SIYAPATHA FINANCE PLC

FINANCIAL STATEMENTS

31 DECEMBER 2019

Building a better working world

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

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

SPF/TK/AD

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF SIYAPATHA FINANCE PLC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Siyapatha Finance PLC ("the Company"), which comprise the statement of financial position as at 31 December 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.

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Key audit matter	How our audit addressed the key audit matter
Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables 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. As at 31 December 2019 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 31,212Million (Note 19, 21 and 22), net of total allowance for impairment of LKR 1,640.8Million (Note 19, 21 and 22). These collectively contributed 76.2% to the total assets. 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.	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: • 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. • We test-checked the underlying calculations and data used in such calculations. • In addition to the above, following focused procedures were performed: For those individually assessed for impairment: – 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. For those collectively assessed for impairment: – 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.

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Key audit matter	How our audit addressed the key audit matter
Company's controls over financial reporting process, related IT systems and implementation of a new IT system 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. 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. 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. 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.	Our audit procedures included the following, among others • 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: – 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. • 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.

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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.

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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.

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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.

Ernst & Young

12 February 2020
Colombo

INCOME STATEMENT

Year ended 31 December 2019

	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 12 to 77 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2019

	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 12 to 77 form an integral part of these Financial Statements.

Siyapatha Finance PLC

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	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 12 to 77 form an integral part of these Financial Statements.

12 February 2020
Colombo

ERNST & YOUNG
Chartered Accountants

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2019

	Note	Stated Capital	Share Application Money Pending Allotment	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total
		Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Balance as at 31 December 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 12 to 77 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2019

Cash flows from operating activities	**Note**	**2019 Rs. '000**	**2018 Rs. '000**
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)
		4,457,706	4,587,262
Operating profit before working capital changes		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 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 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 12 to 77 form an integral part of these Financial Statements.

1. CORPORATE INFORMATION

1.1 General

Siyapatha Finance PLC ("The Company"), formerly known as Siyapatha Finance Limited is a domiciled, public limited liability company incorporated in Sri Lanka on 03 March 2005 under the Companies Act No. 17 of 1982. The Company was re-registered with the Registrar General of Companies as per the requirements of the Companies Act No.7 of 2007. It is a Licensed Finance Company under the Finance Business Act No.42 of 2011 and amendments thereto. The registered office of the Company is located at No.110, Sir James PierisMawatha, Colombo 02. The principal place of business is located at. No.46/12, NawamMawatha, 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 2019was 710(597as at 31 December2018).

1.2 Principal Activities and Nature of Operations

The Company provides acomprehensive 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 Flowsand Notes to the Financial Statementshave 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 andthe 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 2019were authorised for issue by the Board of Directors in accordance with the resolution of the Directors on12February 2020.

2.4 Basis of Measurement

The Financial Statements of the Companyhave been preparedon 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 Note42.

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

2.8 Comparative Information

The comparative information is re-classified whenever necessary to conform to the current year's presentation. However, the Company has not restated comparative information for 2018 due to adoption of SLFRS 16 except "commitments & contingencies" the details of which are given in Note 45to 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 44to 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 estimateis 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 9across all categories of financial assets requires judgement, inparticular, 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, intogroups of assets with similar risk characteristics, to determine the expected credit loss on such loans and advances.

The Company's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their independencies. The elements of the ECL models that are considered 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 40to 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 40to 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 isgiven 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 obligationaredetermined using actuarial valuations. Theactuarial 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, thedefined 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 ofthe 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 27to 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. Thejudgement 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 43to the Financial Statements.

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 ofuse asset and the lease liability atthe 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 operatingleases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases wereecognised based on the carrying amount as if the standard had always been applied, apart from the use ofincremental borrowing rate at the date of initial application. In some leases, the right-of-use assets wererecognised 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 uncertaintythat affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scopeof LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within 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 moreother 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 Companyoperates in a complex environment, it assessed whether the interpretation had an impact on itsFinancialStatements. Upon adoption of the interpretation, the Company considered whether it has anyuncertain 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 authoritiesmay challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricingstudy, that it is probable that its tax treatments will be statements of theaccepted by thetaxation authorities. The interpretation did not have an impact on the Financial Statements of the Company.

Except for the changes mentionedabove, 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 3to 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.

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 25to 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 whichcontains 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 beenrecorded.

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 40to the Financial Statements.

4.1.9 Impairment of Financial Assets

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

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 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 as assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

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

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

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

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

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

b.The Calculation of Expected Credit Loss (ECL)

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

With the exception of debt factoring and other revolving facilities, for which the treatment is separately set out in Note 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,expecteddraw downs on committed facilities,and accrued interest from missed payments.

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

The mechanism of the ECL method are summarised below.

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

Stage2: When a loanhas 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 threescenarios. 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 ECLprovision.For this purposethe 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 threescenarios. 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 renotiated 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 Note4.1.9(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/ SLFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

4.2 Leases

4.2.1Policy 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 Property 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.

4.2.2Policyapplicable 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 substanceof 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.

4.2.2 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 22to the Financial Statements.

4.2.2b 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 2019and details of the revaluation are given in Note 27to 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, he Company capitalized Rs.26,559,002/-as borrowing cost related to the acquisition of property, plant &equipment.The capitalisation rates used to determine the amount of eligible borrowing costs for capitalisation was 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	2018
Office Equipment	15.00 % p.a.	15.00 % p.a.
Computer Equipment	16.67% p.a	16.67% p.a
Office furniture	15.00% p.a.	15.00% p.a.
Motor Vehicles (except Motor Bicycles)	12.50% p.a.	12.50% p.a.
Motor Bicycles	20.00% p.a.	20.00% p.a.
Fixtures	20.00% p.a.	20.00% p.a.

Right-of-use assets are depreciated on a straight-linemethod 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 previouslyrecognised 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.

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 lossesin the Financial Statements.Income taxes are managed on collective basisand 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,profittotal 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 9is 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 in to two categories.

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

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

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 2019adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017and the amendment thereto, at the rate specified in Note 13to the Financial Statements.

4.15.2 Deferred tax

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

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

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

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

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intentions to settle on a net basis and it is allowed under the tax law of the relevant jurisdiction. Details of current tax liabilities and deferred tax liabilities / (assets) are given in Note 33and Note 34to 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.

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 with effect from 1st 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 DRLwith effect from 01 October 2018.DRL is calculated based on the value addition used for the purpose of VAT on financial services.This tax was abolished by the government with effect from 1st January 2020.

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 with effect from 1st 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 thecommitment,theCompany 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 arenot 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 SLFRS17.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 2020with 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.

6. NET INTEREST INCOME

	2019 Rs. '000	2018 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 Rs. '000	2018 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

	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.

	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

	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

10. PERSONNEL EXPENSES

	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

	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

	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

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

Income statement	2019 Rs. '000	2018 Rs. '000
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.

	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.

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

	2019 Rs. '000	2018 Rs. '000
Profit attributable to ordinary shareholders (Rs. 000)	480,194	516,521
Weighted average number of ordinary shares during the year	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)

	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 Decem	73,312,409	63,596,388	70,348,523	61,276,294

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

	2019 Rs. '000	2018 Rs. '000
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.

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

As at 31 December 2018	Amortised Cost Rs'000	Equity instruments-FVOCI Rs'000	Total Rs'000
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

17. CASH AND BANK BALANCES

	2019 Rs. '000	2018 Rs. '000
Cash in hand	149,917	159,797
Balances with local banks	123,523	31,762
Less: Allowance for expected credit losses	(11)	(4)
	273,429	191,556

17.1 The movement in provision for expected credit losses are as follows.

	2019 Rs. '000 Stage 1	2018 Rs. '000 Total
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
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
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
As at 31 December 2019

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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
Individually impaired loans

	2019 Rs. '000	2018 Rs. '000
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. FACTORING RECEIVABLES (Contd..)

19.4 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	**2019 Rs. '000**	**2018 Rs. '000**
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

19.5 Movement in allowance for expected credit losses

As at 31 December 2019	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
Balance as at 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

As at 31 December 2018	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
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

20. GOLD LOAN RECEIVABLES

	2019 Rs. '000	**2018 Rs. '000**
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

20.1 Analysis of gold loan receivables on maximum exposure to credit risk

As at 31 December 2019	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
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	**Stage 1 Rs. '000**	**Stage 2 Rs. '000**	**Stage 3 Rs. '000**	**Total Rs. '000**
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. GOLD LOAN RECEIVABLES (Contd..)

20.3 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2019 Rs. '000	2018 Rs. '000
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

20.4 Movement in allowance for expected credit losses

As at 31 December 2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 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	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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

	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
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

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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. LOAN RECEIVABLES (Contd..)

21.3 Allowance for expected credit losses/Impairment

Individually impaired loans	2019 Rs. '000	2018 Rs. '000
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	2019 Rs. '000	2018 Rs. '000
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

21.5 Movement in allowance for expected credit losses

As at 31 December 2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 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	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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

At Amortized cost	2019 Rs. '000	2018 Rs. '000
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.

22. LEASE RECEIVABLES (Contd..)

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

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,171,148	23,087,858	75,280	39,334,286
Less: Unearned lease interest income	(4,313,462)	(5,299,388)	(7,360)	(9,620,210)
Gross lease receivable	11,857,686	17,788,470	67,920	29,714,076
Less: 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

22.2 Maturity analysis of net lease receivable As at 31 December 2018

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rer	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: Provision for collective impairment	(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 As at 31 December 2019

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

22.4 Analysis of lease 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
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 Loans subject to collective impairment

	2019 Rs. '000	2018 Rs. '000
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

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

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 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. LEASE RECEIVABLES (Contd..)

22.7 Movement in allowance for expected credit losses

As at 31 December 2018

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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

	2019 Rs. '000	2018 Rs. '000
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/-).

23.1 Maturity analysis of net hire purchase receivable

As at 31 December 2019

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

23.2 Maturity analysis of net hire purchase receivable

As at 31 December 2018

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
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

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

As at 31 December 2019

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

23.4 Analysis of hire purchase 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
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. HIRE PURCHASE RECEIVABLES (Contd..)

23.5 Allowance for expected credit losses/Impairment

Loans subject to collective impairment	2019 Rs. '000	2018 Rs. '000
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

23.6 Movement in allowance for expected credit losses

As at 31 December 2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Balance as at 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

As at 31 December 2018	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
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

24. OTHER ASSETS

	2019 Rs. '000	2018 Rs. '000
Financial Assets		
Repossessed stock	133,234	177,654
Less: Provision for repossessed 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

24. OTHER ASSETS (Contd..)

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

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**
Balance as at 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 repossessed stock
As at 31 December 2018

	Lease	Hire purchase	Loan	Factoring	Total
	Rs. '000	**Rs. '000**	**Rs. '000**	**Rs. '000**	**Rs. '000**
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

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

25. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019	2018
	Rs. '000	**Rs. '000**
Equity instruments at fair value through OCI	56	56
	56	56

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

In 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

	2019	2018
	Rs. '000	**Rs. '000**
Government debt securities - treasury bills & bonds	15,301	4,319
	15,301	4,319

27. PROPERTY, PLANT & EQUIPMENT

27.1 Cost/Valuation	Freehold Land Rs. '000	Fixtures Rs. '000	Office furniture Rs. '000	Office equipment Rs. '000	Motor vehicles Rs. '000	Computer equipment Rs. '000	Capital work-in progress Rs. '000	Total Rs. '000
Balance as at 1 January 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

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. PROPERTY, PLANT & EQUIPMENT(Contd..)

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.

	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 Land extent: 28.3 perches	Rs.5 Million-Rs.18 Million

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

	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

	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

	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

31. DEBT ISSUED AND OTHER BORROWED FUNDS

	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

	Period	Amortised cost 2019 Rs. '000	Amortised cost 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 lerm loans were institution wise aggregated values as at 31 December 2019 and 31 December 2018.

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

31.2.1 Loans - on maturity

	Payable within 1 year Rs'000	Payable after 1 year Rs'000	Total Rs'000
Short term loans and long lerm loans payable	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

	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	Amortised cost 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	04-Oct-17	04-Oct-22	12.50%	1,030,479	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	08-Aug-19	08-Aug-24	13.33%	1,579,981	-
					3,729,537	4,659,935

32. OTHER PAYABLES

	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

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

	2019 Rs'000	2018 Rs'000
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 liabilites

	2019 Rs'000	2018 Rs'000
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	Revaluation on land	Retirement benefit obligation	Tax losses on leasing operation	Total
	Property, plant & equipment	Leased assets					
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance as at 31 December 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

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	2018
	Rs'000	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

	2019	2018
	Rs'000	Rs'000
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	2018
	Rs'000	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. RETIREMENT BENEFIT OBLIGATIONS (Contd..)

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.

		2019		2018	
Variable	**Rate Change**	**Sensitivity Effect on gratuity liability- Increase/(Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**	**Sensitivity Effect on gratuity liability-Increase/ (Decrease) in the Liability (Rs. Mn.)**	**Sensitivity Effect on Comprehensive Income-(Charged)/ Reversal (Rs. Mn.)**
Discount rate	1.00%	(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 representd 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.

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/Financial Assets-Available for Sale

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

Fixed Rate Financial Instruments

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

Variable rate Financial Instruments

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

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

	2019 Rs. '000					2018 Rs. '000				
		Fair value measurement using					Fair value measurement using			
	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Siginificant unobservable inputs (Level 3)	Total	Carrying value	Quoted prices in active markets (Level I)	Significant observable inputs (Level 2)	Siginificant unobservable inputs (Level 3)	Total
FINANCIAL ASSETS										
Factoring receivables	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 hierachy during 2019 and 2018.

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

Assets

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

Liabilities

Bank overdraft
Other payables

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. RISK MANAGEMENT (Contd…)

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.

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

41. RISK MANAGEMENT (Contd…)

41.4 Credit Risk

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

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

Management of Credit Risk

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

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

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

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

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 unlikeliness to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events

* 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.

41. RISK MANAGEMENT (Contd…)

41.4.1 Assessment of Expected Credit Losses

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
Repossessed 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	ECL - If all performing loans in Stage 1	Impact of staging	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 1	Impact of staging
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	218,259	146,752	(71,507)	184,417	89,714	(94,703)

	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging	Stage 1 and 2 Actual ECL	ECL - If all performing loans in Stage 2	Impact of staging
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total allowance for expected credit losses	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	61- 90 Days	Total	31- 60 Days	61- 90 Days	Total
	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Factoring receivables	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 Value			Allowance for ECL			Carrying Value
	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total		Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	
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. RISK MANAGEMENT (Contd…)

41.4.2 Maximum Exposure to Credit Risk

As at 31 December	2019		2018	
	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE	MAXIMUM EXPOSURE TO CREDIT RISK	NET EXPOSURE
	Rs'000	Rs. '000	Rs'000	Rs. '000
Financial Assets				
Cash and bank balances	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**	**29,150,934**	**3,647,092**

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.

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		
	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsettling Rs.'000	Net amount Rs.'000	Gross amount Rs.'000	Amount subject to netting but do not qualify for offsettling Rs.'000	Net amount Rs.'000
Financial Assets						
Loan receivables	448,315	223,496	224,819	1,273,422	495,671	777,751

41. RISK MANAGEMENT (Contd…)

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.

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

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

As at 31 December 2018 **Rs' 000**

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
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. RISK MANAGEMENT (Contd…)

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**	**Sensitivity of Profit or Loss**	**Sensitivity of Equity**
	2019	**2019**	**2019**
Long Term Loans linked to AWPLR	1/ (-1)	(106.05)/106.05	2.64%
	0.5 / (0.5)	(53.02)/53.02	1.32%
	0.25 / (0.25)	(26.51)/26.51	0.66%
	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.

41. RISK MANAGEMENT (Contd…)

41.5.2 Interest Rate Risk (Contd..)

Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

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

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

As at 31 December 2018	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non Interest Bearing	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Financial Assets							
Cash and bank balances	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. RISK MANAGEMENT (Contd…)

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.

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.

41. RISK MANAGEMENT (Contd…)

41.6 Liquidity Risk (Contd..)

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.

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

42. MATURITY ANALYSIS

As at 31 December 2019	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	273,429	-	-	-	-	273,429
Securities purchased under repurchase 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	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total Rs'000
Assets						
Cash and bank balances	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

43. COMMITMENTS AND CONTINGENCIES

	2019 Rs. '000					2018 Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
Commitments										
Commitment for unutilised facilities-Direct credit facilities										
- Factoring	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	432,440
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 12th 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 and 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.

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

	2019 Rs'000	2018 Rs'000
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	-

46. RELATED PARTY TRANSACTIONS (Contd..)

46.4 Transactions with Group Companies (Contd..)

46.4.1 Sampath Bank PLC (Contd..)

	2019 Rs'000	2018 Rs'000
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

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.

Balance outstanding as at 31 December	**2019 Rs'000**	**2018 Rs'000**
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

	2019 Rs'000	**2018 Rs'000**
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

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

	Leasing and Hire Purchase		Gold Loan		Others		Total	
For the year ended 31 December	**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.