accountant of Richard Pieris Motor Company (subsequently David Pieris Motor Company) in 1985. During his career, he was extensively involved strategically and operationally, in the disciplines of finance & accounting, sales & marketing, information communications technology and operations.

Membership of Board Sub-Committees

Presently he serves as the Chairman of the Board Audit Committee, the Board Human Resources and Remuneration Committee and the Board Nomination Committee. He also served as the Chairman of Board Information Technology Committee until 1st February 2020.

He is a member of the Board Integrated Risk Management Committee and the Board Information Technology Committee. He served on the Board Corporate Governance Committee and the Board Related Party Transaction Review Committee as its Chairman, until 12th February 2020.



MR. CHANNA PALANSURIYA
FORMER CHAIRMAN

Non-Independent, Non-Executive Director

Appointed as the Chairman (Non-Independent Non-Executive) on 20th May 2014 and stepped down as the Chairman on 6th October 2016 while continuing as a Director of the Company. He was reappointed as the Chairman on 15th November 2017 and served until 31st January 2020.

Qualifications, Skills & Experience

Earned a Masters in Business Administration from the Open University of Malaysia and has gained over thirty-five years of extensive experience in the Apparel sector by heading the Orit Group of Companies through continuous leadership support provided for other companies in the Apparel Industry. Has extensive experience in Government Administration by being a Board member of the Board of Investment of Sri Lanka (BOI) for ten years. He has also won awards such as Asia Pacific Outstanding Entrepreneurship Award in 2013, Sri Lankan Entrepreneur of the Year in 2002 and Silver Award of the National Chamber of Exporters of Sri Lanka for the Garment Extra Large category in 2004.

BOARD OF DIRECTORS

Current Appointments

Director of Braybrooke Residential Properties (Pvt) Ltd and Executive Committee Member of Joint Apparel Association Forum (JAAF)

Former Appointments

Chairman of Sampath Bank PLC, Orit Apparels Lanka (Pvt) Ltd, Orit Trading Lanka (Pvt) Ltd, Style Kraft Sportware (Pvt) Ltd, GC Lanka Clothing (Pvt) Ltd and Apparel Exporters' Association. Deputy Chairman of National Livestock Development Board. Board member of the Board of Investment Sri Lanka and Sri Lanka Institute of Textile & Apparel.

Membership of Board Sub-Committees

He served as a member of the Board Nomination Committee, the Board Credit Committee and the Board HR & Remuneration Committee of the Company.

the University of Sri Jayawardenapura and holds a Masters Degree in Business Administration from the University of Colombo. Holds over 36 years of working experience in various local and International institutions. Chairman of Leasing Association of Sri Lanka from 2016 to 2018. At the same time, he was a Board Member of the Credit Information Bureau of Sri Lanka (CRIB) and David Pieris Global Ventures (Pvt) Ltd.

Former Appointments

He served 17 years at Nestle Lanka Limited, from May 1991 to June 2008, in various senior managerial levels. He commenced as the Head of Internal Audit and remained at that position until 1995. In 1995, moved to the Financial Accounting Department as Head of Financial Accounting. In 1999, he was transferred to Nestle Middle East as the Business Excellence Manager until 2002 and assumed the position of Head of Procurement in Nestle Lanka Limited. In 2008, he joined Loadstar (Pvt) Ltd as Director/General Manager of procurement until 2009. His previous employment was at Assetline Leasing Company Limited, in the capacity of Director and Chief Executive Officer. He joined Assetline Leasing Company Limited as Director Operations in 2009 and was promoted as the Chief Executive Officer in 2015.

Membership of Board Sub-Committees

He serves as a member of the Board Integrated Risk Management Committee, the Board Credit Committee, the Board Information Technology Committee, the Board Corporate Governance Committee and the Board Related Party Transaction Review Committee. He attends the Board Human Resource & Remuneration Committee and the Board Audit Committee by invitation.



MR. PRASANTHA LAL DE ALWIS

Deputy Chairman - Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 25th February 2011 and appointed as the Deputy Chairman to the Board on 15th November 2017. He served the Board for a period of nine years and retired from the Board with effect from 24th February 2020.

Qualifications, Skills & Experience

He is an Attorney-at-law since 1983 and holds LL.B and LL.M in Law from the University of Colombo. He was the former State Counsel at the Attorney General's Department and was appointed as the President Counsel in November 2012. Holds a Diploma in Marketing from the Chartered Institute of Marketing UK.

He is a Certified National Trainer in Human Resource Management of the Junior Chamber International and visiting lecturer of the Faculty of Law, University of Colombo, Kotalawala Defence University and APITT Law School.



MR. ANANDA SENEVIRATNE

Managing Director (Executive Director)

Appointed as the Managing Director (Executive Director) on 1st March 2019.

Qualifications, Skills & Experience

A Fellow member of the Institute of Chartered Accountants of Sri Lanka, a graduate in Business Administration from

Current Appointments

He currently serves as a Director of Softlogic Holdings PLC, Coral Sands Hotel (Pvt) Ltd, SC Securities (Pvt) Ltd, Ananda Drama Company (Guarantee) Limited, Alethea International School and Alethea School. He is also a member of Incorporate Council of Legal Education, Board of Management Centre for Human Right Development - the University of Colombo and Law Faculty Board of University of Colombo. Currently, he is a Commander of St. Johns Ambulance Brigade.

Former Appointments

He was a Director of Sampath Bank PLC and an advisor to the Board of Sampath Bank PLC. A member of the Consumer Affairs Authority, the Board of Sri Lanka Foreign Employment Agency and Official Language Commission in Sri Lanka. Also appointed as Honorary Consul of Seychelles in Sri Lanka in October 2013.

Membership of Board Sub-Committees

He was the Chairman of the Board Integrated Risk Management Committee and served as a member of the Board Audit Committee, the Board Corporate Governance Committee, the Board Related Party Transaction Review Committee, the Board Nomination Committee and the Board IT Committee until retirement from the Board.

DR. DILANJAN SOYSA

Senior, Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 01st January 2011 and subsequently appointed as the Senior Director of the Company. He served the Board for a period of nine years and retired from the Board with effect from 1st January 2020.

Qualifications, Skills & Experience

He obtained his Bachelor of Science Degree (B.Sc.) with first-class Honours in Chemistry from the University of Ceylon, Colombo.

Holds Masters (M.A) and a Doctoral Degree (PhD) in Chemistry from the University of Southern California, Los Angeles, USA.

Current Appointments

Currently, he serves as a Director of STK Engineering (Private) Limited, STK Developers (Private) Limited, STK Properties (Private) Limited, STK Quickshaws (Private) Limited and Shalsri Investments (Private) Limited.



Former Appointments

He started his working career as an Executive Officer at Grindlays Bank PLC. He has held several key corporate positions, which include Management Consultant, Development Financial Corporation of Ceylon Limited and Citi Bank. In the field of leasing, he was involved in starting operations in 1983 at Mercantile Lloyds Leasing Limited from where he retired as Deputy Managing Director in 2000. He then joined Commercial Leasing Company Limited as General Manager/CEO in 2002 and served in that position until his retirement in 2010. He also served as a Director of Packserve (Private) Limited.

Membership of Board Sub-Committees

He served as the Chairman of the Board Credit Committee and the Board Nomination Committee, a member of the Board Audit Committee and the Board Human Resources & Remuneration Committee until his retirement from the Board.



MR. THARAKA RANWALA

Non-Independent Non-Executive

Appointed as a Non-Independent Non-Executive Director on 28th July 2015 and served until 1st April 2020.

Qualifications, Skills & Experience:

Senior Deputy General Manager (Consumer Banking) of Sampath Bank PLC responsible for overseeing the areas of the entire retail banking business of the Bank including operations and the Branch network. He has over 16 years experience in the Banking Industry in roles of increasing responsibility in Retail Banking and Marketing.

During this period, he had exposure in Credit Card, Branch Banking operation, Brand Management, Corporate Communications, Market Development, CSR, Consumer and International Marketing. A Fellow member of CIM (UK) and Sri Lanka Institute of Marketing until 1st April 2020. Holds a postgraduate Diploma in Marketing (CIM - UK) and is a Chartered Marketer and also a Certified Professional Marketer (CPM) of the Asia Pacific Marketing Federation. Also before a he has won numerous awards both locally and internationally which includes the "Brand Leadership Award in 2006" and the Marketing Professional of the year in 2014' at the CMO ASIA Global Brand Excellence Awards.

BOARD OF DIRECTORS

Commenced his career as a Marketing Officer at Metropolitan Computers (Pvt) Ltd in 1992, following to the position of Assistant Marketing Manager in 1996. Thereafter, he served as the Business Development Manager at DFCC Bank from period 2005-2006. He then joined as the Head of Marketing at Sampath Bank PLC and is presently holding the position of Senior Deputy General Manager -Consumer Banking.

Current Appointments

The President of the International Advertising Association (IAA) Sri Lanka and a Board Member of the CSR Sri Lanka (Guarantee) Limited, which is the apex body for promoting CSR initiatives in Sri Lanka. He is the Assessor and Evaluator of CSR 2.0 of CSR International.

Membership of Board Sub-Committees

Served as a member of the Board Credit Committee until 1st April 2020.

Management Accountants UK (ACMA). Holds a Masters in Business Administration from the University of Western Sydney, Australia. An alumnus of Harvard Business School (USA). He is a strategic and creative thinker who has proven his ability to develop strong client relationships quickly and promote teamwork efficiently. A leader with a rich mixture of experience and successes in the business world, having completed his secondary education at Trinity College, Kandy.

Current Appointments

He is a Non-Independent Non-Executive Director of Sampath Bank PLC and Non-Executive Director of Sampath Centre Limited. Managing Director of Indra Traders (Pvt) Ltd. Director of Indra Motor Spares (Pvt) Ltd, Indra Property Development (Pvt) Ltd and Chairman of Indra Hotels & Resorts Kandy (Pvt) Ltd, Braybrooke Residential Properties (Pvt) Ltd and Braybrooke Residential Towers (Pvt) Ltd.

Former Appointments

He was a Non-Independent Non-Executive Director of Serendib Finance Limited.

Membership of Board Sub Committees

He is a member of the Board IT Committee.



responsibilities included the heading of businesses in a highly performance-driven culture, strategic & business planning, corporate governance & compliance, market evaluation and commercializing of business units, development and marketing of products for increased wallet share capture of identified segments, credit & risk management and managing people, their development & training. He was instrumental in leading a key change management project for the bank. He possesses widespread experience working with risk management, legal teams, product groups and regulators at all levels within and outside the country. Holds a Post Graduate Diploma in Business Administration from the University of Wales (PRIFYSGOL CYMRU) and a Diploma in Banking from the Institute of Bankers, Sri Lanka. He engages in business development and consultancies in the Banking, Non-Banking Financial Institution, Insurance Brokerage and Corporate sectors.

He commenced his career at Citibank N.A., Sri Lanka in 1990. He has held several key corporate positions which include Head of Sales and Marketing for Commercial Banking and Vice President, Head Local Corporate Bank and Public Sector at Citibank N.A until 2015. Subsequently, he served as the Consultant on Risk Management to the Board of Directors of Richard Pieris Finance PLC and as a Consultant at Foresight Insurance Brokers (Pvt) Ltd. He then joined as Consultant to the Chairman and the Board of Directors of Sampath Bank PLC in 2018.

MR. JANAKAN SELVARATNAM

Non-Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 18th December 2018.

Qualifications, Skills & Experience

Career spanning 25 years with Citibank N.A., Sri Lanka and was Vice President, Head of the Local Corporate Bank & Public Sector for the bank's Sri Lankan franchise. His exposure has been in managing client portfolios in corporate, multinational, non-banking financial sector and public sector segments. A member of the Bank's Management Committee, Credit Committee etc. The scope of his

MR. RUSHANKA SILVA

Non-Independent Non Executive Director

Appointed to the Board as a Non-Independent Non-Executive on 1st June 2018.

Qualifications, Skills & Experience:

He is a dedicated professional with a solid background in Management Accounting, Marketing and Sales. He is an Associate Member of the Chartered Institute of



Current Appointments

He currently acts as the consultant to Sampath Bank PLC's Board Credit Committee. His main role is the provision of advisory services on credit risk evaluation & approval, credit quality expansion and corporate bank strategy.

Membership of Board Sub-Committees

He serves as the Chairman of the Board Credit Committee as well as a member of the Board Integrated Risk Management Committee, the Board Corporate Governance Committee and the Board Related Party Transaction Review Committee.



MR. JAYANTHA GUNAWARDENA
Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 29th January 2019.

Qualifications, Skills & Experience

Holds a Postgraduate Diploma in Bank Management and AIB Sri Lanka Part I offered by the Institute of Bankers, Sri Lanka.

Former Appointments

He had a distinguished career at Standard Chartered Bank, Colombo holding number of senior managerial positions such as Imports Manager, Exports Manager,

Manager Trade Services, and Senior Treasury Dealer. He has an extensive knowledge and experience in Trade Services (International Operations), Treasury Operations, Retail Banking Operations, Corporate Credit, Internal Control and Inspection and Credit Administration spanning over 23 years at Standard Chartered Bank. At the time of his early retirement from the Bank, he was working as the Manager Quality Control and Operational Risks where he was mainly responsible for maintaining a stronger Control environment in the Bank and further acting as the Anti-Money Laundering monitoring officer responsible for reporting of suspicious transactions to the Financial Intelligence Unit of the Central Bank of Sri Lanka. Subsequent to his retirement from the Bank, he joined Ms. Ernst & Young (EY) Chartered Accountants, Colombo. At Ernst & Young, he was designated as the Investigation Manager, who was a key person involved in investigations and External /Internal Audits related to complex areas such as Treasury Operations, Trade Services and Retail and Corporate Banking Operations in leading licensed Commercial Banks of Sri Lanka such as People's Bank, Bank of Ceylon, Commercial Bank of Ceylon PLC, Sampath Bank PLC, National Savings Bank, NDB Bank, Merchant Bank of Sri Lanka and People's Merchant Bank. Further, he was also responsible for carrying out Corporate Governance Compliance Audits for several years at a number of leading Licensed Commercial Banks and Registered Finance Companies as required by the CBSL directions.

Membership of Board Sub-Committees

He is the Chairman of the Board Corporate Governance Committee and the Board Related Party Transactions Review Committee. He is also a member of the Board Audit Committee, the Board Integrated Risk Management Committee and the Board Nomination Committee.



MR. DEEPAL SOORIYAARACHCHI
Non-Independent, Non-Executive Director

Appointed to the Board on 20th November 2019.

Qualifications, Skills & Experience

Counts over 30 years' experience in Sales, Advertising, Marketing, Human Resources Development and Strategy with extensive experience in the field of Insurance. A Fellow member of the Chartered Institute of Marketing UK and Sri Lanka Institute of Marketing. Holds a Masters of Business Administration from the University of Sri Jayewardenepura. Pioneer in disseminating Management knowledge in Sinhala. He is a leading Management Development Consultant, Author, Accredited Master Coach and Master Mentor.

Current Appointments

Independent Non-Executive Director of AIA Insurance Lanka PLC, Pan Asian Power PLC, Singer Sri Lanka PLC, Kelani Cables PLC, Lanka Shipping and Logistics (Pvt) Ltd, Consulting Partner - RBL Group USA, a member of the Board of Management of the Postgraduate Institute of Management (PIM).

Former Appointments

He served the Board of Sampath Bank PLC as a Non-Independent, Non-Executive Director (parent company), He is a past President of Sri Lanka Institute of Marketing,

BOARD OF DIRECTORS

Managing Director Aviva NDB Insurance PLC, Commissioner - Sri Lanka Inventors' Commission.

Membership In Board Sub Committees:

He is a member of the Board Human Resource and Remuneration Committee and the Board Nomination Committee.

After completing his education at Ananda College, he started his Company Secretary career at Hulugalle Associates (Pvt) Limited. Later joined the Corporate Secretarial division of PricewaterhouseCoopers (PWC) where he gained wide experience in many industries.

Thereafter he joined Pugoda Textiles Lanka Ltd; a subsidiary of an Indian Multi-National Company and was appointed as the Company Secretary.

He later joined Sampath Bank PLC as the Company Secretary and currently serves as the Group Company Secretary for the subsidiaries companies of Sampath Bank PLC. He served the longest tenure as the Company Secretary of a listed Bank and is well versed in Boardroom activities in advising Board on Corporate Governance. He is well acquainted with Stock Exchange regulations, Central Bank regulations and its activities.

He was the President of the Institute of Chartered Corporate Secretaries of Sri Lanka in the years of 2017/2018 & 2018/2019 and serves as the Deputy President for the year 2019/2020.



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MR. SATHANANTHAN SUDARSHAN

Company Secretary

Mr. Sathananthan Sudarshan, was appointed as the Company Secretary of Siyapatha Finance PLC with effect from 7th December 2015.

Qualifications, Skills & Experience:

A Chartered Corporate Secretary by profession and an Associate of the Institute of Chartered Secretaries & Administrators (UK) and the Institute of Chartered Corporate Secretaries in Sri Lanka. Holds an MBA from the University of Lincoln, Hull, United Kingdom.

Successfully completed the "Company Director's Course" conducted by the Commonwealth Association for Corporate Governance on behalf of the Commonwealth Fund for Technical Co-operation.

NEW APPOINTMENTS AFTER 31 DECEMBER 2019

MS. SRIYANI RANATUNGA

Independent Non-Executive Director

Appointed to the Board as an Independent Non-Executive Director on 28th January 2020.

Qualifications, Skills & Experience:

A Fellow member of The Chartered Institute of Management Accountants, UK (FCMA-UK), Chartered Global Management Accountants CGMA and holds an MBA from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Holds an MA in Economics from the University of Colombo. She is an old girl of VisakhaVidyalaya, Colombo.

She retired from DFCC Bank PLC as a Vice President, after serving the bank for 20 years in the fields of Internal Audit, Credit Administration and Corporate Banking. Prior to DFCC she has worked at several mercantile organizations in the fields of Accounting & Finance. Commenced her career at Property Development Ltd (a subsidiary of Bank of Ceylon) and has worked as an Accountant at Lanka Queen International (Pvt.) Ltd, Metropolitan Group of Companies, Bauer Ceylon (Pvt.) Ltd and Project Engineering (Pvt.) Ltd, covering over 16 years of experience.

Served as a Council/Board member of CIMA Sri Lanka Division for over 10 years and chaired few committees such as Member Services Committee, Students Services Committee, IT Committee, Library Committee, Student Growth Committee etc.

A Past President of Rotary Club of Cinnamon Gardens and currently holds the Honourary position of Treasurer of Rotary International District 3220 Sri Lanka & Maldives.

Former Appointments

Served as a Council/Board member of CIMA Sri Lanka.

Membership of Board Sub-Committees

A member of the Board Human Resource & Remuneration Committee, the Board Credit Committee, the Board Corporate Governance Committee and the Board Related Party Transaction Review Committee.

MR. SHIRAN PERERA

Non-Independent Non-Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 16th January 2020.

Qualifications, Skills & Experience:

He counts over 25 years of Corporate experience in Information Technology and Engineering Industry. Holds an Honours degree in Engineering from the University of Moratuwa. He had gained his 25 years of experience working closely with CXOs, Consultants, Professional bodies and Industry groups to understand the market dynamics and ability to identify the potential business opportunities. Started his career in 1993 as a Manager IBM World Trade Corporation, thereafter as Operations Manager to Stretchline (Pvt) Ltd–MAS Group, Chief Operating Officer to Stretchline- Indonesia-MAS Group, General Manager IMAS Corporate Software–Ceylinco Group, Chief Executive Officer - Blue Chip Customer Engineering, Country General Manager-Hewlett Packard.

Current Appointments

Currently serves as a Non-Executive Director on the Boards of Sampath Information Technology Solutions Ltd and Matrix (Pvt) Ltd.

Former Appointments

He was a Director of Hewlett Packard Lanka (Pvt) Ltd.

Membership of Board Sub Committees

He serves as the Chairman of the Board Information Technology Committee and a member of the Board Credit Committee.

CORPORATE MANAGEMENT TEAM



Mr. Ananda Seneviratne
Managing Director



Mr. Rajeev De Silva
Chief Operating Officer



Mr. Rohana Dissanayake
Head of Deposits



Mr. Mathisha Hewavitharana
Head of Leasing and Loans



Mr. Prasad Udugampala
Head of Human Resources



Mr. Shajeewa Dodanwatte
Head of Credit Administration



Mr. Ajantha Kumara
Head of Gold Financing



Mr. Saman De Silva
Head of Credit Risk



Mr. Ruwan Wanniarachchi
Head of Finance



Mr. Damitha Giriagama
Head of Recoveries



Ms. Mahika Rajakaruna
Head of Compliance



Mr. Chathura Galhena
Head of Internal Audit



Mr. Damith Shaminda
Head of Management
Information System



Mr. Sanjaya Seneviratne
Head of Treasury

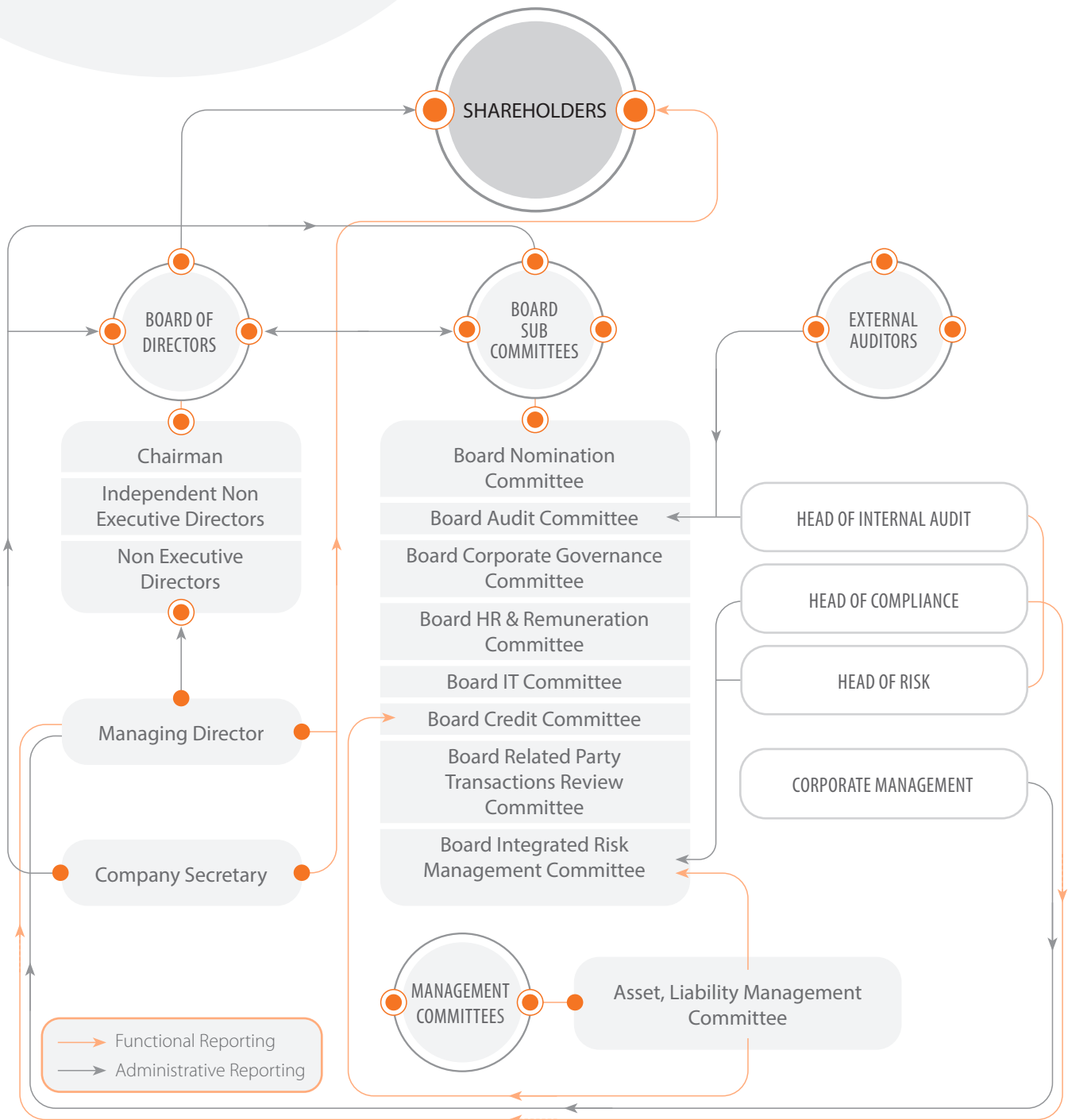


Mr. Indraka Liyanage
Head of Risk Management

CORPORATE GOVERNANCE REPORT

Sound Corporate Governance aims to build trust in business. The Board of Directors takes the responsibility to create long-term sustainable value for the benefit of the shareholders and our wider stakeholders. To achieve this, Siyapatha Finance PLC has a robust corporate governance framework, which provides systems of checks and controls to ensure accountability and promotes sound decision-making.

GOVERNANCE STRUCTURE



The Board of Directors bears ultimate responsibility for the affairs of the Company and have set in place an appropriate governance structure to facilitate the discharge of its duties. Board Sub Committees assist the Board in its oversight functions in specialized areas or areas requiring significant attention. Accordingly, the Board Audit Committee and the Board Integrated Risk Management Committee have been appointed in line with the business requirements and in compliance with regulatory requirements. The other committees of the Board have been appointed in line with the business needs of the Company. The reports of the Board Sub Committees on pages 83 to 97 has set out the terms of reference and the work of the committees.

The Board appointed Chief Executive Officer is responsible for day to day management of the operations of the

Company and is accountable to the Board. He is supported by key management personnel who collectively form the Corporate Management Team with responsibility for business lines or key support functions.

GOVERNANCE FRAMEWORK

Siyapatha Finance PLC Corporate Governance framework complies with the following regulatory requirements:

- a. Companies Act No.7 of 2007
- b. Finance Business Act No.42 of 2011
- c. The Finance Companies Directions, rules, determinations, notices, and guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka in terms of the Finance Business Act including Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance
- d. Continuing Listing Rules of the Colombo Stock Exchange.

Annual Report of the Board of Directors on the State of Affairs of the Company on pages 100 to 108 provides insights into how the Company complies with the requirements of the Companies Act. Compliance with the Direction No. 3 of 2008 on Corporate Governance is set out on pages 41 to 53 providing an overview of the governance mechanisms in place at the Company.

The Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka for Licensed Finance Companies in Sri Lanka.

The Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka.

Section	Corporate Governance Principle	Compliance
2. The Responsibilities of the Board of Directors		
2. (1) (a)	Strategic objectives and corporate values	Board approved Strategic Business Plan for 2020-2022 is in place. The Board and the Management are well aware of the strategic objectives and organizational values which have been communicated throughout the Company.
B2. (1) (b)	Overall business strategy of the finance company including risk policy, risk management procedures and mechanism with measurable goals	Board approved Strategic Plan for 2020-2022 and projected financial statements/budget for the year 2020 are in place. Risk Policy including risk management procedures and mechanisms have been approved by the Board in line with the Strategic Plan. The Board measures the corporate performance against the predetermined goals. Company's Strategic Plan 2020-2022 includes measurable goals for next three years.
2. (1) (c)	Managing the risks in the Company	There is a process in the Company where the Board members who are experienced leaders in the industry discuss new strategies of the Company, the risk arising out of new strategies and the ways and means to mitigate such risks. Further, effective oversight of the Company's risk management including the identification and assessment of the principal risks and overseeing the management of those risks are monitored by the Board Integrated Risk Management Committee (BIRMC). Board assesses the overall risk management of the Company through the reports and minutes of the BIRMC submitted to the Board.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
2.(1) (d)	Effective Communication with stakeholders	Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholder and Borrowers. Board of Directors, officers and employees comply with the policy in order to ensure effective communication for the best interest of all stakeholders.
2.(1) (e)	Internal control systems and Management Information System [MIS]	<p>The Board Audit Committee assists the Board in assessing the adequacy and the integrity of the Internal Controls system and the Management Information System and the financial reporting processes of the company. Internal Audit Department helps the process by carrying out the audits to assess the internal controls over financial reporting and management information systems.</p> <p>Further, the external auditors engages in carrying out the Audit of the Internal Control over Financial Reporting and reports to the Board.</p> <p>Board reviews the adequacy and the integrity of the MIS through the critical Management Information reports submitted by the Internal Audit Department of the Company.</p>
2.(1) (f)	Identification of KMPs of the Company	In line with the Central Bank direction on Corporate Governance, the Board has identified the Board of Directors, all Heads of Departments and the Company Secretary as KMPs of the Company
2.(1) (g)	Authority and key responsibilities of the Board and Key Management Personnel	<p>The general and statutory duties and responsibilities of the Board of Directors are set out in the Board approved Code for Board of Directors and Board Sub Committees approved by the Board.</p> <p>Job Descriptions of Key Management Personnel approved by the Board includes the functions and responsibilities of the KMPs.</p> <p>Areas of authority are covered under the Delegation Authority (DA) limits assigned for KMPs.</p>
2.(1) (h)	Appropriate oversight of affairs of the Company by KMPs	<p>To safeguard better governance practices the affairs of the Company are reviewed and monitored by the Board of Directors through the Managing Director.</p> <p>To ensure better Management, development and effective performance of the Company, KMPs make regular presentations to the Board on matters under their purview. In order to ensure appropriate oversight,</p>
2.(1) (i)	<p>Effectiveness of the Board of Directors' own governance practices</p> <p>Selection, nomination and election of Directors and Key Management Personnel</p> <p>Management of conflicts of interests</p> <p>Determination of weaknesses and implementation of changes</p>	<p>Siyapatha Finance has set up its own Board Nomination Committee, with a majority of Independent Non-Executive Directors, who recommend names of individuals to be appointed as Directors to the Board of Siyapatha Finance PLC.</p> <p>Appointment of KMPs is recommended by the Board Nomination Committee under the direction of the Board of Directors of the Company.</p> <p>As per Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from voting. Further, there is a Board approved conflict of interest policy for Directors in place.</p>

Section	Corporate Governance Principle	Compliance
		<p>Determination of weaknesses in Board of Directors' own governance practices and implementation of changes is addressed through the annual self-evaluation process of the Board members.</p> <p>Self-evaluation forms for the year end 2019 have been obtained and a summary is presented at the Board.</p>
2.(1) (j)	Succession plan of the KMPs	The Company has established a one to one succession plan for all the KMPs approved by the Board.
2.(1) (k)	Regular Meetings with KMPs	Managing Director and Chief Operating Officer are called for regular Board Meetings to review policies and monitor progress towards the corporate objectives. The other KMPs attend Board meetings on invitation and make presentations, which provide the opportunity to share their views and contribute towards the performance of the company.
2.(1)l	Understanding the regulatory environment and the relationship with the regulators	All directions issued by CBSL have been presented to the Board members by the Company Secretary on a regular basis for their knowledge and guidance. The Head of Compliance submits a Compliance Certificate and Statutory Compliance report to the Board which contains the details of returns submitted to CBSL and to other Statutory Bodies, new regulations/statutes and their implications on the business, significant non-compliance events and compliance with regulatory requirements/returns. Thus, the Directors are conversant with the regulatory environment. Chairman and MD of the Company meets the Governor of CBSL and the Director Non-Bank Supervision at the meetings held at CBSL evidence the relationship maintained with the regulator.
2.(1) (m)	Hiring and oversight of external auditors	<p>Company's Article 38(4) addresses the general procedure for the appointment of External Auditors by the shareholders. Further, as per the Terms of Reference (TOR), of the Board Audit Committee (BAC) there is a process in this regard and the final approval is obtained from the Board.</p> <p>Rotation of the Audit Partner is monitored by the Company to maintain a high standard of transparency and good governance within the system. At the completion of his tenure the former Audit Partner retired and the current Audit Partner took over in the year 2016.</p>
2.(2)	Appointment of Chairman and CEO and their responsibilities	Board of Directors of Sampath Bank PLC recommends the name of Chairman to be appointed to the Company and the appointment of the MD is approved by the company's Board. Board of Directors of the Company has approved the functions and responsibilities of the Chairman and the MD keeping in line with good governance practices.
2.(3)	Procedure for seeking Independent Professional Advice	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the Company's expense.
2.(4)	Dealing with conflicts of interest	<p>Under Company's Article 26 (1 & 5) Directors declare their nature of interest and abstain from participating at discussions and voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or an entity in which a Director has a substantial interest.</p> <p>Directors of the Company are independent from business transactions of the company and have no personal connections with the Company's matters. They disclose their interest in the Affidavits and Declarations which are submitted to the regulator annually.</p>

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
2.(5)	Schedule of matters reserved for Board Decision	Board approved "Code for Board of Directors and Board sub Committees" is in place which defines the functions and matters specifically reserved for the Board.
2.(6)	Solvency of the Company	Members of the Board are aware of the requirement to inform the Director of the Department of Non -Bank Supervision with regard to the financial position of the Company where the Company is unable to meet its obligations and is about to become insolvent. Such a situation has not arisen during the year 2019.
2.(7)	Publish Corporate Governance Report	Corporate Governance Report is set out on the pages 40 to 73 of the Annual Report of the company.
2.(8)	Scheme of self- assessment for Board	A procedure is in place for the annual self-assessments of Directors to be undertaken by each Director and the records of such assessments are maintained by the company Secretary. The summary of the self-assessment is submitted to the Board enabling Directors to discuss relevant matters if any.
3. Meetings of the Board		
3.(1)	Regular Board Meetings	Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings are conducted as and when required. Sixteen (16) Board Meetings were held during the year under review. Board approved procedure is in place to minimize obtaining consent through circulation of written or electronic resolutions/papers other than those under urgent circumstances.
3.(2)	Arrangements for Board Members to include proposals in the agenda	Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3.(3)	Notice of Meetings	Annual Board meeting calendar is scheduled at the end of the previous year enabling Board of Directors to attend meetings. As a practice, Directors are given notice of at least 7 days for regular Board Meetings. All Board papers are circulated to Board members through the Board Pack on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.
3.(4)	Attendance of Directors	Board of Directors has fully complied with the requirement and each Director of the Board is well informed acquainted about their attendance. Further, the Company Secretary monitors the attendance. During the year 2019 none of the directors has been absent from three consecutive meetings. Details of Directors attendance are set out on page 72 of the Annual Report.
3.(5)	Company Secretary	The Board has appointed the Company Secretary who possesses the required qualifications as stated in the Companies Act No. 07 of 2007. The Company Secretary provides secretarial services to the Board and all board Sub Committee meetings and carries out other functions specified in the statutes and other regulations.
3.(6)	Preparation of Agenda	Company Secretary is responsible for the preparation of the agenda, in consultation with the Chairman.
3.(7)	Access to advice and service for Company Secretary	Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed
3.(8)	Maintenance of Board Minutes	Company Secretary maintains the minutes of Board Meetings and other Committee Meetings with sufficient details. Upon reasonable request, any Director can inspect the minutes.

Section	Corporate Governance Principle	Compliance
		All Board papers are circulated to Board members through the Board Pack on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.
3.(9)	Minutes of Board Meetings	<p>Minutes of the Board meetings are recorded in sufficient details with the following content</p> <p>A summary of data and information used by the Board in its deliberations</p> <p>The matters considered by the Board</p> <p>The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations</p> <p>Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted</p> <p>The decisions and Board resolutions</p> <p>Minutes are kept under safe custody of Company Secretary.</p>
4. Composition of the Board		
4.(1)	Composition of the Board	Board consists of ten Directors which is within the statutory range. Mr. C. P. Palansuriya (Chairman), Mr. Ananda Seneviratne (appointed w.e.f 01.03.2019), Dr. H. S. D. Soysa, (retired w.e.f 01.01.2020.) Mr. W. M. P. L. De Alwis, Mr. Tharaka Ranwala, Mr. Sumith Cumaranatunga, Ms. Aroshi Nanayakkara (resigned w.e.f 31.05.2019), Mr. Y. S. H. R. S. Silva and Mr. J. Selvaratnam, Mr. J.H. Gunawardena (appointed w.e.f 29.01.2019) Mr. Deepal Sooriyaarachchi (appointed w.e.f 20.11.2019) are the Directors of the Company during the year 2019.
4.(2)	Period of Service of Directors	There are no Directors who have exceeded 9 years of service at the Board during the year 2019.
4.(3)	Number of executive Directors	<p>Company had only one Executive Director who was the Managing Director. Mr. K. M. S. P. Herath who resigned after his contract was over w.e.f. 28.02.2019.</p> <p>Subsequently Mr. Ananda Seneviratne was appointed as the Managing Director of the Company w.e.f. 01.03.2019 and currently he is the only Executive Director of the company.</p>
4.(4)	Number of independent Non executive Directors	<p>The Company had four Independent Non-Executive Directors up to 31.12.2019 and complied with the requirement.</p> <p>The composition of the Board of Directors is published on page 103 of the Annual Report</p>
4.(5)	Appointment of alternate Director	No such appointments occurred during the year 2019.
4.(6)	Skills and experience of Non-executive Directors	All the Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
4.(7)	Quorum for Board Meetings	Board approved procedure is in place which stipulates the number of members required to meet the quorum at a Board meeting to be not less than 50% of the total Directors of the Company and out of this quorum, at least one third should include Non-Executive Directors. Section 31 of the Articles of Association also states the requirement of the quorum, which has been complied with at all Board Meetings during the year 2019. A summary of attendance at the Meetings is set out on page 72 of Annual Report.
4.(8)	Composition of Board	Composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed on page 103 of the Annual Report
4.(9)	Appointment of new Directors	Board approved procedure is in place for appointing new Directors. The Board Nomination Committee of the company recommends names of proposed Directors to the Siyapatha Finance PLC Board.
4.(10)	Appointment of Directors to fill casual vacancy	As per Company's Article 24 (2), the Board has power to appoint Directors to fill a casual vacancy which is subject to re-election by shareholders at the Annual General Meeting,
4.(11)	Resignation and removal of Directors	Directors' resignation or removal and the reason for such resignation or removal are duly informed to the Department of Non-Bank Supervision of Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).
5. Criteria to Assess the Fitness and Propriety of Directors		
5.(1)	Age Limit of a Director	None of the present Directors of the Company are above the age of 70 years.
5.(2)	Directorships in other companies	As per declarations given by the Directors for the year 2019, none of the Directors holds office as a Director of more than 20 Companies.
6. Delegation of Functions		
6.(1)	Delegation of Authority	The Board does not delegate matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
6.(2)	Reviewing of delegation process	Board has reviewed the delegated authority limits regularly to ensure that delegation is acted upon within the controls.
7. The Chairman & The Chief Executive Officer		
7.(1)	Roles of Chairman & CEO	The roles of the Chairman and MD are separated and not performed by the same individual.
7.(2)	Appointing a senior Director where Chairman is non independent	The Chairman is a Non-Independent, Non-Executive Director. Therefore, Dr. H S D Soysa, an Independent Non-Executive Director has been appointed as the Senior Director to the Board. The designation of the Senior Director is disclosed on page 33 of the Annual Report.
7.(3)	Identification and disclose relationship between Chairman, CEO and among Board Members	The names of the Chairman and the Managing Director are published in the Annual Report and there is no financial, business, family or other material relationship between Chairman, Managing Director and Board members. A Board approved procedure is in place to monitor the relationship between MD and the Board of Directors and among the Board Members.
7.(4)	Role of the Chairman	Chairman's key responsibilities and duties have been approved by the Board. Self-evaluation process of the Board ensures that the said requirements are fulfilled.
7.(5)	Preparation of Agenda	Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman.

Section	Corporate Governance Principle	Compliance
7.(6)	Chairman to ensure all directors are well informed on the issues arising at board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.
7.(7)	Full and active contribution of Directors	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs. Further, this is also evaluated through the Self Evaluation process designed for the Board of Directors.
7.(8)	Effective contribution of non-executive Directors and constructive relationships between executive and non-executive Directors	<p>Board consists of Non-Executive Directors and Executive Directors and they give their fullest and effective contribution to the Company while discharging their duties collectively.</p> <p>Chairman ensures that a constructive relationship exists between the Board members as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.</p> <p>Self-Evaluation process covers the contributions of both Executive and Non-Executive Directors.</p>
7.(9)	Refrain from direct supervision of KMPs and executive duties	Chairman does not engage directly or indirectly in supervision of KMPs and performing executive duties. MD is responsible for the day to day operations of the Company
7.(10)	Effective Communication with shareholders	Effective communication is maintained with the Parent as Mr. C.P. Palansuriya, Chairman of the Sampath Bank PLC (the Bank) (resigned with effect from 01.04.2019), Mr. Y.S.H.R.S. Silva, Director of the Bank and Mr. L.T. Ranwala, Senior DGM of the Bank are the Directors of Siyapatha Finance PLC. Further, Board of Directors of Siyapatha Finance PLC meets the Board of Directors of Sampath Bank PLC at the AGM.
7.(11)	APEX Executive of the Company	MD functions as the apex executive in charge of the day to day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.
8. Board Appointed Committees		
8.(1)	Board sub committees, their functions and reporting	<p>Board has established two Board Committees namely Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) as per the requirements of CBSL.</p> <p>Apart from the above two Committees, the Company has established seven more Board Sub-Committees, namely Board HR & Remuneration Committee, Board Corporate Governance Committee, Board Credit Committee, Board Related Party Transactions Review Committee and Board Nomination Committee and Board IT Committee.</p> <p>Company Secretary is the secretary to all Board Sub Committees. He discharges his secretarial functions under the supervision of the Chairmen of Committees. Performance, duties and functions of all Committees are disclosed on pages 83 to 97 of the Annual Report.</p> <p>Minutes of all above Committees are submitted to the Board for their review.</p>
8.(2) Board Audit Committee (BAC)		
8.(2) (a)	Chairman of the Board Audit Committee and qualifications	The Board appointed Mr. P. S. Cumaratunga as the Chairman of the Board Audit Committee w.e.f. 01.06.2018. Mr. Cumaratunga is a Chartered Management Accountant (ACMA), a Certified Practicing Accountant (CPA) and a member of the Chartered Institute of Marketing (DipM MCIM).

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
8.(2) (b)	Composition of the Committee	All members of the Board Audit Committee are Non-Executive Directors. Members are Mr. P.S. Cumarathunga, Mr. W.M.P. De Alwis, Dr. H. S. D. Soysa, (resigned w.e.f 01.01.2020) Ms. A. Nanayakkara (resigned w.e.f 31.05.2019) and Mr. J.H. Gunawardena (appointed w.e.f 29.01.2019) All of them have expertise and knowledge in the fields of banking, finance, leasing, information technology etc.
8.(2) (c)	Recommendations made by the Board Audit Committee	<p>Audit Committee has made recommendations with regard to the following.</p> <p>The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes</p> <p>The implementation of the Central Bank guidelines issued to auditors from time to time;</p> <p>The application of the relevant accounting standards;</p> <p>The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term</p> <p>Implementation of the Whistle Blowing Policy within the Company</p>
8.(2) (d)	Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes	The BAC obtains representation from the External auditors on their independence and that the audit is carried out in accordance with the applicable standards and best practices.
8.(2) (e)	Provision for Non-Audit Services by external auditors	Board approved policy on the engagement of an external auditor to provide non-audit service is in place.
8.(2) (f)	Nature and scope of the external audit	The Board Audit Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Accounting Standards. The Audit Engagement Letter for the year ending 31.12.2019 has been submitted to the BAC.
8.(2) (g)	Review the financial information of the Company	<p>Quarterly Financial Statements as well as year-end Financial Statements are presented and discussed at the Audit Committee.</p> <p>A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.</p>
8.(2) (h)	Discussions with the External Auditor on Interim and final audits	The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the external auditors. During the year Committee has held two meetings with External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.
8.(2) (i)	External Auditor's Management Letter and Management's response	Committee has reviewed the External Auditor's Management letter and Management responses thereto, relating to the audit for the year ended 31.12.2018

Section	Corporate Governance Principle	Compliance
8.(2) (j)	<p>Committee's responsibility with regard to Internal Audit Function</p> <ul style="list-style-type: none"> i) Review the adequacy of the scope, functions and resources of the internal audit department ii) Review the internal audit program and results of the internal audit process iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function v) Appraisal of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning vi) Independence of the audit activities, impartiality of the performance, proficiency and due professional care. 	<ul style="list-style-type: none"> i) Board Audit Committee has discussed the adequacy of the scope, functions and resources of the Internal Audit Department. ii) The Board Audit Committee has reviewed and approved the annual internal audit program. Internal Audit reports with the Management comments have been submitted to the Committee and action taken to rectify the issues have been discussed at a length. iii) The Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2019. iv) As recommended by the Board Audit Committee, the Company has recruited a new Head of Internal Audit during the year. v) Head of internal audit retired during the year 2019 after his contract was over. As recommended by the Board Audit Committee the company recruited a new Head of Internal Audit during the year. vi) As per the organization chart of Siyapatha Finance PLC the internal auditor reports direct to the BAC and the audit work has been performed with impartiality proficiency and due care.
8.(2) (k)	Major findings and management response	The Committee oversees the major findings of internal audit investigations and Management response thereto
8.(2) (l)	<p>Participation at Audit Committee Meetings</p> <p>External Auditors' meeting without the Executive Directors</p>	<p>Members of the Board Audit Committee, Head of Internal Audit, Head of Finance attend the meetings. Managing Director and Chief Operating Officer attends by invitation.</p> <p>Two meetings were held with the External Auditors without the Executive Management being present.</p>

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance
8.(2) (m)	Authority, Resources and access to information of Board Audit Committee (BAC)	<p>The Board approved Terms of Reference is in place and it stipulates the required authority of the BAC.</p> <p>The BAC has the required resources and can access the information and if necessary, is also empowered to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary.</p>
8.(2) (n)	Regular Meetings of Board Audit Committee (BAC)	Audit Committee calendar is scheduled enabling members to attend the meetings held quarterly. If necessary, Committee may decide to convene additional meetings. There were fifteen (15) Audit Committee Meetings held during the year 2019 including two meetings without the executive management.
8.(2) (o)	Board Audit Committee disclosures in Annual Report	Number of BAC meetings and attendance of BAC members have been published in the Annual Report on pages 83 to 85 and 72.
8.(2) (p)	Secretary of the committee	Company Secretary who is the Secretary of the Audit Committee maintains detailed minutes of meetings held.
8.(2) (q)	Whistle Blowing Policy	Board approved Whistle Blowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and any other matters. No complaints were reported under the Whistle Blowing process during the year 2019.
8. (3) BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (BIRMC)		
8.(3) (a)	Composition of BIRMC	Committee consisted of four Non-Executive Directors and one Executive. Director BIRMC consists of Key Management Personnel who supervise the credit, market, liquidity, operational and strategic risks of the Company, in addition to the Managing Director. The Committee closely works with Key Management Personnel and makes decisions on behalf of the Board on matters which are within their jurisdictions.
8.(3) (b)	Assessment of Risk In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.	<p>BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company through appropriate risk indicators and management of information.</p> <p>Not relevant since there are no subsidiaries or associate Companies of Siyapatha Finance PLC.</p>
8.(3) (c)	Review the adequacy and effectiveness of management level committees	<p>In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of management Committees to manage risks within quantitative and qualitative risk limits.</p> <p>BIRMC assessed the adequacy and effectiveness of the Assets & Liabilities Committee (ALCO) to address specific risks .</p>
8.(3) (d)	Corrective action to mitigate risk exceeding prudential level	BIRMC regularly reviews the risk indicators which have gone beyond the specified quantitative and qualitative risk limits against the set limits and take prompt action to mitigate the effects.
8.(3) (e)	Frequency of Meetings	The Committee meets at least quarterly, or more frequently as circumstances arise. BIRMC held .nine meetings during the financial year 2019 and assessed all aspects of risk management
8.(3) (f)	Actions against officers who fail to identify risk	BIRMC is responsible for assessing different types of risk, to which the Company is exposed. At Siyapatha Finance PLC, risks are identified by the Integrated Risk Management Committee and as such, decisions are taken collectively.

Section	Corporate Governance Principle	Compliance
8.(3) (g)	Submission of Risk assessment report to the main Board	Board of Directors has ultimate responsibility in risk management of the Company. Minutes of the BIRMC meetings are tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on significant issues and decisions taken at the committee meetings, enabling the Board to make correct decisions.
8.(3) (h)	Compliance Function	<p>The Head of Compliance who has been identified as a KMP in the Company assesses the level of Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.</p> <p>Compliance Officer has obtained confirmations from all Department Heads to ensure compliance with approved policies/procedures of the Company.</p>
9. Related Party Transactions		
9.(2)	Identification of related parties and avoid conflict of interest	The Board is well aware of the requirement of identification of related party transactions and a Board approved Procedure on identification Related Parties and their transactions is in place which speaks on categories of related parties, and for the Company to avoid any conflicts of interest that may arise from any transaction of the Company.
9.(3)	Types of related party transactions	<p>There is a documented process approved by the Board which speaks on types of related party transactions, and for the Company to avoid any conflicts of interest that may arise from any transaction with the related parties.</p> <p>All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives during the year 2019.</p>
9.(4)	Avoid More Favorable Treatment	<p>There is a documented process approved by the Board which clearly defines related party transactions and to ensure that the Company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the Company.</p> <p>The Company has a detective system which has been developed in- house to monitor all RPT transactions where the Company inputs details of NIC numbers of related parties and Business Registration numbers of related party concerns to ensure that there are no favorable treatments offered to such related parties than that accorded to other constituents of the Company carrying on the same business.</p>
10. Disclosures		
10.(1)	a) Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards	Annual Financial statements and periodical financial Statements are prepared in accordance with the applicable accounting standards.

CORPORATE GOVERNANCE REPORT

Section	Corporate Governance Principle	Compliance												
	b) that such statements published in the Sinhala, Tamil and English Newspapers in an abridged form, in Sinhala, Tamil and English	Such statements are published in three Newspapers Sinhala, Tamil and English.												
10.(2) (a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	This is been disclosed in the "Annual Report of the Board of Directors on the state of affairs of the Company" appearing on pages 100 to 108 of the Annual Report												
10.(2) (b)	Report by the Board of Directors on the internal Control mechanism of the company.	Effectiveness of the Company's internal control mechanism has been certified by the Directors on pages 109 to 110 of the Annual Report under the heading "Directors' Statement on Internal Controls over Financial Reporting".												
10.(2) (c)	Certification on the effectiveness of the internal control mechanism by external auditors	The Auditors' certification on the effectiveness of the internal control mechanism has been obtained.												
10.(2) (d)	Details of the Directors including names and transactions with the finance company	<p>The names of the Directors are been set out on pages 31 to 37 of the Annual Report. Transactions with the Directors during the year 2019 are as follows.</p> <ul style="list-style-type: none"> ▶ Term Deposits - Rs. 40,592,550/- ▶ Savings Deposits - Nil ▶ Interest on Term/Saving Deposit - Rs. 2,092,950/- ▶ Debenture - Rs. 22,500,00/- ▶ Interest on Debentures - Rs. 2,274,900/- 												
10.(2) (e)	Directors' fees and Remuneration	The fees & remuneration paid to Directors are been disclosed in Note 46 on page 182 of the Annual Report.												
10.(2) (f)	Accommodation granted for related parties	<table border="1"> <thead> <tr> <th>Category of RPT</th><th>Net Accommodation as at 31.12.2019 (Rs.)</th><th>% of Capital Fund</th></tr> </thead> <tbody> <tr> <td>Directors</td><td>-</td><td>-</td></tr> <tr> <td>KMP</td><td>11,458,055</td><td>0.18%</td></tr> <tr> <td>Relatives of Directors or KMP</td><td>-</td><td>-</td></tr> </tbody> </table>	Category of RPT	Net Accommodation as at 31.12.2019 (Rs.)	% of Capital Fund	Directors	-	-	KMP	11,458,055	0.18%	Relatives of Directors or KMP	-	-
Category of RPT	Net Accommodation as at 31.12.2019 (Rs.)	% of Capital Fund												
Directors	-	-												
KMP	11,458,055	0.18%												
Relatives of Directors or KMP	-	-												
10.(2) (g)	Aggregate values of remuneration paid for KMPs and aggregate values of transaction of the company with KMPs	<p>Total value of short term employee benefits paid to KMPs (as per CBSL direction) during the year is Rs.107,410,606/-</p> <p>Total accommodation granted Rs. 11,458,055/-</p> <p>Debenture, Term Deposits and Saving Deposits Rs. 100,552,085/-</p>												

Section	Corporate Governance Principle	Compliance
10.(2) (h)	Details of Compliance with prudential requirements, regulations, laws and internal controls and measures relevant to non compliance	Details of compliance & non-compliance would be highlighted in the 'Annual Report of the Board of Directors on the state of affairs of the company' on pages 100 to 108 of the Annual Report.
10.(2) (i)	Non-Compliance Report	There were no regulatory and supervisory concerns in the Company's risk management or non compliance with the Companies Act No. 07 of 2007, rules and directions that have been communicated by the Director of the Department of Supervision of Non Bank Financial Institutions.
10.(2) (j)	The External Auditors' certification of compliance with the corporate governance direction. Certification of Compliance by External Auditors	The Board has obtained a factual finding report from the External Auditors over the compliance with Corporate Governance Directions.

CORPORATE GOVERNANCE REPORT

The Code of Best Practice On Corporate Governance 2013 Issued Jointly by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A. DIRECTORS			
A.1 THE BOARD			
The Board of Directors at Siyapatha Finance PLC (the "Company") represents professionals from different disciplines such as Legal, Marketing, Management, Finance, Engineering, Banking and they bring with them a wealth of business experience to provide leadership to the Company			
A.1.1	Board meetings	Complied	<p>Board meetings are planned well ahead and dates of the monthly meetings are finalized at the end of the previous year.</p> <p>Board meetings are mainly focused on reviewing the Performance of the Company and more on Strategic Planning and the Company's future directions. Key Officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic goals.</p> <p>Special Board meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period sixteen Board meetings were held.</p> <p>Please refer 'Directors' attendance and Committee Memberships' table given in pages 72 and 73 in the Annual report.</p>
A.1.2	Responsibilities of the Board	Complied	<p>The Board while acting in line with the organization and the Group values is responsible for the formulation of a sound business strategy for the organization. The Management formulates a three years strategic plan which addresses the future challenges, which would be tabled, discussed and approved by the Board.</p> <p>During the last few years, the Board recognized the importance of Human Capital, and the grooming of the Corporate Management and individuals who are capable, talented with required skills, experience and knowledge to accept any challenges that the Company may face in the future. The Board has implemented a succession plan, with a view to ensuring that the Company would have a strong successor to shoulder the responsibilities of the Company, if it becomes necessary.</p> <p>The Board takes necessary steps to fulfill the duties entrusted to them by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance ensures that all applicable laws and regulations and adherence to the organization and the group ethical standards and corporate values are met in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision-making process.</p>

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.1.3	Agreed procedure on seeking independent professional advice	Complied	Clear, formulated and approved procedure is in place for the Directors to seek independent professional advice as and when required. The Board Sub-Committees advise the Board on various matters under their purview, when necessary.
A.1.4	Advice and services of the Company Secretary	Complied	Clear formulated and approved procedure by the Board is in place for the Board members to have full access to the Company Secretary to ensure that proper Board procedures are followed and that all applicable rules and regulations are complied with. Legal matters for which clarifications are needed by the Board are referred to the Company Secretary who is a Chartered Secretary. He provides such information after obtaining necessary professional advice whenever required.
A.1.5	Independent judgment of Directors	Complied	All Directors are free to bring independent judgment for decision making of the Company and for the decisions taken by the Board on issues of strategy, performance, resources and standards of business conduct. Different arguments and the ideas are reordered in detail by the Company Secretary with a view to indicate the rationale in which decisions are arrived at.
A.1.6	Dedicating adequate time and effort by the Directors	Complied	All Directors of the Company dedicate adequate time and effort at Board and Committee meetings to fulfill their duties. Further, they also spend their time before and after the meetings, to ensure that the duties and responsibilities owed to the Company are discharged according to the highest standards. Board Papers/Committee papers are dispatched in advance to the Directors, well ahead of scheduled meetings.
A.1.7	Training for new and existing Directors	Complied	Directors have recognized the need for continuous training and expansion of their knowledge and take part in such professional development as they consider necessary in assisting them to carry out their duties as Directors. Market experts and professional services are obtained to share new knowledge from time to time. Any training programmes relevant to the Board are informed to the Board by the Company Secretary for Directors participation.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.2 CHAIRMAN AND MANAGING DIRECTOR (MD)			
Board of Directors does not intervene with the Company's day to day business and there is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company by the Executive Management, in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board to drive towards the Strategic Vision and to ensure effectiveness of the Board. The MD's role is to conduct the business operations of the Company with the help of the Corporate and the Senior Management. Hence, the roles of the Chairman and MD are clearly distinct from one another.			
A.2.1	Separation of the roles of Chairman & MD	Complied	<p>Chairman and MD positions are held by two individuals and the functions of the Chairman and MD are clearly documented, defined and separated by the Board, thereby preventing unfettered powers for decision making being vested in one individual.</p> <p>There is a clear division of responsibilities between conducting the business of the Board and day-to-day operations of the Company in order to ensure a balance of power and authority. The Chairman is responsible for leading the Board and for its effectiveness. The MD's role is primarily to conduct the business operations of the Company with the help of the Corporate Management. The roles of the Chairman and MD are clearly distinct from one another.</p>
A.3 CHAIRMAN'S ROLE			
Chairman is responsible to ensure that all Board members make a full contribution to the Board's affairs and ensure that the Board acts as a team while discharging Board functions. He also provides leadership to the Board and effectively manages the Board while preserving order and facilitating effective discharge of Board functions.			
A.3.1	Role/ Functions of the Chairman	Complied	<p>The following functions of the Chairman was approved by the Board</p> <ul style="list-style-type: none"> ▶ Provide leadership to the Company and Board of Directors. ▶ Ensure that the Board works effectively and discharges its responsibilities. ▶ Ensure that all key and appropriate issues are discussed by the Board, in a timely manner. ▶ Responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. ▶ Ensure that all Directors are properly briefed on issues arising at Board meetings and that all Directors receive adequate information in a timely manner. ▶ Encourage all Directors to make a full and active contribution to the Board's affairs and to take the lead to ensure that the Board acts in the best interests of the Company. ▶ Facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations among the Non-Executive and Executive Directors.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
			<ul style="list-style-type: none"> ▶ Not to engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever. ▶ Ensure that appropriate steps are taken to maintain effective communication with shareholders (at general meetings and in general) and that the views of shareholders are communic
A. 4 FINANCIAL ACUMEN			
The Code of Best Practice requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Company has met the above requirement as four Board members out of Ten Directors are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.			
A. 4	Financial acumen and knowledge	Complied	<p>The Chairman of the Audit committee, Mr. P. S. Cumaranatunga is an Associate member of the Chartered Management Accountant of UK (ACMA, UK), holds the Chartered Global Management Accountants (CGMA) qualification, a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).</p> <p>Ms. A. Nanayakkara (Resigned w.e.f 31.05.2019) and Mr. Y. S. H. R. S. Silva are both Associate members of the Chartered Institute of Management Accounts of UK (ACMA, UK). Ms. A. Nanayakkara holds the Chartered Global Management Accountants (CGMA) qualification as well.</p> <p>The Managing Director, Mr. K. M. S. P. Herath (Resigned w.e.f 28.02.2019) is a fellow Member of the Chartered Institute of Management Accounts of UK (FCMA, UK) as well as holds the Chartered Global Management Accountants (CGMA).</p> <p>Mr. Ananda Seneviratne, (appointed w.e.f 01.03.2019) is a Chartered Accountant (FCA), MBA (University of Colombo), BSc Management (University of Sri Jayawardenapura).</p> <p>These members of the Board have the ability to offer advise & guidance on matters of finance to the Board.</p>
A.5 BOARD BALANCE			
The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus that no individual or a small group of individual Directors is able to dominate the Board's decision making.			
A.5.1	Presence of a strong team of Non-Executive Directors (NEDs)	Complied	Nine out of Ten Directors of the Board are NEDs which complies with the minimum number prescribed by this Code, which is at a minimum two NEDs or NEDs equivalent to one-third of the total number of Directors, whichever is higher. This ensures that the views of Non-Executive Directors are taken into consideration in Board decisions.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.5.2 & A.5.3	Independence of NEDs	Complied	Four out of Nine NEDs are Independent which complies with the minimum prescribed by this Code which is at a minimum two NEDs or NEDs equivalent to one third of the total number of NEDs, whichever is higher.
A.5.4	Annual Declaration of NEDs	Complied	Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.
A.5.5	Annual Declaration by the Board on the independence of Directors	Complied	The Board has determined the independence of Directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the SEC and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-executive Directors are: Dr. H.S.D. Soysa, (Resigned w.e.f 01.01.2020.) Mr. W.M.P.L. De Alwis, Mr. P. S. Cumaranatunga and Ms. Aroshi Nanayakkara (Resigned w.e.f. 31.05.2019) Mr. J.H Gunawardena (Appointed w.e.f. 29.01.2019).
A.5.6	Alternate Director	Complied	At present, there are no alternate Directors.
A.5.7 & A.5.8	Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions.	Complied	As the Chairman of the Company is a Non Executive –Non Independent Director, the Company has appointed Dr. Dilanjan Soysa (resigned w.e.f 01.01.2020) as a Senior Director of the Company. The senior Director appointed participated in all confidential discussions of the Company.
A.5.9	Conducting meetings with NEDs only	Complied	During the year the Chairman met the Non Executive Directors in the absence of the Managing Director.
A.5.10	Recording of concerns in Board minutes	Complied	Deliberations raised by the Directors are part of the Board Meetings and such information is adequately detailed by the Company Secretary in the minutes. Rather than Minuting only the decisions, the Company Secretary minutes as to how the decision had been arrived at all times. All minutes are kept in a detailed manner.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.6 SUPPLY OF INFORMATION			
The Code requires the Company's management to submit timely information to the Board with sufficient information for making decisions which would enable it to discharge its duties.			
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board	Complied	The Executive Management of the Company should ensure that the Directors are provided with adequate information in a timely manner and should make every effort to provide the information, as early as possible. The Board Papers are prepared by the Executive Management of the Company to provide adequate information to the Board enabling it to deliberate on all key issues concerning the Company. Directors are free to raise inquiries/concerns for additional information, where necessary. In addition, key members of the Executive Management make their presentations at every Board meeting on their performance and issues of importance during the reviewed period. The Chairman ensures that all Directors are briefed adequately on issues arising at Board meetings.
A.6.2	Adequate time for Board meetings	Complied	According to the Articles of Association of the Company, all Board members are given a notice well ahead of the meeting, and all minutes of previous meetings, agenda and Board Papers are dispatched in advance. Further, adequate notice is given to all Directors prior to emergency/special Board meetings. This ensures that the Board members have adequate time to study the related papers and prepare for a meaningful discussion at the meetings.
A.7 APPOINTMENT TO THE BOARD			
Company has a formal and transparent procedure in place to appoint new Directors.			
A.7.1 & A.7.2	Presence of a Nomination Committee and annual assessment of composition of the Board	Complied	<p>Siyapatha has set up its own Board Nomination Committee. The Committee is authorized to implement a procedure to assess the skill, knowledge and experience required for the selection/appointment of new Directors and MD for the Company.</p> <p>Final decision is taken by the Board as per the procedure approved by the Board to appoint new Directors which is a formal and transparent procedure. The Board assesses the composition of the Board to ensure that the combined knowledge and experience of the Board matches the strategic demand of the market.</p>
A.7.3	Disclosure of required details to Shareholders on new appointments to the Board	Complied	All new Directors who are appointed to the Board are eligible for election at the subsequent AGM.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
A.8 RE-ELECTION			
The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years			
A.8.1 & A.8.2	Re-election of Non-Executive Directors including Chairman and Directors	Complied	In accordance with Articles 24 (7) & (8) of the Articles of Association, the procedure adopted by the Company to re-elect by rotation, at least one-third of the Directors should retire at the Annual General Meetings. A procedure is in place to elect Directors who have joined the Board during the year and to make themselves available for election at the subsequent Annual General Meeting.
A.9 APPRAISAL OF BOARD PERFORMANCE			
The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.			
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees	Complied	The performance of the Board is evaluated by the Chairman and the Directors. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and to be in line with the good governance.
A.9.3	Disclosure of criteria used for the performance evaluation	Complied	The Company Secretary submits the self evaluation questioner to each director and obtains their individual responses. Summary of the responses are submitted to the Board for further action if deemed necessary.
A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS			
The Code requires that details of Directors be disclosed in the Annual Report for information of the shareholders			
A.10.1	Disclosures on Directors in the Annual Report	Complied	<p>The following details pertaining to each Director are disclosed in the Annual Report</p> <ul style="list-style-type: none"> (a) Brief profile with expertise and experience - pages 31 to 37 (b) Other business interests - pages 106 (c) Remuneration - Note 46.2 on page 182 (d) Status of independence - pages 103 to 104 (e) Details of Board Meetings and Board Committee Meetings held during the year - pages 72 and 73
A.11 APPRAISAL OF MD			
The Code requires the Board to assess the performance of the MD at least annually to ascertain the degree to which the MD met the pre-set financial and non-financial targets			
A.11.1 & A.11.2	Setting annual targets and the appraisal of performance of the CEO/Managing Director	Complied	At the beginning of each financial year, the Board discusses and agrees with the MD and sets long term, medium term and short term financial and non-financial goals for the Company that are to be guided and achieved by the MD within the course of that year. Assessment of performance of the MD is carried out by the Board yearly to ensure that performance is achieved.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B. DIRECTORS' REMUNERATION			
B.1 REMUNERATION PROCEDURE			
This principle ensures that the Company has a well-established formal and transparent procedure in place for developing an effective remuneration policy to avoid potential conflict of interest.			
B.1.1	Establishment of a Remuneration Committee	Complied	The Company has a Board Human Resources and Remuneration Committee which has the power to evaluate, assess, and decide matters that may affect the Human Resources Management of the Company.
B.1.2	Composition of the Remuneration Committee	Complied	As prescribed in this code, all members of the Board Human Resources and Remuneration Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board.
B.1.3	Chairman and the Members of the Committee	Complied	Please refer 'Board Human Resources and Remuneration Committee Report' for details of the Chairman and the Members of the Board Human Resources and Remuneration Committee.
B.1.4	Determination of the remuneration of Non-Executive Directors	Complied	All payments to the Directors of the Company are decided by the parent Company as per the Group policy on remuneration. No Director of the Company can decide their own remuneration. The Non-Executive Directors receive a fee for being a Director of the Board, an attendance fee and an additional fee for either chairing or being a member of a Board or a Committee.
B.1.5	Ability to consult the Chairman and/or MD and to seek professional advice by the Committee	Complied	The Committee has the authority to seek internal and external independent professional advice on all matters falling within the purview of the Committee at the Company's expense.
B.2 LEVEL AND MAKE UP OF REMUNERATION			
The Company ensures that the remuneration of Non-Executive Directors is at a satisfactory level to attract and retain the services of Directors			
B.2.1	Remuneration packages of Executive Directors	Complied	The Managing Director was appointed with effect from 1st March 2019 and his remuneration is based on the Group Remuneration Policy.
B.2.2	Competitiveness of levels of Remuneration	Complied	Directors are paid for their contribution based on the Group Remuneration Policy.
B.2.3	Comparison of Remuneration with other companies in the Group	Not Applicable	All payments to the Directors are based on Group policy which is decided on the market rates.
B.2.4	Performance based remuneration of Executive Directors	Complied	During the year under review, the Company did not provide for performance based remuneration for Executive Directors.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B.2.5	Executive share options	Not Applicable	No Executive Share Options were granted during the year.
B.2.6	Designing the remuneration of Executive Directors	Complied	The remuneration of the Executive Directors is determined by the Parent Company in line with the Group Remuneration Policy.
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.
B.2.9	Levels of Remuneration of Non-Executive Directors	Complied	Non-Executive Directors of the Company are paid a nominal fee for their time and role in the Company, in line with the Group policy approved by the Parent Company. They're not entitled to receive any other privileges other than the monthly fee and the Board /Committee sitting fees.

B.3 DISCLOSURE OF REMUNERATION

The Code requires the Company to disclose in its Annual Report the details of the remuneration paid and the Remuneration Policy.

B.3.1	Disclosure of Remuneration	Complied	Please refer 'Board Human Resources and Remuneration Committee Report' for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company
			Please refer Note 46.2 to the Financial Statements for the aggregate remuneration paid to Directors.

C. RELATIONS WITH SHAREHOLDERS

C.1 CONSTRUCTIVE USE OF ANNUAL GENERAL MEETING (AGM) AND CONDUCT OF GENERAL MEETINGS

The Code requires the Board to use the AGM to communicate with shareholders and encourage their active participation

Since the company is a 100% owned subsidiary of the parent Company, all company information is routed through the Directors representing the parent Company's interest

C.1.1	Use of Proxy Votes	Complied	The Parent Company holds 100% of the shares
C.1.2	Separate resolutions for substantially separate issues and adoption of Annual Report and Accounts	Complied	The Parent Company holds 100% of the shares. Further, adoption of the Annual Report of the Board of Directors on the affairs of the Company, Statement of Compliance and the Financial Statements together with the Report of the Auditors thereon are considered separately.
C.1.3	Availability of Chairmen of Board Committees	Complied	All Board members are present at the AGM.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
C.1.4 & C.1.5	Adequate Notice of AGM to shareholders together with summary of the procedure	Complied	Annual Reports are dispatched to all Shareholders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.
C.2 COMMUNICATION WITH SHAREHOLDERS The Code requires effective communication with shareholders. This section is not applicable since the company is a fully own subsidiary of Sampath Bank PLC			
C.2.1	Channel to reach all shareholders of the Company	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and Notice of Shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Group Company Secretary
C.2.5	Process to make all Directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern to shareholders are informed to Board Members by the Managing Director or the Company Secretary
C.2.7	Process responding to shareholder matters	Not Applicable	This section is not applicable since the Company is a fully owned subsidiary of Sampath Bank PLC.
C.3 MAJOR AND MATERIAL TRANSACTIONS The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company, if entered into.			
C.3.1	Disclosures on proposed major transactions	Not Applicable	There were no major transactions involving acquisition or disposal of assets greater than half of the net asset value of the Company

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D. ACCOUNTABILITY AND AUDIT			
D.1 FINANCIAL REPORTING			
This Principle requires the Board of the Company to present a balanced and understandable assessment of the Companies' financial position, performance and prospects.			
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	<p>The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on page 101 of this Annual Report.</p> <p>The Company has complied with the requirements of the Companies Act No. 07 of 2007, the Finance Companies Act No. 42 of 2011 and amendments thereto, in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards. Further, the Company has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka and the Colombo Stock Exchange.</p>
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the State of affairs of the Company on pages 100 to 108 contains the declarations as required by the code.
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	<p>The 'Responsibility for Financial Statements' for the preparation and presentation of financial statements is given in Note 2.2 on page 121 of the Annual Report.</p> <p>Please also refer pages 112 to 115 for the Independent Auditor's Report.</p>
D.1.4	Management Discussion and Analysis	Complied	Please refer 'Management Discussion and Analysis'. (MD&A) set out on pages 18 to 26 presented as an integrated report covering all aspects referred in the code.
D.1.5	Declaration by Board on the going concern of the Business	Complied	Please refer 'Annual Report of the Board of Directors on the State of affairs of the Company' and Note 2.11 Estimates and Assumptions to the Audited Financial Statements on page 122.
D.1.6	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	Not applicable	No such event occurred during the financial year

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.1.7	Declaration by Board on Related Party Transactions	Complied	<p>Each Director and KMP has declared their interest in transactions with the Company during the year ended 31st December 2019, if any.</p> <p>Internal controls are placed within the Company to identify, record and disclose related party transactions.</p> <p>All related party transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note 46 to the Audited Financial Statements.</p>
D.2 INTERNAL CONTROL The Code requires the Company's Board to ensure that an effective system of internal controls, which safeguards the Company's assets to protect the interest of shareholders is in place			
D.2.1	Directors to conduct an annual review of internal controls	Complied	The Company obtained the External Auditor's certification on the effectiveness of the internal control mechanism on financial reporting
D.2.2	Need for an internal audit function for companies	Complied	This is not applicable as the Company already has its own in-house Internal Audit Department, which is responsible for internal audit function.
D.3 AUDIT COMMITTEE The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor			
D.3.1	Composition of the Audit Committee	Complied	Details of the members, are found on the 'Board Audit Committee Report' on pages 83 to 85.
D.3.2	Duties of the Audit Committee	Complied	As stated in the Report of the Board Audit Committee of the Company, it regularly reviews the scope of the External Auditors, results and effectiveness of the audit. It also ensures that non audit services provided by the External Auditors do not affect their independence.
D.3.3	Terms of Reference of the Audit Committee	Complied	Terms of reference of the Board Audit Committee is in place approved by the Board of Directors. This clearly explains the purpose of the Committee, its duties and responsibilities, together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Company.
D.3.4	Disclosure of names of the members of the Audit Committee	Complied	Names and composition of the members of the Audit Committee are given under Audit Committee Report.

CORPORATE GOVERNANCE REPORT

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.4 CODE OF BUSINESS CONDUCT AND ETHICS			
The Code requires the Company to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and members of the senior management of the Company			
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	Complied	<p>The Company has an internally developed Code of Conduct for its Directors and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behavior etc.</p> <p>Further the "Code of Business Conduct & Ethics" is available for all employees including the Corporate and Senior Management. This code focuses mainly on the following areas:</p> <p>Fair dealing, protection and proper use of the Company assets, record-keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behavior, discrimination and harassment, Health and Safety, Discipline etc.</p>
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer the Chairman's message for details on pages 10 to 13
D.5 CORPORATE GOVERNANCE DISCLOSURES			
Directors of the Company disclose annually the Company's adherence to the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka (CBSL). Direction No. 03 of 2008 and Amendment Direction No. 06 of 2013 of CBSL on Corporate Governance for Finance Companies of Sri Lanka and subsequent Amendments thereto, in the 'Corporate Governance Report'.			
D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports for CBSL, Securities Exchange Commission and Code of Best Practice are included on pages 40 to 73 in the Annual Report.
SECTION 2 : SHAREHOLDERS			
E. INSTITUTIONAL INVESTORS			
E.1 SHAREHOLDER VOTING			
Due to the Parent Company holding 100% of equity of the Company, the requirement of disclosures to institutional investors have not arisen from an equity point of view. In the event such need arises from the perspective of accountability and transparency, all material disclosures would be made to strengthen the positive relationship between management and institutional investors			
E.1.1	Communication with shareholders	Complied	Parent Company holds 100% of shares and is the only institutional investor. All required information to the Parent Company is provided in a timely manner.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
E.2 EVALUATION OF GOVERNANCE DISCLOSURES			
The Code requires the company to encourage institutional investors to give due weight to all relevant factors drawn to their attention			
E.2.1	Due weight by Institutional Investors on matters relating to Board structure and composition	Complied	Sampath Bank PLC as the only institutional investors is at liberty to give due weight on matters relating to the Board structure and composition.
F. OTHER INVESTORS			
F.1 INVESTING/DIVESTING DECISION			
F.1.1	Seek independent advice in investing or divesting decisions	Not applicable	Sampath Bank PLC owns 100% of the Company shares.
F.2 SHAREHOLDER VOTING			
F.2.1	Encourage voting by Individual Investors in General Meetings	Complied	The Parent Company and subscribers/shareholders use its voting rights at the AGMs.
G. SUSTAINABILITY REPORTING			
Sustainability is a business approach that creates long term stakeholder value. It focuses on managing risks arising from economic, environmental and social aspects.			
Sustainability reporting aims towards the goals of sustainable developments in the context of business strategy and activities.			
G.1.1	Economic Sustainability	Complied	Please refer 'Management Discussion and Analysis' on pages 18 to 26.
G.1.2	The Environment	Complied	This is covered in the 'Management Discussion and Analysis' on pages 18 to 26.
G.1.3	Labour Practices	Complied	Please refer 'Management Discussion and Analysis' on pages 18 to 26.
G.1.4	Society	Complied	Please refer 'Management Discussion and Analysis' on pages 18 to 26.
G.1.5	Product and Service Responsibility	Complied	Please refer 'Management Discussion and Analysis' on pages 18 to 26.
G.1.6	Stakeholder Identification, Engagement & Effective Communication	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 18 to 26.
G.1.7	Sustainable Reporting & Disclosure	Complied	Please see the contents of the 'Management Discussion and Analysis' on pages 18 to 26.

CORPORATE GOVERNANCE REPORT

STATEMENT OF COMPLIANCE UNDER SECTION 7.10 OF THE RULES OF THE CSE ON CORPORATE GOVERNANCE

Rule No	Applicable Requirement	Compliance Status	Comment
Non Executive Directors			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non-Executive Directors whichever is higher.	Complied	During the year there were nine NEDs appointed out of a total number of 10 directors.
Independent Directors			
7.10.2(b)	2 or 1/3 of Non-Executive Directors appointed to the Board whichever is higher shall be independent	Complied	During the year there were four Independent Non-Executive Directors. The Company is in compliance with the requirement of 1/3 of Non-Executive Directors.
7.10.2(b)	Submission of declarations annually, declaring independence of Directors	Complied	Declarations have been obtained from the Directors regarding their independence/non independence status against the specified criteria and copies of the same are under the custody of Company Secretary for review.
Disclosure Relating To Directors			
7.10.3(a)	The Board shall annually determine the independence or non independence of Directors	Complied	The Board is well aware of the requirement and the Board evaluates the independence of Directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on pages 103 to 104 of the Annual Report.
7.10.3(b)	The basis for the Board's determination of independent Directors, if criteria specified on independence is not met	Complied	The Board determines the independence of Directors based on the criteria set out in the CSE Listing Rule No. 7.10.4. The requirement is met.
7.10.3(c)	Publish a brief resume of each Director	Complied	Profiles of each Director has been published pages 31 to 37 to of the Annual Report.
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	The Company has appointed Mr. J.H. Gunawardena (appointed w.e.f 29.01.2019), Mr. Ananda Seneviratne (appointed w. e. f 01.03.2019), Mr. Deepal Sooriyaarachchi (appointed w.e.f. 20.11.2019), Mr. W.S.C.Perera (appointed w.e.f 16.01.2020) and Ms. H. S. R. Ranatunga (appointed w. e. f 28.01.2020) to the Board and a brief profile of the said Directors are set out on pages 32 to 37 of the Annual Report.

Rule No	Applicable Requirement	Compliance Status	Comment
Criteria For Defining Independence			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance based on independence of Directors.
7.10.5(a)	Composition	Complied	During the year under review, the Board HR & Remuneration Committee comprised of Mr. P. S. Cumararatunga, Dr. H. S. D. Soysa, Mr. C. P. Palansuriya and Ms. A. Nanayakkara (resigned w.e.f. 31.05.2019), Directors.
7.10.5(b)	Recommendation on Remuneration for executive Directors, CEO and /or equivalent position	Complied	Main role of the Committee is to focus on the HR related matters of the Company and determine the remuneration policies (salaries, allowances and other financial payments) relating to MD and the rest of the staff of the Company
7.10.5(c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report on pages 86 to 87 under HR & Remuneration Committee Report.
	Remuneration Policy	Complied	Remuneration of the Board of Directors of the Company is determined by Sampath Bank PLC which is the parent Company, based on the Group Remuneration Policy.
	Aggregated remuneration paid to Directors	Complied	Published in the Annual Report of the Board of Directors on the state of affairs of the Company on pages 100 to 108 of the Annual Report.
Audit Committee			
7.10.6(a)	Composition and Role of the Audit Committee	Complied	All members of the Board Audit Committee are independent, Non-Executive Directors and the Committee comprises of Mr. P.S Cumarathunga (Chairman), Mr. W.M.P Alwis, Dr. H.S.D Soysa (retired w.e.f 01.01.2020) Ms. A. Nanayakkara (resigned w.e.f 31.05.2019), Mr. J.H Gunawardena (appointed w.e.f 29.01.2019). Please refer the contents of the Board Audit Committee Report on pages 83 to 85 for the role of the Audit Committee.
	Chairman of the Audit Committee	Complied	Mr. P. S. Cumararatunga is the Chairman of the Board Audit Committee who is a Chartered Management Accountant, a Certified Practicing Accountant and a Member of the Chartered Institute of Marketing.
	Attendance at Audit Committee Meetings	Complied	In addition to the members of the Board Audit Committee, the Managing Director, the Chief Operating Officer, Head of Finance, Head of Internal Audit and External Auditors of the Company attend meetings. Head of Internal Audit of Sampath Bank PLC would attend some of the meetings by invitation.

CORPORATE GOVERNANCE REPORT

Rule No	Applicable Requirement	Compliance Status	Comment
7.10.6(b)	i. Preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with Sri Lanka Accounting standards.	Complied	The Company is in compliance with Sri Lanka Accounting Standards (SLFRS & LKASs) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 on page 121 to the Audited Financial Statements under Statement of Compliance.
	ii. Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Complied	The Company is in compliance with the requirements of the Companies Act No. 7 of 2007. This fact is stated in Note 2.1 on page 121 to the Audited Financial Statements under Statement of Compliance.
	iii) process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards	Complied	External Auditors assess the "Directors Report on Internal Control over financial Reporting" and issues an Independent Assurance Report on the same.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regularly reviews the scope of the External Auditors and the effectiveness of the Audit. Furthermore, the Committee ensures that non-audit services provided by the External Auditors do not affect their independence.

Rule No	Applicable Requirement	Compliance Status	Comment
	v) Recommendations to the Board pertaining to appointment, reappointment and to approve the remuneration and terms of engagement of the external auditor	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for Audit services, their service period, Audit scope and Audit fee.
7.10.6(c)	Names of Directors comprising the Audit Committee.	Complied	Published in the Annual Report on pages 83 to 85 under Audit Committee Report
	Determination of the independence of the Auditors and the basis for such determination	Complied	The Company entrusts any non-audit services to be performed by the External Auditors and such non audit service assignments requires the prior approval of the Audit Committee. The Board approved policy for non-audit services is available.
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer report of the Audit Committee, published on pages 83 to 85 of the Annual Report.

On behalf of the Board Corporate Governance Committee



J.H. Gunawardena

Chairperson - Board Corporate Governance Committee

31st December 2019

CORPORATE GOVERNANCE REPORT

Directors' Attendance and Committee Memberships

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee	Board Nomination Committee	Board IT Committee
Mr. C.P. Palansuriya	16			8				3	
Mr. W.M.P.L. De Alwis	16	15	9			4	3	9	5
Mr. H.M.A. Seneviratne appointed to the board w.e.f 01.03.2019	13 [3]		6	7		4	3		1
Dr. H.S.D. Soysa	14	13		21	6			9	5
Mr. L.T. Ranwala	15			19					
Mr. P.S. Cumararatunga	16	15	9		6	4	3	9	1
Ms. A. Nanayakkara Resigned w.e.f 31.05.2019	6 [4]	6	4	11	5	1	1		3
Mr. Y.S.H.R.S. Silva	16								3
Mr. J. Selvaratnam	15		7	22		3	2		
Mr. J.H. Gunawardena appointed to the board w.e.f 29.01.2019	14[1]	13	8			4	3	7	
Mr. D. Sooriyaarachchi appointed to the board from 20.11.2019	1 [5]				1				
Mr. K.M.S.P. Herath Retired w.e.f 28.02.2019	2 [2]		1	4					
Total No. of Meetings	16	15	9	22	6	4	3	9	5

Directors' Attendance for the Year 2019

1. Mr. J.H.Gunawardena was appointed to the Board w.e.f. 29th January 2019.
2. Mr. K.M.S.P Herath resigned from the Board w.e.f. 28th February 2019.
3. Mr. H.M.A.Seneviratne was appointed to the Board w.e.f 01st March 2019.
4. Ms. A.Nanayakkara resigned from the Board w.e.f 31st May 2019.
5. Mr. D.Sooriyaarachchi was appointed to the Board w.e.f 20th November 2019.
6. The Board Audit Committee had 13 meetings during the Year 2019 and 02 separate Board Audit Committee meetings were held without the Executive Directors being present.

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee	Board Nomination Committee	Board IT Committee
Mr. C.P. Palansuriya	C			M [1]	M [1]			M	
Mr. W.M.P.L. De Alwis	M	M	C			M	M	M	M
Mr. H.M.A. Seneviratne appointed to the board w.e.f 01.03.2019	M		M [2]	M [2]		M [2]	M [2]		M [2]
Dr. H.S.D. Soysa	M	M		C	M			C	M
Mr. L.T. Ranwala	M			M					
Mr. P.S. Cumaratunga	M	C	M		C	M	C	M	C [3]
Ms. A. Nanayakkara Resigned w.e.f 31.05.2019	M [8]	M [8]	M [8]	M [8]	M [8]	C [6]	M [8]		C [6]
Mr. Y.S.H.R.S. Silva	M								M
Mr. J. Selvaratnam	M		M	M		M [4]	M [4]		
Mr. J.H. Gunawardena appointed to the board w.e.f 29.01.2019	M	M [5]	M [5]			C [5]	M [5]	M [5]	
Mr. D. Sooriyaarachchi appointed to the board from 20.11.2019	M				M [9]				
Mr. K.M.S.P. Herath Retired w.e.f 28.02.2019	M [7]		M [7]	M [7]		M [7]	M [7]		
Total No. of Members	10	4	5	5	4	5	5	5	5

(C- Chairman/Chairperson M - Member)

- 1) Mr. C.P. Palansuriya was appointed as a member of the Board Credit Committee w.e.f. 1st June 2019 and Board HR & Remuneration Committee w.e.f 1st November 2019.
- 2) Mr. H. M. A. Seneviratne was appointed as a member of the Board Integrated Risk Management Committee w.e.f 1st August 2019, Board Credit Committee w.e.f. 26th August 2019, Board Corporate Governance Committee w.e.f 08th May 2019, Board Related Party Transaction Review Committee w.e.f. 8th May 2019, Board IT Committee w.e.f 01st October 2019.
- 3) Mr. P.S. Cumaratunga was appointed as the Chairman of the Board IT Committee w.e.f 01st October 2019.
- 4) Mr. J. Selvaratnam was appointed as a member of the Board Corporate Governance Committee w.e.f 5th August 2019 and was appointed as a member of the Board Related Party Transaction Review Committee w.e.f 11th September 2019.
- 5) Mr. J.H. Gunawardena was appointed as the Chairman of the Board Corporate Governance Committee w.e.f 08th May 2019 and was appointed as a member of the Board Audit Committee w.e.f 12th February 2019, Board Integrated Risk Management Committee w.e.f 29th January 2019, Board Related Party Transaction Review Committee w.e.f. 8th May 2019, Board Nomination Committee w.e.f 27th February 2019.
- 6) Ms. A. Nanayakkara stepped down as the Chairperson of the Board Corporate Governance Committee and Chairperson of the Board IT Committee w.e.f 31st May 2019.
- 7) Mr. K.M.S.P. Herath resigned from the Board, Board Integrated Risk Management Committee, Board Credit Committee, Board Corporate Governance Committee, Board Related Party Transaction Review Committee w.e.f 28th February 2019.
- 8) Ms. A. Nanayakkara resigned from the Board, Board Audit Committee, Board Integrated Risk Management Committee, Board Credit Committee, Board HR & Remuneration Committee, Board Related Party Transaction Review Committee w.e.f. 31st May 2019.
- 9) Mr. D. Sooriyaarachchi was appointed as a member of the Board HR & Remuneration Committee w.e.f. 17th December 2019.

MANAGING RISK

RISK ENVIRONMENT

GLOBAL OUTLOOK

In 2019 we saw an increase of volatility in Financial Markets and intensified headwinds affecting the global economics. Hence, the world witnessed growth in global slowing down in development, which seems to have peaked off due to reduction in performance levels of developed economies in the world. Revised growth of China which is the second largest economy in the world and the increasing debt burden also significantly contributed towards this position during the preceding year. The tension between the major political arena also escalates the urgent global risk at present. USA having involved in Iranian crisis created some tension in the Middle East region during the year. The ad-hoc terrorist attacks in countries also had an impact for global trade and tourism activities.

Natural disasters and extreme weather conditions topped the list of global risks in 2019. The bush fires in Australia, Amazon forest and southern California resulted in loss of significant valuable bio-economic assets. The impact on the environment has now risen to the third level of global risks which may impact the world in time to come. In the meantime, cyber security risks are also growing, both in their prevalence and in their disruptive potential. Headline economic indicators suggested the world is finally getting back on track after the global crisis that erupted 10 years ago, but this optimistic picture masks enduring underlying concerns. The global economy faces a mix of long-standing vulnerabilities and newer threats that have appeared or progressed in the years since the crisis. These risks include potentially unsustainable asset prices, with the world now continuing for years into a bull-run; elevated indebtedness and continuing strains in the global financial system. The increase of biological threats will immerse as a black swan and impact economies in unpredicted levels. The recent coronavirus is a perfect example which impacted the Asia Pacific region during late FY2019.

Domestic Outlook

The political uncertainty which prevailed was somewhat settled down with the presidential election which took place in November 2019. However the Easter attack in April 2019 had a major impact on the local economy. Based on statistics by Central Bank of Sri Lanka, the Real GDP grew by 2.7% in the third quarter of 2019. Unemployment has increased in Q 3 of 2019 to be at 5.1% from 4.4% in 2018. The core inflation, which reflects the underlying inflation in the economy, remained at 3.0% in December 2019 on year-on-year basis. Meanwhile, annual average core inflation also remained unchanged at 5.3% in December 2019.

In contrast to 2018, the agriculture sector and Industry sector grew in the first two quarters of 2019 by 0.4% and 3.3% respectively with relatively benign weather having impact at the beginning of the year. However, the latter episodes of drought, which became more evident from the beginning of the third quarter of 2018, impacted many parts of the Island.

Increased agriculture output led to high inflation in the first quarter of 2019. Favorable inflation outlook prompted the Central Bank to marginally relax policy rates in April, as the growth in monetary aggregates slowed down in response to a tight monetary policy.

In the External Sector, exports rebounded due to the reinstatement of GSP+ preferential access to the European Union. On the other hand, the gradually rising fuel bill and increased imports of vehicles and gold widened the trade deficit.

Event – Global	Impact on the Company	Risk mitigation strategies
Increasing trends in cyber attacks	<ul style="list-style-type: none"> ▶ Disruption of the information infrastructure thereby disabling the critical business functions ▶ Possible information leak out. ▶ Possible reputational, legal and financial consequences and loss of customer confidence 	<ul style="list-style-type: none"> ▶ Development of a prevention mechanism by actively engaging with FINCSIRT ▶ Employ an external CERT for continuous assessment of cyber risk ▶ Early signal monitoring to manage response, recovery to mitigate consequences and thereby limiting the damage
Trade wars between major economies	<ul style="list-style-type: none"> ▶ Reduction of exports due to tariff bans by USA on many countries 	<ul style="list-style-type: none"> ▶ China and Iran getting many sanctions due to the new laws have reduced the respective imports from other countries ▶ The buying power of the other countries also reduced due to less spending by these countries

Event- Local	Impact on the Company	Risk mitigation strategies
Low economic growth than expected	<ul style="list-style-type: none"> ▶ Lower disposable income resulting in low savings ▶ Increase in credit default risk 	<ul style="list-style-type: none"> ▶ Tight screening at credit sanctioning point. ▶ Independent assessment of facilities granted.

Event- Local	Impact on the Company	Risk mitigation strategies
Tight liquidity	<ul style="list-style-type: none"> ▶ Increased cost of funds ▶ Having to rely on external borrowings 	<ul style="list-style-type: none"> ▶ Regular review of rate sensitive assets and liabilities of the Company ▶ Increase of the customer deposit base

The risk management strategy of the Company is integrated with the business strategy of the Company. The Company's risk management processes encompasses risk identification, evaluation, mitigation and monitoring facilitating timely and effective action.

RISK MANAGEMENT AT SIYAPATHA FINANCE PLC

At Siyapatha Finance PLC, risk management is developed alongside the strategic concepts to ensure the growth is balanced with respective controls and monitoring. Risk Management is considered to be of utmost importance since it forms an integral part of policy formulation and business sustainability. As a financial intermediary, robust risk management practices ensure that depositors and investors are protected and the interests of other key stakeholders are safe guarded. The Company firmly believes that sound risk management practices are critical for long term growth.

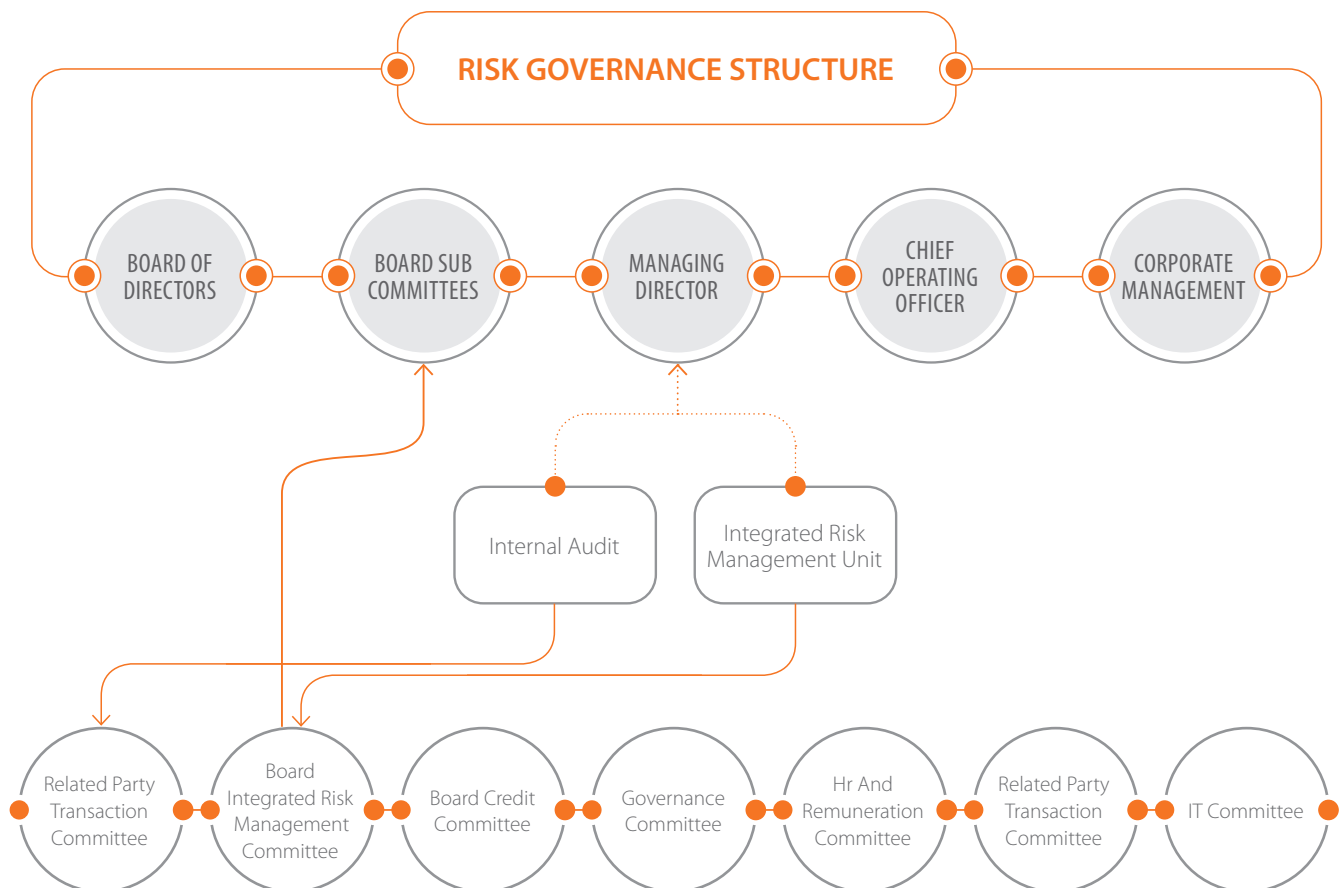
The Company's objective is to strengthen the going concern of the entity by adding maximum sustainable value to all activities by considering the potential vulnerabilities of all the factors that can adversely affect the Business operation of the Company.

RISK MANAGEMENT FRAMEWORK

Risk Governance Structure of Siyapatha Finance PLC

Board of Directors

The Board of Directors is responsible for upholding of far-sighted risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, strategies and systems and operational approach for risk management. Board Integrated



MANAGING RISK

Risk Management Committee and the corporate management of the Company carry out the efficient implementation of the risk management function in the Company.

Board Integrated Risk Management Committee (BIRMC)

BIRMC is the Board subcommittee responsible for overseeing the risk management function in line with the Board approved policies and strategies. They also recommend approval of required and relevant policies for integrated risk management to the Board and provide instructions of identified risks. The Committee interacts with the Managing Director, Board Audit Committee and Board Credit Committee on Risk Management related activities. Besides the Board's representatives, BIRMC consist of the Managing Director, COO, Head of Risk Management and other key managerial personnel covering the key risk areas of the company covering credit, market, operations, recoveries, finance and Deposits etc.

Risk Management Department (RMD)

The Company's Risk Management function operates independently from the risk assuming business functions. RMD is accountable for carrying out the overall risk management function of the Company at operational levels.

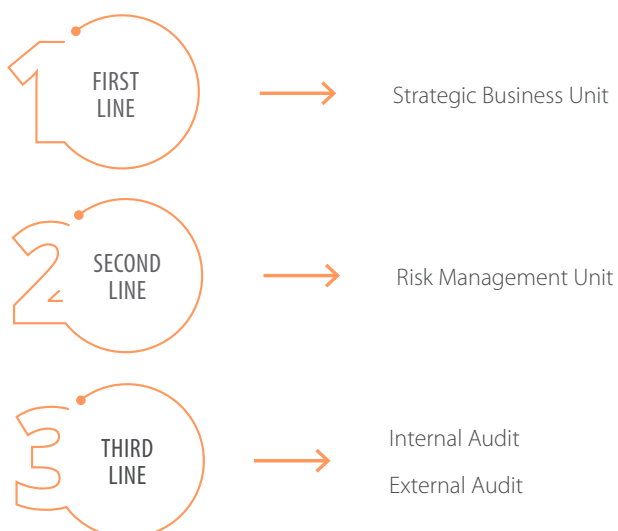
The RMD assesses the overall risk level of the Company through the Key Risk indicators mapped on to the risk grid based on the analysis done on the risk register. RMD also ensures that the policy framework is expanded, reviewed and updated regularly and that approved policies are implemented. Especially in new business strategy development or when the Company is entering into new business lines from the initial design stage, RMD gets involved through inputs to the task/process from a risk management perspective. The division keeps close communication

with Board Risk Management Committee for implementation of enterprise wide risk management controls.

APPROACH TO RISK MANAGEMENT

In the Three Lines of Defense model, the lines depict the obligation of three segregated parties in the organization in risk management. Accordingly management control is the first line of defense in risk management that represents the risk assuming functions. The Risk and Compliance covers the second line. Independent assurance is the third. In consequence each of these three "lines" plays a divergent role within the organization's broad governance framework.

Three Lines of Defense at Siyapatha Finance PLC



Risk Identification and Assessment



Risk identification is the process of assessment of decisive risks that could potentially avert the Company from achieving its objectives thereby fulfilling expectation of all stakeholders. Especially securing share holder value whilst balancing risk-reward tradeoffs is a key consideration.

The main tool used in risk identification and assessment at the company is the risk grid and the register. Apart from that constant discussions between risk owners and monitoring units make certain that with each new activity, product or process the probable risks are identified prior to commencement.

Risk Analysis & Estimation

The Company uses a range of techniques to analyze risk including analytical review, stress testing and scenario analysis.

a) Risk appetite

Both qualitative and quantitative parameters are used to measure the risk appetite of the company. These parameters are from time to time evaluated and adjusted to reflect the vulnerabilities in the market and the macroeconomic sentiments the company is confronted with.

b) Stress testing

Stress testing is the process of gauging the ability of the company to stand a certain expected level of performance under undesirable conditions. Certain key factors areas are considered under stress testing scenarios in order to determine the impact on the overall performance. Company carries out a detail stress testing for the Gold financing portfolio due to vulnerability arising out of market risk impact.

Risk Mitigation

The four key strategies of risk mitigation are acceptance, avoidance, limitation and transference, ideally focus to reduce the adverse effects.

Risk acceptance processes enable consideration of the risk-rewards tradeoffs and the cost of other risk management options such as avoidance or limitation prior to assuming certain types of risk such as credit risk. Credit approval procedures and pre-disbursement processes are examples of the risk acceptance processes in place while approvals for borrowings are another example of risk acceptance processes.

Risk avoidance is the reverse of risk acceptance. It is the action that avoids any exposure to the risk at which ever level. Rejection of credit facilities which do not meet our criteria are an example of risk avoidance.

Risk limitation option restricts a company's risky exposure by taking some action. It is a way of managing risk by accepting certain level of risk and at the same time avoiding the risk to a certain degree. Limits imposed in terms of size or period is examples of risk limitation at transaction level while single borrower limits are examples of limits with reference to the aggregate risk assumed by the Company.

Risk transference is the involvement of handing risk off to a willing third party. Outsourcing and insurance are the most common modes of transfer.

Control and Monitoring

Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are critical reflectors of undesirable events or thresholds that can have an impact on the company. Monitoring the impact of changes in the key factors that affects on the company's performance is done through the KRI which thus forms the early warning signs for the Company.

The key risk indicators for all the key risks are formulated based on identified key areas which are reviewed and analyzed frequently and monitored.

Risk appetite and Tolerance limits

Risk appetite is defined as, "the amount and type of risk that an organization is prepared to pursue, retain or take," according to ISO 31000. The risk appetite shall be linked to business decisions and appropriate metrics shall be collected to measure it.

Tolerance limits are quantitative indicators of the highest amount of risk the company is geared to accept. Risk tolerances are set at the overall enterprise level to capture all key areas especially credit and funding. Real levels of risk undertaken are monitored and compared against the established tolerances. The Company ensures that the regulatory limits are not compromised at any cost. While safeguarding the Company from excessive risk exposure, limits are defined and observed with a special attention on the available business opportunities and changes in the market place. Risk tolerances are approved by the BIRMC prior to implementation of the same and are reviewed annually or earlier if such a need arises.

MANAGING RISK

MANAGING KEY RISKS FACED BY THE COMPANY

Credit Risk

Identification and assessment

A rigorous credit screening process has been the core strength of the Company, facilitating prudent risk acceptance. Multiple layers of approving lines ensure that credit risk is mitigated and priced in line with the level of risk assumed. The primary contact of the customer is the branch level at which the borrower is evaluated for the facility. Approval limits in place facilitate escalation of approval in line with credit risk assessment, rating and amount.

CREDIT RISK:
the likelihood that a borrower or counterparty will fail to meet its obligations as contracted.

Default Risk:
the risk of default due to reluctance or incapability to meet the contractual obligations

Concentration risk:
arises from either imbalanced distribution of exposures to its borrowers or from imbalanced distribution of exposures to particular sectors, regions, industries or products

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The Credit Risk Assessment Process Throughout the Lifecycle of the Loan is Graphically given below

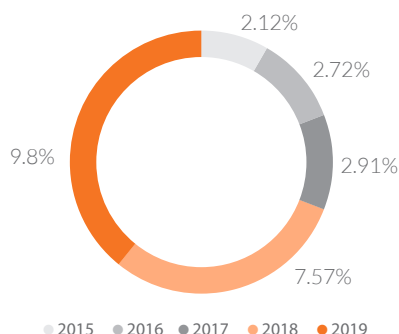


Control and Monitoring

a) Asset quality

The product portfolio of the Company consists of finance leases, hire purchase facilities, loans, gold financing and factoring. The market segments to which the company caters mainly consist of salaried individuals and small and medium sized enterprises. Segregation of the credit sanctioning process is a key risk management tool and authority is granted based on the type of facility, exposure and security as well. However in 2019 the macro economic factors as outlined above have negatively affected the default rate of the Company and the NPA ratios for the past five years which can be shown as follows.

Gross NPA Movement 2015-2019



Stress testing on NPA

Three main scenarios namely - a shift in the NPA categories, an increase in the gross NPA and net NPA provide the basis for stress testing on NPA in order to facilitate an evaluation of Capital Adequacy Ratio (CAR) of the Company since it has an inverse relationship with NPA. When the NPA increases a negative impact is generated. Increase of NPA has an adverse bearing on the retained earnings of the Company, which forms a part of the core capital by way of an impact to provisioning with respect to NPA. NPA levels have mainly increase due to defaults in factoring product, which is now contained.

b) Concentration

Over reliance or over dependency in one fragment of a portfolio due to uneven augmentation of exposures gives rise to concentration risk. The concentration risk may crop up from products, different industries, asset categories and geographical areas. Therefore maintaining a satisfactory diversity in the said segments is essential for the Company as any resultant danger of contagion effects in the event of default needs to be mitigated.

Concentration risk is monitored through the KRIs given below along with the set tolerance limits:

KRI for Concentration

Tolerance limit Portfolio concentration

Limits are reviewed based on market trends and strategic direction

Asset concentration

Limits are reviewed based on market trends and macro environment

Branch concentration

Limits are reviewed based on the performance and maturity of the branch

Interest Rate Risk

Identification and Assessment

INTEREST RATE RISK:

the risk that arises from the fluctuation of interest rates

Potential impacts on earnings, valuation of assets, cost of borrowings particular sectors, regions, industries or products

Due to different fixed interest rates of assets and liabilities allocated to the portfolio, Finance Companies are exposed to a risk of changing interest rates in the market.

Changes in interest rates affect earnings, value of assets/ liability, off-balance sheet items and cash flow. Hence, at Siyapatha, the objective of interest rate risk management is to sustain earnings while ensuring the ability to absorb expected negative impact and to ensure that sufficient returns are reaped for risks taken.

Stress testing is carried out to assess the impact of different interest rate scenarios to the net interest position and the re-pricing cycles of interest sensitive assets and liabilities. Simulations to the interest rates are done to assess potential impact on the Company's profitability resulting from alternative interest rate scenarios.

In order to obtain the maximum benefits of the market interest rate movements and to take timely action the Company monitors the macro market conditions continuously. From the funding perspective in the last year a considerable growth in deposit base of the Company was witnessed giving a more balanced approach to its funding base. The other sources of funding are equity and borrowed funds. The increase in the deposit base has lessen the company's dependency on borrowed funds which consists of long term funding and short term funding. The Company's strategy is to ensure gains from volatility in the market rates, while ensuring a prudent liquidity level and is monitored at ALCO.

Control and Monitoring

Volatile Liability Dependency Ratio

Volatile Liability Dependency Ratio (on interest rate) is calculated by considering the variable rated borrowings as a percentage of total lending portfolio of the company.

MANAGING RISK

KRI for Interest Rate Risk

Tolerance limit

Volatile Liability Dependency Ratio (on interest rate basis) is fixed at 30% of the total portfolio.

Further ALCO closely monitors the movements in interest rate and reviews the interest rate structures within the company for both lending and borrowings. Accordingly the committee issues directions on the adjustments to be done to the interest rates required.

Another controlling mechanism is the introduction of products with shorter tenure to capture the re-pricing mismatches. On the other hand increasing the fixed rated borrowing has also contributed in managing the interest rate risk last year at the Company.

management at Siyapatha is observing and evaluating the firm's present and potential fund requirement including debt obligations and planning for contingencies stemming from all possible scenarios.

In order to eliminate liquidity issues arising due to mismatches in the timing of cash flows the Company monitors the cash flows closely to ensure that its liquid assets are sufficient to meet its obligations. In order to be vigilant certain liquidity risk indicators are monitored by the Company. The main focus is on the liquid asset ratio, maturity gap analysis, the capital adequacy ratios and the volatile liability dependency ratio on maturity and funding concentration. Further, the ALCO monitors these risk indicators ensuring a healthy liquidity position.

Control and Monitoring

Volatile Liability Dependency Ratio (maturity)

Volatile Liability Dependency Ratio on maturity is calculated by taking interest bearing liabilities payable in less than 12 month as a percentage of total lending portfolio.

KRI for Liquidity Risk

Tolerance Limit Liquidity Ratio	7.5%-8.5%
Statutory Liquidity Ratio	7.5%
Volatile Liability Dependency Ratio (on maturity basis)	30%

Operational Risk

Identification and Assessment

OPERATIONAL RISK:

risk of losses resulting due to errors, breaches, interruption or damages

Operational risk incidents include

internal frauds, external frauds, employment practices and workplace safety, clients, -products and business practices, damage to physical assets, business disruptions and system failures etc.

The assessment on internal controls along with process audits indicate any weak links in the processes and enable the company to assess vulnerabilities that need to be addressed and prepare for potential adverse scenarios and risk events. Operational risk is mainly observed through the following areas.

- ▶ Losses due to frauds, misconduct and negligence
- ▶ Losses due to poor quality of credit documentation and legal documentation
- ▶ Number of customer complaints and law suits
- ▶ Frequency of systems break downs and costs

LIQUIDITY AND FUNDING RISK

Identification and Assessment

LIQUIDITY RISK:
an institution's incapability to meet its financial commitments

Arises due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.

Liquidity risk refers to an institution's incapability to meet its financial commitment which would ultimately have an impact on the Company's stability. Thus having a strong system to identify funding requirements of the Company to ensure that funds are available at required time at the right price is a concept that Siyapatha believes in. A main element of liquidity risk

Control and Monitoring

Losses from operational risk episodes can be catastrophic, not only in monetary sense, but in terms of the impact on the Company's overall business and reputation, at times threatening its very existence. The key challenges in operational risk management can be considered as identifying efficient risk parameters, processing Large data and complex logic, having a single aggregated enterprise wide view.

Board approved manuals covering all aspects of the companywide processors ensure all key processors are being documented.

Cyber security threats have been looked into by the company and have carried out several IT audits to identify any security threats. The findings have been used to upgrade the existing IT system. A board approved BCP is in place covering the Disaster Recovery planning as well. Disaster Recovery site testing have been carried out to assess the adequacy of the same.

PEOPLE/ CONDUCT RISK

Human capital is the collective skills, knowledge, or other intangible assets of individuals that can be used to create economic value for a company and forms the main strength in achieving its corporate strategies. As a service organization a skillful team is vital in providing financial solutions.

People risk is created initially due to weaknesses in the recruitment process that lacks identifying right people for requirements of a company and would be continued due to inadequate performance recognition and evaluation mechanisms, misconduct, unplanned absenteeism and negligence of employees.

Identification and Assessment

At Siyapatha a stringent process is followed to screen and recruit team members followed by orientation programmes to communicate our Code of Ethics and corporate values for successful candidates. Onboarding of new recruits is followed by close monitoring of performance during probation periods to mitigate people risk supported by a coaching and mentoring culture. On the other hand continuous dialog between team members through visits by the HR team to all branches, open door policy for grievance handling and exit interviews, facilitate early identification of potential issues.

Control and Monitoring

At the point of on boarding the new recruits a comprehensive induction program is conducted and the expected level of performance especially in terms of internal processes and integrity is communicated.

On the other hand, the company has implemented detailed performance assessment and compensating mechanism to capture all aspects of the performance of employees thereby ensuring that the right performance is recognized and rewarded. A strict disciplinary policy is in place to ensure dutiful good conduct of all employees.

TECHNOLOGY RISK



Technology risk can end up in financial loss, disruption or damage to the reputation of the company due to unauthorized access to systems or data/information, failures of the existing information technology systems and use of obsolete information technology systems.

Identification and assessment

In the current dynamic digitally driven market environment along with the expansion of the business the Company has unidentified that continuous investment in enhancing the IT system along with security features is critical.

Continued and thorough assessment of the IT system is carried out routinely to ensure that the system operates without any disruptions and is not vulnerable to any cyberattacks.

Control and monitoring

The Company has secure computers, servers networks, utilizes anti-virus and anti-spyware protection, firewalls and regular updates of software along with use data backups that include off-site storage to mitigate risks arising from technological framework.

MANAGING RISK

Further at the inception of new products planning process, the technological requirement is done by evaluating the nature of the product. Routine IT system audits are being carried out after the implementation of systems to identify the deficiencies and set necessary controls.

COMPLIANCE AND LEGAL RISK

COMPLIANCE RISK:

the risk of losses arising from violations or infringement of laws and regulations applicable to the Company

Identification and assessment

The impact of compliance risk can be rather far-reaching. It could even lead to loss of earnings and business opportunities, tarnished company image and imminent lawsuits.

Control and monitoring

The compliance of the Company with relevant regulations and laws including directions and regulations issued by the Central Bank of Sri Lanka and Colombo Stock Exchange is monitored by the Compliance officer of the Company. The Compliance officer functions independently and reports directly to the BIRMC.

All non-compliances are reported to the Committee and the Board directly.

Compliance department disseminate regulatory directives through internal circulars based on the requirements.

STRATEGIC RISK

STRATEGIC RISK:

the risk of losses that might arise from pursuit of an unsuccessful business plan

Identification and assessment

Strategic risk might arise from making poor business decisions, from the substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.

The company plans the strategic direction of the company for next three years and regularly reviews it to make necessary adjustments. The strategic plan is formulated by incorporating views all departments at different levels.

Control and monitoring

The strategic plan is reviewed at Board level routinely and at operational level frequently. Accordingly review actions/ plans are done depending on the outcome, any external, economic environment changes etc. Further assessments of key performance indicators, the trend in movements and simulations are done to monitor the achievement and possible issues in implementation of the strategic plan.

REPUTATIONAL RISK

REPUTATIONAL RISK:

the threat to the profitability or sustainability of a business or other entity that is caused by unfavorable public perception of the organization or its products or services

Identification and assessment

As deposit mobilizing institutions reputation of a Company is critical success factor for a finance company.

Siyapatha being a subsidiary of a leading bank treats good governance and transparency as two key principles in all of its transactions. Further timely and efficient communications among all stakeholders are always maintained.

Control and monitoring

In communicating externally the company ensures several parties are involved in finalizing the communication. All external communications are monitored by several layers of authority. Further the company has established a set of internal controls to ensure monitoring of the conduct of employees.

COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company to which it is responsible. The Committee comprises of four Independent Non-Executive Directors who conducted Committee proceedings in accordance with the Terms of Reference approved by the Board of Directors of the Company. The composition of the Committee as at 31st December 2019 is given below:

Mr. P. S. Cumaranatunga	-	Chairman
Dr. H. S. D. Soysa	-	Member
Mr. W. M. P. L. De Alwis	-	Member
Mr. J. H. Gunawardena	-	Member
Ms. A. Nanayakkara	-	Member (resigned on 31st May 2019)

Brief profiles of the members are given on pages 31 to 36 of the Annual Report. The Chairman of the Committee, Mr. P. S. Cumaranatunga is a Chartered Management Accountant, a Certified Practising Accountant and a Member of the Chartered Institute of Marketing and counts many years of experience in the Financial Services industry.

MEETINGS

The Committee met on fifteen (15) occasions during the year 2019. Details of attendance of the Committee members at these meetings are given in the table on page 72 of the Annual Report. The Head of Finance and Head of Internal Audit normally attend meetings. Other Board members and the Managing Director may also attend meetings upon the invitation of the Committee.

Two meetings were held between the Committee and the External Auditors during the year, without members of the Executive Management being present.

Proceedings of the Committee meetings, with adequate details of matters discussed, were reported regularly to the Board to assist the Board in its general oversight of financial reporting, internal controls and functions relating to internal and external audits.

The Group Company Secretary functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Terms of Reference of the Committee are clearly spelt out in the Charter of the Board Audit Committee, which is approved by the Board of Directors. These terms are being reviewed annually and approved by the Board of Directors, after incorporating any new developments relating to the functions of the Committee.

FUNCTIONS OF THE COMMITTEE

The Committee assists the Board of Directors to effectively carry out its supervisory responsibilities by reviewing accounting and financial information of the Company, in order to monitor the integrity of its Financial Statements, Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments they contain.

The Committee is also empowered to examine the adequacy and effectiveness of internal control systems, assess compliance with regulatory requirements, review adequacy of scope and functions of the Internal Audit Department, assess the internal audit program and results of the internal audit process and recommend the appointment and remuneration of the External Auditors.

REGULATORY COMPLIANCE

The roles and functions of the Committee are regulated by the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on Directions, Rules, Determinations, Notices and Guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka, the Rules on Corporate Governance as per Section 7.10 and sub-rule 7.10.6 of Listing Rules issued by the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL).

ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on matters connected with:

Financial Reporting

- a) To review quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:
 - (i) Any changes in accounting policies and practices.
 - (ii) Major judgmental areas and significant estimates.
 - (iii) Significant adjustments resulting from the audit.
 - (iv) The going concern assumption.
 - (v) Compliance with accounting standards.
 - (vi) Compliance with legal requirements applicable to financial statements.
 - (vii) Approve and recommend the financial statements to the Board of Directors.

COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

External Audit

- a) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the audit fee, service period and any questions of resignation or dismissal.
- b) To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.
- c) To discuss with the External Auditor before the audit commences the nature and scope of the audit and ensure coordination where more than one audit firm is involved.
- d) To review the External Auditor's Management Letter and the responses provided by the Management.
- e) To develop and implement a policy with the approval of the Board, on the engagement of an External Auditor to provide non-audit services permitted under the statutes, regulations, requirements and guidelines. The Committee shall ensure that provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity.
- f) To discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of Management where necessary);
- d) To consider the major findings of internal investigations and relevant responses provided by the Management.
- e) To review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of such matters.
- f) To consider other areas as delegated by the Board.

REPRESENTATION BY EXTERNAL AUDITORS

As per the CBSL Guidelines, the Company's Audit Partner, representing Messrs. Ernst & Young attended meetings in his capacity and expressed an opinion on whether the Company's financial statements are free of material misstatements.

WHISTLE BLOWING

The Company's Whistle Blowing Policy serves as a mechanism to manage risks pertaining to corporate fraud. There is provision under this Policy for any staff member, who has a legitimate concern on an existing or potential "wrong doing" committed by any person within the Company, to bring such concerns in confidence to the notice of the Chairman of the Board Audit Committee. The Board assigned a separate email address for 'Whistle Blowing' to be directed to the Group Company Secretary, who in turn would keep a record of it and address it to the Audit Committee. A process is also in place for such concerns to be investigated, while maintaining confidentiality of the identity of the Whistle-blower. The Committee is empowered under the Terms of Reference to monitor this procedure.

Internal Audit

- a) To take the following steps with regard to internal audit function of the Company.
 - i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.
 - ii. Review the internal audit programs and results of the internal audit process.
 - iii. Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department.
 - iv. Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function.
 - v. Ensure that the Committee is apprised of the resignation of senior staff members of the Internal Audit Department including the Head of Internal Audit and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning.
 - vi. Ensure that the internal audit function is independent of the activities it audits and it is performed with impartiality, proficiency and due professional care.
- b) To review the Company's statement on internal control systems prior to endorsement by the Board, and to make sure of the adequacy and effectiveness of the internal control systems in the company.
- c) To review the internal audit program, comment on the audit findings, recommend appropriate action, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company;

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

PROFESSIONAL ADVICE

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

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank Ms. Aroshi Nanayakkara who served on the Committee until 30th May 2019.

On behalf of the Board Audit Committee



P. S. Cumaranatunga
Chairman – Board Audit Committee

31st December 2019

COMMITTEE REPORTS

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE REPORT

The Board Human Resources and Remuneration Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company). The Committee operates within the agreed Terms of Reference and is committed to the principles of accountability and transparency and improving the wellbeing of the employees.

The Committee consists of four Independent Non-Executive Directors and one Non-Independent Non-Executive Director. The Committee is chaired by an Independent, Non-Executive Director appointed by the Board who is a Chartered Management Accountant, a Certified Practising Accountant and a member of the Chartered Institute of Marketing. The composition of the Committee as at 31st December 2019 is given below:

Mr. P.S. Cumararatunga (IND/NED)	- Chairman
Dr. H. S. D. Soysa (IND/NED)	- Member
Mr. C. P. Palansuriya (NID/NED)	- Member
Ms. A. Nanayakkara (IND/NED)	- Member (resigned on 31st May 2019)
Mr. Deepal Sooriyaarachchi (NID/NED)	- Member (appointed on 17th December 2019)

(IND - Independent Director, NID - Non-Independent Director, NED - Non-Executive Director)

Brief profiles of the members are given on pages 31 to 36 of the Annual Report.

MEETINGS

The Committee had six (06) meetings during the year 2019 and the attendance of the Committee members at these meetings are given in the table on page 72 of the Annual Report. The Managing Director (MD) and other members of Corporate Management attend meetings by invitation on a need basis and assist in the Committee's deliberations by providing relevant information except when their own compensation packages or other matters relating to them are reviewed.

The Group Company Secretary functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

FUNCTIONS OF THE COMMITTEE

The Board of Directors has entrusted to the Committee, the tasks of monitoring and implementing decisions taken for the betterment of human resources of the Company and making recommendations to the Board in this connection.

The Committee focuses on improving standards of employees through due recognition, promotions, reward, training and development and other HR related functions. The Committee concentrates on developing and implementing HR strategies, reviewing and approving of HR and Remuneration policies and Key Performance Indicators of the Company.

The Committee would act in the best interest of the employees, bringing about synergy of teamwork. The Company believes that this staff could be groomed to take increased responsibility through necessary training and skills development and be promoted to the next level.

REGULATORY COMPLIANCE

The roles and functions of the Committee are regulated by Section 7.10 and sub-rule 7.10.5 of Listing Rules issued by the Colombo Stock Exchange.

ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on the following matters.

- The Committee shall determine the remuneration and incentive framework including any equity incentive awards, terminal benefits/pension rights relating to the Managing Director (MD)/Chief Executive Officer (CEO) and any other Executive Directors and Key Management Personnel. The aggregate remuneration paid to the Directors from 1st January 2019 to 31st December 2019, is set out on page 182 of the Annual Report.
- The Committee shall set goals and targets for the MD/CEO and Key Management Personnel (KMPs)
- The Committee shall periodically evaluate the performance of the MD/CEO and Key Management Personnel (KMP) against set targets and goals and determine the basis for revising remuneration, benefits and other payments of performance based incentives.

- d) The Committee shall advise the MD/CEO of the Company regarding all aspects of HR functions including the revision of salaries of staff and of any major organizational changes needed for the Company and succession planning.
- e) The Committee shall consider any other areas and enlarge its scope of review or do so, if in the Board's view, it is desirable to do so.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

PROFESSIONAL ADVICE

The Committee has the authority to seek appropriate professional advice inhouse and externally as and when it considers necessary.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank Ms. Aroshi Nanayakkara who served on the Committee until 30th May 2019.

On behalf of the Board Human Resources and Remuneration Committee



P. S. Cumaranatunga

Chairman – Board Human Resources and Remuneration Committee

31st December 2019

COMMITTEE REPORTS

BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board of Directors of Siyapatha Finance PLC has appointed the Board Integrated Risk Management Committee (the Committee) to assist the Board in setting risk strategies, policies, frameworks and procedures in liaison with Key Management Personnel and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting. The Committee also reviews the Key Risk Indicators using the risk grid, which is derived out of parameters determined as per companywide Integrated Risk Management policy.

COMPOSITION

The Committee comprises of three (03) Independent Non-Executive Directors, one (01) Non-Independent Non-Executive Director and the Managing Director of the Company. The Deputy Chairman of the Company is the Chairman of the BIRMC. In compliance with Section 8(1) and 8(3) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka, number of members of the Corporate Management and the Senior Management also serve on the Committee.

In the financial year 2019, the Committee comprised of the following members;

Members of the Board

Mr. W. M. P. L. De Alwis (IND/NED)	-	Chairman
Mr. P. S. Cumaranatunga (IND/NED)	-	Member
Mr. J. H. Gunawardena (IND/NED)	-	Member (Appointed on 29th January 2019)
Mr. J. Selvaratnam (NID/NED)	-	Member (Appointed on 15th February 2019)
Mr. A. Seneviratne (ED)	-	Member (Appointed on 01st March 2019)
Mr. K. M. S. P. Herath (ED)	-	Member (Resigned on 28th February 2019)
Ms. A. Nanayakkara (IND/NED)	-	Member (Resigned on 31st May 2019)

(NID - Non-Independent Director, IND - Independent Director, NED-Non-Executive Director and ED - Executive Director)

Members of the Management

Mr. R. De Silva	-	Chief Operating Officer
Mr. S. De Silva	-	Head of Credit Risk
Mr. S. Dodanwate	-	Head of Credit Administration
Mr. R. Dissanayake	-	Head of Deposits
Mr. Mathisha Hewavitharana	-	Head of Leasing & Loans
Mr. N.A.D.S. Nallaperuma	-	Head of Management Information Systems
Mr. A. Kumara	-	Head of Gold Financing
Ms. L. Perera	-	Manager Factoring
Mr. B.L.M.M. Balasuriya	-	Manager IT
Mr. I. Liyanage	-	Head of Risk (Appointed on 01st November 2019)
Ms. M. Rajakaruna	-	Head of Compliance (Appointed on 07th June 2019)
Ms. T. Punyawansa	-	Head of Risk and Compliance (Resigned on 26th March 2019)
Mr. R. Wanniarachchi	-	Head of Finance (Appointed on 01st January 2019)
Mr. C. Galhena	-	Head of Internal Audit Appointed on 09th July 2019)
Mr. N. Luxshman	-	Head of Internal Audit (Contract of employment expired on 31st March 2019)
Mr. D. Girihagama	-	Head of Recoveries (Appointed on 11th April 2019)
Mr. S. Seneviratne	-	Head of Treasury (Appointed on 05th August 2019)

MEETINGS

During the year the Committee had nine (09) meetings. The attendance of Board members is listed on page 72 of the Annual Report.

ACTIVITIES

The Committee focused on the following activities during the year under review;

Strengthening Policy Framework

- ▶ Non-Performing Accommodations Write-Off Policy was recommended for Board approval.
- ▶ Reviewed the Risk Management Policy updating for operational and regulatory environmental changes and recommended it for Board approval.

Regulatory and Compliance Risk

- ▶ Reviewed the capital plan of the Company in the context of the regulatory framework and recommended it along with a proposal for a debenture issue to address Tier II capital requirement, for the approval of the Board.

Credit Risk

- ▶ Reviewed the quarterly progress of identified asset categories with high Non-Performing Asset (NPAs) ratios for consistent improvement in asset quality.
- ▶ Facilities channeled through the Credit Risk Department were reviewed to evaluate justification for approval of facilities flagged down by Credit Risk.

ROLES AND RESPONSIBILITIES

- ▶ The approved Terms of Reference the Committee stipulates authority, structure, responsibilities and tasks of the Committee. Accordingly, the primary responsibilities of the Committee include,
- ▶ Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a quarterly basis through appropriate risk indicators and management information.

- ▶ Reviewing the adequacy and effectiveness of the Assets and Liability Committee (ALCO) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee.
- ▶ Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels determined by the Committee based on the Company's policies and regulatory and supervisory requirements.
- ▶ Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.
- ▶ Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.
- ▶ Approving in principle all policies relating to risk management and recommending them for the approval of the Board.
- ▶ Establishing a protective risk management culture within the Company by using an Enterprise Risk Management framework of the Company.
- ▶ Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.
- ▶ Engaging external and independent reviews for the validation of risk measurement, methodology and outputs.
- ▶ In addition to the above, the Committee may perform such other functions which are necessary or appropriate for the discharge of its duties.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at the Board meetings, enabling all Board members to have access to them.

EVALUATION OF THE COMMITTEE

The Board undertakes a regular review of the Committee's performance, objectives and responsibilities. The Committee approved minutes of the BIRMC meetings would be tabled at the main Board meeting for the information of the Board.

APPRECIATION

The Committee undertakes an annual performance evaluation of its members and the summary of performance evaluation is submitted to the Board. Accordingly, the Board assesses the performance and effectiveness of the Committee.

On behalf of the Board Integrated Risk Management Committee



W. M. P. L. De Alwis

Chairman - Board Integrated Risk Management Committee

31st December 2019

COMMITTEE REPORTS

BOARD RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Board Related Party Transactions Review Committee (the Committee) was established by the Board on 27th January, 2015 in accordance with the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (the 'SEC Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange to ensure complying where those rules thereby enhancing Company's internal control mechanism on related Party Transactions to ensure that all transactions are conducted at arm's length. Further, the Committee would review all proposed Related Party Transactions to ensure that the interests of the shareholder have been considered.

COMPOSITION OF THE COMMITTEE

The Committee comprises of three (03) Independent Non-Executive Directors and one (01) Non-Independent Non-Executive Director and an Executive Director. The Chairman of the Committee is Mr. P. S. Cumararatunga who is a Chartered Management Accountant (ACMA), a Certified Public Accountant (CPA) and a Member of the Chartered Institute of Marketing (Dip. M MCIM).

The Committee's composition during the period ended 31st December 2019 is as follows:

Mr. P. S. Cumararatunga (IND/NED)	-	Chairman
Mr. W. M. P. L. De Alwis (IND/NED)	-	Member
Mr. K.M.S.P. Herath (ED)	-	Member (resigned on 28th February 2019)
Mr. A. Seneviratne (ED)	-	Member (appointed on 8th May 2019)
Ms. A. Nanayakkara (NID/NED)	-	Former Chairperson (resigned on 31st May 2019)
Mr. J. H. Gunawardena (IND/NED)	-	Member (appointed on 8th May 2019)
Mr. J. Selvaratnam (NID/NED)	-	Member (appointed on 11th September 2019)

(NID - Non-Independent Director, IND - Independent Director, NED - Non-Executive Director and ED - Executive Director)

The above composition is in compliance with the provisions of the rules regarding the composition of the Board Related Party Transactions Review Committee. Brief profiles of the members are given on pages 31 to 36 of the Annual Report. The Group Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

MEETINGS

During 2019, the Committee had three (03) meetings. Attendance of each Committee member at each of the said meetings is given in page 72 of the Annual Report.

TERMS OF REFERENCE

The role and functions of the Committee are regulated by the SEC Code and the CSE Rules.

ROLE AND RESPONSIBILITIES

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

1. Developing and maintaining a Related Party Transactions Policy consistent with the provisions of the SEC Code and the CSE Rules for adoption by the Board of Directors of the Company (the Board).
2. Reviewing all proposed and executed Related Party Transactions (RPTs) in compliance with the provisions of the SEC Code and the CSE Rules.
3. Advising the Board on making immediate Market Disclosures and Disclosures in the Annual Report where necessary, in respect of RPTs, in compliance with the provisions of the SEC Code and the CSE Rules, Procedures and Directives/Guidelines adopted by the Committee.
4. Ensuring that Procedures/ Directives/Guidelines are issued to compel all RPTs to be referred to the Committee for review.

REVIEW FUNCTIONS OF THE COMMITTEE

Review of the relevant RPTs by the Committee takes place quarterly or as and when required and the Committee communicates its observations to the Board. RPTs are published in Note 46 to the Financial Statements. An In-house developed software is available for identification of RPTs and the relevant information to capture RPTs is fed into the Company's data collection system. The system is updated based on information obtained from the Secretariat Department, HR Department and the Finance Department of the Company.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance valuation of its members and the summary of the performance evaluation is submitted to the Board. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank Mr. K.M.S.P. Herath and Ms. A.Nanayakkara who served on the Committee until 28th February 2019 and 30th May 2019 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Related Party Transactions Review Committee



P.S. Cumararatunga

Chairman - Board Related Party Transactions Review Committee

31st December 2019

COMMITTEE REPORTS

BOARD NOMINATION COMMITTEE REPORT

The Board Nomination Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company) to which it is responsible. The Committee operates within the agreed Terms of Reference and work closely with the Board in reviewing the structure and skills needed for a successful organization.

The Committee consists of three (03) Independent Non-Executive Directors and one (01) Non-Independent Non-Executive Director. The Committee is chaired by an Independent, Non-Executive Director appointed by the Board. The composition of the Committee as at 31st December 2019 is given below:

Dr. H. S. D. Soysa (IND/NED)	-	Chairman
Mr. C. P. Palansuriya (NID/NED)	-	Member
Mr. P.S. Cumaratunga (IND/NED)	-	Member
Mr. W. M. P. L. De Alwis (IND/NED)	-	Member
Mr. J. H. Gunawardena (IND/NED)	-	Member

(IND – Independent Director, NID – Non-Independent Director, NED – Non-Executive Director)

Brief profiles of the members are given on pages 31 to 36 of the Annual Report.

MEETINGS

During year 2019, the Committee held nine (09) meetings and the attendance of the Committee members at these meetings are given in the table on page 72 of the Annual Report. The Managing Director attends by invitation except when his own compensation packages or other matters relating to him are reviewed.

The Group Company Secretary functions as the Secretary to the Committee.

THE TERMS OF REFERENCE

The Board approved Terms of Reference of the Committee contain the role and functions of the Committee which are regulated by the relevant statutes.

FUNCTIONS OF THE COMMITTEE

The Board of Directors has entrusted to the Committee, the tasks of annual assessment of the Board composition against pre-defined criteria of skill and knowledge requirements to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company and the number of directorships in listed company boards on which he/she is represented.

Upon appointment of a new Director to the Board of the Company, the Committee notify the shareholders immediately.

During the year under review, the Committee has continued to focus on a progressive organisational plan in keeping with the forward and evolutionary momentum of the Sri Lankan finance industry.

ROLES AND RESPONSIBILITIES

The duties of the Committee shall be to make recommendations on the following matters.

- The Committee should make recommendations to the Board appointments considering skills, knowledge, expertise and experience the Board requires in comparison to the current industry environment.
- The Committee should recommend succession planning for Directors resigning or retiring.
- The Committee is accountable for making recommendations to re-appoint Non-Executive Directors annually as required by CBSL guidelines and when they are due for re-appointment as per the Articles of Association of the Company.
- The Committee shall ensure that Non-Executive Directors, Managing Director and Key Management Personnel (KMPs) are fit and proper persons to hold office in compliance with the regulatory and statutory provisions.
- The Committee sets criteria including qualification, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Managing Director and other KMPs.
- The Committee carefully reviews management progression and succession planning for KMPs.
- The Committee is also responsible for recommending to the Board of Directors, with regard to the positions of Managing Director and KMPs as and when vacancies occur.
- The Committee to make recommendations to any other matter delegated by the Board of Directors.

PERFORMANCE

The members of the Committee work closely with the Board, in reviewing the structure and skills needed for a strong and successful organization. During the year under review, the Committee having considered the skills, knowledge, expertise and experience, made recommendations to the Board to appoint five (05) new Directors to the Board.

REPORTING TO THE BOARD

The minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

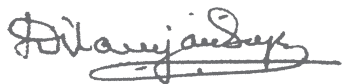
PROFESSIONAL ADVICE

The Committee has the authority to seek appropriate professional advice in-house and externally as and when it considers necessary.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly the Board assesses the performance and effectiveness of the Committee.

On behalf of the Board Nomination Committee



Dr. H.S.D. Soysa

Chairman – Board Nomination Committee

31st December 2019

COMMITTEE REPORTS

BOARD CREDIT COMMITTEE REPORT

COMPOSITION

The Board Credit Committee (the Committee) is appointed by and is responsible to the Board of Directors (the Board). This Committee comprises of three (03) Non-Executive Directors and one (01) Executive Director. The Committee's composition may be determined by the Board from time to time. A few members of the Corporate Management may be invited to attend the Committee meetings if desired by the Committee.

The Committee's composition during the period ended 31st December 2019 is as follows:

Members of the Board

Dr. H.S.D. Soysa (IND/NED)	-	Chairman
Mr. L. T. Ranwala (NID/NED)	-	Member
Mr. J. Selvaratnam (NID/NED)	-	Member
Mr. C.P. Palansuriya (NID/NED)	-	Member (Appointed on 01st June 2019)
Mr. A. Seneviratne (ED)	-	Member (Appointed on 01st August 2019)
Mr. K. M. S. P. Herath (ED)	-	Member (Resigned on 28th February 2019)
Ms. A. Nanayakkara (IND/NED)	-	Member (Resigned on 31st May 2019)

(NID - Non-Independent Director, IND - Independent Director, NED - Non-Executive Director and ED - Executive Director)

MEETINGS

During the year, the Committee met on 22 occasions. The attendance of the Board members is listed on pages 72 of the Annual Report. Meetings were held twice a month when deemed necessary. The Chairman of the Committee in consultation with the Group Company Secretary scheduled Committee meetings. The Group Company Secretary is the Secretary to the Committee. And the minutes of the meetings are submitted to the Board of Directors at monthly Board meetings. The Committee approves credit proposals by circulation depending on urgency and in such instances consent of the majority of the members should be obtained.

ACTIVITIES

The Committee focused on the following activities during the year under review;

Credit Evaluation

- ▶ Client Selection Criteria, Credit Risk Grading and Credit Process were reviewed and implemented.
- ▶ Where the employees lacked knowledge, they were provided with Credit Training
- ▶ Strengthen the Recoveries
- ▶ The Committee closely followed up the progress of non-performing facilities in order to strengthen the recovery process
- ▶ Watch listed clients were monitored on a regular basis

ROLES AND RESPONSIBILITIES

The Committee plays a vital role in establishing the best practices in relation to credit policies and practices. The Board of Directors has defined the scope and authority of the Committee and has set out the following responsibilities.

The Committee is responsible to provide adequate training to the employees through relevant resource personnel.

The Committee carries out credit evaluation, assessment and the review of credit policy initiated by the management. Further, the credit policy is assessed in terms of statutory requirements prescribed by regulatory/supervisory authorities. A continuous assessment of the portfolio/sector review is conducted, based on management/industry information. The Committee also assesses credit risks of new products in detail.

The Committee reviews credit proposals and approves them within the limits delegated by the Board of Directors along with the pricing of lending proposals and making recommendations to the Board for approval when the credit limit exceed the delegated limit of the Committee.

Delegated lending limits are assigned to different authority levels based on the credit approval framework which are reviewed periodically by the Committee and recommended for Board approval.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

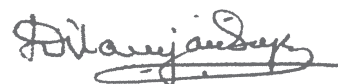
EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank Mr. K. M. S. P. Herath and Ms. A. Nanayakkara who served on the Committee until 28th February 2019 and 30th May 2019 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Credit Committee



Dr. H.S.D. Soysa
Chairman - Board Credit Committee

31st December 2019

BOARD CORPORATE GOVERNANCE COMMITTEE REPORT

COMPOSITION

The Board Corporate Governance Committee (the Committee) was established on 24th August, 2011. The committee comprises of (04) Non-Executive Directors and an Executive Director who conducts the committee proceedings in accordance with the Terms of Reference approved by the Board.

The Committee's composition as at 31st December 2019 is as follows.

Mr. J. H. Gunawardena (IND/NED)	-	Chairman (appointed on 8th May 2019)
Mr. W. M. P. L. De Alwis (IND/NED)	-	Member
Mr. P. S. Cumaranatunga (IND/NED)	-	Member
Mr. K. M. S. P. Herath (ED)	-	Member (resigned on 28th February 2019)
Mr. A. Seneviratne (ED)	-	Member (appointed on 8th May 2019)
Ms. A. Nanayakkara (NID/NED)	-	Former Chairperson (resigned on 31st May 2019)
Mr. J. Selvaratnam (NID/NED)	-	Member (appointed on 11th September 2019)

(NID - Non-Independent Director, IND - Independent Director, NED - Non-Executive Director and ED - Executive Director)

STRATEGIC PLANNING PROCESS

The Strategic Planning Process aims to enhance the strategic structure with the Company's overall mission. Conducted annually, the process is driven by an interactive inverted approach that encourages the active participation of employees at all levels. Amid strong focus placed upon business strategy, the Company intends to fine tune its operational strategy in order to achieve its business objectives.

All members of the Corporate Management are expected to implement the strategic direction outlined by the Board and set comprehensible, measurable goals and targets. Implementation and achievement of the sectional strategies are monitored by each department, with quarterly reviews being carried out to assess the effectiveness of the strategic plan.

INTEGRATED RISK MANAGEMENT FRAMEWORK

The Integrated Risk Management Framework advocates a structured and disciplined approach to risk management by aligning strategy, processes, people, technology and knowledge vis-à-vis the opportunities, threats and uncertainties faced by the Company.

CODE OF CONDUCT FOR EMPLOYEES

All employees including the Executive Directors are bound to abide by the ethics, values and expectations set out in the Employee Code of Conduct. The Code is made available to all employees to ensure that the highest standards of integrity and conduct are maintained in dealings and interactions with all stakeholders. The Code of Conduct addresses a range of fair dealing and compliance matters, among others.

WHISTLE BLOWING POLICY

The Policy serves as an early warning mechanism to identify the improprieties in financial reporting, internal control or other matters of corporate fraud or risk by encouraging employees to report their genuine concerns in relation to activities, which are undue or illegal or otherwise harmful to the interests of the Company, its employees, customers or

any other stakeholders. Further, the Board Audit Committee (the BAC) ensures that proper arrangements are in place for fair and independent investigation of such matters, and have appropriate follow-up action and the protection of the whistle blower. Chairman of the BAC is to receive in confidence any whistle blowing messages through the Group Company Secretary who is also the Secretary to the BAC.

COMMUNICATION POLICY

The Company strives at all times to maintain its corporate credibility and instill investor confidence in the Group by practicing a structured Communication Policy approved by the Board covers all stakeholders, including depositors, creditors, share-holder and borrowers, spells out the process through which timely, transparent, consistent and credible information on corporate strategies, trends, operational performance and financial data is disseminated.

GOVERNANCE STRUCTURE

Board Of Directors

The Board of Directors is the apex body responsible for the execution of Company's Corporate Governance Framework. The Board is responsible for setting out strategic and management guidelines for the Company and for monitoring general performance, as well as defining and applying the Corporate Governance rules and scrutinizing internal audit procedures. The Board is tasked with approving strategic plan, governance structures, risk appetite limits, policies and procedures, delegation of authority and providing a framework for decision making amongst others.

The Board has standard and exceptional administrative powers to manage the activities of the Company in a way that would achieve its corporate aspiration. Further, as the highest governance body of the Company, it is expected to use its skill and expertise to determine the wider

COMMITTEE REPORTS

BOARD CORPORATE GOVERNANCE COMMITTEE REPORT

social, environmental and economic implications that may arise of all business decisions. The Board is therefore, the principal authority providing oversight to the Corporate Management team that directs and executes all operational functions within the Company. The Board of Directors meets the Key Management Personnel on a regular basis when a need arises to exercise appropriate oversight of the affairs of the finance company.

BOARD MEETINGS

The Board of Directors held 16 Board meetings during the period ending 12 months up to 31st December 2019, with Strategic Growth, Digitalization and Performance Optimization being some of the key topics of discussion. Meanwhile, the Board subcommittees held a total of 47 meetings during the same period under review.

BOARD SUB COMMITTEES

To assist the Board in its supervisory role, a number of Board subcommittees have been appointed by the Board. As an integral component of the Company's Corporate Governance Framework, each Board subcommittee reports to the Board with detailed information on its activities.

Board subcommittees members are selected from a combination of Board members, except in the instance of the Board Integrated Risk Management Committee.

Members of each Board subcommittees are held collectively responsible for their designated area of activity. Currently the Board has established a total of eight Board subcommittees including the Board Audit Committee, Board Integrated Risk Management Committee, the the Board Human Resources and Remuneration Committee and the Related Party Transaction Review Committee to carry out specific functions, with each Board subcommittees being headed by a Non-Executive Director.

The above Board subcommittees come under the purview of the Board. The Board subcommittees function in a supervisory capacity, overseeing the Key Management Personnel under their purview. In this context, Head of Internal Audit reports to the Board Audit Committee, whilst the Risk and Compliance was segregated into two divisions and the Head of Risk (appointed w.e.f. 1st November 2019) and the Head of Compliance (appointed w.e.f. 7th June 2019) reports to the Board Integrated Risk Management Committee to ensure their independency and impartiality.

GROUP COMPANY SECRETARY

The Group Company Secretary is independent who acts as a conduit between the Board and the Company. Group Company Secretary, whose primary responsibilities is to handle the secretariat services to the board and shareholder meetings and accomplish other functions specified in the statutes and other regulations. Further, the Group Company Secretary is responsible to liaison with the Registrar of Companies and other relevant regulators and facilitating Board members with access to legal and other expertise, as and when required.

The Group Company Secretary, Mr. S. Sudarshan acts as the Secretary to all the Board subcommittees and the minutes of Board and Board subcommittees are retained in his custody. The Group Company Secretary prepares the minutes within a reasonable time and there is a documented process for the minutes to be inspected by the directors if necessary. Written Terms of Reference are available for all the Board subcommittees approved by the Board that comply with the Corporate Governance requirements.

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

APPRECIATION

The Committee wishes to thank Mr. K.M.S.P. Herath and former Chairperson Ms. A. Nanayakkara who served on the Committee until 28th February 2019 and 30th May 2019 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Corporate Governance Committee



Mr. J.H. Gunawardena

Chairman - Board Corporate Governance Committee

31st December 2019

BOARD IT COMMITTEE REPORT

COMPOSITION

The Board IT Committee (the Committee) was established on 24th April 2018 by the Board of Directors (the Board), to provide oversight to the adoption of Policies and execution of processes under the purview of the Company's IT strategies. The Committee comprising of three (03) Independent Non-Executive Directors, one (01) Non-Independent Non-Executive Director and one (01) Executive Director, is responsible to the Board. The Committee's composition may be determined by the Board from time to time. The Company Executives may be invited to attend the Committee meetings if desired by the Members.

The Committee's composition during the period ended 31st December 2019 is as follows:

Members of the Board

Mr. P. S. Cumararatunga (IND/NED)	-	Chairman (Appointed on 01st October 2019)
Ms. A. Nanayakkara (IND/NED)	-	Former Chairperson (Resigned on 31st May 2019)
Mr. A. Seneviratne (ED)	-	Member (Appointed on 01st October 2019)
Mr. W. M. P. L. De Alwis (IND/NED)	-	Member
Dr.H.S.D. Soysa (IND/NED)	-	Member
Mr. Y. S. H. R. S. Silva (NID/NED)	-	Member

(NID - Non-Independent Director, IND - Independent Director, NED - Non-Executive Director and ED - Executive Director)

MEETINGS

During the year, the Committee met on five (05) occasions. The attendance of the Board members is listed on page 72 of the Annual Report. The Chairman of the Committee in consultation with the Group Company Secretary schedules committee meetings as and when necessary. The Group Company Secretary is the Secretary to the Committee.

ROLES AND RESPONSIBILITIES

The Committee plays a vital role in establishing IT policies and practices. The Board of Directors has defined the scope and responsibilities of the Committee and has set out the following responsibilities.

- ▶ To review, monitor and take appropriate measures with regard to IT security requirements of the Company
- ▶ To review and recommend the Company's policies related to IT
- ▶ To review and recommend the Company's IT expenditure and budgets
- ▶ To review, monitor and advise on appropriate measures with regard to the IT security requirements and measures of the Company
- ▶ To monitor the Company's investments in technology
- ▶ To review the progress of the Digitalization Journey of the Company including service improvements and efficiencies driven by IT investment
- ▶ To review training on Digitalization, onboarding and familiarization of all staff on same.

ACTIVITIES

The Committee has specifically addressed its attention to the achievement of the following IT strategic goals –

- Ensure confidentiality, integrity and availability of information
- Improve efficiency of operations and reduce manual processes
- Develop and maintain cost effective information systems
- Minimize the cost of delivery of services
- Facilitate product innovation
- Develop business partner support to integrate IT systems with business strategies

REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them.

EVALUATION OF THE COMMITTEE

The Committee undertakes an annual performance evaluation of its members and the summary of the performance evaluation is submitted to the Board of Directors. Accordingly, the Board assesses the performance and effectiveness of the Committee.

APPRECIATION

The Committee wishes to thank former Chairperson, Ms. A. Nanayakkara who served on the Committee until 30th May 2019, for her valuable contribution towards the betterment of the Company.

On behalf of the Board IT Committee



Mr. P. S. Cumararatunga
Chairman - Board IT Committee

31st December 2019

FINANCIAL CALENDAR

Financial Calendar 2019	
▶ Audited Financial Statements for the year ended 31 December 2018 signed on	26 February 2019
▶ Annual General Meeting held on	28 May 2019
▶ Publication of half yearly Financial Statements (2nd half of year 2018) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	28 February 2019
▶ Rs. 0.50 per share Scrip Dividend for 2018 declared on	28 May 2019
▶ Publication of half yearly Financial Statements (1st half of year 2019) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	23 August 2019
▶ Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange published	
1st Quarter ended 31 March 2019	08 May 2019
2nd Quarter ended 30 June 2019	09 August 2019
3rd Quarter ended 30 September 2019	14 November 2019
4th Quarter ended 31 December 2019	26 February 2020

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Proposed Financial Calendar 2020	
▶ Audited Financial Statements for the year ended 31 December 2019 signed on	12 February 2020
▶ Annual General Meeting to be held on	01 June 2020
▶ Publication of half yearly Financial Statements (2nd half of year 2019) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	28 February 2020
▶ Rs.1.95 per share scrip Dividend for 2019 to be declared*	01 June 2020
▶ Publication of half yearly Financial Statements (1st half of year 2020) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 31 August 2020
▶ Publication of half yearly Financial Statements (2nd half of year 2020) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 28 February 2021
▶ Interim Financial Statements in terms of Rules 7.4 of the Colombo stock Exchange to be Published.	
1st Quarter ended 31 March 2020	On or before 15 May 2020
2nd Quarter ended 30 June 2020	On or before 15 August 2020
3rd Quarter ended 30 September 2020	On or before 15 November 2020
4th Quarter ended 31 December 2020	On or before 28 February 2021

*Subject to confirmation by Shareholders

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

The Board of Directors of Siyapatha Finance PLC has pleasure in presenting its Annual Report on the State of Affairs of the Company to the members of Siyapatha Finance PLC for the financial year ended 31st December 2019, together with the audited Financial Statements of the Company, and the Auditors' Report on those Financial Statements, conforming to the requirements of the Companies Act No. 7 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

This Report includes the information as required by the Companies Act No. 7 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange. It is also guided by the Recommended Best Practices on Corporate Governance.

GENERAL

Siyapatha Finance PLC ("the Company"), bearing the registration No. PB 917 PQ was incorporated on 03rd March 2005, under the Companies Act No 17 of 1982, as a Specialized Leasing Company in the name 'Sampath Leasing and Factoring Limited' and the Company was re-registered under the provisions of the Companies Act No 07 of 2007. Thereafter the Company changed its name to 'Siyapatha Finance Limited' on 02 September 2013 in parallel to the obtaining of 'Registered Finance Company' status from the Central Bank of Sri Lanka on 25 September 2013. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015. The Company is the largest fully owned subsidiary of Sampath Bank PLC.

The Company's unsecured subordinated redeemable debentures and unsecured senior redeemable debentures are listed on the Colombo Stock Exchange. Fitch Rating Lanka Limited has affirmed the Company's National Long Term Rating at "A-(lka)" with a stable outlook. The agency has also affirmed the National Long-Term Rating on Siyapatha's senior unsecured debentures at 'A-(lka)' and subordinated debentures at 'BBB+(lka)'.

The registered office of the Company is located at No. 110, Sir James Peiris Mawatha, Colombo 02 and Head office of the Company is located at No 46/12, Nawam Mawatha, Colombo 02.

As per the requirements set out in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Report for the year under review.

Information required to be disclosed	Reference to the Companies Act	Extent of compliance by the Company
I) The nature of the business of the Company, together with any change thereof during the accounting period	Section 168 (1) (a)	Refer page 101
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer page 116 to 185
III) Auditor's Report on Financial Statements of the Company.	Section 168 (1) (c)	Refer page 112 to 115
IV) Any changes made to the Accounting policies during the year under review.	Section 168 (1) (d)	Refer page 124 to 125
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 106
VI) Remuneration and other benefits paid to Directors of the company during the period.	Section 168 (1) (f)	Refer page 182
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 107
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer page 103 to 104
IX) Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)	Refer page 107
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 107
XI) Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company.	Section 168 (1) (k)	Refer page 108

CORPORATE VALUES

The Company's vision, mission and values are enumerated in pages 4 to 5 of the Annual Report. Business activities of the Company are conducted in an environment of high level of compliance and in conformity with ethical practices.

PRINCIPAL ACTIVITIES

The Company's principal activities during the year were acceptance of customer deposits, providing finance lease, hire purchase and vehicle loan facilities, mortgage loans, gold loans, revolving loans, personal/business loans and debt factoring.

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

REVIEW OF OPERATIONS

A review of the financial and operational performance of the Company together with significant events took place during the year 2019 are stated in the Chairman's Message on pages 10 to 13, and Managing Director's Review on pages 14 to 17 and Management discussion and analysis on pages 18 to 26 which form an integral part of the Annual Report of the Board of Directors.

FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message on pages 10 to 13, and Managing Director's Review on pages 14 to 17.

FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared in accordance with the 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. 07 of 2007, Finance Business Act No. 42 of 2011 the directions and guidelines issued under the said Finance Business Act and the Listing Rules of the Colombo Stock Exchange.

Consequent to the Board Audit Committee's recommendations, the Financial Statements were reviewed and approved by the Board of Directors on 12th February 2020.

The aforementioned Financial Statements for the year ended 31 December 2019 completed and duly signed by the Head of Finance, Managing Director and two Directors of the Company are given on page 116 to page 185 which form an integral part of this Annual Report of the Board of Directors on the affairs of the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Company which reflect a true and fair view of its state of affairs.

The Directors are of the view that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement and Notes to Financial Statements appearing on pages 116 to 185 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting is given on page 121 and forms an integral part of the Annual Report of the Board of Directors.

DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008. The

said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on pages 100 to 108. The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in page 111.

AUDITORS' REPORT

The Auditors of the Company are Messrs Ernst & Young, Chartered Accountants. Messrs Ernst & Young carried out the audit on the Financial Statements of the Company for the year ended 31st December 2019 and their report on those Financial Statements and Auditors' report is given on pages 112 to 115.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES DURING THE YEAR

The significant accounting policies adopted and changes in accounting policies in the preparation of the Financial Statements are given on pages 124 to 125.

FINANCIAL RESULTS AND APPROPRIATIONS

Interest Income

Total interest income of the Company for the year ended 31 December 2019 was Rs. 7,229.61 Million (Rs 6,395.90 Million in 2018). Components of interest income are given in Note 6 to the Financial Statements.

Profit and Appropriations

The Company has recorded a 4.23% decline in profit before tax and 7.03% decline in profit after tax in 2019 compared to 2018. The Company's Total Comprehensive Income (net of tax) for the year is Rs. 479.92 Mn (2018: Rs. 569.11 Mn). A detailed breakup of the profits & appropriations of the Company is given below.

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

For the year ended 31st December	2019 Rs.000	2018 Rs.000
Profit before Tax	798,530	833,789
Less: Income tax expense	(318,336)	(317,268)
Net profit after taxation	480,194	516,521
Actuarial (losses) / gains on defined benefit plans, net of tax	(10,460)	1,652
	469,734	518,173
Unappropriated balance brought forward from previous year	1,945,561	1,672,544
Impact of adoption of SLFRS 9 as at 1st January 2018	-	(149,435)
Profit available for appropriation	2,415,295	2,041,282
Appropriations		
Transfer to Statutory Reserve Fund	(25,000)	(26,000)
Dividend		
Final scrip dividend paid-2017 (Rs. 1.25 per share)	-	(69,721)
Final scrip dividend paid-2018 (Rs. 0.50 per share)	(36,344)	-
Unappropriated balance carried forward	2,353,951	1,945,561
Proposed dividend		
Final scrip dividend - 2018 (Rs. 0.50 per share)	-	36,344
Final scrip dividend - 2019 (Rs. 1.95 per share)	142,959	-

TAXATION

The Income Tax rate applicable to the Company's operations is 28% (2018:28%).The Company is also liable for VAT on financial services at 15% (2018: 15%) and NBT on financial services at 2% up to 30 November 2019 (2018: 2%).NBT was abolished with effect from 1st December 2019. Further, the Company is also liable for Debt repayment levy (DRL) on financial services at 7% (2018:7% w.e.f. 01 October 2018).The Government has abolished the Debt Repayment Levy with effect from 1st January 2020. The Company has also provided deferred taxation on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes). The Cabinet has approved to reduce the Finance Sector income tax rate to 24% from 28% with effect from 1st January 2020.The said amendment is yet to be approved by the parliament and cannot be considered as a legislation.As such the Company continued using 28% in calculating the deferred tax liabilities /assets as at 31st December 2019 as this amendment is not substantively enacted by the end of the reporting period.

DIVIDEND

The Board of Directors of the Company has recommended a scrip dividend of Rs. 1.95 per share(2018:Rs. 0.50 per share) to be paid for the financial year ended 31st December 2019, such right to the dividend applying to the increased number of shares allotted pursuant to the Rights Issue 2019 as well. Further, in compliance with the Company's Articles of

Association this dividend is to be approved by the shareholders at the Annual General Meeting to be held on 01 June 2020.

The Board of Directors was satisfied that the Company would meet the solvency test immediately after the payment of final scrip dividend proposed, in terms of the Section 56 of the Companies Act No. 7 of 2007. The Company provided the Statement of Solvency to the Auditors and obtained Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the statutory provision. Further details are given in Note 15 to the Financial Statements.

RESERVES

A summary of the Company's reserves is given below.

As at 31st December	2019 Rs.000	2018 Rs.000
Statutory Reserve Fund	164,000	139,000
Revaluation Reserve	117,951	107,763
Retained Earnings	2,353,951	1,945,562
Total	2,635,902	2,192,325

CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Company amounted to Rs. 442.48 Mn (2018: Rs. 231.69 Mn). Details are given in Notes 27 and 29 to the Financial Statements.

CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 43.1 to the Financial Statements.

PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of property, plant and equipment are given on Note 27 to the Financial Statements.

MARKET VALUE OF FREEHOLD LAND

The Company reassessed the market value of the freehold land in December 2019 through professionally qualified independent valuer, to ensure that the carrying amount of such freehold land reflects the current market price. Accordingly, material market value change was identified pertaining to freehold land and its value was adjusted to bring the current market price into the Financial Statements as at 31st December 2019. The Directors are of the opinion that the revalued amounts are not in excess of the current market value of such freehold land. The details of freehold land owned by the Company are given in Note 27 to the Financial Statements.

STATED CAPITAL AND DEBENTURES

Stated Capital

The Stated Capital of the Company as at 31st December 2019 amounted to Rs. 1,379.92 Mn consisting of 73,312,409 ordinary shares (2018: consisting of Rs. 948.67 Mn consisting of 63,596,388 ordinary shares). The number of shares in issue of the Company increased from 63,596,388 ordinary shares to 73,312,409 ordinary shares as a result of the payment of Scrip Dividend for 2018 and Rights Issue in 2019.

Debt Capital

The details of debentures outstanding as at 31 December 2019 are given in Note 31.3 to the Financial Statements. The rated, unsecured, subordinated redeemable debentures issued in year 2017 and year 2019 totaling to Rs. 2.5 Billion are eligible for the Tier II Capital of the Company.

SHARE INFORMATION

Information relating to earnings, dividends and net assets are given in the Financial Highlights on page 07 and in the Investor Information section on pages 27 to 30.

SHAREHOLDING

The Company has eight shareholders, the details of which are appended below.

Name	No of Shares	% of Issued Share Capital
Mr. C P Palansuriya	1	>0.001%
Mr. W M P L De Alwis	1	>0.001%
Dr. H S D Soysa	1	>0.001%
Mr. P S Cumararatunga	1	>0.001%
Ms. A Nanayakkara	1	>0.001%
Mr. Y S H R S Silva	1	>0.001%
Mr. S Sudarshan	1	>0.001%
Sampath Bank PLC	73,312,402	99.99%
Total	73,312,409	100.00%

EQUITABLE TREATMENT TO SHAREHOLDERS

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

THE BOARD OF DIRECTORS

The Board of Directors of the Company comprises of ten Directors (2018: nine) with wide financial and commercial knowledge and experience. The names of the Directors during the financial year from 1st January 2019 to 31st December 2019 including the Directors who have joined the Company after 31st December 2019 are given below. The classification of Directors are given next to the names of the Directors as per Listing Rules of the Colombo Stock Exchange and the Finance Companies Direction No.03 of 2008, subsequent amendments thereto issued by the Central Bank of Sri Lanka. A brief profile of the Directors is given on pages 31 to 37 of the Annual Report.

Name	Classification (NED/NID/ED)	Remarks (Appointed date, change of directorate to chairman etc)
Mr. C. P. Palansuriya	NID/NED	02.05.2014 (Appointed as the Chairman w.e.f. 15.11.2017 and held the position until 31.01.2020)
Mr. P. S. Cumararatunga	IND/NED	30.10.2017 (Appointed as Chairman w.e.f. 12.02.2020)
Mr. W. M. P. L. De Alwis	IND/NED	25.02.2011 (retired on 24.02.2020)
Dr. H. S. D. Soysa	IND/NED	01.01.2011 (retired on 31.12.2019)
Mr. K. M. S. P. Herath	ED	05.04.2016 (relinquished his duties on 28.02.2019 as the Managing Director)

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

Name	Classification (NED/NID/ED)	Remarks (Appointed date, change of directorate to chairman etc)
Mr. H. M. A. Seneviratne	ED	01.03.2019 (Appointed as the Managing Director)
Mr. L. T. Ranwala	NID/NED	28.07.2015
Ms. A. Nanayakkara	IND/NED	06.11.2017 (resigned on 30.05.2019)
Mr. Y. S. H. R. S. Silva	NID/NED	01.06.2018
Mr. J. Selvaratnam	NID/NED	18.12.2018
Mr. J. H. Gunawardena	IND/NED	29.01.2019
Mr. D. Sooriyaarachchi	NID/NED	20.11.2019
Mr. W. S. C. Perera	NID/NED	16.01.2020
Ms. H. S. R. Ranatunga	ID/NED	28.01.2020

*Executive (ED), Non-Executive (NED) and Independent (IND),
Non-Independent Directors (NID)*

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All Directors have submitted affidavits and declarations for the year 2019 under the Finance Companies (Assessment of Fitness and Propriety of all Directors on the Board and Officers Performing Executive Functions) Direction No. 03 of 2011.

CHANGES IN DIRECTORATE

In terms of Section 168 (1) (h) of the Companies Act No.7 of 2007, the names of the persons holding office as Directors as at the end of the accounting period along with the Directors who have joined soon after the account period and the names of any persons who ceased to hold office as Directors of the Company during the accounting period have been disclosed.

RETIREMENT AND REELECTION / REAPPOINTMENT OF DIRECTORS

In terms of Articles 24(7) and 24(8) of the Articles of Association of the Company, Mr. P. S. Cumaratunga, Mr. Y. S. H. R. S. Silva and Mr. J. Selvaratnam retire by rotation and being eligible, offered themselves for reelection on the unanimous recommendation of the Board of Directors.

Mr. D. Sooriyaarachchi, Mr. W. S. C. Perera and Ms. H. S. R. Ranatunga having being appointed to the Board with effect from 20th November 2019, 16th January 2020 and 28th January 2020 respectively offer themselves for election by the shareholders on the recommendation of the Board in terms of Article 24 (2) of the Articles of Association of the Company.

REGISTER OF DIRECTORS AND SECRETARIES

As required under Section 223 (1) of the Companies Act No.7 of 2007, the Company maintains a Register of Directors and Secretaries which contains the name, surname, former name (if any), residential address, business, occupation, dates of appointment and dates of resignation (if applicable) of each Director and the Secretary.

BOARD SUB-COMMITTEES

The Board of Directors of the Company has formed eight Board sub-committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, the Securities and Exchange Commission of Sri Lanka and Listing Rules of the Colombo Stock Exchange and as per the recommended Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka.

The following Directors served as members of the the Board Audit Committee, the Board Integrated Risk Management Committee, the Board Human Resource and Remuneration Committee, the Board Credit Committee, the Board Corporate Governance Committee, the Board Related Party Transactions Review Committee, the Board Nomination Committee and the Board IT Committee.

The Board Audit Committee

- ▶ Mr. P. S. Cumaratunga - Chairman
- ▶ Mr. J. H. Gunawardena (appointed w.e.f. 29.01.2019)
- ▶ Dr. H. S. D. Soysa (served until 31.12.2019)
- ▶ Mr. W. M. P. L. De Alwis (served until 24.02.2020)
- ▶ Ms. A. Nanayakkara (served until 30.05.2019)

The Report of the Board Audit Committee appears on pages 83 to 85.

The Board Integrated Risk Management Committee

- ▶ Mr. W. M. P. L. De Alwis (served as the Chairman until 24.02.2020)
- ▶ Mr. P. S. Cumararatunga
- ▶ Mr. H. A. M. Seneviratne (appointed w.e.f. 01.03.2019)
- ▶ Mr. J. H. Gunawardena (appointed w.e.f. 29.01.2019)
- ▶ Mr. J. Selvaratnam
- ▶ Ms. A. Nanayakkara (served until 30.05.2019)
- ▶ Mr. K. M. S. P. Herath (served until 28.02.2019)

The Report of the Board Integrated Risk Management Committee appears on pages 88 to 89.

The Board Human Resource and Remuneration Committee

- ▶ Mr. P. S. Cumararatunga - Chairman
- ▶ Mr. D. Sooriyaarachchi (appointed w.e.f. 17.12.2019)
- ▶ Ms. H. S. R. Ranatunga (appointed w.e.f. 12.02.2020)
- ▶ Ms. A. Nanayakkara (served until 30.05.2019)
- ▶ Dr. H. S. D. Soysa (served until 31.12.2019)
- ▶ Mr. C. P. Palansuriya (served until 31.01.2020)

The Report of the Board Human Resources and Remuneration Committee appears on pages 86 to 87.

The Board Credit Committee

- ▶ Mr. J. Selvaratna – Chairman (appointed as the Chairman w.e.f. 24.01.2020)
- ▶ Dr. H. S. D. Soysa (served as the Chairman until 31.12.2019)
- ▶ Mr. H. A. M. Seneviratne (appointed w.e.f. 01.03.2019)
- ▶ Mr. L. T. Ranwala
- ▶ Ms. H. S. R. Ranatunga (appointed w.e.f. 28.01.2020)
- ▶ Mr. W. S. C. Perera (appointed w.e.f. 28.01.2020)
- ▶ Mr. K. M. S. P. Herath (served until 28.02.2019)
- ▶ Ms. A. Nanayakkara (served until 30.05.2019)
- ▶ Mr. C. P. Palansuriya (served until 31.01.2020)

The Report of the Credit Committee appears on page 94.

The Board Corporate Governance Committee

- ▶ Mr. J. H. Gunawardena – Chairman (appointed as the Chairman w.e.f. 01.06.2019 and appointed to the Committee on 29.01.2019)
- ▶ Ms. A. Nanayakkara (served as the Chairperson until 30.05.2019)
- ▶ Mr. H. A. M. Seneviratne (appointed w.e.f. 01.03.2019)
- ▶ Mr. J. Selvaratnam (appointed w.e.f. 11.09.2019)
- ▶ Ms. H. S. R. Ranatunga (appointed w.e.f. 28.01.2020)

- ▶ Mr. W. M. P. L. De Alwis (served until 24.02.2020)
- ▶ Mr. K. M. S. P. Herath (served until 28.02.2019)
- ▶ Mr. P. S. Cumararatunga (served until 12.02.2020)

The Report of the Board Corporate Governance Committee appears on pages 95 to 96.

The Board Related Party Transactions Review Committee

- ▶ Mr. J. H. Gunawardena - Chairman (appointed as the Chairman w.e.f. 29.01.2019)
- ▶ Mr. P. S. Cumararatunga served as the Chairman until 29.01.2019)
- ▶ Mr. H. A. M. Seneviratne (appointed w.e.f. 01.03.2019)
- ▶ Mr. J. Selvaratnam (appointed w.e.f. 11.09.2019)
- ▶ Ms. H. S. R. Ranatunga (appointed w.e.f. 28.01.2020)
- ▶ Mr. W. M. P. L. De Alwis (served until 24.02.2020)
- ▶ Mr. K. M. S. P. Herath (served until 28.02.2019)
- ▶ Ms. A. Nanayakkara (served until 30.05.2019)

The Report of the Board Related Party Transactions Review Committee appears on pages 90 to 91.

The Board Nomination Committee

- ▶ Mr. P. S. Cumararatunga – Chairman (appointed as the Chairman w.e.f. 01.01.2020)
- ▶ Dr. H. S. D. Soysa (served as the Chairman until 31.12.2019)
- ▶ Mr. D. Sooriyaarachchi (appointed w.e.f. 28.01.2020)
- ▶ Mr. J. H. Gunawardena (appointed w.e.f. 29.01.2019)
- ▶ Mr. C. P. Palansuriya (served until 31.01.2020)
- ▶ Mr. W. M. P. L. De Alwis (served until 24.02.2020)

The Report of the Board Nomination Committee appears on pages 92 to 93.

The Board IT Committee

- ▶ Mr. W. S. C. Perera – Chairman (appointed w.e.f. 28.01.2020)
- ▶ Mr. P. S. Cumararatunga (appointed as the Chairman w.e.f. 01.06.2019 and stepped down as the Chairman 28.01.2020)
- ▶ Mr. H. A. M. Seneviratne (appointed w.e.f. 01.03.2019)
- ▶ Ms. A. Nanayakkara (served as the Chairperson until 30.05.2019)
- ▶ Dr. H. S. D. Soysa (served as the Chairman until 31.12.2019)
- ▶ Mr. Y. S. H. R. S. Silva (served until 12.02.2020)
- ▶ Mr. W. M. P. L. De Alwis (served until 24.02.2020)

The Report of the Board IT Committee appears on page 97.

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

DIRECTORS' MEETINGS

The details of the Board meetings, the Board Sub Committee meetings and the attendance of the Directors at these meetings are given in the Corporate Governance Report on pages 40 to 73 of the Annual Report.

DIRECTORS' INTEREST REGISTER AND DIRECTORS' INTEREST IN CONTRACTS OR PROPOSED CONTRACTS

The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007, the Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Sections 192 (1) and 192 (2) of the Companies Act No.7 of 2007. These interests have been recorded in the Interest Register which is available for inspection in terms of the Companies Act No.7 of 2007. The particulars of the Directors' Interest in Contracts are given on page 106 of the Annual Report and form an integral part of the Annual Report of the Board of Directors. As a practice and in terms of Corporate Governance, the Directors have refrained from voting on matters in which they were materially interested. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed, in the notes to the Financial Statements.

RELATED PARTY TRANSACTIONS

The Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosure) which is disclosed in the Financial Statements. Those transactions disclosed by the Directors are given in Note 46 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors. The Company has complied with the requirement of the Code of Best Practice issued by the Securities Exchange Commission of Sri Lanka, Listing Rules of the Colombo Stock Exchange and with all disclosure requirement stipulated thereunder.

DIRECTORS' INTEREST IN ORDINARY SHARES AND DEBENTURES

The Directors' shareholding and the relevant interests of the Directors in the shares of the Company as at 31 December 2019 and 31 December 2018 are as follows:

Name	Position	No: of Shares as at 31 December 2019	No: of Shares as at 31 December 2018
Mr. C. P. Palansuriya	Chairman	01	01
Mr. W. M. P. L. De Alwis	Deputy Chirman	01	01
Dr. H. S. D. Soysa	Senior Director	01	01
Mr. P. S. Cumararatunga	Director	01	01
Mr. Y. S. H. R. S. Silva	Director	01	01

Except 225,000 Listed, Rated, Unsecured, Subordinated, Redeemable Debentures held by Mr.P. S. Cumararatunga, no debentures were registered in the name of the Directors at the beginning and at the end of the year under review.

DIRECTORS' REMUNERATION

Details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 46.2 to the Financial Statements.

HUMAN RESOURCES

Human Resource Practices and Policies of the Company are aligned to ensure efficiency, effectiveness and productivity of the work force and these policies are reviewed periodically. Further, all efforts are directed at having a motivated and competent team in order to grow and achieve results as projected in the Strategic Plan and the Budget. As at 31st December 2019, the number of employees on the payroll of the Company was 710 (2018: 597).

ENVIRONMENTAL PROTECTION

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

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments due to the Government, other regulatory bodies and related to the employees have been paid on a timely basis.

OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company's lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or the future operations of the Company. Details of litigation pending against the Company are given in Note 43.2 to the Financial Statements.

EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 44 to the Financial Statements.

GOING CONCERN

The Board of Directors has reviewed the Company's strategic plan/budget and is satisfied that the Company has adequate resources to continue operations in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

DONATIONS

During the year the Company made donations to the value of Rs.Nil (2018: Rs.1,000,000/-).The Company does not make donations for political purposes.

RISK MANAGEMENT AND INTERNAL CONTROL

Material Foreseeable Risk Factors

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. This process is detailed in the Risk Management Report on pages 74 to 82. The Directors, on a regular basis review the above mentioned process through the Board Integrated Risk Management Committee.

Internal Controls

The Directors of the Company have taken reasonable steps to safeguard the assets of the Company and to prevent and detect frauds and any other irregularities. For this purpose the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the significant risks faced by the Company throughout the year and it is being regularly reviewed by the Board of Directors.

This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

CORPORATE GOVERNANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors of the Company are committed towards maintaining an effective Corporate Governance Framework and implementing processes required to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Direction on Corporate Governance issued by the CBSL. Details are given on Corporate Governance Report on pages 40 to 73 of this Annual Report.

Further the Board of Directors declare that the Company complies with the prudential requirements, regulations, laws and internal controls and takes measures to rectify any non-compliance.

AUDITORS

The Auditors of the Company during the year were Messrs Ernst & Young, Chartered Accountants.

Audit fees paid to Ernst & Young for the year ended 31st December 2019 by the Company amounted to Rs. 1.43 Mn (2018: Rs. 1.26 Mn). Further, the Company paid Rs. 2.51 Mn (2018: Rs 2.99 Mn) to Messrs Ernst & Young as permitted non-audit related services including tax consultancy services.

Based on the declaration provided by Messrs Ernst & Young, and as far as the Directors are aware, the Auditors do not have any relationship with or interest with the Company that in their judgments, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka, applicable on the date of this report.

The retiring Auditors, Messrs Ernst & Young, have expressed their willingness to continue in office. They come up for re-election at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the re- appointment of Messrs Ernst & Young, Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

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

NOTICE OF MEETING

The Annual General Meeting of the Company will be held at the Board Room of Sampath Bank PLC, No.110, Sir James Peiris Mawatha, Colombo 02 on 1 June 2020. The Notice of Meeting is given on page 195 of this Annual Report.

As required by Section 168(1)(k) of the Companies Act the Board of Directors hereby acknowledge the contents of this report.

For and on behalf of the Board of Directors,



Sumith Cumaranatunga
Chairman



W M P L De Alwis
Deputy Chairman



Ananda Seneviratne
Managing Director



S Sudarshan
Group Company Secretary

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RESPONSIBILITY

The board of directors ("the Board") of Siyapatha Finance PLC (the Company) presents this report on internal control over Financial Reporting, in compliance with Section 10(2) (b) of Finance Companies corporate Governance Direction No 03 of 2008.

The Board is responsible for ensuring the adequacy and effectiveness of the internal control mechanism of the Company. This mechanism is designed to provide a reasonable assurance to maintain proper accounting records and generate reliable financial information and also to safeguard assets of the Company, rather than to eliminate the risk of failure to achieve the business goals and objectives of the Company. The internal control mechanism can therefore provide only reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses of fraud.

The board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the mechanism of Internal Control Over Financial Reporting as and when there are changes to business environment or regulatory guidelines.

Reviews of this process are conducted by the Board on a regular basis. On the basis of such reviews the Board expresses the view that the internal control mechanism over financial reporting in place is adequate to provide reasonable assurance regarding the reliability of financial reporting and that the preparation of Financial Statement for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Board's policies and procedures pertaining to internal control over financial reporting have been documented. The implementation of such policies and procedures is carried out with the assistance of the management. In order to assess the internal control system over financial reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statement of the Company. The Internal Audit Department of the Company observes and checks them annually for suitability of design and operating effectiveness.

Given below are the key processes which have been established to review the adequacy and integrity of internal control, with respect of financial reporting:

- ▶ Establishment of various sub committees to assist the Board with a view to ensuring the effectiveness of the Company's daily operations and such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Board.
- ▶ The Internal Audit Department of the Company verifies whether policies and procedures of the Company are being complied with, while ascertaining effectiveness of the internal control mechanism, on an ongoing basis, using samples and rotational procedures and highlights any significant non compliance. All Departments and Branches are subjected to audits, the frequency of which is determined by the level of risk assessed which is approved by the Board Audit Committee. The Internal Audit Department submits the Annual Audit Plan for review and approval of the Board Audit Committee. Independent and objective reports covering significant observations of the Internal Audit Department are also tabled for review by the Board Audit Committee, at their periodic meetings.

KEY FEATURES OF THE PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM OVER FINANCIAL REPOTING

- ▶ The Board Audit Committee also reviews the internal audit functions, with particular reference to the scope and quality of the audits. Minutes of all the Board Audit Committee meetings are submitted to the Board for review. In addition, periodical summaries submitted by the Internal Audit Department indicating the functions carried out are reviewed by the Board Audit Committee.
- ▶ Evaluation of adequacy and effectiveness of internal controls over financial reporting is carried out by the Board Audit Committee through review of internal control issues identified by the Internal Audit Department, the External Auditors, regulatory authorities and the management. In order to ensure that key management personnel comply with laid down systems and procedures and implement the required internal control systems at their work locations, a procedure has been introduced to obtain an annual certification from the respective officers.
- ▶ In order to assess the internal control mechanism, all procedures and controls which are connected with significant accounts and disclosures of the Financial Statements of the Company are being continuously reviewed and updated by identified officers of the Company. The Internal Audit Department verifies the suitability of design and operating effectiveness of such procedures and controls, on an ongoing basis.

DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Company adopted SLFRS 16, the new Sri Lanka Accounting Standards on Leases. In addition, required enhancements in control process are being carried out in respect of Management Information System and its reports.

The Board has taken into consideration the requirements of the SLFRS 16- Leases which is effective from 01 January 2019 and necessary steps are being taken to assess its impact on financial statements and to design suitable internal controls.

CONFIRMATION

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

REVIEW OF THE STATEMENTS BY EXTERNAL AUDITORS

The External Auditors, Messrs Ernst & Young, have reviewed the above Directors' statement on Internal Control Over Financial Reporting included in this Annual Report of the Company for the year ended 31 December 2019 and reported to the board that nothing has come to their attention that caused them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Controls Over Financial Reporting of the Company. Their report on the statement of Internal Control Over Financial Reporting is given on page 109 of this Annual Report.

By order of the Board,



W M P L De Alwis
Deputy Chairman



P. S. Cumararatunga
Chairman - Board Audit Committee

Siyapatha Finance PLC
12 February 2020

INDEPENDENT ASSURANCE REPORT

TO THE BOARD OF DIRECTORS OF SIYAPATHA FINANCE PLC



Ernst & Young
Chartered Accountants
201 De Saram Place
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Sri Lanka

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REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL

We were engaged by the Board of Directors of Siyapatha Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the annual report for the year ended 31 December 2019.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

Our Independence and Quality Control

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

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

Our responsibilities and compliance with SLSAE 3051

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the internal control of the Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This Standard required that we plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purpose of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for directors; and appropriately reflected the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of the Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems. The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

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

Our conclusion

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

12 February 2020
Colombo

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC



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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 2019, 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 2019, 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.

Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables including Company's transition to SLFRS 9: Our audit considered impairment for Lease receivables, Factoring receivables and Loan receivables as a key audit matter. The materiality of the reported amounts for Lease receivables, Factoring receivables and Loan receivables (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned our basis for considering it as a Key Audit Matter.	To assess the reasonableness of the allowance for impairment, we carried out audit procedures (among others) to obtain sufficient and appropriate audit evidences, that included the following: <ul style="list-style-type: none"> ▶ We evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Lease receivables, Factoring receivables and Loan receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ▶ We evaluated the effectiveness of the Company's process around modifications to terms after initial granting, specially focusing on identifying rescheduled and restructured credit facilities.

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Principals: G B Goudien ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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Key audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2019 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 31,212 Million (Note 19, 21 and 22), net of total allowance for impairment of LKR 1,640.8 Million (Note 19, 21 and 22). These collectively contributed 76.2% to the total assets.</p> <p>Significant estimates and assumptions used by the management in such calculations, their sensitivities and basis for allowance for impairment are disclosed in Note 4.1.9, 19, 21, 22, and 41.4.</p>	<ul style="list-style-type: none"> ▶ We test-checked the underlying calculations and data used in such calculations. ▶ In addition to the above, following focused procedures were performed: <p>For those individually assessed for impairment:</p> <ul style="list-style-type: none"> ▶ we assessed the main criteria used by the management for determining whether an impairment event had occurred. ▶ where impairment indicators existed, we assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. We also compared the actual recoveries against previously estimated amounts of future recoveries. <p>For those collectively assessed for impairment:</p> <ul style="list-style-type: none"> ▶ we tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems as well as re-performing the computations for impairment. ▶ we also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. ▶ We assessed the adequacy of the related financial statement disclosures as set out in Note 4.1.9, 19, 21, 22, and 41.4.
<p>Company's controls over financial reporting process, related IT systems and implementation of a new IT system</p> <p>Company uses multiple and complex IT systems in its operations. As a result, preparation of financial statements inclusive of key disclosures are heavily dependent on various information system outputs.</p> <p>In order to rely on the output of such system for the purpose of the audit, ensuring the appropriate granting of access for general as well as privileged users and the management of the same are critical.</p>	<p>Our audit procedures included the following, among others</p> <ul style="list-style-type: none"> ▶ We involved our internal specialized resources to understand and evaluate design effectiveness of selected automated, IT dependent and manual controls as implemented by management over the process of generating financial statements and significant disclosures. ▶ Access rights over applications, operating systems and databases that management relied upon for financial reporting, were tested on a sample basis. Our audit procedures included appropriate tests to understand and determine that: <ul style="list-style-type: none"> ▶ new access requests were properly reviewed and authorized by management; ▶ user access rights were removed on a timely basis where relevant; ▶ access rights to applications, operating systems and databases were periodically monitored by management for appropriateness; and ▶ privileged access was restricted to appropriate personnel.

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC



Key audit matter	How our audit addressed the key audit matter
<p>During the year, the Company implemented a new IT system for Lease Receivables. The change of IT system involved the migration of operational and financial data from the previous systems to the new system. As such, ensuring the integrity of financial data being migrated was critical for accurate financial reporting.</p> <p>The preparation and presentation of financial statements and disclosures based on manual or IT dependent controls over the said process was considered by us as an area of significant attention together with the accuracy of data migrated to the new IT system. In addition, as our approach was based on a high degree of reliance on financial reporting related IT controls, a significant proportion of our audit involved procedures in this area, and accordingly we considered this as a key audit matter.</p>	<ul style="list-style-type: none"> ▶ We carried out test-checking of: the reports used for the generation of financial statement disclosures for accuracy and completeness; source data with those of the related systems; and calculations and categorizations performed by management. ▶ Where we considered necessary, we performed additional substantive audit procedures on system output to general ledger reconciliations that supports significant financial statements disclosures. ▶ In respect of the new IT system, we considered the Company's processes and project governance over the implementation as carried out by a third party. We also involved our internal specialised resources to test-check the data migration process. ▶ We also performed other procedures which included understanding and evaluation of specific procedures carried out by personnel involved in the information security function that supported management's assertion of integrity of systems.

Other information included in the 2019 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2019 annual report is expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements

or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

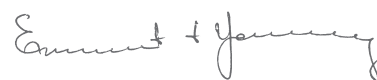
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances,

we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2199.



12 February 2020
Colombo

INCOME STATEMENT

Year ended 31 December	Note	2019 Rs.'000	2018 Rs.'000
Interest income		7,229,612	6,395,898
Less: Interest expenses		(4,230,657)	(3,680,060)
Net interest income	6	2,998,955	2,715,838
Fee and commission income		311,765	278,637
Less: Fee and commission expenses		-	(21)
Net fee and commission income	7	311,765	278,616
Other operating income	8	378,528	288,844
Total operating income		3,689,248	3,283,298
Less: Credit loss expense on financial assets and other losses	9	(1,050,938)	(829,751)
Net operating income		2,638,310	2,453,547
Less: Operating expenses			
Personnel expenses	10	(777,688)	(733,266)
Other operating expenses	11	(655,723)	(595,233)
Operating profit before taxes on financial services		1,204,899	1,125,048
Less: Taxes on financial services	12	(406,369)	(291,259)
Profit before income tax		798,530	833,789
Less: Income tax expense	13	(318,336)	(317,268)
Profit for the year		480,194	516,521
Basic/Diluted earnings per share (Rs.)	14	6.83	8.43
Dividend per share (Rs.)	15	0.50	1.25

The Accounting policies and Notes to the Financial Statements from pages 121 to 185 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2019 Rs.'000	2018 Rs.'000
Profit for the year		480,194	516,521
Other comprehensive income/ (expenses)			
Other comprehensive income that will not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	35.3	(14,527)	2,295
Deferred tax effect on actuarial gain/(loss)	34	4,067	(643)
		(10,460)	1,652
Surplus from revaluation of property, plant & equipment		14,150	70,750
Deferred tax effect on revaluation surplus		(3,962)	(19,810)
	38	10,188	50,940
Other comprehensive income for the year, net of tax		(272)	52,592
Total comprehensive income for the year, net of tax		479,922	569,113
Attributable to :			
Equity holders of the parent company		479,922	569,113
		479,922	569,113

The Accounting policies and Notes to the Financial Statements from pages 121 to 185 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	2019 Rs.'000	2018 Rs.'000
Assets			
Cash and bank balances	17	273,429	191,556
Securities purchased under repurchase agreements	18	2,304,392	1,768,461
Factoring receivables	19	655,141	1,332,310
Gold loan receivables	20	5,011,268	3,548,666
Loan receivables	21	1,533,713	2,481,575
Lease receivables	22	29,023,194	25,601,932
Hire purchase receivables	23	3,437	48,525
Other assets	24	653,710	489,556
Equity instruments at fair value through other comprehensive income	25	56	56
Debt instruments at amortised cost	26	15,301	4,319
Property, plant & equipment	27	1,013,625	615,402
Right-of-use assets	28	403,653	-
Intangible assets	29	56,426	83,972
Total Assets		40,947,345	36,166,330
Liabilities			
Bank overdraft		361,586	321,821
Due to other customers	30	13,221,026	9,672,008
Debt issued and other borrowed funds	31	21,342,227	21,391,367
Other payables	32	1,301,543	600,736
Current tax liabilities	33	407,066	149,015
Deferred tax liabilities	34	230,107	449,603
Retirement benefit obligations	35	67,965	40,789
Total Liabilities		36,931,520	32,625,339
Equity			
Stated capital	36	1,379,922	948,666
Share application money pending allotment	36.1	-	400,000
Statutory reserve fund	37	164,000	139,000
Revaluation reserve	38	117,951	107,763
Retained earnings	39	2,353,952	1,945,562
Total Equity		4,015,825	3,540,991
Total Liabilities and Equity		40,947,345	36,166,330
Net asset value per share (Rs.)		54.78	55.68
Commitments and contingencies	43	728,983	697,121

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 121 to 185 form an integral part of these Financial Statements.

12 February 2020
Colombo

STATEMENT OF CHANGES IN EQUITY

	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 2017		635,917	-	113,000	56,823	1,672,544	2,478,284
Impact of adopting SLFRS 9 as at 1 January 2018		-	-	-	-	(149,435)	(149,435)
Restated balance under SLFRS 9 as at 1 January 2018		635,917	-	113,000	56,823	1,523,109	2,328,849
Profit for the year		-	-	-	-	516,521	516,521
Other comprehensive income, net of tax		-	-	-	50,940	1,652	52,592
Transfer to Statutory Reserve Fund	37	-	-	26,000	-	(26,000)	-
Scrip Dividend paid		62,749	-	-	-	(69,721)	(6,972)
Rights issue of shares		250,000	-	-	-	-	250,000
Share application money pending allotment	36.1	-	400,000	-	-	-	400,000
Balance as at 31 December 2018		948,666	400,000	139,000	107,763	1,945,561	3,540,990
Profit for the year		-	-	-	-	480,194	480,194
Other comprehensive income, net of tax		-	-	-	10,188	(10,460)	(272)
Transfer to Statutory Reserve Fund	37	-	-	25,000	-	(25,000)	-
Scrip Dividend paid		31,256	-	-	-	(36,344)	(5,088)
Rights issue of shares		400,000	(400,000)	-	-	-	-
Balance as at 31 December 2019		1,379,922	-	164,000	117,951	2,353,951	4,015,824

The Accounting policies and Notes to the Financial Statements from pages 121 to 185 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2019 Rs.'000	2018 Rs.'000
Cash flows from operating activities			
Profit before taxation from operations		798,530	833,789
Interest expenses	6	4,230,657	3,680,060
Fee & commission expenses	7	-	21
Credit loss expense on financial assets	9	1,050,938	829,751
Provision for staff gratuity	35.2	16,084	11,921
Provision for depreciation	27	58,116	52,426
Amortisation of software	29	23,273	14,023
(Profit)/Loss on sale of motor vehicles		-	(765)
Write off of provisions		(921,362)	(175)
Operating profit before working capital changes		4,457,706	4,587,262
		5,256,236	5,421,051
(Increase)/Decrease in lease receivables		(3,497,636)	(6,071,416)
(Increase)/Decrease in hire purchase receivables		77,011	209,723
(Increase)/Decrease in factoring receivables		904,744	99,765
(Increase)/Decrease in gold loan receivables		(1,461,614)	(976,106)
(Increase)/Decrease in loan receivables		590,036	31,681
Increase/(Decrease) in due to other customers		3,212,525	291,101
(Increase)/Decrease in other assets		(587,089)	(55,049)
Increase/(Decrease) in other payables		834,067	(239,202)
		72,044	(6,709,503)
Cash generated from operating activities		5,328,280	(1,288,452)
Interest expense paid		(3,915,904)	(3,605,669)
Gratuity paid	35.1	(3,434)	(2,000)
Income tax paid	33	(238,240)	(39,761)
Dividend tax paid		(5,088)	(6,972)
Net cash Inflow/(outflow) from operating activities		1,165,614	(4,942,854)
Cash flow from investing activities			
Net investments in government bonds & government securities		(1,754,282)	639,873
Purchase of property, plant and equipment and intangible assets		(415,926)	(231,693)
Proceeds from sale of property, plant and equipment		-	781
Net cash inflow/(outflow) from investing activities		(2,170,208)	408,961
Net cash outflow before financing activities		(1,004,594)	(4,533,893)
Cash flow from financing activities			
Proceeds from long term loans	31.1	6,000,000	8,350,000
Repayments of long long term loans	31.1	(5,455,411)	(5,821,539)
Proceeds from debentures	31.3	1,500,000	-
Debentures redeemed	31.3	(2,421,990)	-
Proceeds from rights issue		-	250,000
Share application money pending allotment		-	400,000
Net proceeds from short term borrowings		350,000	2,525,000
Repayment of principal portion of lease liabilities		(133,258)	-
Net cash inflow/(outflow) from financing activities		(160,659)	5,703,461
Net increase/(decrease) in cash and cash equivalents		(1,165,253)	1,169,568
Cash & cash equivalents as at the beginning of the year		1,077,107	(92,461)
Cash and cash equivalents as at end of the year		(88,146)	1,077,107
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 17)		273,440	191,559
Securities purchased under repurchase agreements less than three months		-	1,207,369
Bank overdraft		(361,586)	(321,821)
		(88,146)	1,077,107

The Accounting policies and Notes to the Financial Statements from pages 121 to 185 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

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 2019 was 710(597as at 31 December2018).

1.2 Principal Activities and Nature of Operations

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

1.3 Parent Enterprise and Ultimate Parent Enterprise

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company, which comprise Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of

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

2.2 Responsibility for Financial Statements

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

2.3 Approval of Financial Statements by Directors

The Financial Statements of the Company as at and for the year ended 31 December 2019 were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on 12 February 2020.

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 25)
- ▶ 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 27)
- ▶ 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 35)

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 42.

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation. However, the Company has not restated comparative information for 2018 due to adoption of SLFRS 16 except "commitments & contingencies" the details of which are given in Note 45 to the Financial Statements.

2.9 Statement of Cash Flow

The cash flow statement has been prepared by using the indirect method in accordance with the Sri Lanka Accounting Standard - LKAS 7 (Statement of Cash Flows), whereby operating, investing and financial activities have been separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

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

2.10 Events After the Reporting Date

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

No circumstances have arisen since the reporting date, which would require adjustments to, or disclosure in the financial statements, other than those disclosed in Note 44 to the Financial Statements.

2.11 Significant Accounting Judgements, Estimates and Assumptions

The preparation of Financial Statements of the Company in conformity with Sri Lanka Accounting Standards requires

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

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

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

2.11.1 Going Concern

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

operations. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.11.2 Impairment losses on loans and receivables

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

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

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

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

- ▶ The Company's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit loss (LTECL) basis and the qualitative assessment
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis.
- ▶ Development of ECLs, models, including the various formulas and the choice of inputs

Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on probability of default (PDs), Exposure at default (EADs) and loss given default (LGDs).

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

It is the Company's policy to regularly review its models in the context of actual loss experience and adjust whenever necessary. The above assumptions and judgements are discussed in detail under Note 4.1.9 to the Financial Statements.

2.11.3 Fair Value of Financial Instruments

The determination of fair value of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The valuation of financial instruments is described in Note 40 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 40 to the Financial Statements.

2.11.4 Financial Assets and Financial Liabilities Classification

The Company's accounting policies provide scope for assets and liabilities to be classified, at inception in to different accounting categories. The classification of financial instruments is given in Note 16 "Analysis of Financial Instruments by Measurement Basis".

2.11.5 Taxation

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

The details of deferred tax computation is given in Note 34 to the Financial Statements.

2.11.6 Defined Benefit Plans

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

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rate and expected future

salary increase rate of the Company. The sensitivity of assumptions used in actuarial valuations are set out in Note 35 to the Financial Statements.

2.11.7 Fair value of Property, Plant & Equipment

The free hold land of the Company is reflected at fair value at the date of revaluation less any accumulated impairment losses. The Company engages independent valuation specialist to determine fair value of free hold land in terms of Sri Lanka Accounting Standard –SLFRS 13, (Fair Value Measurement). The details of freehold land including methods of valuation are given in Note 27 to the Financial Statements.

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

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

2.11.9 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 43 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES

3.1 New Accounting Standards/ Interpretations effective during the year

The Company has adopted SLFRS16 - Leases, effective for annual periods beginning on or after 01 January 2019, for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described below. The Company has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

3.1.1 SLFRS 16 – Leases

SLFRS 16 supersedes LKAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Company is the lessor.

The Company adopted SLFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Company elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Company applied the standard only to contracts that were previously identified as leases applying LKAS 17 and IFRIC 4 at the date of initial application.

The Company has lease contracts for various branches. Before the adoption of SLFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 4.2.2 for the accounting policy prior to 1 January 2019.

Upon adoption of SLFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.2.1 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

For leases that were classified as finance leases applying LKAS 17, the carrying amount of the right of use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying LKAS 17. For those leases, the Company accounted for the right of use asset and the lease liability applying this Standard from the date of initial application.

Leases previously accounted for as operating leases

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and

accrued lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied the available practical expedients wherein it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- ▶ Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 January 2019:

- ▶ Right-of-use assets of Rs.306.41 million were recognised and presented in the Statement of Financial Position within "Right-of-use assets".
- ▶ Additional lease liabilities of Rs.306.41 million (included in "Other liabilities") were recognised.
- ▶ The adoption of SLFRS 16 had no impact on the Company's retained earnings and no material impact on its Capital Adequacy ratio.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	Rs'000
Operating lease commitments as at 31 December 2018	432,440
Weighted average incremental borrowing rate as at 1 January 2019	13.22%
Discounted operating lease commitments as at 1 January 2019	306,410
Less:	
Commitments relating to short-term leases	-
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	-
Lease liabilities as at 1 January 2019 recognised under SLFRS 16	306,410

3.1.2 IFRIC Interpretation 23 "Uncertainty over Income Tax Treatment"

The Interpretation addresses the accounting for income taxes when tax treatments involve an uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated with certain tax treatments. The Interpretation specifically addresses the following:

- ▶ Whether an entity considers uncertain tax treatments separately
- ▶ The assumptions an entity makes about the examination of tax treatments by taxation authorities

- ▶ How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- ▶ How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex environment, it assessed whether the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The tax filings of the Company in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be statements of the accepted by the taxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

Except for the changes mentioned above, the Company has consistently applied the accounting policies for all periods presented in these Financial Statements.

4. GENERAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements except for the changes mentioned in Note 3 to the Financial Statements.

4.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

4.1.1 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 trade means purchases or sales of financial assets with in the time frame generally established by regulation or convention in the market place.

4.1.2 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, 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.

4.1.3 'Day 1' profit or loss

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

4.1.4 Measurement categories of Financial Assets and Financial Liabilities

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

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

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

(i) Financial Assets at Amortised cost :

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

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

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

The details of the above conditions are outlined below.

Business model assessment

The Company determines its business model at the level that best reflects how

it manages groups of financial assets to achieve its business objective.

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

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

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

The SPPI test

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

'Principal' for the purpose of this test is defined as the fair value of the financial

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

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

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

(ii) Equity instruments at FVOCI

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

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

Currently, the Company has recorded its non-quoted equity investments FVOCI at cost less ECL if any. The details of equity instruments at FVOCI are given in Note 25 to the Financial Statements.

(iii) Debt issued and other borrowed funds

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

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

4.1.5 Classification and Subsequent Measurement of Financial Liabilities

Financial liabilities, other than loan commitments and financial guarantees, are classified 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 and 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 fair value, and changes therein recognized in Income Statement.

ii. Financial Liabilities at Amortised Cost

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

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

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

4.1.6 Reclassifications of Financial assets and Financial Liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2019.

4.1.7 Derecognition of Financial Assets and Financial Liabilities

4.1.7.1 Derecognition due to substantial modification of terms and conditions

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

4.1.7.2 Derecognition other than for substantial modification

(a) Derecognition of Financial Assets

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

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

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

Or

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

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

- ▶ The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- ▶ The Company cannot sell or pledge the original asset other than as security to the eventual recipients
- ▶ The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows,

except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

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

Or

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

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred

asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

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

(b) Derecognition - Financial Liabilities

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

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

4.1.8 Determination of Fair Value

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

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

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

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

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

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

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

Level 1: 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 40 to the Financial Statements.

4.1.9 Impairment of Financial Assets

4.1.9 (a) Overview of the expected credit loss (ECL) principles

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 41.4.1.

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

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

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

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

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

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

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

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

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

b. The Calculation of Expected Credit Loss (ECL)

The Company calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls (the base case, best case and the worst case), discounted at an approximation to the EIR. A cash shortfall is the difference

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between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

With the exception of debt factoring and other revolving facilities, for which the treatment is separately set out in Note 4.1.9 (d), the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Company has the legal right to call it earlier.

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

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

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

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

The mechanism of the ECL method are summarised below.

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that represent the ECLs that result from

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

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

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

Loan

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

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

Financial Guarantee contracts:

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

c. Debt instruments measured at fair value through OCI

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

d. Debt factoring and revolving loans

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

expectations, the period over which the Company calculates ECLs for these products, is limited to 12 months.

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

e. Forward looking information

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

- ▶ GDP growth
- ▶ Unemployment rate
- ▶ Central Bank base rates
- ▶ Inflation

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.

4.1.9 (ii) Reversals of impairment

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

4.1.9 (iii) Renegotiated Loans

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Company considers a loan renegotiated when such concessions or modifications are provided as a result of the borrower's

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

When the loan has been renegotiated or modified but not derecognised, the Company also reassesses whether there has been a significant increase in credit risk, as set out in Note 41.4.1. The Company also considers whether the assets should be classified as Stage 3.

If modifications are substantial, the loan is derecognised as explained in Note 4.1.9(iii).

4.1.9 (iv) 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.

4.1.9 (v) Collateral Valuation

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

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

4.1.9 (vi) 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.

4.1.9 (vii) 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/

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SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.2 Leases

4.2.1 Policy applicable as of 1 January 2019

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

a. The Company as lessor

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

b. The Company as lessee

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

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities

recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented in Note 28 and are subject to impairment in line with the Company's policy as described in Note 4.5 Impairment of non-financial assets.

Lease liabilities

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

4.2.2 Policy applicable before 1 January 2019

Finance and Operating Lease

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

a. Finance Lease

Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership

of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Receivable'. The finance 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.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is including 'Other liabilities'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net interest income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

The details of Finance Lease Receivables are given in Note 22 to the Financial Statements.

b. Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'other operating expenses' and 'other operating income', respectively.

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

4.3.1 Recognition

Property, plant and equipment are tangible items that are held for use in the production or supply of services, for rental to others or for administrative purposes and are expected to be used during more than one period.

The Company applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) in accounting for these assets. Property, plant and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured. Right-of-use assets are presented separately in the Statement of Financial Position.

4.3.2 Measurement

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

4.3.3 Cost Model

The Company applies the cost model to property, plant & equipment except for freehold land and buildings and records at

cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

4.3.4 Revaluation Model

The Company applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the Company are revalued every three years or more frequently if the fair values are substantially different from carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date. The Company has revalued its freehold land during the year 2019 and details of the revaluation are given in Note 27 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.

4.3.5 Subsequent Cost

The subsequent cost of replacing a component of an item of property, plant

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

4.3.6 Repairs and Maintenance

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

4.3.7 Capital Work-in-Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

4.3.8 Borrowing Costs

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

During the year, the Company capitalized Rs. 26,559,002/- as borrowing cost related

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to the acquisition of property, plant & equipment. The capitalisation rates used to determine the amount of eligible borrowing costs for capitalisation were between 11.8% -14.0%.

4.3.9 De-recognition

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

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

4.3.10 Depreciation

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

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

Category of Asset	Period of Depreciation	
	2019 % p.a.	2018 % p.a.
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

Right-of-use assets are depreciated on a straight-line method from the

commencement date to the earlier of the end of the useful life of the right of use assets or the end of the lease term.

4.3.11 Change in Estimates

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

4.4 Intangible Assets

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

4.4.1 Basis of Recognition

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

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

4.4.2 Subsequent Expenditure

Subsequent expenditure on Intangible Asset 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.

4.4.3 Useful Economic life, Amortization and Impairment

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

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in

the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

4.4.4 Amortization

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

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

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

4.4.5 Derecognition

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

4.5 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's

recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

4.6 Dividend Payable

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

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

4.7 Retirement Benefit Obligations

4.7.1 Defined Benefit Plan - Gratuity

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

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

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

Recognition of Actuarial Gains and Losses

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

Interest Cost

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

Funding Arrangements

The Gratuity liability is not externally funded.

4.7.2 Defined Contribution Plans

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

The Company contributes to the following Schemes:

Employees' Provident Fund

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

Employees' Trust Fund

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

4.8 Statutory Reserve Fund

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

4.9 Provisions

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

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

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

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4.10 Segment Information

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

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

- ▶ Leasing and hire purchase
- ▶ Gold Loan
- ▶ Others

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

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

Revenue from transactions with a single external customer or counterparty did not exceed 10% or more of the Company's total revenue in 2019 & 2018.

The income, profit total assets and total liabilities of the Company's operating segments are presented in Note 47 to the Financial Statements.

4.11 Recognition of Interest Income/Expense

4.11.1 Interest Income/Expense

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

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

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

When a financial asset becomes credit-impaired (as set out in Note 41.4.1 and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the

net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

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.

4.11.2 Interest Income on Overdue Rentals

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

4.12 Fee and Commission Income and Expenses

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

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

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

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

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

a) Fee Income earned from services that are provided over a certain period of time

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

b) Fee Income from providing transaction services

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

4.13 Other operating income

(a) Dividend Income

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

(b) Recovery of Bad Debts Written Off

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

(c) Other Income

Other income is recognised on an accrual basis.

4.14 Personnel Expenses

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

4.15 Taxes

As per Sri Lanka Accounting Standard –LKAS 12(Income Taxes),tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

4.15.1 Current tax

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

Accordingly, provision for taxation is based on the profit for the year 2019 adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendment thereto, at the rate specified in Note 13 to the Financial Statements.

4.15.2 Deferred tax

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

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

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

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

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 33 and Note 34 to the Financial Statements respectively.

4.15.3 Value Added Tax (VAT) on Financial Services

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2019

4.15.4 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on financial services.

This tax was abolished by the government from 1 December 2019.

4.15.5 Debt Repayment Levy (DRL)

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

This tax was abolished by the government from 1 January 2020.

4.15.6 Withholding Tax (WHT) on Dividends

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

4.15.7 Economic Service Charge (ESC)

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

This tax was abolished by the government from 1 January 2020.

4.16 Regulatory provisions

4.16.1 Deposit Insurance and Liquidity Support Scheme

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

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

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

Registered Finance Companies are required to pay a premium of 0.15% on total amount of eligible deposits as at end of the month

with in a period of 15 days from the end of the respective month.

4.16.2

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

4.17 Earnings per Share (EPS)

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

4.18 Commitments and Contingencies

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

Financial guarantees and undrawn loan commitments

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

Financial guarantees are initially recognised in the Financial Statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Company's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative

amortisation recognised in the income statement, and ECL Provision under SLFRS 9.

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

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments are disclosed in Note 43.

5. SRI LANKA ACCOUNTING STANDARDS NOT YET EFFECTIVE AS AT 31 DECEMBER 2019

The following Sri Lanka Accounting Standards and interpretations have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st December 2019. The Company intends to adopt these new and amended standards, if applicable, when they become effective.

5.1 SLFRS 17 Insurance Contracts

SLFRS 17 Insurance Contracts, is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosures. Once effective, SLFRS 17 replaces existing SLFRS 4 Insurance contracts. The overall objective of SLFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers.

SLFRS 17 is effective for reporting periods beginning on or after 1 January 2021.

Early application permitted, if the entity is applying SLFRS 16 and SLFRS 15 on or before the date in which it first apply SLFRS 17. This standard is not applicable to the Company.

5.2 Amendments to LKAS 1 and LKAS 8: Definition of Material

Amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

The amendments to the definition of material are not expected to have a significant impact on the Company's Financial Statements.

5.3 Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process

is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020 with early application permitted.

5.4 Amendments to references to the conceptual framework in SLFRS standards

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes:

- ▶ a new chapter on measurement;
- ▶ guidance on reporting financial performance;
- ▶ improved definitions of an asset and a liability, and guidance supporting these definitions; and
- ▶ clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting

Since the amendments are effective for annual periods beginning on or after 1 January 2020, the Company will not be affected by these amendments as at the reporting date. Further, the amendments to the references to the conceptual framework in SLFRS standards are not expected to have a significant impact on the Company's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

6. NET INTEREST INCOME

	2019	2018
For the year ended 31 December	Rs.'000	Rs.'000

6.1 Interest income

Interest income on lease receivables	4,949,834	4,231,110
Interest income on hire purchase receivables	1,843	20,453
Interest income on factoring receivables	144,844	410,502
Interest income accrued on impaired financial assets	84,210	12,371
Interest income on loan receivables	299,672	541,223
Interest income on gold loan receivables	1,048,070	679,281
Interest income on government securities	214,972	156,362
Interest income on overdue rentals	446,069	326,368
Interest income on staff loans	37,019	17,253
Interest income on placements with banks	3,079	975
Total interest income	7,229,612	6,395,898

6.2 Interest expenses

Bank overdraft	22,587	15,641
Short term borrowings	540,975	510,729
Lease liabilities	45,493	-
Customer deposits	1,530,374	1,090,191
Long term borrowings	1,516,871	1,515,209
Redeemable debentures	574,357	548,290
Total interest expenses	4,230,657	3,680,060
Net interest income	2,998,955	2,715,838

7. NET FEE AND COMMISSION INCOME

	2019	2018
For the year ended 31 December	Rs.'000	Rs.'000

Documentation charges	86,689	72,370
Insurance commission	117,083	85,960
Service charges-Gold loan	101,497	106,774
Processing fees	2,372	11,871
Other fee & commission income	4,124	1,663
Total fee and commission income	311,765	278,637

Fee and commission expenses

Guarantee fee	-	21
Total fee and commission expenses	-	21
Net fee and commission income	311,765	278,616

8. OTHER OPERATING INCOME

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Profit on early terminations	257,016	229,536
Profit on disposal of motor vehicles	-	765
Recovery of bad debts written off	12,838	1,386
Recovery of charges	41,132	38,898
Sundry income	67,542	18,259
Total other operating income	378,528	288,844

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.

For the year ended 31 December	2019 Rs.'000 Stage 1	2019 Rs.'000 Stage 2	2019 Rs.'000 Stage 3	2019 Rs.'000 Total
Lease receivables	35,459	14,778	227,610	277,847
Hire purchase receivables	(11)	(15)	(2,217)	(2,243)
Factoring receivables	(11,935)	5,536	222,705	216,306
Loan receivables	(4,228)	(3,730)	365,784	357,826
Gold loan receivables	(1,410)	(884)	1,306	(988)
Repossessed stock	-	-	201,908	201,908
Bank balances	7	-	-	7
Credit related commitments & contingencies	117	158	-	275
	17,999	15,843	1,017,096	1,050,938

For the year ended 31 December	2018 Rs.'000 Stage 1	2018 Rs.'000 Stage 2	2018 Rs.'000 Stage 3	2018 Rs.'000 Total
Lease receivables	(21,978)	16,704	291,973	286,699
Hire purchase receivables	(129)	(226)	(4,801)	(5,156)
Factoring receivables	(18,546)	(9,768)	323,445	295,131
Loan receivables	(124)	(3,050)	216,977	213,803
Gold loan receivables	3,370	1,676	(152)	4,894
Repossessed stock	-	-	34,404	34,404
Bank balances and placements with banks	(24)	-	-	(24)
	(37,431)	5,336	861,846	829,751

NOTES TO THE FINANCIAL STATEMENTS

10. PERSONNEL EXPENSES

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Salaries and bonus	629,481	595,421
Contribution to defined contribution plan	60,927	54,692
Gratuity charge for the year	16,084	11,921
Others	71,196	71,232
	777,688	733,266

11. OTHER OPERATING EXPENSES

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Directors' emoluments	42,228	25,722
Auditors' remuneration	1,430	1,266
Non-audit fees to auditors	2,508	2,994
Professional & legal expenses	19,411	21,431
Depreciation on property, plant & equipment	58,117	52,426
Amortization of intangible assets	23,273	14,023
Deposit insurance premium	17,391	11,993
Donations	-	1,000
Operating lease expenses	-	94,006
Amortisation expenses on right-of-use assets	103,384	-
Office administration & establishment expenses	251,183	208,102
Advertising expenses	54,963	89,167
Other expenses	81,835	73,103
	655,723	595,233

12. TAXES ON FINANCIAL SERVICES

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Value added tax	234,698	228,834
Nation building tax	33,680	32,437
Debt repayment levy	137,991	29,988
	406,369	291,259

13 INCOME TAX EXPENSE

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

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Income statement		
Current tax expense		
Income tax for the year	572,894	165,451
Under/ (Over) provision of current taxes in respect of previous years	(35,169)	(3,977)
	537,725	161,474
Deferred tax expense		
Deferred taxation charge/(reversal) (refer note 34)	(219,389)	155,794
	318,336	317,268
Effective tax rate	39.87%	38.05%

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

For the year ended 31 December	2019 Rs. '000	2018 Rs. '000
Accounting profit before income taxation	798,530	833,789
At the statutory income tax rate of 28%	223,588	233,461
Tax effect of non deductible expenses	404,482	106,040
Tax effect of other allowable credits	(55,177)	(46,345)
Tax effect of losses claimed	-	(127,705)
Under/ (Over) provision of current taxes in respect of previous years	(35,169)	(3,977)
Deferred tax charge/(reversal)	(219,389)	155,794
	318,336	317,268

The Company's income is taxed at the rate of 28% during the years 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

14. EARNINGS PER ORDINARY SHARE - BASIC/DILUTED (RS.)

For the year ended 31 December	2019	2018
Profit attributable to ordinary shareholders (Rs. 000)	480,194	516,521
Weighted average number of ordinary shares during the year (14.1)	70,348,523	61,276,294
Basic/Diluted earnings per ordinary share- (Rs.)	6.83	8.43

14.1 Weighted average number of ordinary shares (basic)

For the year ended 31 December	Outstanding No: of Shares		Weighted Average No: of Shares	
	2019	2018	2019	2018
Number of shares in issue as at 1 January	63,596,388	55,777,146	63,596,388	55,777,146
Add:				
Number of shares issued due to scrip dividend 2018	-	1,569,242	-	1,569,242
Number of shares issued under rights issue 2018	-	6,250,000	-	3,304,795
Number of shares issued due to scrip dividend 2019	625,111	-	625,111	625,111
Number of shares issued under rights issue 2019	9,090,910	-	6,127,024	-
Number of shares in issue/weighted average number of ordinary shares at 31st December	73,312,409	63,596,388	70,348,523	61,276,294

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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.

15. DIVIDEND PAID

For the year ended 31 December	2019	2018
Scrip dividends paid (Rs. 000)	36,344	69,721
Number of Ordinary Shares	72,687,298	55,777,146
Dividends per Ordinary Share (Rs.)	0.50	1.25

A scrip dividend of Rs. 0.50 per share for the year 2018 was paid in May 2019. (A scrip dividend of Rs. 1.25 per share for the year 2017 was paid in March 2018).

16. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

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

	Amortised Cost Rs'000	Equity instruments-FVOCI Rs'000	Total Rs'000
As at 31 December 2019			
Financial Assets			
Cash and bank balances	273,429	-	273,429
Securities purchased under repurchase agreements	2,304,392	-	2,304,392
Factoring receivables	655,141	-	655,141
Gold loan receivables	5,011,268	-	5,011,268
Loan Receivables	1,533,713	-	1,533,713
Lease receivables	29,023,194	-	29,023,194
Hire purchase receivables	3,437	-	3,437
Other assets	539,784	-	539,784
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	15,301	-	15,301
Total Financial Assets	39,359,659	56	39,359,715
Financial Liabilities			
Bank overdraft	361,586	-	361,586
Due to other customers	13,221,026	-	13,221,026
Debt issued and other borrowed funds	21,342,227	-	21,342,227
Other payables	1,100,634	-	1,100,634
Total Financial Liabilities	36,025,473	-	36,025,473
As at 31 December 2018			
Financial Assets			
Cash and bank balances	191,556	-	191,556
Securities purchased under repurchase agreements	1,768,461	-	1,768,461
Factoring receivables	1,332,310	-	1,332,310
Gold loan receivables	3,548,666	-	3,548,666
Loan Receivables	2,481,575	-	2,481,575
Lease receivables	25,601,932	-	25,601,932
Hire purchase receivables	48,525	-	48,525
Other assets	370,267	-	370,267
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	4,319	-	4,319
Total Financial Assets	35,347,611	56	35,347,667
Financial Liabilities			
Bank overdraft	321,821	-	321,821
Due to other customers	9,672,008	-	9,672,008
Debt issued and other borrowed funds	21,391,367	-	21,391,367
Other payables	398,769	-	398,769
Total Financial Liabilities	31,783,965	-	31,783,965

NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND BANK BALANCES

	2019 Rs. '000	2018 Rs. '000
As at 31 December		
Cash in hand	149,917	159,797
Balances with local banks	123,523	31,762
Less: Allowance for expected credit losses (17.1)	(11)	(4)
	273,429	191,556

17.1 The movement in provision for expected credit losses are as follows.

	2019 Rs. '000 Stage 1 Total	2018 Rs. '000 Stage 1 Total
As at 31 December		
Balance as at 01st January	4	8
Charge/(Reversal) for the year	7	(4)
Balance as at 31st December	11	4

18. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

	2019 Rs. '000	2018 Rs. '000
As at 31 December		
Securities purchased under repurchase agreements	2,304,392	1,768,461
	2,304,392	1,768,461

19. FACTORING RECEIVABLES

	2019 Rs. '000	2018 Rs. '000
As at 31 December		
Factoring receivables	1,001,610	1,948,385
Less: VAT suspense	(293)	(166)
Gross factoring receivable	1,001,317	1,948,219
Less : Allowance for expected credit losses/ individual impairment (Note 19.3)	(322,948)	(586,145)
Allowance for expected credit losses/ collective impairment (Note 19.4)	(23,228)	(29,764)
	655,141	1,332,310

19.1 Analysis of factoring receivables on maximum exposure to credit risk

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
As at 31 December 2019				
Individually impaired factoring receivables	462,686	38,888	387,448	889,022
factoring receivables subject to collective impairment	112,295	-	-	112,295
Gross factoring receivables	574,981	38,888	387,448	1,001,317
Allowance for expected credit losses (ECL)	(9,963)	(14,355)	(321,858)	(346,176)
	565,018	24,533	65,590	655,141

19.2 Analysis of factoring receivables on maximum exposure to credit risk

As at 31 December 2018	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Individually impaired factoring receivables	566,780	188,699	1,028,540	1,784,019
factoring receivables subject to collective impairment	162,871	1,329	-	164,200
Gross factoring receivables	729,651	190,028	1,028,540	1,948,219
Allowance for expected credit losses(ECL)	(21,898)	(8,819)	(585,192)	(615,909)
	707,753	181,209	443,348	1,332,310

19.3 Allowance for expected credit losses/Impairment

	2019 Rs. '000	2018 Rs. '000
Individually impaired loans		
Balance as at 01st January	586,145	151,166
Charge/ (Reversal) to income statement	222,842	444,917
Write-off during the year	(443,881)	(175)
Interest income accrued on impaired loans (Note 6.1)	(84,210)	(12,371)
Other movements	42,052	2,608
Balance as at 31st December	322,948	586,145

19.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment		
Balance as at 01st January	29,764	179,550
Charge/ (Reversal) to income statement	(6,536)	(149,786)
Balance as at 31st December	23,228	29,764

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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19.5 Movement in allowance for expected credit losses

Balance as at 01st January 2019	21,898	8,819	585,192	615,909
Charge/ (Reversal) to income statement (Note 9)	(11,935)	5,536	222,705	216,306
Write-off during the year	-	-	(443,881)	(443,881)
Interest income accrued on impaired loans (Note 6.1)	-	-	(84,210)	(84,210)
Other movements	-	-	42,052	42,052
Balance as at 31st December 2019	9,963	14,355	321,858	346,176

19.6 Movement in allowance for expected credit losses

Balance as at 01st January 2018	40,444	18,587	271,685	330,716
Charge/ (Reversal) to income statement (Note 9)	(18,546)	(9,768)	323,445	295,131
Write-off during the year	-	-	(175)	(175)
Interest income accrued on impaired loans (Note 6.1)	-	-	(12,371)	(12,371)
Other movements	-	-	2,608	2,608
Balance as at 31st December 2018	21,898	8,819	585,192	615,909

NOTES TO THE FINANCIAL STATEMENTS

20. GOLD LOAN RECEIVABLES

	2019 Rs. '000	2018 Rs. '000
As at 31 December		
Gold loan receivables	5,020,780	3,559,166
Less : Allowance for expected credit losses/ collective impairment (Note 20.3)	(9,512)	(10,500)
	5,011,268	3,548,666

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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20.1 Analysis of gold loan receivables on maximum exposure to credit risk

As at 31 December 2019

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

20.2 Analysis of gold loan receivables on maximum exposure to credit risk

As at 31 December 2018

Gross factoring receivables - subject to collective impairment	2,636,087	895,841	27,238	3,559,166
Allowance for expected credit losses (ECL)	(5,177)	(4,027)	(1,296)	(10,500)
	2,630,910	891,814	25,942	3,548,666

20.3 Allowance for expected credit losses/Impairment

	2019 Rs. '000	2018 Rs. '000
Loans subject to collective impairment		
Balance as at 01st January	10,500	5,606
Charge/ (Reversal) to income statement	(988)	4,894
Balance as at 31st December	9,512	10,500

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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20.4 Movement in allowance for expected credit losses

As at 31 December 2019

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

20.5 Movement in allowance for expected credit losses

As at 31 December 2018

Balance as at 01st January 2018	1,807	2,351	1,448	5,606
Charge/ (Reversal) to income statement (Note 9)	3,370	1,676	(152)	4,894
Balance as at 31st December 2018	5,177	4,027	1,296	10,500

21. LOAN RECEIVABLES

As at 31 December	2019 Rs. '000	2018 Rs. '000
Revolving loan receivables	120,899	190,132
Vehicle loan receivables	1,723	18,602
Personal/Business loan receivables	2,014,823	2,518,747
Gross loan receivables	2,137,445	2,727,481
Less : Allowance for expected credit losses/ individual impairment(Note 21.3)	(369,638)	(94,778)
Less : Allowance for expected credit losses/ collective impairment(Note 21.4)	(234,094)	(151,128)
	1,533,713	2,481,575

21.1 Analysis of loan receivables on maximum exposure to credit risk

As at 31 December 2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
As at 31 December 2019				
Individually impaired loan receivables	87,989	58,664	680,734	827,387
Loan receivables subject to collective impairment	425,078	188,486	696,494	1,310,058
Allowance for expected credit losses(ECL)	(3,251)	(4,087)	(596,394)	(603,732)
	509,816	243,063	780,834	1,533,713

21.2 Analysis of loan receivables on maximum exposure to credit risk

As at 31 December 2018				
Individually impaired loan receivables	52,964	83,678	317,241	453,883
Loan receivables subject to collective impairment	1,190,819	389,615	693,164	2,273,598
Allowance for expected credit losses(ECL)	(7,479)	(7,817)	(230,610)	(245,906)
	1,236,304	465,476	779,795	2,481,575

21.3 Allowance for expected credit losses/Impairment

	2019 Rs. '000	2018 Rs. '000
Individually impaired loans		
Balance as at 01st January	94,778	5,296
Charge/ (Reversal) to income statement	274,860	89,482
Balance as at 31st December	369,638	94,778

21.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment		
Balance as at 01st January	151,128	26,807
Charge/ (Reversal) to income statement	82,966	124,321
Balance as at 31st December	234,094	151,128

NOTES TO THE FINANCIAL STATEMENTS

21. LOAN RECEIVABLES (CONTD)

21.5 Movement in allowance for expected credit losses

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
As at 31 December 2019				
Balance as at 01st January 2019	7,479	7,817	230,610	245,906
Charge/ (Reversal) to income statement (Note 9)	(4,228)	(3,730)	365,784	357,826
Balance as at 31st December 2019	3,251	4,087	596,394	603,732

21.6 Movement in allowance for expected credit losses

As at 31 December 2018

Balance as at 01st January 2018	7,603	10,867	13,633	32,103
Charge/ (Reversal) to income statement (Note 9)	(124)	(3,050)	216,977	213,803
Balance as at 31st December 2018	7,479	7,817	230,610	245,906

22. LEASE RECEIVABLES

As at 31 December	2019 Rs.'000	2018 Rs.'000
At Amortized cost		
Total lease rentals receivable	39,335,106	35,056,721
Less: Unearned lease interest income	(9,620,205)	(8,834,535)
Less: VAT suspense	(802)	(5,562)
Less: Prepaid rentals	(23)	(184)
Gross lease receivable	29,714,076	26,216,440
Less: Allowance for expected credit losses/ collective impairment (Note 22.5)	(690,882)	(614,508)
Net lease receivable (Note 22.1 & 22.2)	29,023,194	25,601,932

Lease receivables include receivables amounting to 21,835,678,192/- (2018- Rs.18,436,792,074/-) that have been assigned under term loan funding arrangement.

	1 Year Rs.'000	1 - 5 Year Rs.'000	More than 5 Year Rs.'000	Total Rs.'000
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22.1 Maturity analysis of net lease receivable

As at 31 December 2019

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

	1 Year Rs. '000	1 - 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
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22.2 Maturity analysis of net lease receivable

As at 31 December 2018

Total lease rentals receivable

(Net of VAT suspense and prepaid rentals)	12,998,466	21,949,068	103,441	35,050,975
Less: Unearned lease interest income	(3,958,527)	(4,868,635)	(7,373)	(8,834,535)
Gross lease receivable	9,039,939	17,080,433	96,068	26,216,440
Less: Allowance for expected credit losses	(211,625)	(400,530)	(2,353)	(614,508)
Net lease receivable	8,828,314	16,679,903	93,715	25,601,932

22.3 Analysis of lease receivables on maximum exposure to credit risk

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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As at 31 December 2019

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

22.4 Analysis of lease receivables on maximum exposure to credit risk

As at 31 December 2018

Gross lease receivables- subject to collective impairment	16,689,192	6,752,948	2,774,300	26,216,440
Allowance for expected credit losses(ECL)	(39,697)	(89,466)	(485,345)	(614,508)
	16,649,495	6,663,482	2,288,955	25,601,932

22.5 Allowance for expected credit losses/Impairment

	2019 Rs. '000	2018 Rs. '000
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Loans subject to collective impairment

Balance as at 01st January	614,508	327,809
Charge/ (Reversal) to income statement	277,847	286,699
Write-off during the year	(201,473)	-
Balance as at 31st December	690,882	614,508

NOTES TO THE FINANCIAL STATEMENTS

22. LEASE RECEIVABLES (CONTD)

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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22.6 Movement in allowance for expected credit losses

As at 31 December 2019

Balance as at 01st January 2019	39,697	89,466	485,345	614,508
Charge/ (Reversal) to income statement (Note 9)	35,459	14,778	227,610	277,847
Write-off during the year	-	-	(201,473)	(201,473)
Balance as at 31st December 2019	75,156	104,244	511,482	690,882

22.7 Movement in allowance for expected credit losses

As at 31 December 2018

Balance as at 01st January 2018	61,675	72,762	193,372	327,809
Charge/ (Reversal) to income statement (Note 9)	(21,978)	16,704	291,973	286,699
Balance as at 31st December 2018	39,697	89,466	485,345	614,508

23. HIRE PURCHASE RECEIVABLES

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	2019 Rs. '000	2018 Rs. '000
As at 31 December		
Total hire purchase rentals receivable	5,659	84,656
Less: Unearned hire purchase interest income	(1,020)	(3,006)
Gross hire purchase receivable	4,639	81,650
Less: Allowance for expected credit losses/ collective impairment (Note 23.5)	(1,202)	(33,125)
Net hire purchase receivable (Note 23.1 & 23.2)	3,437	48,525

No any hire purchase receivables have been assigned under term loan funding arrangement as at 31 December 2019. (2018-Rs.38,820,419/-).

	1 Year Rs. '000	1 - 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
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23.1 Maturity analysis of net hire purchase receivable

As at 31 December 2019

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

23.2 Maturity analysis of net hire purchase receivable

As at 31 December 2018

Total hire purchase rentals receivable	79,287	3,284	2,085	84,656
Less: Unearned hire purchase interest income	(2,369)	(535)	(102)	(3,006)
Gross hire purchase receivable	76,918	2,749	1,983	81,650
Less: Allowance for expected credit losses	(30,977)	(1,435)	(713)	(33,125)
	45,941	1,314	1,270	48,525

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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23.3 Analysis of hire purchase receivables on maximum exposure to credit risk

As at 31 December 2019

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

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

As at 31 December 2018

Gross hire purchase receivables - subject to collective impairment	26,346	11,337	43,967	81,650
Allowance for expected credit losses(ECL)	(16)	(17)	(33,092)	(33,125)
	26,330	11,320	10,875	48,525

23.5 Allowance for expected credit losses/Impairment

	2019 Rs. '000	2018 Rs. '000
Loans subject to collective impairment		
Balance as at 01st January	33,125	38,281
Charge/ (Reversal) to income statement	(2,243)	(5,156)
Write-off during the year	(29,680)	-
Balance as at 31st December	1,202	33,125

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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23.6 Movement in allowance for expected credit losses

Balance as at 01st January 2019	16	17	33,092	33,125
Charge/ (Reversal) to income statement (Note 9)	(11)	(15)	(2,217)	(2,243)
Write-off during the year	-	-	(29,680)	(29,680)
Balance as at 31st December 2019	5	2	1,195	1,202

23.7 Movement in allowance for expected credit losses

Balance as at 01st January 2018	145	243	37,893	38,281
Charge/ (Reversal) to income statement (Note 9)	(129)	(226)	(4,801)	(5,156)
Balance as at 31st December 2018	16	17	33,092	33,125

NOTES TO THE FINANCIAL STATEMENTS

24. OTHER ASSETS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Financial Assets		
Reposessed stock	133,234	177,654
Less: Provision for reposessed stock (Note 24.1 & 24.2)	(133,234)	(177,654)
Insurance premium receivable	290,847	191,068
Staff loan	203,558	171,420
Less: Staff loan fair value adjustment	(18,392)	(23,716)
Insurance commission receivable	52,350	23,902
Other financial assets	11,421	7,593
	539,784	370,267
Non Financial Assets		
Pre paid expenses	42,592	50,767
Pre-paid staff cost	18,392	23,716
Advance payments	6,034	4,546
Inventories	3,356	2,646
Taxes receivable	20,980	22,730
Other non financial assets	22,572	14,884
	113,926	119,289
	653,710	489,556

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	Lease Rs. '000	Hire purchase Rs. '000	Loan Rs. '000	Factoring Rs. '000	Total Rs. '000
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24.1 Movement in provision for reposessed stock

As at 31 December 2019

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

24.2 Movement in provision for reposessed stock

As at 31 December 2018

Balance as at 01st January	105,619	31,083	4,941	1,658	143,301
Charge/ (Reversal) during the Year	33,315	498	(40)	631	34,404
Other movements	-	-	-	(51)	(51)
Balance as at 31st December	138,934	31,581	4,901	2,239	177,654

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

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	2019 Rs. '000	2018 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 2019, the Company received dividends of Rs.240,800/- (2018-Rs.206,400/-) from these unquoted equity investments, recorded as other operating income.

26. DEBT INSTRUMENTS AT AMORTISED COST

As at 31 December	2019 Rs. '000	2018 Rs. '000
Government debt securities - treasury bills & bonds	15,301	4,319
	15,301	4,319

27. PROPERTY, PLANT & EQUIPMENT

27.1 Cost/Valuation

As at 31 December	Freehold Land Rs. '000	Fixtures Rs. '000	Office furniture Rs. '000	Office equipment Rs. '000	Motor vehicles Rs. '000	Computer equipment Rs. '000	Capital work-in progress Rs. '000	Total Rs. '000
Balance as at 1 January 2018	283,000	128,413	30,180	64,428	11,471	88,161	16,128	621,781
Additions and improvements	-	27,234	6,524	11,883	980	6,853	88,481	141,955
Revaluation surplus	70,750	-	-	-	-	-	-	70,750
Disposals during the year	-	-	-	-	(3,922)	-	-	(3,922)
Balance as at 31 December 2018	353,750	155,647	36,704	76,311	8,529	95,014	104,609	830,564
Additions and improvements	-	37,112	6,044	22,571	-	17,859	358,606	442,192
Revaluation surplus	14,150	-	-	-	-	-	-	14,150
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	41	(41)	6	(1)	(99)	-	(94)
Balance as at 31 December 2019	367,900	192,800	42,707	98,888	8,528	112,774	463,215	1,286,812
Accumulated Depreciation								
Balance as at 1 January 2018	-	65,143	15,844	31,233	10,196	44,225	-	166,641
Depreciation charge for the year	-	25,696	4,050	9,302	953	12,425	-	52,426
Disposals during the year	-	-	-	-	(3,905)	-	-	(3,905)
Balance as at 31 December 2018	-	90,839	19,894	40,535	7,244	56,650	-	215,162
Depreciation charge for the year	-	27,877	4,793	11,975	536	12,935	-	58,116
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	(7)	(34)	(46)	-	(4)	-	(91)
Balance as at 31 December 2019	-	118,709	24,653	52,464	7,780	69,581	-	273,187
Net book value as at 31 December 2019	367,900	74,091	18,054	46,424	748	43,193	463,215	1,013,625
Net book value as at 31 December 2018	353,750	64,808	16,810	35,776	1,285	38,364	104,609	615,402

NOTES TO THE FINANCIAL STATEMENTS

27. PROPERTY, PLANT & EQUIPMENT (CONTD)

27.2

During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs.442.19 Million (2018 Rs.141.96 Million).

Cost of fully depreciated assets of the Company which are still in use as at 31 December 2019 is Rs.116.07 Million (2018 - Rs.79.34 Million).

27.3 Fair value related disclosures of freehold land

Freehold land located at 534,Baudhaloka Mawatha, Colombo 08 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. Therefore the fair value exist in the recent valuation (31 December 2019) which was carried out by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard-SLFRS 13(Fair Value Measurement) less subsequent impairment losses considered as the fair value exist as at the reporting date(31 December 2019).

Fair value hierarchy

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

Level 3 fair value

The following table shows a reconciliation from the beginning balances to the closing balances for the fair value measurements to the Company's freehold land.

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	Rs'000
Balance at 1 January 2019	353,750
Acquisition	-
Changes in fair value	14,150
Balance at 31 December 2019	367,900

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	Rs. 5 Million - Rs.18 Million
	Land extent: 28.3 perches	

27.4

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

	2019 Cost Rs.'000	2019 Carrying value Rs.'000	2018 Cost Rs.'000	2018 Carrying value Rs.'000
Freehold land	204,079	204,079	204,079	204,079
	204,079	204,079	204,079	204,079

28. RIGHT-OF-USE ASSETS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Effect of adoption of SLFRS 16 as at 1 January 2019	306,410	-
Additions and improvements	200,627	-
Cost as at 31 December	507,037	-
Amortisation as at 01 January	-	-
Amortisation expenses for the year	103,384	-
Accumulated amortisation as at 31 December	103,384	-
Net book value as at 31 December	403,653	-

The initial application of SLFRS 16 resulted in non cash additions to right-of-use assets and lease liabilities of Rs.306.41 Million at 1st January 2019.

29. INTANGIBLE ASSETS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Cost as at 01 January	142,164	52,426
Additions and improvements	293	89,738
Write off during the year	(12,400)	-
Cost as at 31 December	130,057	142,164
Amortisation as at 01 January	58,192	44,169
Amortisation for the year	23,273	14,023
Write off during the year	(7,835)	-
Accumulated amortisation as at 31 December	73,631	58,192
Net book value as at 31 December	56,426	83,972

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs. 0.29 Million (2018 - Rs. 89.73 Million). Cost of fully amortised intangible assets of the Company as at 31 December 2019 which are still in use is Rs. 38.38 Million (2018 - Rs. 40.2 Million). Useful life of the above is estimated as 4 years.

30. DUE TO OTHER CUSTOMERS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Fixed deposits	13,159,472	9,623,744
Saving deposits	61,554	48,264
	13,221,026	9,672,008

NOTES TO THE FINANCIAL STATEMENTS

31. DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	2019 Rs. '000	2018 Rs. '000
Loans (31.2)	17,612,690	16,731,432
Redeemable debentures (31.3)	3,729,537	4,659,935
	21,342,227	21,391,367

The company has not had any default of principal, interest or other breaches with regard to any liability during 2019 & 2018.

31.1 Movement in Debt issued and other borrowed funds

	2018 Rs. '000	Grantings/ Accrual Rs. '000	Repayments Rs. '000	2019 Rs. '000
Long-term borrowings	12,568,092	6,000,000	(5,455,411)	13,112,681
Short-term borrowings	4,100,000	350,000	-	4,450,000
Redeemable debentures	4,500,000	1,500,000	(2,421,990)	3,578,010
Capital outstanding of debt issued and other borrowed funds	21,168,092	7,850,000	(7,877,401)	21,140,691
Interest on debt issued and other borrowed funds	223,275	2,700,284	(2,722,023)	201,536
	21,391,367	10,550,284	(10,599,424)	21,342,227

31.2 Loans - on terms

		Amortised cost	
As at 31 December	Period	2019 Rs. '000	2018 Rs. '000
Short term loans			
Sampath Bank PLC	01 Month	1,202,441	1,754,504
Hatton National Bank PLC	03 Months	751,817	754,541
Muslim Commercial Bank	03 Months	100,034	100,038
Nations Trust Bank PLC	03 Months	1,710,530	1,510,505
Seylan Bank PLC	03 Months	500,262	-
Union Bank PLC	03 Months	200,362	-
		4,465,446	4,119,588
Long term loans			
Sampath Bank PLC	60 Months	4,930,762	3,495,514
Commercial Bank PLC	60 Months	1,186,478	2,573,082
Hatton National Bank PLC	60 Months	4,782,065	3,236,180
Seylan Bank PLC	60 Months	2,147,452	3,156,258
Muslim Commercial Bank	60 Months	100,487	150,810
		13,147,244	12,611,844
		17,612,690	16,731,432

The above short term loans and long term loans were institution wise aggregated values as at 31 December 2019 and 31 December 2018.

31.2.1 Loans - on maturity

As at 31 December	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long term loans payable	9,837,173	7,775,517	17,612,690
	9,837,173	7,775,517	17,612,690

31.3 Redeemable debentures - movement

	2019 Rs'000	2018 Rs'000
Balance as at 01st January	4,500,000	4,500,000
Debentures issued	1,500,000	-
Debentures redeemed	(2,421,990)	-
	3,578,010	4,500,000
Interest payable	734,292	703,658
Interest paid	(582,765)	(543,723)
Balance as at 31st December	3,729,537	4,659,935

31.3.1 Redeemable debentures - maturity

As at 31 December 2019	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Debentures payable	151,527	3,578,010	3,729,537
	151,527	3,578,010	3,729,537

31.3.2 Details of debentures issued

	No of Debentures	Issue Date	Maturity Date	Rate of Interest	Amortised cost	
					2019 Rs'000	2018 Rs'000
Rated unsecured subordinated redeemable debentures	10,000,000	24-Dec-14	24-Dec-19	8.90%	-	1,036,223
Rated unsecured senior redeemable debentures						
Type A	14,219,900	20-Sep-16	20-Sep-19	13.00%	-	1,474,156
Type B	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,077	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	4-Oct-17	4-Oct-22	12.50%	1,030,479	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	8-Aug-19	8-Aug-24	13.33%	1,579,981	-
					3,729,537	4,659,935

NOTES TO THE FINANCIAL STATEMENTS

32. OTHER PAYABLES

As at 31 December	2019 Rs'000	2018 Rs'000
Financial Liabilities		
Vendor payable	239,136	147,980
Insurance premium payable	164,746	119,113
Lease liabilities(Note 32.1 & 32.2)	421,624	-
Other financial liabilities	275,128	131,676
	1,100,634	398,769
Non Financial Liabilities		
VAT payable	73	-
Other taxes payable	147,802	116,496
Accrued expenses	24,488	34,950
Deposit insurance premium	1,513	1,050
Deferred guarantee income	28	49
Other non financial liabilities	27,005	49,422
	200,909	201,967
	1,301,543	600,736

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32.1 Movement of lease liabilities during the year is as follows

Effect of adoption of SLFRS 16 as at 1 January	306,410	-
Additions	202,979	-
Accretion of interest	45,493	-
Payments during the year	(133,258)	-
Balance as at 31 December	421,624	-

32.2 Maturity analysis of lease liabilities

Less than one year	140,707	-
One to five years	215,675	-
More than five years	65,242	-
Total lease liabilities as at 31 December	421,624	-

33. CURRENT TAX LIABILITIES

	2019 Rs'000	2018 Rs'000
Balance as at 1st January	149,015	91,800
Less: Tax paid	(238,240)	(39,761)
Adjustment (ESC/WHT/Notional Tax etc.)	(41,434)	(64,498)
Provision for the year (Note 13)	537,725	161,474
Balance as at 31st December	407,066	149,015

33.1 Notional tax credit on secondary market transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provided that a company which derives interest income from the secondary market transactions in government securities be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment. Accordingly, net interest income earned from secondary market transactions in government securities up to 31st March 2018 by the Company has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs 4.12 Mn. The Company discontinued this practice after 31st March 2018, since similar provision is not available under the new Inland Revenue Act No. 24 of 2017.

34. DEFERRED TAX LIABILITIES/(ASSETS)

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

	Accelerated depreciation for tax purposes		Provision for loan losses Rs.000	Revaluation on land Rs.000	Retirement benefit obligation Rs.000	Tax losses on leasing operation Rs.000	Total Rs.000
	Property plant & equipment Rs.000	Leased assets Rs.000					
Balance as at 31 December 2017	69,296	974,543	(31,271)	22,098	(9,285)	(693,912)	331,469
Impact of adoption of SLFRS 9	-	-	(58,113)	-	-	-	(58,113)
Balance as at 1 January 2018	69,296	974,543	(89,384)	22,098	(9,285)	(693,912)	273,356
Income statement (Note 13.1)	(49,272)	(481,651)	(4,417)	-	(2,778)	693,912	155,794
Other comprehensive income	-	-	-	19,810	643	-	20,453
Balance as at 31 December 2018	20,024	492,892	(93,801)	41,908	(11,420)	-	449,603
Income statement (Note 13.1)	(9,547)	(206,301)	-	-	(3,543)	-	(219,391)
Other comprehensive income	-	-	-	3,962	(4,067)	-	(105)
Balance as at 31 December 2019	10,477	286,591	(93,801)	45,870	(19,030)	-	230,107

NOTES TO THE FINANCIAL STATEMENTS

35. RETIREMENT BENEFIT OBLIGATIONS

An actuarial valuation of the gratuity fund of the Company was carried out as at 31 December 2019 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).

35.1 Defined benefit obligation reconciliation

	2019 Rs'000	2018 Rs'000
Balance as at 01st January	40,789	33,163
Amount recognised in the income statement (35.2)	16,083	11,921
Amounts recognised in other comprehensive income (35.3)	14,527	(2,295)
Benefits paid by the plan	(3,434)	(2,000)
Balance as at 31st December	67,965	40,789

35.2 Amount recognised in the Income Statement

Current service cost for the year	11,095	8,459
Interest on the defined benefit liability	4,988	3,462
Total amount recognised in income statement	16,083	11,921

35.3 Amounts recognised in Other Comprehensive Income (OCI)

	2019 Rs'000	2018 Rs'000
Liability (gains)/losses due to changes in assumptions	11,308	(3,362)
Liability experience (gains)/losses arising during the year	3,219	1,067
Total amount recognized in OCI	14,527	(2,295)

35.4 Assumptions

	2019	2018
Discount rate	10.59%	12.23%
Future salary increment rate	10.00%	10.00%
Mortality	GA 1983 Mortality Table	GA 1983 Mortality Table
Retirement age	Normal retirement age, or age on valuation date, if greater	Normal retirement age, or age on valuation date, if greater
Expected average future working life of the active participants is 14.1 years. (2018: 14.1 years)		

35.5 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.

Variable	Rate Change	2019		2018	
		"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%	(7.35 Million)	7.35 Million	(4.51 Million)	4.51 Million
Discount rate	-1.00%	8.68 Million	(8.68 Million)	5.31 Million	(5.31 Million)
Salary Increment rate	1.00%	8.44 Million	(8.44 Million)	5.26 Million	(5.26 Million)
Salary Increment rate	-1.00%	(7.29 Million)	7.29 Million	(4.55 Million)	4.55 Million

36. STATED CAPITAL

	2019		2018	
	No. of shares	Rs.000	No. of shares	Rs.000
Issued and Fully Paid - Ordinary shares				
Ordinary shares as at 01st January	63,596,388	948,666	55,777,146	635,917
Rights issue	9,090,910	400,000	6,250,000	250,000
Scrip dividend	625,111	31,256	1,569,242	62,749
Ordinary shares as at 31st December	73,312,409	1,379,922	63,596,388	948,666

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.

36.1 Share application money pending allotment

Share application money pending allotment as at 31st December 2018 represents applications received from existing shareholders on rights issue of shares. The equity shares were allotted against the aforementioned share application money during the year 2019.

NOTES TO THE FINANCIAL STATEMENTS

37. 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 transferred to Reserve Fund as long as the capital funds are not less than 25% of total deposit liabilities.

As at 31 December	2019 Rs.000	2018 Rs.000
Balance as at 01st January	139,000	113,000
Transfer during the year	25,000	26,000
Balance as at 31st December	164,000	139,000

38. REVALUATION RESERVE

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

As at 31 December	2019 Rs.000	2018 Rs.000
Balance as at 01st January	107,763	56,823
Revaluation surplus(net of tax)	10,188	50,940
Balance as at 31st December	117,951	107,763

39. 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.

40. 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

Equity instruments at fair value through OCI 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.

	2019 Rs. '000					2018 Rs. '000				
	Fair value measurement using					Fair value measurement using				
	Carrying value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Carrying value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
FINANCIAL ASSETS										
Factoring receivables	655,141	-	1,097,360	-	1,097,360	1,332,310	-	2,019,998	-	2,019,998
Gold loan receivables	5,011,268	-	4,956,505	-	4,956,505	3,548,666	-	3,540,285	-	3,540,285
Loan receivables	1,533,713	-	1,863,505	-	1,863,505	2,481,575	-	2,544,535	-	2,544,535
Lease receivables	29,023,194	-	30,154,672	-	30,154,672	25,601,932	-	26,147,267	-	26,147,267
Debt instruments at amortised cost	15,301	-	14,940	-	14,940	4,319	-	4,102	-	4,102
Equity instruments at fair value through OCI	56	-	-	56	56	56	-	-	56	56
Hire purchase receivables	3,437	-	4,885	-	4,885	48,525	-	88,466	-	88,466
TOTAL FINANCIAL ASSETS	36,242,110	-	38,091,867	56	38,091,923	33,017,383	-	34,344,653	56	34,344,709
FINANCIAL LIABILITIES										
Due to other customers	13,221,026	-	14,037,157	-	14,037,157	9,672,008	-	9,996,855	-	9,996,855
Debt instruments issued and other borrowed funds	21,342,227	-	21,421,317	-	21,421,317	21,391,367	-	20,815,613	-	20,815,613
TOTAL FINANCIAL LIABILITIES	34,563,253	-	35,458,474	-	35,458,474	31,063,375	-	30,812,468	-	30,812,468

There were no transfers between levels of fair value hierarchy during 2019 and 2018.

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 or 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

NOTES TO THE FINANCIAL STATEMENTS

41. RISK MANAGEMENT

41.1 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.

41.2 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. 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 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, Risk Management function is managed by Risk Management Department (RMD). 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. 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.

41.3 Risk measurement & Reporting System and Risk Mitigation

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

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

		Risk Measures	Mitigates
Financial Risks	<p>1. Default Risk Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations</p> <p>2. Concentration Risk Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)</p>	<ul style="list-style-type: none"> ▶ 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 	<ul style="list-style-type: none"> ▶ 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
Credit Risk		<ul style="list-style-type: none"> a) Provision Coverage b) Net NPL as a % of Equity Funds ▶ Net Interest Yield and Movement in Net Interest Yield ▶ Lending to Borrowing Ratio ▶ Tracking of Movements in Money Market rates 	<ul style="list-style-type: none"> ▶ Strict compliance with CBSL Guidelines

NOTES TO THE FINANCIAL STATEMENTS

41.3 Risk measurement & Reporting System and Risk Mitigation (Contd)

		Risk Measures	Mitigates
Interest rate risk	Adverse effect on Net Interest Income	<ul style="list-style-type: none"> ▶ Marginal Cost of funds / Risk based Pricing ▶ Gaps in asset Liability Re-Pricing ▶ Cumulative Gaps as a % of Cumulative Liabilities 	<ul style="list-style-type: none"> ▶ 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	<ul style="list-style-type: none"> ▶ Gaps in dynamic liquidity flows ▶ Stocks of high quality liquid assets 	<ul style="list-style-type: none"> ▶ Volatile Liability Dependency measures ▶ Balance sheet ratios

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41.4 Credit Risk

Credit risk is the risk of financial loss to the Company, if a borrower or counter party 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.

41.4.1 Impairment Assessment

The methodology of the impairment assessment has explained in Note 4.1.9 under Accounting policies. The references below should be read in conjunction with those Accounting policies.

41.4.1(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. The Company considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

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

- ▶ Internal assessment of the borrower indicating default 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.

41.4.1(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.

NOTES TO THE FINANCIAL STATEMENTS

41. RISK MANAGEMENT (CONTD)

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

As at 31st December	2019				2018			
	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	11	-	-	11	4	-	-	4
Factoring receivables	9,963	14,355	321,858	346,176	21,898	8,819	585,192	615,909
Gold loan receivables	3,767	3,143	2,602	9,512	5,177	4,027	1,296	10,500
Loan receivables	3,251	4,087	596,394	603,732	7,479	7,817	230,610	245,906
Lease receivables	75,156	104,244	511,482	690,882	39,697	89,466	485,345	614,508
Hire purchase receivables	5	2	1,195	1,202	16	17	33,092	33,125
Repossessioned stock	-	-	133,234	133,234	-	-	177,654	177,654
Other undrawn credit lines	117	158	-	275	-	-	-	-
Total impairment for expected credit losses	92,270	125,989	1,566,765	1,785,024	74,271	110,146	1,513,189	1,697,606

The methodology used in the determination of expected credit losses is explained in Note 4.1.9 to Financial Statements.

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

	2019 Rs.000	2018 Rs.000
Balance as at 01st January	1,697,606	877,844
Net charge to profit or loss (Note 9)	1,050,938	829,751
Write-off during the year	(921,362)	(175)
Interest income accrued on impaired loans & receivables (Note 6)	(84,210)	(12,371)
Other movements	42,052	2,557
Balance as at 31st December	1,785,024	1,697,606

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

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

	2019			2018		
	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 1 Rs.000	Impact of staging Rs.000	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 1 Rs.000	Impact of staging Rs.000
Total allowance for expected credit losses	218,259	146,752	(71,507)	184,417	89,714	(94,703)

	2019			2018		
	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 2 Rs.000	Impact of staging Rs.000	Stage 1 and 2 Actual ECL Rs.000	ECL - If all performing loans in Stage 2 Rs.000	Impact of staging Rs.000
Total allowance for expected credit losses	218,259	479,525	261,266	184,417	373,801	189,384

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

41.4.1(f) Loans past due but not impaired

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

As at 31st December	2019			2018		
	31- 60 Days Rs ,000	61- 90 Days Rs ;000	Total Rs ;000	31- 60 Days Rs ;000	61- 90 Days Rs ;000	Total Rs '000
Factoring receivables	16,894	21,994	38,888	288	-	288
Gold loan receivables	1,127,637	80,083	1,207,720	362,841	5,685	368,526
Loan receivables	171,584	70,306	241,890	186,261	191,789	378,050
Lease receivables	4,355,173	3,451,028	7,806,201	3,908,768	2,798,689	6,707,457
Hire purchase receivables	136,314	244,756	381,070	6,632	4,705	11,337
	5,807,602	3,868,167	9,675,769	4,464,790	3,000,868	7,465,658

41.4.1(g) Overview of rescheduled / restructured loans and advances (except individually impaired loans and advances)

As at 31st December	2019							2018						
	Gross Carrying Value			Allowance for ECL			Net Carrying Value	Gross Carrying			Allowance for ECL			Net Carrying Value
	Stage 2 Rs '000	Stage 3 Rs '000	Total Rs '000	Stage 2 Rs '000	Stage 3 Rs '000	Total Rs '000		Stage 2 Rs '000	Stage 3 Rs '000	Total Rs '000	Stage 2 Rs '000	Stage 3 Rs '000	Total Rs '000	
Loan receivables	9,061	116,534	125,595	183	17,874	18,057	107,538	6,883	79,812	86,695	62	13,167	13,229	73,466
Lease receivables	308,427	543,129	851,556	3,566	51,599	55,165	796,391	256,360	428,519	684,879	3,234	87,002	90,236	594,643
	317,488	659,663	977,151	3,749	69,473	73,222	903,929	263,243	508,331	771,574	3,296	100,169	103,465	668,109

41.4.2 Maximum Exposure to Credit Risk

As at 31 December	2019		2018	
	Maximum Exposure to Credit Risk Rs'000	Net Exposure Rs. '000	Maximum Exposure to Credit Risk Rs'000	Net Exposure Rs. '000
Financial Assets				
Cash and bank balances	273,429	123,523	191,556	31,762
Securities purchased under repurchase agreements	2,304,392	-	1,768,461	-
Factoring receivables	655,141	560,254	1,332,310	1,114,160
Gold loan receivables	5,011,268	-	3,548,666	-
Loan receivables	1,533,713	688,943	2,481,575	1,506,098
Lease receivables	29,023,194	-	25,601,932	-
Hire purchase receivables	3,437	-	48,525	-
Other assets	539,784	354,618	370,267	222,563
Equity instruments at fair value through OCI	56	56	56	56
Debt instruments at amortised cost	15,301	-	4,319	-
Total Financial Assets	39,359,715	1,727,394	35,347,667	2,874,639

Approximately 93.9% of the loans and receivables are secured against securities including movable property, gold, lease receivables etc. Further, 1.8% and 1% of the loans and receivables of the Company are secured against immovable property and deposits held within the Company respectively.

NOTES TO THE FINANCIAL STATEMENTS

41. RISK MANAGEMENT (CONTD)

41.4.3 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.

	2019		2018	
	Amount subject to netting but do not qualify for offsetting	Net amount	Amount subject to netting but do not qualify for offsetting	Net amount
	Gross amount Rs.'000	Gross amount Rs.'000	Gross amount Rs.'000	Gross amount Rs.'000
Financial Assets				
Loan receivables	448,315	224,819	495,671	777,751

41.4.4 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Institutions	Consumers	Others	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
As at 31 December 2019												
Cash and bank balances	-	-	-	-	-	-	-	-	273,429	-	-	273,429
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	2,304,392	-	-	-	2,304,392
Factoring receivables	517,664	-	28,839	64,639	7,582	6,497	29,920	-	-	-	-	655,141
Gold loan receivables	-	-	-	-	-	-	-	-	-	5,011,268	-	5,011,268
Loan receivables	241,948	39,268	18,575	337,980	355,622	10,084	66,333	-	32,269	333,952	97,682	1,533,713
Lease receivables	2,152,456	1,613,277	2,779,404	5,178,806	1,942,742	2,396,162	8,735,858	-	1,848,115	1,931,003	445,371	29,023,194
Hire purchase receivables	838	116	-	633	-	-	1,809	-	-	41	-	3,437
Other assets	-	-	-	-	-	-	-	-	-	-	539,784	539,784
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	15,301	-	-	-	15,301
	2,912,906	1,652,661	2,826,818	5,582,058	2,305,946	2,412,743	8,833,920	2,319,693	2,153,869	7,276,264	1,082,837	39,359,715

As at 31 December 2018

Cash and bank balances	-	-	-	-	-	-	-	-	191,556	-	-	191,556
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	1,768,461	-	-	-	1,768,461
Factoring receivables	922,711	-	26,910	330,680	6,414	11,921	33,674	-	-	-	-	1,332,310
Gold loan receivables	-	-	-	-	-	-	-	-	-	3,548,666	-	3,548,666
Loan receivables	375,128	67,999	57,468	609,512	448,814	43,778	73,589	-	102,501	485,415	217,371	2,481,575
Lease receivables	1,721,203	1,236,403	2,172,913	4,910,634	1,713,641	1,923,375	9,277,510	3,290	-	1,690,413	952,550	25,601,932
Hire purchase receivables	247	1,230	2,586	11,076	2,486	958	27,577	-	-	2,365	-	48,525
Other assets	-	-	-	-	-	-	-	-	-	-	370,267	370,267
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	4,319	-	-	-	4,319
	3,019,289	1,305,632	2,259,877	5,861,902	2,171,355	1,980,032	9,412,350	1,776,070	294,113	5,726,859	1,540,188	35,347,667

41.5 Interest Rate Risk

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

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

Management of Interest Rate Risk

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

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

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

- ▶ Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- ▶ Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

41.5.1 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 2019	Sensitivity of Profit or Loss 2019	Sensitivity of Equity 2019
Long Term Loans linked to AWPLR	1/ (-1)	(106.05)/106.05	2.64%
	0.5 / (0.5)	(53.02)/53.02	1.32%
	0.25 / (0.25)	(26.51)/26.51	0.66%
	2018	2018	2018
Long Term Loans linked to AWPLR	1/ (-1)	(75.26)/75.26	2.13%
	0.5 / (0.5)	(37.63)/37.63	1.06%
	0.25 / (0.25)	(18.82)/18.82	0.53%

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 50.16% (2018-46.66%) 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.

NOTES TO THE FINANCIAL STATEMENTS

41. RISK MANAGEMENT (CONTD)

41.5.2 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.

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

	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	Non Interest Bearing Rs'000	Total Rs'000
As at 31 December 2018							
Financial Assets							
Cash and bank balances	191,556	-	-	-	-	-	191,556
Securities purchased under repurchase agreements	1,758,728	9,733	-	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	-	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	-	2,481,575
Other Assets	-	-	-	-	-	370,267	370,267
Equity instruments at FVOCI	-	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	-	4,319
Total Financial Assets	7,980,538	9,465,141	12,291,361	5,140,021	100,283	370,323	35,347,667
Financial Liabilities							
Bank overdraft	321,821	-	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	-	9,672,008
Debt instruments issued and other borrowed funds	12,306,357	2,060,420	4,946,580	2,078,010	-	-	21,391,367
Other payables	-	-	-	-	-	398,769	398,769
Total Financial Liabilities	15,749,975	6,186,838	6,339,620	3,108,748	15	398,769	31,783,965
Interest Sensitivity Gap	(7,769,437)	3,278,303	5,951,741	2,031,273	100,268	(28,446)	3,563,701

41.6 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.

NOTES TO THE FINANCIAL STATEMENTS

41.6 Liquidity Risk (Contd)

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.

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41.6.1 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.

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

41.6.2 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 2019.

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.

	Upto 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
As at 31 December 2019						
Financial Assets						
Cash and bank balances	273,440	-	-	-	-	273,440
Securities purchased under repurchase agreements	743,966	1,674,996	-	-	-	2,418,962
Factoring receivables	605,319	430,923	126,466	-	-	1,162,708
Lease receivables	6,458,034	9,815,448	17,494,241	5,593,617	75,280	39,436,620
Hire purchase receivables	3,437	327	871	1,298	-	5,933
Gold loan receivables	2,865,168	2,480,427	-	-	-	5,345,595
Loan receivables	282,599	1,290,440	535,923	150,193	2,179	2,261,334
Other assets	499,281	40,959	96,543	52,947	1,678	691,408
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	11,507	4,300	-	-	15,807
Total Financial Assets	11,731,244	15,745,027	18,258,344	5,798,055	79,193	51,611,863
Financial Liabilities						
Bank overdraft	361,586	-	-	-	-	361,586
Due to other customers	4,589,851	7,852,600	1,929,306	869,296	552	15,241,605
Debt instruments issued and other borrowed funds	6,406,427	5,196,483	9,584,526	4,175,238	-	25,362,674
Other payables	737,201	82,515	142,811	72,863	65,242	1,100,632
Total Financial Liabilities	12,095,065	13,131,598	11,656,643	5,117,397	65,794	42,066,497
Net Financial Asset/Liabilities	(363,821)	2,613,429	6,601,701	680,658	13,399	9,545,366
As at 31 December 2018						
Financial Assets						
Cash and bank balances	191,559	-	-	-	-	191,559
Securities purchased under repurchase agreements	1,771,223	10,647	-	-	-	1,781,870
Factoring receivables	1,182,533	969,090	-	-	-	2,151,623
Lease receivables	4,044,140	9,019,375	16,055,474	5,893,593	103,442	35,116,024
Hire purchase receivables	70,566	18,076	3,284	2,085	-	94,011
Gold loan receivables	2,010,493	1,794,823	-	-	-	3,805,316
Loan receivables	628,211	1,315,122	659,430	160,269	7,230	2,770,262
Other assets	205,688	46,070	100,604	66,351	5,219	423,932
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	-	4,300	-	4,300
Total Financial Assets	10,104,413	13,173,203	16,818,792	6,126,598	115,947	46,338,953
Financial Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,319,343	4,358,248	1,630,457	688,797	11	9,996,856
Debt instruments issued and other borrowed funds	5,894,445	5,344,473	9,334,898	2,070,062	-	22,643,878
Other payables	398,769	-	-	-	-	398,769
Total Financial Liabilities	9,934,378	9,702,721	10,965,355	2,758,859	11	33,361,324
Net Financial Asset/Liabilities	170,035	3,470,482	5,853,437	3,367,739	115,936	12,977,629

NOTES TO THE FINANCIAL STATEMENTS

42. MATURITY ANALYSIS

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

As at 31 December 2018	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Non Interest Bearing Rs'000	Total Rs'000
Assets						
Cash and bank balances	191,556	-	-	-	-	191,556
Securities purchased under repurchase agreements	1,758,728	9,733	-	-	-	1,768,461
Factoring receivables	396,140	936,170	-	-	-	1,332,310
Lease receivables	2,817,065	6,011,249	11,686,715	4,993,187	93,716	25,601,932
Hire purchase receivables	34,974	10,967	1,314	1,270	-	48,525
Gold loan receivables	1,973,736	1,574,930	-	-	-	3,548,666
Loan receivables	808,339	922,092	599,013	145,564	6,567	2,481,575
Other assets	264,250	61,881	89,367	63,358	10,700	489,556
Equity instruments at fair value through OCI	-	-	-	-	56	56
Debt instruments at amortised cost	-	-	4,319	-	-	4,319
Intangible assets	-	-	-	-	83,972	83,972
Property, plant & equipment	-	-	-	-	615,402	615,402
Total Assets	8,244,788	9,527,022	12,380,728	5,203,379	810,413	36,166,330
Total Liabilities						
Bank overdraft	321,821	-	-	-	-	321,821
Due to other customers	3,121,797	4,126,418	1,393,040	1,030,738	15	9,672,008
Debt instruments issued and other borrowed funds	5,472,998	6,311,011	7,731,258	1,876,100	-	21,391,367
Other payables	583,288	506	1,340	3,091	12,511	600,736
Deferred taxation liability	-	-	-	-	449,601	449,601
Income taxation payable	-	149,015	-	-	-	149,015
Retirement benefit obligations	-	-	-	-	40,789	40,789
Total Liabilities	9,499,904	10,586,950	9,125,638	2,909,929	502,916	32,625,337

NOTES TO THE FINANCIAL STATEMENTS

43. COMMITMENTS AND CONTINGENCIES

	2019 Rs. '000					2018 Rs. '000				
On Demand	With in 01 year	01-05 years	More than 05 years	Total	On Demand	With in 01 year	01-05 years	More than 05 years	Total	
Commitments										
Commitment for unutilised facilities %										
- Direct credit facilities										
- Factoring	11,780	-	-	-	11,780	194,468	-	-	-	194,468
- Revolving Loans	12,750	-	-	-	12,750	4,290	-	-	-	4,290
Operating lease commitments										
- Company as lessee	-	-	-	-	-	-	102,694	231,296	98,450	432,444
Capital commitments (Note 43.1)	-	699,528	-	-	699,528	-	63,723	-	-	63,723
	24,530	699,528	-	-	724,058	198,758	166,417	231,296	98,450	694,921
Contingent Liabilities										
Guarantees	-	5,200	-	-	5,200	-	2,200	-	-	2,200
	-	5,200	-	-	5,200	-	2,200	-	-	2,200
Total gross commitments & contingencies	24,530	704,728	-	-	729,258	198,758	168,617	231,296	98,450	697,121
Impairment for expected credit losses										
- credit related commitments & contingencies	(275)	-	-	-	(275)	-	-	-	-	-
Commitments & contingencies net of impairment for expected credit losses	24,255	704,728	-	-	728,983	198,758	168,617	231,296	98,450	697,121

43.1 Capital commitments

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

	2019 Rs'000	2018 Rs'000
Approved and contracted for	699,528	63,723
Approved but not contracted for	-	-
	699,528	63,723

43.2 Litigation filed by the Company/ against the Company

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

44. EVENTS AFTER THE REPORTING PERIOD

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

44.1 New amendments to Income Tax Law announced by the Government after the reporting period.

44.1.1 Corporate income tax rate to be reduced to 24%

As per the announcement dated 12 February 2020, income tax rate applicable for the finance sector will be reduced to 24% with effect from 1st January 2020. However, given the fact that the said amendment is yet to be enacted, existing rate of 28% is applied in determining deferred tax for the year ended 31st December 2019.

Had the company applied the reduced income tax rate of 24% to calculate deferred tax assets/liabilities as at 31st December 2019, deferred tax reversal of Rs. 27.22 Mn & Rs. 5.64 Mn would have got recorded to the Income Statement and OCI respectively for the year ended 31st December 2019.

45. COMPARATIVE INFORMATION

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

45.1 Income Statement

There were no reclassifications during the financial year.

45.2 Statement of Financial Position

The presentation of the following item in these Financial Statements are restated to ensure the comparability with the current year:

	Current Presentation 2018 Rs'000	As disclosed previously 2018 Rs'000	Adjustment 2018 Rs'000
Operating lease commitments-Company as lessee	432,440	344,992	87,448

The nominal contractual value of operating lease commitments presented for 2018 has restated with the adoption of SLFRS 16 - Leases on 01st January 2019.

NOTES TO THE FINANCIAL STATEMENTS

46. 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.

46.1 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.

46.2 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.

	2019 Rs'000	2018 Rs'000
Directors' fees & short term employee benefits	48,423	38,924
Total	48,423	38,924

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.

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

46.3.1 Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2018- Nil).

46.3.2 Deposits and Borrowings from KMPs are detailed below.

	2019 Rs'000	2018 Rs'000
Term/Savings deposits	45,873	173,633
Interest on term/savings deposits	2,388	26,399

46.3.3 Borrowings through Debt Instruments

Debentures	22,500	15,000
Interest on Debentures	2,275	1,875

46.4 Transactions with Group Companies

46.4.1 Sampath Bank PLC - Parent Company

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

Balance outstanding as at 31 December	2019 Rs'000	2018 Rs'000
Investment in government securities - REPOs/Treasury bills		
Opening Balance	9,733	8,892
Investment during the year	1,039	841
Closing Balance	10,772	9,733
Other receivables	333	-
Term Loan (Only capital)		
Opening Balance	3,488,300	1,484,610
Granted during the year	3,000,000	3,000,000
Less : Repayment during the year	(1,567,567)	(996,310)
Closing Balance	4,920,733	3,488,300
Short Term Loan (Only capital)	1,200,000	1,750,000
Bank Overdraft	325,033	263,939
Total Accommodation obtained	6,445,766	5,502,239
Less : Favourable balances in current accounts with bank	85,263	26,470
Net Accommodation	6,360,503	5,475,769
Net Accommodation as a percentage of Capital Funds	158.39%	154.64%

Transaction during the year	Rs'000	Rs'000
Expenses		
Interest paid	619,290	422,685
Bank Guarantee fee paid	-	21
Rent paid (for the branch located within Sampath Bank premises)	3,923	1,715
Fees paid for acting as Bankers to the debentures issued in year 2019.	315	-
Other expenses	149	78
Income		
Fee for locating ATM machines at Company's branch premises operations	293	526
Interest Income on short term government securities	1,039	22,573
Interest Income on savings deposits	3,079	650

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

Issue of shares/Dividend

Proceeds for rights issue of shares	-	650,000
Scrip Dividend (Gross)-number of shares - 625,111 (2018-1,569,242)	36,344	69,721

NOTES TO THE FINANCIAL STATEMENTS

46. RELATED PARTY TRANSACTIONS (CONTD)

46.4.2 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. Company has purchased Leasing/ Loan Management & Pawning software and same is disclosed below.

	2019 Rs'000	2018 Rs'000
Balance outstanding as at 31 December		
Other receivables	309	291
Transaction during the year		
Hardware/Software maintenance paid	833	4,167
Operating lease expenses(Computer hire charges)	93	93

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

Transactions during the year		
Interest expenses on deposits	6,825	-
Receivables as at 31 December		
SC Securities Pvt Ltd	154	124
Sampath Centre Ltd	463	437
Payables as at 31 December		
Sampath Centre Ltd		
Fixed deposits	100,000	-
Interest payable on fixed deposits	4,625	-
Consultancy fees payable	190	1,092

47. SEGMENT INFORMATION

For the year ended 31 December	Leasing and Hire Purchase		Gold Loan		Others		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest Income	5,583,704	4,691,976	1,073,790	693,727	572,118	1,010,195	7,229,612	6,395,898
Less: Interest expenses	(3,189,707)	(2,749,784)	(525,590)	(358,755)	(515,360)	(571,521)	(4,230,657)	(3,680,060)
Net interest income	2,393,997	1,942,192	548,200	334,972	56,758	438,674	2,998,955	2,715,838
Net fee and commission income	206,707	159,719	102,669	107,026	2,389	11,871	311,765	278,616
Other operating income	359,184	275,093	-	-	19,344	13,751	378,528	288,844
Total operating income	2,959,888	2,377,004	650,869	441,998	78,491	464,296	3,689,248	3,283,298
Less: Impairment (charges)/reversal on loans and losses	(477,513)	(315,948)	988	(4,894)	(574,413)	(508,909)	(1,050,938)	(829,751)
Net operating income	2,482,375	2,061,056	651,857	437,104	(495,922)	(44,613)	2,638,310	2,453,547
Less: Total operating expenses (Including taxes on financial services)	(1,420,987)	(1,230,384)	(250,340)	(176,142)	(168,453)	(213,232)	(1,839,780)	(1,619,758)
Operating profit before taxes	1,061,388	830,672	401,517	260,962	(664,375)	(257,845)	798,530	833,789
Less: Income tax expenses							(318,336)	(317,268)
Profit for the year							480,194	516,521
Non-controlling interest							-	-
Profit attributable to equity holders of the Company							480,194	516,521
As at 31 December	2019	2018	2019	2018	2019	2018	2019	2018
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Segment assets	29,026,631	25,650,458	5,011,268	3,548,666	6,909,447	6,967,207	40,947,345	36,166,330
Total assets	29,026,631	25,650,458	5,011,268	3,548,666	6,909,447	6,967,207	40,947,345	36,166,330
Segment liabilities	26,179,905	23,139,060	4,519,798	3,201,221	6,231,817	6,285,058	36,931,520	32,625,339
Total liabilities	26,179,905	23,139,060	4,519,798	3,201,221	6,231,817	6,285,058	36,931,520	32,625,339

48. CAPITAL

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

Capital Management

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

Regulatory Capital

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

TEN YEAR SUMMARY

Year ended 31 December	SLAS		SLFRS/LKAS							
	2010 Rs.000	2011 Rs.000	2012 Rs.000	2013 Rs.000	2014 Rs.000	2015 Rs.000	2016 Rs.000	2017 Rs.000	2018 Rs.000	2019 Rs.000
Interest income	383,463	555,329	1,033,557	1,620,272	1,837,546	1,973,921	2,838,995	4,599,470	6,395,898	7,229,612
Interest expenses	(133,875)	(210,207)	(600,406)	(899,069)	(778,661)	(824,699)	(1,620,783)	(2,764,290)	(3,680,060)	(4,230,657)
Net interest income	249,588	345,122	433,151	721,202	1,058,885	1,149,223	1,218,212	1,835,180	2,715,838	2,998,955
Other income	39,608	44,410	61,610	114,085	139,354	232,315	312,774	465,904	567,459	690,293
Operating income	289,196	389,532	494,761	835,287	1,198,239	1,381,537	1,530,986	2,301,083	3,283,298	3,689,248
Operating expenses	(108,517)	(178,366)	(224,412)	(431,028)	(547,930)	(679,804)	(808,111)	(1,048,290)	(1,328,499)	(1,433,411)
Operating profit	180,679	211,166	270,349	404,259	650,309	701,733	722,875	1,252,794	1,954,799	2,255,837
Impairment (charges)/reversals/provision for doubtful debts	1,682	49,324	(262)	(67,237)	(183,217)	(49,275)	(79,189)	(236,744)	(829,751)	(1,050,938)
Taxes on financial services	(28,574)	(16,207)	(18,100)	(35,740)	(61,536)	(93,305)	(128,500)	(230,810)	(291,259)	(406,369)
Profit before taxation	153,787	244,283	251,987	301,281	405,556	559,153	515,186	785,240	833,789	798,530
Tax expenses	(26,477)	(46,268)	(51,752)	(80,301)	(145,379)	(174,629)	(187,904)	(286,378)	(317,268)	(318,336)
Profit for the year	127,311	198,015	200,235	220,980	260,177	384,524	327,282	498,862	516,521	480,194

As at 31 December	SLAS		SLFRS/LKAS							
	2010 Rs.000	2011 Rs.000	2012 Rs.000	2013 Rs.000	2014 Rs.000	2015 Rs.000	2016 Rs.000	2017 Rs.000	2018 Rs.000	2019 Rs.000
Cash and bank balances	5,322	29,520	32,586	65,378	88,655	130,070	169,333	297,858	191,556	273,429
Securities purchased under repurchase agreements	-	4,045	5,341	323,792	489,685	601,679	777,438	1,200,981	1,768,461	2,304,392
Investments in fixed deposits	-	-	87,246	-	-	-	-	65,699	-	-
Factoring receivables	210,444	532,458	566,584	1,052,411	996,440	1,157,136	1,979,243	1,899,702	1,332,310	655,141
Gold loan receivables	-	-	-	-	-	770,839	1,768,922	2,563,352	3,548,666	5,011,268
Pawning receivables	-	-	-	412,753	456,193	-	-	-	-	-
Loan receivables	-	-	-	568,573	506,526	286,968	743,740	2,724,776	2,481,575	1,533,713
Lease receivables	479,427	2,027,939	2,678,159	2,833,933	3,383,597	9,230,730	13,851,890	19,873,470	25,601,932	29,023,194
HP receivable	731,548	1,253,322	2,155,384	3,393,593	4,250,553	2,083,571	837,560	252,000	48,525	3,437
Other assets	373,179	276,531	285,219	335,131	246,141	378,334	662,612	932,742	1,193,305	2,142,771
Total Assets	1,799,920	4,123,815	5,810,520	8,985,564	10,417,790	14,639,326	20,790,738	29,810,580	36,166,330	40,947,345
Bank overdraft	32,340	-	62,124	63,982	83,921	163,583	460,494	456,018	321,821	361,586
Customer deposits	-	-	-	-	-	1,233,041	3,362,662	9,333,622	9,672,008	13,221,026
Debt issued and other borrowed funds	939,992	3,211,375	4,655,317	7,487,912	8,528,922	10,925,421	14,187,266	16,310,778	21,391,367	21,342,227
Other payables	329,361	216,198	216,553	359,769	493,303	706,150	849,956	1,231,877	1,240,142	2,006,680
Total Liabilities	1,301,693	3,427,573	4,933,994	7,911,662	9,106,146	13,028,194	18,860,377	27,332,295	32,625,339	36,931,520

As at 31 December	SLAS		SLFRS/LKAS							
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Shareholders' Funds										
Stated capital	525,000	525,000	525,000	525,000	525,000	525,000	576,975	635,917	948,666	1,379,922
Share application money pending allotment	-	-	-	-	-	-	-	-	400,000	-
Statutory reserve fund	7,107	16,726	26,738	37,787	50,831	70,059	86,422	113,000	139,000	164,000
Investment fund reserve	-	12,841	29,988	58,488	-	-	-	-	-	-
Revaluation Reserve	-	-	-	-	-	-	-	56,823	107,763	117,951
Accumulated profit/ (loss)	(33,880)	141,675	294,800	452,627	735,813	1,016,073	1,266,964	1,672,545	1,945,562	2,353,952
Shareholders' Funds	498,227	696,242	876,526	1,073,902	1,311,644	1,611,132	1,930,361	2,478,285	3,540,991	4,015,825
Total Liabilities and Shareholders' Funds 1,799,920 4,123,815 5,810,520 8,985,564 10,417,790 14,639,326 20,790,738 29,810,580 36,166,330 40,947,345										
Year ended 31 December	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Growth in Interest Income	-12%	45%	86%	57%	13%	7%	44%	62%	39%	13%
Growth Interest Expenses	-64%	57%	186%	50%	-13%	6%	97%	71%	33%	15%
Interest Cover ratio	2.15	2.16	1.42	1.59	1.73	1.84	1.32	1.28	1.23	1.19
Growth in Operating Profit	495%	17%	28%	50%	61%	8%	3%	73%	56%	15%
Growth in Profit After Tax(PAT)	-279%	56%	1%	10%	18%	48%	-15%	52%	4%	-7%
Earning/(Loss) Per Share-Rs.	2.42	3.77	3.81	4.21	4.96	7.32	6.14	8.70	8.43	6.83
Growth in Advances	-12%	168%	42%	53%	16%	41%	42%	42%	21%	10%
Growth in Deposits and Borrowings	-19%	230%	47%	60%	14%	43%	46%	45%	20%	11%
Growth in Shareholder's Funds	29%	40%	26%	23%	22%	23%	20%	28%	43%	13%
Debt/Equity Ratio	1.95	4.61	5.38	7.03	6.57	7.65	9.33	10.53	8.86	8.70
Net Assets per Share-Rs.	9.49	13.26	16.70	20.46	24.98	30.69	35.67	44.43	55.68	54.78
Return on Average Total Assets	7%	7%	4%	3%	3%	3%	2%	1.91%	1.50%	1.22%
Return on Average Equity	29%	33%	25%	22%	22%	26%	18%	23%	17%	12.88%

CAPITAL ADEQUACY

Capital Adequacy is one of the Key measures which illustrate the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, company can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I – 6.50% and Tier II – 10.50% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

Tier 1 - Core capital

Tier 1 capital represents core capital of the company. Core capital includes shareholder's equity and reserves.

► Tier I Ratio :
$$\frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

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Total of Tier 1 and Tier 2 Capital

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

► Total Capital ratio :
$$\frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

Risk Weighted Assets

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 December 2019, the Company maintained a Tier I ratio of 8.96% and a Total Capital ratio of 14.16%. Both ratios are above the minimum regulatory requirements (Tier I – 6.50% and Tier II – 10.50%) set by CBSL.

Computation of Capital Ratios

Item	Amount Rs.'000
Tier 1 Capital	3,372,600
Total Capital	5,330,713
Total Risk Weighted Amount	37,655,038
Risk Weighted Amount for Credit Risk	33,369,648
Risk Weighted Amount for Operational Risk	4,285,390
Tier 1 Capital Ratio, %	8.96
Total Capital Ratio, %	14.16

GLOSSARY OF FINANCIAL TERMS

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

Allowance for Impairment

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Amortization

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

The amount at which the financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Asset and Liability Committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors

considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly, based on commercial banks' lending rates offered to their prime customers during the week.

B

Basis Point (BP)

One hundred of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

C

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash

Cash comprises cash on hand and demand deposits.

Cash Equivalents

Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash Flows

Cash flows are inflows and outflows of cash and cash equivalents.

Collectively Assessed Impairment

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have

been incurred but have not yet been identified on loans subject to individual assessment.

Commercial Paper (CP)

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Reporting date.

Compounded Annual Growth Rate (CAGR)

The rate at which a variable would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Control

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Corporate Governance

The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

GLOSSARY OF FINANCIAL TERMS

Corporate Sustainability

Business approach that creates long-term consumer and employee value by creating a 'green' strategy aimed toward the natural environment and taking into consideration every dimension of how a business operates in the social, cultural and economic environment.

Cost to Income Ratio

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

D

Deferred Tax

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue. Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

Dividend Cover

Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

Dividend pay-out ratio

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

Dividend Yield

Dividend earned per share as a percentage of its market value.

E

Earnings per Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation expressed as a percentage of Profit Before Tax.

Employee Retention Ratio

Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Events after the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

Expected Loss (EL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F**Factoring**

Factoring is a time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/ incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Asset

Financial asset is any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or another financial asset from another entity.

Financial Guarantee Contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instrument

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability

Financial Liability is a contractual obligation to deliver cash or another financial asset to another entity.

Functional and Presentation Currency

These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

G**Going concern**

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Group

A Group is a parent of all its subsidiaries.

Gearing

Long term borrowings divided by the total funds available for shareholders.

Gross Dividend

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfil the contractual obligations.

H**Hire purchase**

A hire purchase is a contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I**International Financial Reporting Standards (IFRS)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net Interest income expressed as a percentage of average interest earning assets.

GLOSSARY OF FINANCIAL TERMS

Interest Spread

Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in Suspense

Interest suspended on non- performing leases, hire purchases and other advances.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment Allowances

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Impairment Provisions

Impairment provisions are provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Individually Significant Loan Impairment Provision (Specific Impairment Provision)

Impairment is measured individually for assets that are individually significant to the Group.

Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment Properties

A property (land or a building - or part of a building - or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Investment Securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

K

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/Credit Losses and Provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intends to sell immediately or in the near term and designated as fair value through profit or loss or available sale on initial recognition.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

Market Risk

This refers to the possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets per Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

Non Performing Advances

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Non-performing advances are reclassified as performing when all arrears rentals are settled in full.

NPA Ratio

The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

O

Off- Balance Sheet Items

Items that are not recognised as assets or liabilities in the statement of financial position, which give rise to the commitment and contingencies in future.

Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational Risk

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

P

Parent Company

A parent is an entity that has one or more subsidiaries.

Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Power

The Power is the existing rights that give the current ability to direct the relevant activities.

Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

Projected Unit Credit Method (PUC)

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method). Prudence Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Provision Cover

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence

Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Residual Value

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Return on Average Assets (ROA)

Profit after tax expressed as a percentage of average assets.

Return on Equity (ROE)

Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Right-of-use asset

An asset that represents a lessee's right to use an underlying asset for the lease term.

GLOSSARY OF FINANCIAL TERMS

Risk Weighted Assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

S

Shareholders' Funds

The total of stated capital and capital and revenue reserves.

Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka. They comprise of the followings. Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Staff turnover ratio

Represents the number of employees attrition during the year as a percentage of average number of employees for the year end.

Stated Capital

All amounts received by the Company or due and payable to the Company - (a) in respect of the issue of shares, (b) in respect of calls on shares.

Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003

Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

An entity, including an unincorporated entity which is controlled by another entity called parent.

T

Tier I Capital (Core Capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Capital (Capital Base)

Capital base is the summation of the core capital (Tier I) and the supplementary capital (Tier II).

Transaction Costs

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

U

Useful Life

Useful life is the period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

V

Value Added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Volatile Liability Dependency Ratio

Short Term borrowings (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

Y

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY

given that the 15th Annual General Meeting of Siyapatha Finance PLC will be held on 1st June 2020 at 9.30 a.m. at the Board Room of Sampath Bank PLC at No. 110, Sir James Peiris Mawatha, Colombo 02.

AGENDA

- (1) To receive and consider the Report of the Board of Directors on the Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2019 with the Report of the Auditors thereon.
- (2) To re-elect Mr. P. S. Cumararatunga as a Director under Articles 24(8) of the Articles of Association of the Company.
- (3) To re-elect Mr. Y. S. H. R. S. Silva as a Director under Articles 24(8) of the Articles of Association of the Company.
- (4) To re-elect Mr. J. Selvaratnam as a Director under Articles 24(8) of the Articles of Association of the Company.
- (5) To elect Mr. D. Sooriyaarachchi as a Director in accordance with the Article 24(2) of the articles of Association of the Company.
- (6) To elect Mr. W. S. C. Perera as a Director in accordance with the Article 24(2) of the articles of Association of the Company.
- (7) To elect Ms. H. S. R. Ranatunga as a Director in accordance with the Article 24(2) of the articles of Association of the Company.
- (8) To declare a dividend of Rs. 1.95 per share for the financial year 2019 and if thought fit, to pass the following resolution by way of an Ordinary Resolution.

"It is hereby resolved that a Dividend of Rs. 1.95 per share be distributed in the form of a scrip dividend amounting to a total sum of Rupees One Hundred and Forty Two Million Nine Hundred and Fifty Nine Thousand One Hundred and Ninety Seven and Cents Fifty Five (Rs. 142,959,197.55). The shares issued in the scrip dividend shall be valued at Rs. 49.30 per share which results in One (01) share being issued for each existing 25.28 shares. Consequently the total number of shares to be issued under the scrip dividend shall be 2,899,663 Ordinary Shares."

- (9) To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.

By order of the Board



S. Sudarshan

Group Company Secretary

24 February 2020

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PROXY FORM

.....2020

I/We

of

Being a member/s of Siyapatha Finance PLC hereby appoint

Mr. P. S. Cumararatunga	of 325, Park Road, Colombo 5.	failing him
Mr. W. M. P. L. De Alwis	of 40/4, Park Road, Colombo 05.	failing him
Mr. H. M. A. Seneviratne	of 156/12, Weragala Place, Thalawathugoda	failing him
Mr. L. T. Ranwala	of Flat No. 18, Rosmead Towers, No. 102 - 2/1, Rosmead Place, Colombo 07.	failing him
Mr. Y. S. H. R. S. Silva	of 90, Galkanda Road, Aniwatte, Kandy.	failing him
Mr. J. Selvaratnam	of 441/5A, 2nd Lane, Cotta Road, Rajagiriya.	failing him
Mr. J. H. Gunawardena	of 88, Pirivena Road, Ratmalana	failing him
Mr. D. Sooriyaarachchi	of 28/10, Birnamwood, Wijesekara Mawatha, Mirihana, Nugegoda.	failing him
Mr. W. S. C. Perera	of 8 2/2, Skyline Residency, Magazine Road, Colombo 8.	failing him
Ms. H. S. R. Ranatunga	of 36/50, Rosmead Place, Colombo 7.	failing her or

Mr/Mrs/Missof

as my/our proxy to present me/us and vote at the Annual General Meeting of the Company to be held on 1st June 2020 at 9.30 a.m. and at any adjournment thereof.

		FOR	AGAINST
(1)	To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31.12.2019.		
(2)	To re-elect Mr. P. S. Cumararatunga as a Director under Articles 24(8) of the Articles of Association of the Company.		
(3)	To re-elect Mr. Y. S. H. R. S. Silva as a Director under Articles 24(8) of the Articles of Association of the Company.		
(4)	To re-elect Mr. J. Selvaratnam as a Director under Articles 24(8) of the Articles of Association of the Company.		
(5)	To elect Mr. D. Sooriyaarachchi as a Director under Articles 24(2) of the Articles of Association of the Company.		
(6)	To elect Mr. W. S. C. Perera as a Director under Articles 24(2) of the Articles of Association of the Company.		
(7)	To elect Ms. H. S. R. Ranatunga as a Director under Articles 24(2) of the Articles of Association of the Company.		
(8)	To declare a dividend of Rs. 1.95 per share for the financial year 2019		
(9)	To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.		

Mark your preference with 'X'

Signed day of 2020.

- NOTE :** i. Proxy need not be a member of the Company
ii. Instructions regarding completion of Proxy are given on the reverse.

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy, after filling in legibly your full names and address, and by signing on the space provided.
2. The completed form of proxy should be deposited at the Registered Office of the Company at 4th Floor, No. 110, Sir James Peiris Mawatha, Colombo 02, not less than 48 hours before, the appointed time for the holding of the meeting.
3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (below names of the Board of Directors) on the Proxy form.
4. Article 16(6) of the Articles of Association of the Company provides that;
 "Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company".
5. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.
6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

If undelivered, please return to;

Company Secretary
 Siyapatha Finance PLC
 No. 110, Sir James Peiris Mawatha,
 3rd Floor – Sampath Centre Building
 Colombo 02.

CORPORATE INFORMATION

NAME OF THE COMPANY

Siyapatha Finance PLC (formerly known as Sampath Leasing and Factoring Limited)

Registration No. : PB 917PQ

Telephone : +94117605605

Fax : +94117605606

E-mail : info@siyapatha.lk

Website : www.siyapatha.lk

CREDIT RATING

Fitch Rating Lanka Limited has affirmed Siyapatha Finance PLC's National Long Term Rating of A-(Ika) Stable Outlook.

LOCATION OF HEAD QUARTERS

No. 46/12, Nawam Mawatha, Colombo 02.

REGISTERED OFFICE

No. 110, Sir James Peiris Mawatha, Colombo 02

OPERATING COUNTRIES

Operations are limited to Sri Lanka

OWNERSHIP

Siyapatha Finance PLC is a fully owned subsidiary of Sampath Bank PLC. Siyapatha Finance PLC does not have any subsidiaries established.

LEGAL FORM

Sampath Leasing and Factoring Limited was incorporated on 3rd March 2005 under the Companies Act No. 17 of 1982 as a specialized leasing company and re-registered under the Companies Act No. 07 of 2007 on 18th March 2009. Sampath Leasing and Factoring Limited was renamed as "Siyapatha Finance Limited" on 2nd September 2013 upon being recognised as a Licensed Finance Company under the Finance Business Act No. 42 of 2011. Upon the listing of the unsecured subordinated redeemable debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015.

LAWYERS

Messrs Nithya Partners Attorneys-at-Law

COMPANY SECRETARY

Mr. S. Sudarshan Chartered Secretary

BOARD OF DIRECTORS

Name	Description
Mr. C. P. Palansuriya	Chairman, Non-Independent, Non-Executive Director (resigned w.e.f. 31.01.2020)
Mr. P. S. Cumaranatunga	Chairman, Independent, Non-Executive Director (appointed w.e.f. 12.02.2020)
Mr. W. M. P. L. De Alwis	Deputy Chairman, Independent, Non-Executive Director (retired w.e.f. 24.02.2020)
Mr. H. M. A. Seneviratne	Managing Director, Executive Director (appointed w.e.f. 01.03.2019)
Dr. H. S. D. Soysa	Independent, Non-Executive Director (retired w.e.f. 01.01.2020)
Mr. L. T. Ranwala	Non-Independent, Non-Executive Director
Mr. Y. S. H. R. S. Silva	Non-Independent, Non-Executive Director
Mr. J. Selvaratnam	Non-Independent, Non-Executive Director
Mr. J. H. Gunawardena	Independent, Non-Executive Director (appointed w.e.f. 29.01.2019)
Mr. D. Sooriyaarachchi	Non-Independent, Non-Executive Director (appointed w.e.f. 20.11.2019)
Mr. W. S. C. Perera	Non-Independent, Non-Executive Director (appointed w.e.f. 16.01.2020)
Ms. H. S. R. Ranatunga	Independent, Non-Executive Director (appointed w.e.f. 28.01.2020)
Ms. A. Nanayakkara	Independent, Non-Executive Director (resigned w.e.f. 31.05.2019)
Mr. K. M. S. P. Herath	Managing Director, Executive Director (relinquished his duties w.e.f. 28.02.2019)

AUDITORS

Messrs Ernst & Young, Chartered Accountants No.201, De Seram Place, Colombo 10, Sri Lanka.
Tel : +94112463500
Fax : +94112697369

BANKERS

Sampath Bank PLC
Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Bank of Ceylon
Nations Trust Bank PLC
National Development Bank PLC
Seylan Bank PLC
Deutsche Bank AG
MCB Bank Ltd
Union Bank of Ceylon PLC

MEMBERSHIPS

Leasing Association of Sri Lanka
Finance Houses Association of Sri Lanka.
Employers Federation of Ceylon (EFC)
Credit Information Bureau of Sri Lanka.

MARKETS SERVED

Our operations are spread across the island covering all provinces except one. Our primary market segments are individual customers, SMEs and corporate clients.

SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

There are no significant changes to the organization size, structure, ownership or supply chain during the reporting period.

Design & Produced by





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சியபத பிளான்ஸ்
Siyapatha Finance

(Finance Company of Sampath Bank Group)