

# Shaping A Resilient **Future**

**SIYAPATHA FINANCE PLC**  
**Annual Report 2020**



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சியபத பிணான்ஸ்  
**Siyapatha Finance**

( Finance Company of Sampath Bank Group )



# Shaping A Resilient **Future**

At Siyapatha Finance we are driven by the aspirations of our stakeholders. With a strong customer-centric ethos we strive to deliver best-in-class service. Over our transformative journey of 15 years, we have steadily moved up in stature to be recognised as a formidable player in the financial services sphere demonstrating our strength and resilience in performance across a spectrum of parameters. Today, we stand strong with fortitude and strength to shape our way to a resilient future.

# Table of Contents

## Overview

About us	03
Milestones	04
Chairman's Message	07
Managing Director's Review	10

## Business Review

Management Discussion and Analysis	14
Investor Information	24

## Governance

Board of Directors	28
Corporate Management Team	34
Corporate Governance Report	36
Managing Risk	70
Committee Reports	81

## Our Results

Financial Calendar	97
Annual Report of the Board of Directors on the Affairs of the Company	98
Directors' Statement on Internal Control over Financial Reporting	107
Independent Assurance Report to the Board of Directors of Siyapatha Finance PLC	109
Independent Auditors' Report to the Shareholders of Siyapatha Finance PLC	110
Income Statement	114
Statement of Comprehensive Income	115
Statement of Financial Position	116
Statement of Changes in Equity	117
Statement of Cash Flows	118
Notes to the Financial Statements	119

## Supplementary Information

Ten Year Summary	192
Capital Adequacy	194
Glossary of Financial Terms	195
Notice of Annual General Meeting	201
Proxy Form	203
Corporate Information	Inner Back Cover

# About Us

## Company Profile

Siyapatha Finance PLC, formerly known as Sampath Leasing & Factoring Limited a fully owned subsidiary of Sampath Bank PLC, was established in March 2005 as a specialized leasing company, licensed and regulated by the Central Bank of Sri Lanka (CBSL) to service the lower end of the SME/ Retail customer segment. Over its 15 years in operation, Siyapatha Finance has grown into the largest subsidiary of Sampath Bank and in September 2013 the entity was rebranded to its current name subsequent to receiving the finance company license by the Monetary Board of the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011. The company's lending portfolio consists of finance leases, hire purchase financing, loans, gold financing, factoring (debt financing) operations and deposits.

Siyapatha Finance PLC is a key player in the country's Non-Bank Financial Institutions sector with a network of 40 branches in principal cities and towns, powered by a dynamic team of 783 employees.

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

## Our Values

**Loyalty**

**Openness**

**Trust**

**Unity**

**Service Excellence**

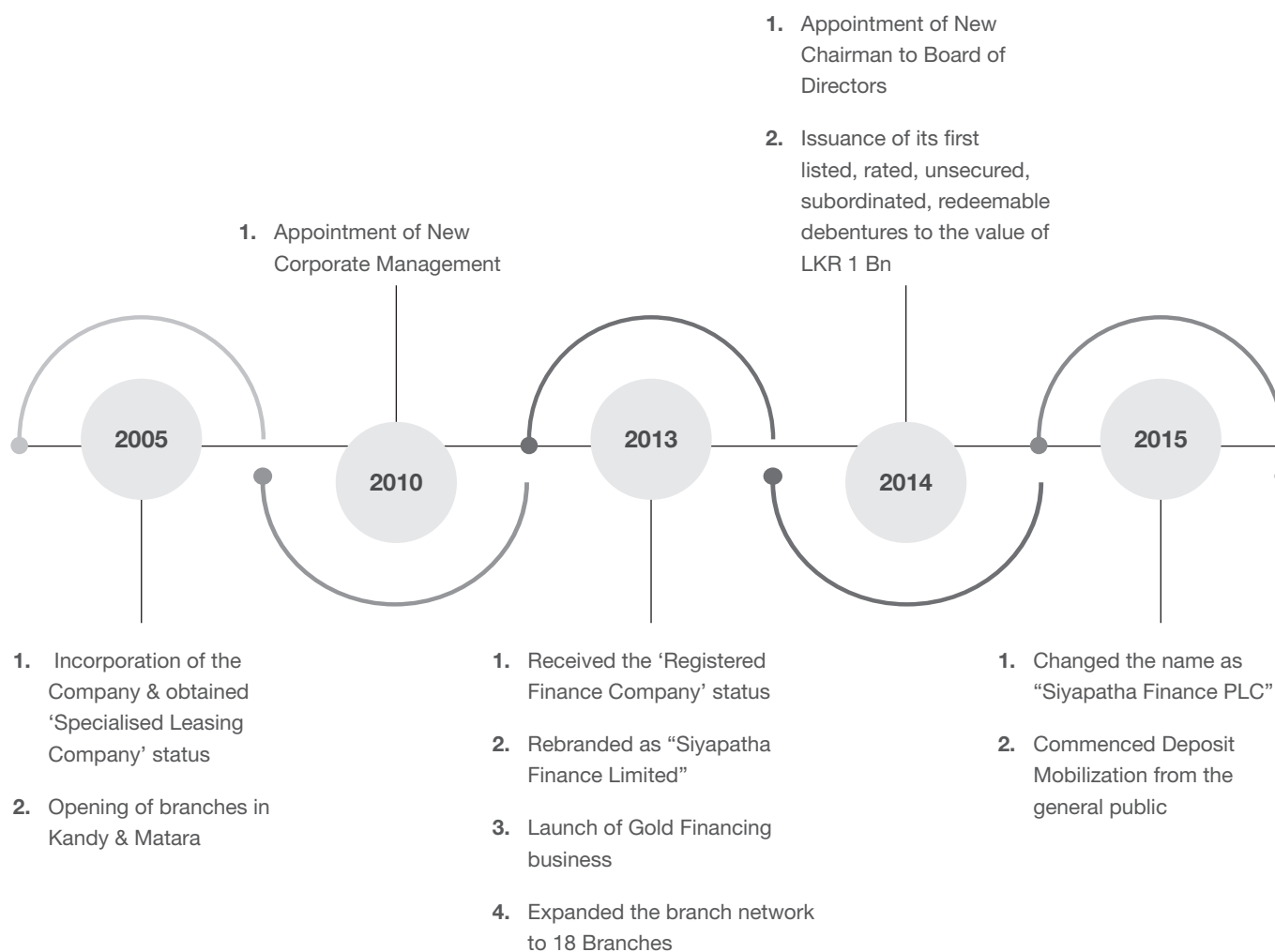
## Our Vision

To be the most innovative and trusted premier financial services provider.

## Our Mission

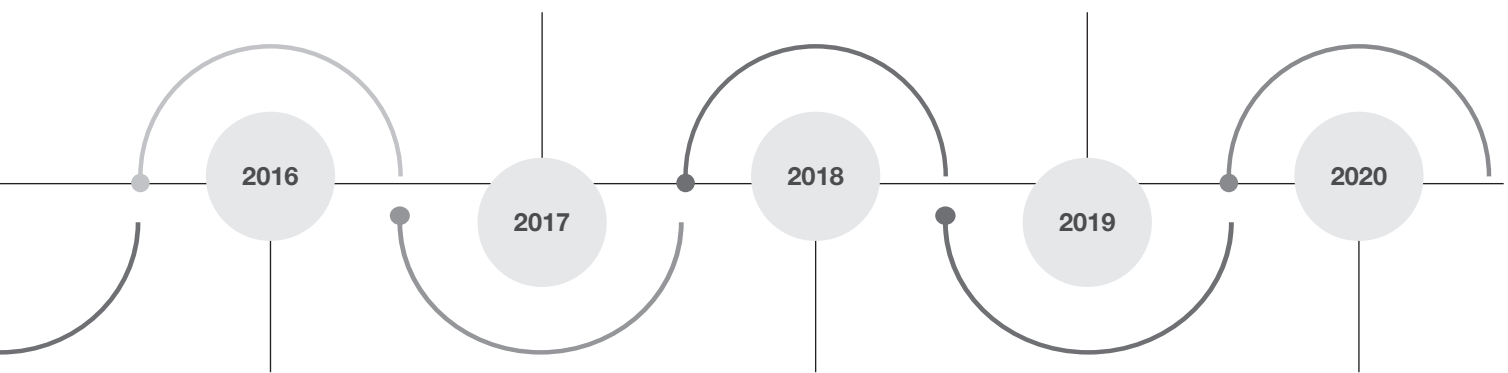
To provide flexible and creative solutions to customers and generate greater values to our stakeholders while assuring corporate governance through an empowered professional team.

# Milestones



1. Addition of two branches to the Branch network - Galle & Panadura
2. Launch of first corporate campaign along with corporate logo and tagline 'Trust Assured'
3. Issuance of rated, unsecured, subordinated, redeemable debentures to the value LKR 1 Bn
4. Relocation of Kurunegala Metro Branch
5. Taking initiatives to implement "Finacle Core Banking System" to become the first in the NBF sector 2017
6. Appointment of New Chairman and Two Directors to the Board of Directors

1. Appointment of New Managing Director and Two New Directors to the Board of Directors
2. Issuance of listed, rated, unsecured, subordinated, redeemable debentures to the value of LKR 1.5 Bn
3. Addition of 5 Branches to the network – Piliyandala, Chilaw, Moratuwa, Jaffna and Pettah
4. Branch network expanded to 35 Branches
5. Relocation of Anuradhapura Branch



1. Appointment of New Chairman and Managing Director
2. Launch of Personal & Business Loans
3. Relocation of Negombo Branch.
4. Expansion of branch network to 24 Branches. Opened branches in Gampaha, Kalutara, Trincomalee and Wellawatte.
5. Issuance of second listed, rated, unsecured, senior, redeemable debentures to the value of LKR 2.5 Bn

1. Appointment of Two Directors to the Board of Directors
2. Successful Rights issue to increase the Tier I Capital of the Company
3. Addition of four branches to the Branch network - Kiribathgoda, Maharagama, Wattala & Hatton
4. Branch network expanded to 30 Branches
5. Commenced construction of New Head Office building

1. Appointment of New Chairman and Three New Directors to the Board of Directors
2. Issuance of listed, rated, unsecured, senior, redeemable, debentures to the value of LKR 2 Bn
3. Addition of 5 Branches to the network – Kohuwela, Nittabuwela, Matale, Malabe, Dambulla
4. Branch network expanded to 40 Branches
5. Relocation of Avissawella Branch
6. Introduced Siyapatha ATM Card

# Financial Highlights

	2020	2019	Change %		
Results for the year - (Rs Mn)					
Gross income	7,580	7,920	(4.30)		
Total operating income	3,723	3,689	0.93		
Operating expenses & impairment charges	2,819	2,484	13.46		
Operating profit before taxes on financial services	905	1,205	(24.93)		
Taxes on financial services	227	406	(44.25)		
Profit before income tax	678	799	(15.09)		
Income tax expense	269	318	(15.65)		
Profit for the year	409	480	(14.72)		
Assets & Liabilities (Rs Mn)					
Customer deposits	17,280	13,221	30.70		
Other borrowings	17,300	21,704	(20.29)		
Gross loans & receivables	38,556	37,878	1.79		
Total equity	5,126	4,016	27.64		
Total liabilities	36,426	36,932	(1.37)		
Total assets	41,552	40,947	1.48		
Investor information					
Net asset value per share (Rs)	67.26	54.78	22.79		
Earnings per share - Basic /Diluted (Rs)	5.37	6.56	(18.04)		
Total dividend per share (Rs)	1.37	1.95	(29.74)		
Gross dividend (Rs Mn)	123.21	142.96	(13.81)		
Dividend payout ratio (%)	30.09	29.77	1.07		
Regulatory Ratios					
Core capital ratio (Tier I) (%)	9.77	8.96	9.02		
Total capital ratio (Tier I+ Tier II) (%)	14.18	14.16	0.16		
Liquid assets ratio (%)	5.24	7.67	(31.75)		
Other Ratios					
Total Impairment on loans as a % of gross loans (%)	7.14	4.36	63.87		
Non - performing loan ratio (%)	18.07	9.80	84.39		
Cost of risk (%)	3.55	2.90	22.26		
Cost to income ratio (%)	39.28	38.85	1.11		
Key performance indicators					
	2020	2019	2018	2017	2016
Return on average assets (ROA) (%)	0.96	1.22	1.50	1.91	1.81
Return on average shareholders' funds (ROE) (%)	9.54	12.88	16.84	23.05	18.35
Growth in Profit (%)	(14.72)	(7.03)	3.54	52.43	(14.89)
Growth in total assets (%)	1.48	13.22	21.32	43.38	42.02
Capital adequacy ratios					
Core capital ratio (Tier I) (%)	9.77	8.96	9.40	9.44	10.62
Total capital ratio (Tier I+ Tier II) (%)	14.18	14.16	12.21	14.16	13.93



# Chairman's Message



"Company navigated through unprecedented challenges experienced in recent times, demonstrating its resilience to traverse through with a tenacious spirit. Our Siyapatha Team was responsive and flexible in managing the emerging changes with strength of character and dynamism."

Dear Stakeholders,

I welcome you to the 16th Annual General Meeting and place before you the Audited Financial Statements for the year ended 31st December 2020. The Company navigated through unprecedented challenges experienced in recent times, demonstrating its resilience to traverse through with a tenacious spirit. Our Siyapatha Team was responsive and flexible in managing the emerging changes with strength of character and dynamism.

## Context to Performance

Sri Lanka's economy which was recovering from the Easter Sunday attacks of 2019 was affected significantly by the COVID-19 pandemic which directly impacted lives and livelihoods. The tourism sector - one of the key drivers of the economy, was affected significantly due to the closure of airports and global travel restrictions, creating a dramatic impact on the sector itself and ancillary industries both direct and indirect.

As estimated by the IMF's World Economic Outlook, the global economy contracted by 3.3% in 2020 from a growth of 2.8% in 2019 and 3.6% in 2018. As reported by the Central Bank of Sri Lanka, the GDP of the country plunged by 3.6% in 2020 from a growth of 2.3% in 2019.

The performance of the Non-Bank Financial Institutions (NBFI) sector experienced a turbulent year marked by rising Non-Performing Loans (NPLs), sluggish growth levels and declining profitability. The industry contracted by 2.17% in the year 2020. Loans and advances shrank by 5.70%. The industry-wide Gross NPL ratio increased to 13.9%.

In response to the impact that the pandemic had on businesses, the Central Bank of Sri Lanka (CBSL) issued directions to Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs), to provide relief measures to businesses and individuals affected. Guidelines were provided for the implementation of

a special credit support scheme for SME borrowers. In addition, Directions issued on loan-to-value ratio for locally assembled motor vehicles were revised. As the sector was under noticeable pressure, the liquid assets to be maintained by LFCs was reduced temporarily. The CBSL continued to address the challenges faced in creating strong non-bank deposit-taking financial institutions. Further, the CBSL introduced the Financial Sector Consolidation Master Plan to address non-compliance with the minimum core capital requirement and/or the minimum capital adequacy ratios by several LFCs. This would infuse greater stability to the NBFI sector.

## Performance of the Company

The Company rose admirably to the challenges of the financial year 2020 with prudent policies and cost optimisation strategies. We focused on our Business Continuity Planning to provide a seamless and uninterrupted service to our clients. We transitioned our payments and business development to digital platforms swiftly, thus maintaining continuity of the two most pivotal aspects

## Chairman's Message

of our business. The Company was able to sustain its momentum of geographical expansion despite the lockdowns and other restrictions. We were successful in adding five new branches to our network, thereby enhancing our geographical presence to 40 branches.

Siyapatha Finance recorded a Profit Before Tax (PBT) of Rs 904.5 Million and a Profit After Tax (PAT) of Rs 409.4 Million. This represents a 24.9% decline in PBT and a 14.7% decline in PAT. The gross loan portfolio grew modestly by Rs 678 Million to reach Rs 38.55 Billion as at 31st December 2020. This was mainly attributable to a reduction in credit demand experienced in the market due to restrictions on vehicle imports and subdued economic activity.

With a strong capital base of over Rs 5 Billion which is well above the CBSL minimum capital requirement of Rs.2.5 Billion as of 1st January 2021, the Company continues to maintain the value of its services and executes a strategy that enables financial inclusivity of targeted customer groups.

The negative business sentiments and the closure of business activity in the latter part of first quarter and second quarter resulted in delayed rental payments due to diminished repayment capacity of customers. Consequently, 3 and 6 months NPL ratios increased significantly. Furthermore, the restrictions imposed on repossession of assets resulted in difficulties tracing vehicles, as some of these vehicles had been passed on to third parties. New lending activities were subdued due to the economic downturn and this was exacerbated by the import restrictions on vehicles.

In the backdrop of the pandemic, we focused on maintaining our business

in an uninterrupted manner whilst adhering to safety regulations. We strived to maintain our service levels and provide an uninterrupted service to our clients across our branch network. We introduced a digitalised collection platform to encourage direct bank deposits. Furthermore, flexible terms were offered to our customers including convenient rental payments without any late payment charges. The doorstep rental collection facility provided greater levels of convenience.

Closure of our offices and restricted business operations especially in the latter part of the 1st quarter and the beginning of 2nd quarter of financial year 2020, resulted in muted new business inceptions. The subdued economic activity and lackluster environment was not conducive for new investments in assets. Import restrictions on motor vehicles resulted in the non-availability of unregistered and brand-new vehicles. In response to these external developments, we concentrated on the registered vehicle market focusing on market penetration strategies and capitalizing on cross selling opportunities to existing customers for refinancing and accommodation facilities. The Company focused on digital based marketing communication and business development initiatives through social media platforms, mobile marketing and direct canvassing of business through personal networking to maintain the momentum in engaging with customers and other stakeholders.

The Company issued 20,000,000 listed, rated, unsecured, senior, redeemable debentures at a par value of Rs 100/. The three year debenture issue had an initial tranche of Rs 1 Billion with an option to increase to Rs 500 Million, in the event the initial tranche was

oversubscribed and an additional option to raise a further Rs 500 Million in the event of an oversubscription of the initial issue and the second tranche. The debenture issue was successfully oversubscribed.

### Corporate Governance

As a member of the Sampath Bank Group, we are deeply committed to maintain the highest standards of governance and are proud to be compliant with all statutory governance standards applicable to the industry. During the year under review, we complied with the provisions of the Finance Companies Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka and the listing rules of the Colombo Stock Exchange. The Company voluntarily adopted the Code of Best Practices on Corporate Governance 2013, issued jointly by Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

The Company has over the years, focused on the composition of the Board to ensure that it is appropriately balanced and contains the skills required to ensure that the Company is well governed and that the interests of our shareholders and other stakeholders are well served.

In last year's Annual Report, we bade goodbye to our former Chairman Mr Channa Palansuriya and former Deputy Chairman Mr Prasantha Lal De Alwis and welcomed Mr Shiran Perera and Ms Sriyani Ranatunga to the Board of Directors, in changes that took effect in 2020. Mr Tharaka Ranwela resigned from the Board in April 2020, after making an immense contribution to the Company during his tenure. Mr Malinda Boyagoda was appointed a Director during financial

year 2020 and I take this opportunity to welcome him on the Board.

### The Way Forward

The COVID-19 pandemic has defined the path ahead for the 'next normal' phase where digital technology will play a vital role with greater emphasis on customer convenience through digital platforms. We hope to provide an omni-channel environment where customers would be able to access our services through digital platforms complemented by a wide and expansive branch network. Adapting digital platforms for facility inceptions of our customers and payments and disbursements to our suppliers will enhance the efficiency of our processes, which we hope to accelerate in transforming our business model to be agile and relevant in the dynamic business context.

The decision to diversify the Company's lending mix of leasing products taken over the years with the objective of spreading the risk across the portfolio with small ticket facilities focusing on the 'earn and pay' category, will spread our credit risk equitably. We hope to enable financial inclusivity of targeted customer groups, including small and medium clientele, through finance leasing, gold financing and deposit mobilisation. As a NBFI, we are deeply mindful and cognizant of the risk return trade-offs emanating from our lending portfolio in protecting the wider interests of our depositor base and maintaining security of deposits at all times.

We also hope to expand our geographical footprint by expanding our branch network by adding 7 new branches to the network across the island to serve unserved segments of the country – thus promoting financial inclusivity.

We also wish to concentrate on rehabilitation of businesses which were affected by the pandemic and help them explore and develop business opportunities for growth.

Looking to the future, we hope to meticulously monitor and sustain the quality of our portfolio by focusing on clearly defined market segments, which will be served with an appropriate mix of products. Recognising the inherent risks, our credit quality will be monitored on a stringent basis through risk management processes.

Funding will be managed to optimise funding costs and manage any maturity mismatches in tenor. We hope to introduce efficient recovery strategies to help our customers through this difficult period, to ensure stability and secure quality of earnings. Moreover, emphasis on productivity will enhance competitiveness through faster response times, thereby facilitating the acquisition and retention of customers, while also lowering cost to income ratio.

### Dividends

The Board of Directors have proposed a dividend of Rs 1.37 per share to be distributed in the form of a scrip dividend amounting to a total sum of Sri Lankan Rupees one hundred and twenty three million two hundred and fourteen thousand four hundred and fifty nine and cents ninety four (Rs 123,214,459.94).

### Appreciation

I convey my appreciation to my fellow Directors for their wise counsel and unwavering support which helped the Company navigate a most challenging phase in its 15-year history. I wish to express my deep gratitude to the Shareholder - Sampath Bank PLC, for

continued guidance and support during this challenging phase.

I express my heartfelt appreciation to the Corporate Management Team ably led by the Managing Director for steering the Company through a difficult terrain. I extend a warm thank you to Team Siyapatha for its enduring commitment and dedication enabling the Company to move forward in testing times.

I wish to extend a special thank you to our customers, depositors and other business partners for placing their trust and confidence in our journey over the past 15 years.

During the year we were guided by the officials of the Department of Supervision Non-Bank Financial Institutions of the Central Bank of Sri Lanka, the Monetary Board, Securities and Exchange Commission and the Colombo Stock Exchange.

I am sure that the Company, which is built on strong fundamentals and aligned on the right strategic path, is well positioned to lead with optimism into the future whilst capturing emerging opportunities of a dynamic business environment.



**Sumith Cumaranatunga**  
Chairman

27 April 2021

# Managing Director's Review



"During an extraordinarily challenging year the primary focus of the Company was to prudently manage the operations of the Company in a seamless and uninterrupted manner. Hence business continuity and the wellbeing of our employees were our prime focus."

Dear Stakeholders,

Amidst the present unstable economic period, I am but pleased to report that the Company in its 15th year of operations was able to thrust ahead relentlessly towards its strategic aspirations withstanding the challenging externalities and laying the foundation to shape our way for a resilient future. It is vital to inform you that the year under review tested the resilience of Siyapatha Finance as the Company navigated its way through a turbulent economic landscape.

## Financial Performance

Siyapatha Finance was able to generate a Profit Before Tax of Rs 904.5 Million marking a decline of 24.9% from Rs 1.20 Billion in 2019. Furthermore, Profit after tax declined by 14.7% from Rs 480.1 Million to Rs 409.4 Million in 2020. Prudent cost optimization strategies helped us keep our operating expenses under control which indicated only a very minimal increase of 2% in the FY 2020. The Company's tax liability decreased considerably due to the abolishment of Debt Repayment Levy (DRL) and the

Nation Building Tax on Financial Services (NBT FS) effective from 1 January 2020 and 1 December 2019 respectively.

The total impairment charges against loans and advances for the year ended 31 December 2020 stood at Rs 1.36 Billion, incurring an increase of Rs 305.3 Million or 29.0%. Out of the total impairment charges, stage 1 and stage 2 impairment charges comprised of 15% in 2020 compared to 3% in the previous year. A significant increase in customer defaults and delayed repayments was seen due to the unfavourable economic conditions causing a direct impact on impairments and provisionings of the Company. We analyzed the significant exposures on a case-by-case basis and prearranged appropriate provisions although these customers were within the debt moratorium period. Further, we have calculated the expected impact of COVID -19 which has been captured under the collective impairment as well as a separate management overlay reflecting the considerable uncertainty following the lapse of the debt moratorium in March 2021.

Total assets of the Company increased marginally to Rs 41.55 Billion compared to Rs 40.94 Billion as at December 31, 2019, recording a growth of Rs 604.3 Million. Total liabilities of the Company stood at Rs 36.4 Billion as of 31 December 2020 compared to Rs 36.9 Billion as at 31 December 2019. It was encouraging to note that the deposit base of the Company expanded by 30.7%, by Rs 4.0 Billion during the year to reach a portfolio of Rs 17.2 Billion as at 31 December 2020. This was mainly due to the trust and confidence garnered by the Company.

The equity capital of the Company was boosted by the retained earnings and the share application funds generated from the Rights Issue increasing equity capital to Rs 5.12 Billion as at 31 December 2020 from Rs 4.01 Billion recorded in the preceding year. The Tier I Core Capital Ratio and the Total Capital Ratio stood at 9.77% and 14.18% (well in excess of the stipulated CBSL minimum requirement of 6.5% and 10.5% respectively) as at 31 December 2020.

## Navigating the Pandemic

During an extraordinarily challenging year the primary focus of the Company was to prudently manage the operations of the Company in a seamless and uninterrupted manner. Hence business continuity and the wellbeing of our employees were our prime focus. Over the years we placed greater emphasis on digitalization of our processes, automation of manual tasks and leveraging on technology to provide greater efficiency and convenience to our customers and staff. Due to the synergistic alliance with our parent Sampath Bank we were the first Non-Bank Financial Institution (NBFI) to implement a Core Banking System (Finacle) for leasing. Thus, digitalization initiatives commenced many years ago positioned us favourably in transitioning into new realities efficiently. The pandemic in 2020 was also an opportune period for us to accelerate some of these digital initiatives. Identifying the existing need the Company pivoted towards a virtual payment platform which enabled our customers to make settlements through online bank transfers. We also moved to door-step collection services in some instance.

The economic downturn and the lack of business activity during this period significantly impacted collections and at the same time, we observed facilities being settled prematurely. However, the Company continuously encouraged the customers to transact with the Company and offered flexible and empathetic concessions beyond the proposed standard reliefs prescribed by the regulator. The import restrictions of vehicles surged the Company to focus on registered vehicles. This was an opportunity to pursue "cross selling opportunities" to existing customers

through refinancing and accommodating facilities of registered vehicles.

During the lockdown period and the consequent restrictions imposed in second and forth quarters of 2020 our branch operations were conducted with minimum staff. However, we focused on maintaining our customer service standards by implementing flexible staff rotation systems.

Mobile marketing and direct business promotions were also successful during this period to connect with our customers for new business. We also equipped our sales teams with tabs to initiate digital transactions and enhance their operational efficiency. With the view of expediting payments, online supplier delivery payment platforms were introduced and a customer relationship unit was in place to enhance the pre – post acquisition of customer service standards whereby we will be able to improve our service response times. We also accepted deposits through online platforms and provided customer information requests through digital channels. Following maximum health and safety measures we provided a doorstep service especially for senior citizens. Competitive rates along with the service enhancements was a sound service proposition which worked well for the Company in the deposits segment.

## Performance of Key Business Verticals

Over the years we have identified and focussed on four key growth pillars namely, Diversification of Lending Mix; Market Penetration into Small Ticket Leases; Market Penetration into Registered four-wheel leases; and Market Development via geographical penetration. During the year under review, our focus continued on this strategic path.

The Company's main product leasing was affected considerably due to import restrictions as a result of the pandemic which dampened business sentiments in general. The gross lending portfolio increased by 1.79% (Rs 678 Million) to Rs 38.55 Billion. This increase is attributable to small ticket micro leases as the Company focussed on canvassing for micro leases in line with its strategy of reducing the ticket size of individual transactions thereby spreading its risk across the lease portfolio. This was mainly attributable to reduction in credit demand experienced in the market due to restrictions on vehicle imports and subdued economic activities caused by the present pandemic. Over the years we have refined our focus on the SME sector and micro leasing segments who are a formidable contributor to the national GDP of the country. Further, diversification of leases to small ticket - micro leasing has been a successful strategy of minimising concentration risk whilst increasing our yields. During the year under review, we experienced many businesses falling into economic distress due to the pandemic situation. We hope to work with these clients to help them rehabilitate their business operations to enable them to be financially independent once again.

The gold loan portfolio of the Company declined by 4.8% to Rs 241.5 Million reaching an overall portfolio level of Rs 4.78 Billion. The competition in the gold loans sector intensified in 2020 mainly due to banks and other financial institutions offering competitive rates and terms while we observed a trend of some of the gold loans being settled. The Company consciously moved away from less profitable business segments of loans and factoring. During 2020 the factoring department was focussed on recovery of bad debts whilst servicing



## Managing Director's Review

and maintaining the regular portfolio of good clientele.

The Company achieved 99.9% of its deposit target primarily driven by the Company's strong positioning and credible corporate image in providing excellent customer service levels during the lockdown period. The deposits division maintained a customer retention ratio of 60% of its existing base and managed its borrowing ratio from customers at 50% of the total fund requirement. 16% of the deposits portfolio consisted of retail customers and balance comprising of institutional / high net-worth investors.

Undeterred by the challenges posed by the pandemic we marched ahead relentlessly in our branch expansion strategy. During the year we expanded our geographical reach to key cities of Kohuwala Metro, Nittambuwa, Malabe, Matale and Dambulla. Thus, increasing our overall branch network to 40 branches.

### Our Siyapatha Team

During the year 2020 our prime focus was the wellbeing and health of the employees. The pandemic was an uncharted territory for our employees, however, our management team equipped our employees to face the situation in a systematic manner and this motivated our staff to contribute positively despite the challenges. During the lockdown phase 75% - 80% of the employees transitioned to a Work from Home (WFH) arrangement wherein the organisation equipped and empowered them to carry out their duties remotely while 35% of our employees reported to the nearest branch and carried on their duties accordingly. Herein we focused on maintaining health and safety precautions

to ensure the safety of our employees and customers.

In addition to the above digitalized strategic initiatives we also focused on remote processing of lease facilities from facility inception up-to supplier payments. Through decentralization of key activities such as facility approval, authorisation of facilities and RMV lodging at a regional level we managed to increase processing speeds thereby facilitating a platform to serve our customers with speed and efficiency. Access to improved MIS and technology platforms enabled our teams to gain information on a timely manner. 2020 was a period of new learning and adapting to new situations in an agile manner and our teams efficiently transitioned into a dynamic external environment.

With regards to HR related programmes & activities conducted physically such as learning and development which was hampered initially was thereafter moved on to online virtual platforms to continue our training activities during the year. Even whilst working remotely during a larger part of 2020 we strived to create an atmosphere of team camaraderie by engaging with our staff through the 'Team Lotus' Facebook page especially through activities and events commemorating Vesak and Christmas.

### Responding to the Needs of the Community

Remote learning and online education gained traction during the pandemic in 2020. We observed that this created an unequal platform in education especially in rural schools where students did not have access to computers. In response to this need the Company donated computers to Erabadda Vidyalaya, Keppetipola, Thissamaharama Maha

Vidyalaya, Thissamaharamaya and Presbbyterian Girls School, Dehiwela.

### Risk Mitigation Strategies

We recognise that the emerging economic environment poses many inherent risks and challenges. In response to this we have taken steps to strengthen our risk management practices at the pre- and post-disbursement stages of our facilities to ensure that we maintain quality in our lending portfolios. In addition to credit risk monitoring, the Company also takes precautionary action on managing Market, operational, legal, compliance and reputational risks. Risks & Controls Self-Assessment process was introduced during the year 2020 and is now implemented across the Company.

### Looking Ahead with Optimism

At the time of writing this report we witness the third wave of the pandemic unfolding which will create a far-reaching impact on the economy, our society and above all on human life. The strategies introduced at a national level in recovery and rebuilding the economy focussed on critical sectors such as construction coupled with low interest, will encourage future growth in these sectors.

The pandemic in 2020 spurred the need for businesses to be digitally agile. Customer convenience is a critical success factor for this industry and a key differentiator. We hope to continue to align our marketing communications onto digital platforms ensuring increased reach and enhanced engagement with our customer base. Siyapatha Finance will undoubtedly have an edge over its competitors as the digital platforms coupled with our unique brand differentiation and geographical presence will enable us to leverage market opportunities.

We hope to pursue our path on diversification of our lease portfolio onto small ticket micro leases which will spread the concentration risk whilst contributing high yields. This initiative will support the growth of the SME sector which is considered the vital back bone of the local economy.

Expanding our geographical footprint to unserved markets in the country is a key area of focus and Establishing our presence in untapped markets will enable us to promote financial inclusivity.

We also hope to intensify our recoveries and collection efforts to efficiently and proactively manage our NPLs and maintain our collection ratios. The Call Centre which was set up last year intensified their efforts in following up and monitoring payments as physical customer visits could not be done by our recoveries teams due to the pandemic.

We have also intensified the construction activities of our new head office building which is earmarked to be completed in the 2nd half of 2021. I am assured our new building will create a sense of stability and position the Company favourably in the financial services sector thereby enhancing the visibility of the Siyapatha Brand.

#### **A Note of Appreciation**

I wish to place my sincere gratitude and appreciation to the Chairman and Board of Directors whose invaluable guidance and strategic direction helped us navigate through a challenging phase in the Company's history. The corporate management team has been a great source of support in treading through a challenging path. Our resilient performance is largely attributable to the dedication and determination of our professional and skilled Team Siyapatha

who with their unstinted support and dedication chartered the Company towards a resilient performance. I also place on record the support and guidance extended by the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.

I am cautiously optimistic of a progressive year ahead amidst many opportunities which lie ahead as we move to the next phase of the Company's journey.



Ananda Seneviratne  
Managing Director

27 April 2021

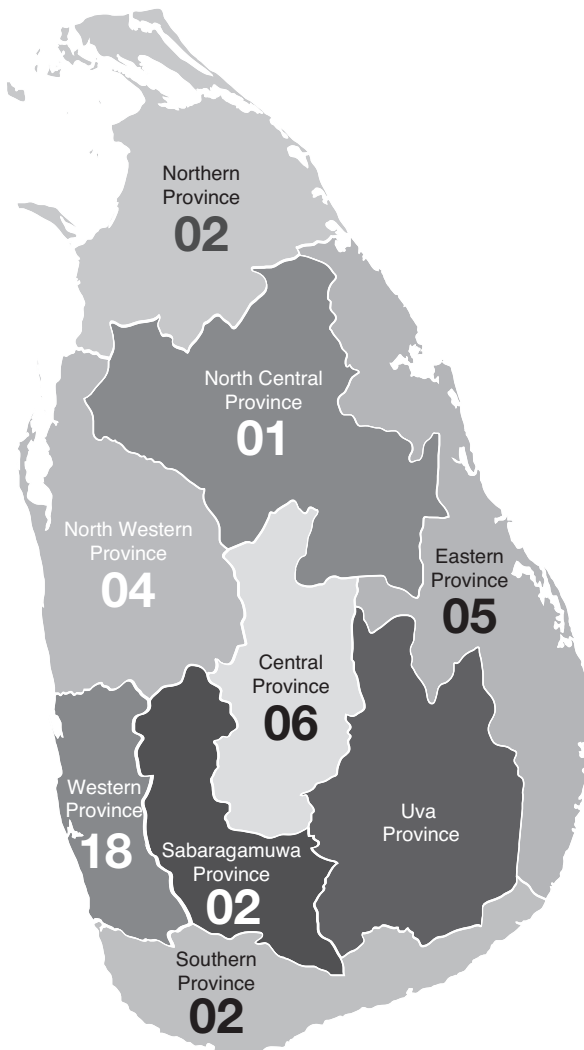
# Management Discussion and Analysis

Siyapatha Finance PLC, a fully-owned subsidiary of Sampath Bank PLC, was incorporated in March 2005 as a specialized leasing company. The company reached its 15th year in 2020, reported another profitable financial year amidst a pandemic situation.

## PRODUCT PORTFOLIO & SUB BRANDS

- Leasing
- Fixed Deposits & Savings
- Micro Leasing
- Gold Financing
- Factoring
- Loans

## BRANCH NETWORK



## Branch Locations and Addresses

#	Branch	Address
1	Head Office	No.46/12, Nawam Mawatha, Colombo 2
2	Matara	No.5B, Hakmana Road, Matara
3	Kalutara	No. 169, 169/1/1, Main Street, Kalutara
4	Wellawatte	No. 226, Galle Road, Wellawatte
5	Galle	No. 27, Old Matara Road, Pettigala Watte, Galle
6	Panadura	No. 414, Galle Road, Panadura
7	Kurunegala Metro	No. 36, Negombo Road, Kurunegala
8	Kurunegala	No. 254C, Colombo Road, Kurunegala
9	Anuradhapura	No. 213/4, Maithreepala Senanayaka Mawatha, Anuradhapura
10	Vavuniya	No. 156, Bazaar Street, Vavuniya
11	Kegalle	No. 137, Kandy Road, Kegalle
12	Nuwara-Eliya	No. 28, Kandy Road, Nuwara Eliya
13	Sainthamaruthu	No.1610, Main Street, Sainthamaruthu
14	Kalmunai	No. 172/4, Batticaloa Rd, Kalmunai
15	Batticaloa	No. 257, 259, Trinco Road, Batticaloa
16	Trincomalee	No. 273/A, 273/1/1, Central Road, Trincomalee
17	Negombo	No. 287, Main Street, Negombo
18	Gampaha	No. 3A, Mangala Road, Gampaha
19	Peliyagoda	No. 304, Negombo Road, Peliyagoda
20	Kuliyapitiya	No. 50/52, Kurunegala road, Kuliyapitiya
21	Katugasthota	No. 274/A, Katugasthota Road, Kandy
22	Kandy	No. 192/1/1, Kotugodella Street, Kandy
23	Ampara	No. 32, D S Senanayake Street, Ampara
24	Nugegoda	No. 189, Stanley Thilakarathne Mawatha, Nugegoda
25	Ratnapura	No. 186, Main Street, Ratnapura
26	Avissawella	No. 20, Ratnapura Road, Avissawella.
27	Kiribathgoda	No 211/1/1, Kandy Road, Kiribathgoda
28	Maharagama	No 137, Piliyandala Road, Maharagama
29	Wattala	No. 540, Negombo Road, Wattala
30	Hatton	No. 07, Circular Road, Hatton
31	Piliyandala	No. 88, Moratuwa Road, Piliyandala
32	Chilaw	No. 111A, Colombo Road, Chilaw
33	Moratuwa	No. 168 Galle Road, Idama, Moratuwa
34	Jaffna	No. 388, Hospital Road, Jaffna
35	Pettah	No. 341, Main Street, Colombo 11
36	Kohuwela	No. 69, D.De.S. Jayasinghe Mawatha, Kohuwela
37	Nittabuwu	No. 195, Colombo Road, Nittambuwa
38	Malabe	No. 793/C, Kaduwela Road, Thalagama North, Malabe
39	Matale	No. 313, 315, Trincomalee Street, Matale
40	Dambulla	No. 705, Anuradhapura Road, Dambulla



## EXTERNAL OPERATING ENVIRONMENT

Like many other economies globally, the Sri Lankan economy was also severely affected by the mobility restrictions/ lockdowns and social distancing imposed by the government to curb the spread of the pandemic, particularly during its first wave within the country. Many economies and Sri Lanka too began to reopen by mid-2020, when the global economic activity slowly began to rise pickup, but with the pandemic spreading and heightening, partial lockdowns were re-imposed. The GDP growth which decelerated to 2.3% in 2019 due to the Easter attack, further declined reporting a negative 3.6% in 2020 (amidst a contraction of 16.3% which bounced back due to normalization of business activities after the first wave of the covid-19 pandemic). According to the IMF, global growth contraction for 2020 is estimated at 3.5%. The Government together with the Central Bank of Sri Lanka (CBSL) introduced various policies and relief measures. Policy interest rates and the Statutory Reserve Ratio (SRR) were reduced to their lowest levels in history and special lending schemes were initiated at concessionary rates, while interest rate caps on selected lending products were also introduced. Debt moratoriums and concessions were offered to support the affected individuals, families and businesses. With these substantial monetary easing measures-market interest rates dropped reaching historically low levels, whereas most lending rates dropped to a single digit.

Meanwhile, pandemic related government expenditure reported a sharp rise. Travel and tourism, which is an important driver of the economy has

been hard hit sectors and the outlook for its recovery remains uncertain and dependent on the evolution of the pandemic. This extremely challenging environment resulted in decisions being taken to restrict non-essential merchandise imports while encouraging foreign exchange inflows. COVID-19 pandemic highlighted long-standing structural weaknesses of the economy such as relative neglect of domestic production, heavily import-dependent consumption and production, and over-reliance on foreign debt.

## INDUSTRY PERFORMANCE

### Performance of LFCs and SLCs sector

The Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector have become vulnerable with the contraction in asset base, credit and deposits in light of the pandemic. Further, the sector remained under pressure due to negative credit growth, declining profitability and higher NPLs during the year 2020. The sector which delivered a sub-standard performance in 2019, further weakened in 2020, due to the uncertainties and impacts triggered by the pandemic. LFCs and SLCs sector NPLs grew from 10.6% as at the end of 2019 to 13.86% as at 31 December 2020.

The CBSL continued to monitor key prudential indicators, initiated several regulatory and supervisory frameworks to strengthen the business models of certain LFCs and thereby to prevent collapse. Additionally, to safeguard depositors and to ensure long-term stability of the financial sector, necessary action has been taken to cease or limit finance business operations of those finance companies, which have continued to display weak performance. Moreover, several measures were introduced providing flexibility to LFCs and SLCs in order to facilitate their operations to support businesses and individuals affected by the COVID-19 pandemic.

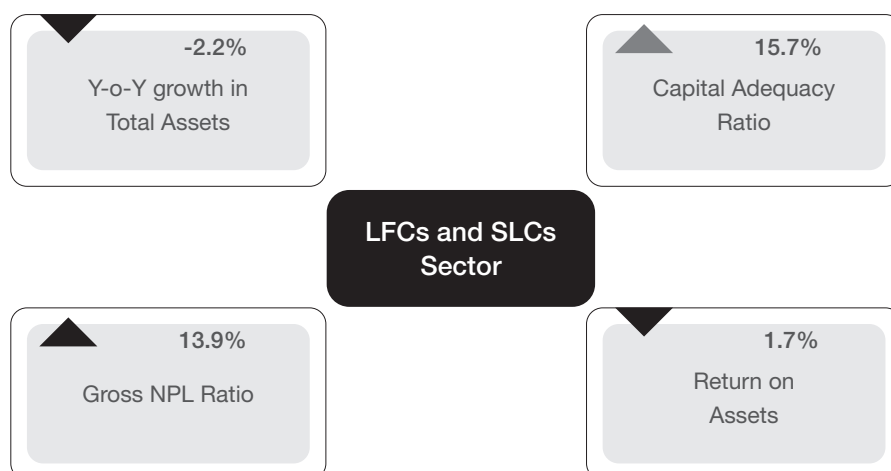
## FINANCIAL CAPITAL

Siyapatha Finance PLC earned a Profit after Tax of Rs 409.5 Million, a marginal reduction of 14.7% while the decline in the industry stood at 6.1%. Asset growth of 1.5% indicated a growth in comparison to the industry decline of 2.2%.

## INCOME STATEMENT ANALYSIS

### Net Interest Income (NII)

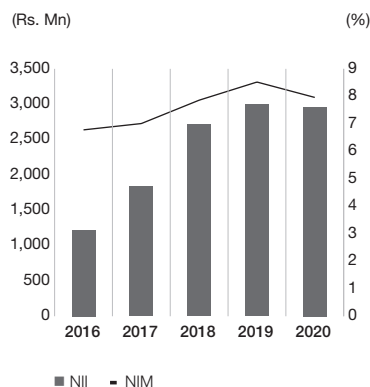
Subdued credit growth, higher NPLs, concessionary interest rates charged during the debt moratorium phase I and



## Management Discussion and Analysis

lower interest rates in the market brought pressure on the Net Interest Income (NII) of the Company during the year under review. Total interest income of Rs 6.81 Billion for the year 2020 compared to Rs 7.22 Billion reported in the previous year, decreased by Rs 415.3 Million reflecting a drop of 5.7%. Nonetheless, interest expenses too reported a decline of 8.8% to Rs 3.85 Billion in 2020, from Rs 4.23 Billion recorded in 2019. The combined impact of decrease in both the interest income and interest expense resulted NII to drop marginally by 1.3% to Rs 2.95 Billion 2020 in comparison to Rs 2.99 Billion recorded in 2019. Accordingly, Net interest margin (NIM) too reported a marginal drop from 8.52% to 7.96% in the year under review.

### Net Interest Income and Net Interest Margin



### Fee and Commission Income and Other Operating Income

The Company reported fee and commission income and other operating income of Rs 765.4 Million during the period under review, compared to Rs 690.2 Million recorded in 2019 indicating a growth of 10.9%. The growth in fee and commission income was severely affected due to the two-month island wide lockdown as well as region wise mobility restrictions imposed by the

authorities from time to time as a containment measure to control the wide spread of COVID - 19.

### Credit Loss Expense

The Company experienced a significant increase in customer defaults and delayed repayments due to stressed economic conditions prevailed throughout the year 2020, resulting in lower income levels and reduction in debt repayment capacity. Accordingly, a case by case analysis has been conducted on the individual-level significant exposures and appropriate provisions made regardless of the fact that these customers were within the debt moratorium period. Further, the expected impacts of COVID-19 captured via the modeled outcome under collective impairment as well as a separate management overlay reflecting the considerable uncertainty that remain, once the debt moratorium phase II lapses in March 2021.

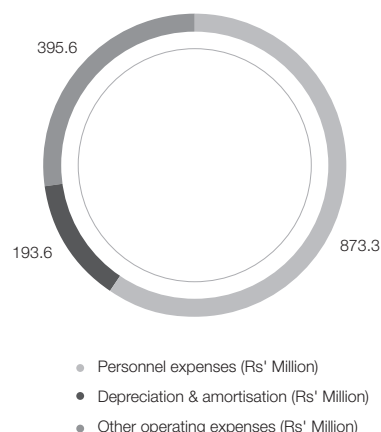
The total impairment charges against loans and advances for the year ended 31 December 2020 stood at Rs 1.36 Billion, an increase of Rs 305.3 Million (i.e. 29.0%). Out of the total impairment charges, stage 1 and stage 2 impairment charges comprised of 15% in 2020 compared to 3% in the previous year.

### Operating Expenses

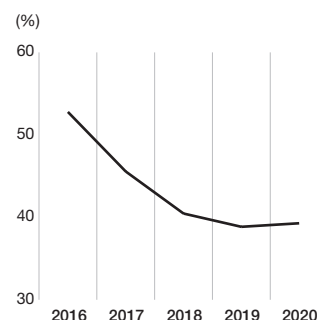
Operating expenses grew only by 2% or Rs 29.1 Million over the previous year recording Rs 1.46 Billion for the year ended 31 December 2020. The efficient cost control initiatives already implemented by the management in response to the challenging macroeconomic conditions, contributed positively for this marginal growth of operating expenses.

Personnel expenses accounted for 59.7% of total operating expenses and amounted to Rs 873.3 Million, showed a YoY growth of 12.3% mainly due to growth in our team and annual increments. However, other operating expenses (including depreciation and amortization expenses) of Rs.589.2 Million reported 10% below that of the previous year. However, cost-to-income (CIR) ratio slightly increased from 38.8% in 2019 to 39.3% in 2020 mainly due to the low growth of total operating income by 0.9% along with the 2.0% growth in operating expenses.

### Composition of Operating Expenses - Year 2020



### Cost to Income Ratio



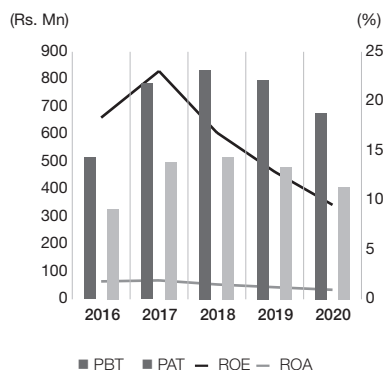
### Profit Before Tax and Profit After Tax

Siyapatha posted a Profit before tax of Rs 678.02 Million in 2020 against Rs 798.53 Million in 2019, indicating a drop of 15.1%. Due to abolishment of Debt Repayment Levy (DRL) and the Nation Building Tax on Financial Services (NBT FS) effective from 1 January 2020 and 1 December 2019 respectively, the Company recorded a YoY total tax expense of Rs 495.0 Million in 2020, a decline of Rs 229.6 Million (i.e. 31.6%) against the total tax expense in the preceding year. Profit after tax too declined by 14.7% from Rs 480.1 Million to Rs 409.5 Million in 2020.

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

The decline in the profitability predominantly contributed to deteriorate ROA from 1.22% in 2019 to 0.96% in 2020. Further, the decrease in profitability and the increase in average equity base owing to proceeds of the Rights Issue saw the Return on Average Equity (ROE) (after tax) declining from 12.88% in 2019 to 9.54% in 2020.

### Profitability



### ANALYSIS OF THE STATEMENT OF FINANCIAL POSITION

#### Total Assets

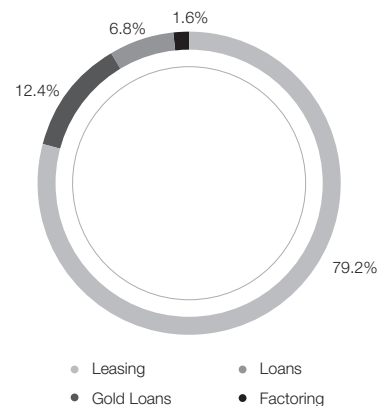
Total assets of Siyapatha reached Rs 41.55 Billion as at year end 2020 compared to Rs 40.94 Billion as at December 31, 2019, recording a growth of Rs 604.3 Million (i.e. 1.5%). This growth can be mainly attributable to increase in balances in securities purchased under repurchase agreements and increase in property, plant & equipment due to capital expenditure incurred in relation to the construction of proposed Head office building and fixed assets acquisition for newly opened branches during the year 2020. Meanwhile, the net lending portfolio shrunk by Rs 425.1 Million in end 2020 compared to Rs 36.23 Billion in 31 December 2019.

#### Loan Growth

Leasing dominates the major portion of the gross lending portfolio, which accounted for 79.2% followed by gold loans -12.4%, loans - 6.8% and factoring -1.6%. The marginal growth of the leasing portfolio by 2.7% was mainly attributable to reduction in credit demand experienced in the market due to restrictions on vehicle importation and subdued economic activities caused by the COVID -19 pandemic.

The gross loan portfolio, which stands at Rs 2.14 Billion as at 31 December 2019, grew by 23% or Rs 497.1 Million during the year under review to reach Rs 2.64 Billion as at 31 December 2020.

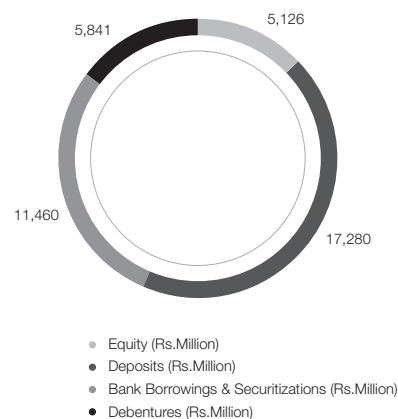
### Composition of Gross Lending Portfolio - Year 2020



#### Total Liabilities

Total liabilities of the Company stood at Rs 36.4 Billion as of 31 December 2020 compared to Rs 36.9 Billion as at 31 December 2019. The deposit base of the Company expanded by 30.7%, i.e. by Rs 4.0 Billion during the year to reach Rs 17.2 Billion as at 31 December 2020. Despite the issuance of unsecured senior redeemable debentures of Rs 2 Billion during July 2020, debt issued and other bank borrowings showed a decline of Rs 4.4 Billion (i.e. 20.3%) recording Rs 17.3 Billion by end December 2020.

### Funding Mix - Year 2020



## Management Discussion and Analysis

### Capital

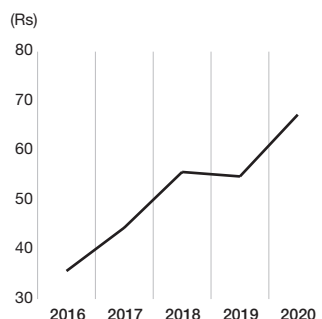
Profitability and Share application money received from the Rights Issue had a positive impact on the Company to grow its equity capital to Rs.5.12 Billion as at 31 December 2020 from Rs 4.01 Billion recorded in the preceding year. The equity funded 12.3% of its assets as at end of 2020, compared to 9.8% as at December 31, 2019. The risk weighted assets of the Company declined marginally by Rs 193.7 Million (i.e. 0.5%) to Rs 37.46 Billion as at 31 December 2020. Consequently, Tier I ratio and the total capital ratio stood at 9.77% (minimum requirement - 6.5%) and 14.18% (minimum requirement - 10.5%) respectively as at 31 December 2020, exceeding the minimum capital adequacy requirements set by the Central Bank of Sri Lanka.

### Net Asset Value per Share and Earnings per Share

Net asset value per share increased to Rs 67.26 as at 31 December 2020 compared to Rs 54.78 as at end December 2019. This was mainly attributable to the increase in profitability and the Rights issue. However, Earnings per share decreased to Rs 5.37 in 2020 compared to Rs 6.56 in 2019 mainly due to

decrease in profitability.

### Net Asset Value Per Share



### Dividends

Dividend per share decreased to Rs 1.37 for the year 2020 against Rs 1.95 for the year 2019 which was paid in the form of a scrip dividend, facilitating value to shareholders and capital formation for growth plans of the Company.

### OPERATIONAL REVIEW

The addition of 5 new branches in Kohuwala Metro, Nittambuwa, Malabe, Matale and Dambulla further expanded the Company's channel network. As at end 2020, the total number of branches stands at 40.

### Brand Value

Process improvements and upgrades in digital platforms like online Leasing-Core Banking system, Microsoft Dynamics' latest version and MIS platform were carried out, with the purpose of positioning Siyapatha Finance PLC as the most convenient financial services provider. This strategy would be a key brand point of difference to be gained by the company in its current and future operations. Expansion of the branch network extends the outreach, enabling to offer Company's product and services to its valued clientele on a wider geographical area.

### New Customers

Among the 12,915 new customers acquired during the year included selective categories of machinery customers and Micro Leasing customers.

The table below summarizes the challenges encountered by the Company during the year under review, and measures taken to mitigate, thus to avoid an unfavourable impact on operations.

Challenges	Our Response
<b>Deposits</b> <ul style="list-style-type: none"> <li>Pandemic situation leads to a heavy deposit run (withdrawals)</li> <li>Delays in postal service and non availability of full staff strength</li> </ul>	<ul style="list-style-type: none"> <li>Sustaining the strong relationship with our clientele and establishing company's stability continued to reach a healthy retention deposit ratio of 60%</li> <li>Maintained deposit growth of over 30% during the period</li> <li>Introduced number of new digital channels which have high appreciated by customers</li> <li>Expansion of branch network helps reach new customer segments</li> <li>Uninterrupted customer relationship and competitive interest rates help retain and attract new customers through "Word of Mouth" marketing tool</li> </ul>

Challenges	Our Response
<b>Leasing and Loans</b> <ul style="list-style-type: none"> <li>• Almost zero influx of new vehicles to the market</li> <li>• Market opportunity of New Lending has shifted from the 'Earn &amp; Pay' category to the 'Consumption' category</li> <li>• Limited asset availability for business growth and declining of RMV registrations</li> <li>• Decline of market potential for 4-wheel large ticket leases</li> </ul>	<ul style="list-style-type: none"> <li>• Focused on the registered vehicle market.</li> <li>• More attention was paid on registered motor car and personal use vehicle category.</li> <li>• Asset type lending was diversified by paying extra attention on Agriculture- based vehicles and machinery and other types of selective machinery</li> <li>• Focused on a development plan in small ticket micro leasing category which minimizes the concentration risk while giving higher returns.</li> </ul>
<b>Gold Loans</b> <ul style="list-style-type: none"> <li>• Island wide lockdown posed a severe threat; restrictions on business promoter activities</li> <li>• Policy changes of government during the pandemic challenged us to retain the portfolio</li> <li>• Reduced interest rates the lowest ever; Many banks and financial institutions promoted pawning and gold loan business created increase in competition</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rates and advance quanta were revised to be competitive.</li> <li>• Social and digital media channels deployed to continue business promotional activeness.</li> </ul>
<b>Portfolio Retention &amp; Growth</b> <ul style="list-style-type: none"> <li>• Covid-19 negatively impacts businesses: interruption to new business inception and the tendency of customers to settle the existing portfolios</li> </ul>	<ul style="list-style-type: none"> <li>• Customers encouraged and motivated to continue with the company by offering concessions within and beyond the proposed standard relief measures offered by the regulator.</li> </ul>
<b>Collection of Rentals</b> <ul style="list-style-type: none"> <li>• Normal collection efforts become impossible with lockdown; challenging to maintain collection ratio and to facilitate the company's cash flow requirements</li> </ul>	<ul style="list-style-type: none"> <li>• Digitalized platform for collection strengthened; direct bank deposits encouraged and more flexible terms offered to customers including convenient rental part rental payment without late payment charges.</li> <li>• Door step rental collection on customer request.</li> </ul>
<b>New Inception of Business</b> <ul style="list-style-type: none"> <li>• Non-availability of unregistered and brand new assets</li> <li>• Non-performing market conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Concentration on registered vehicle market enhanced along with market penetration strategies to penetrate the existing customer base for refinancing and accommodation facilities.</li> </ul>
<b>Channel Network Expansion &amp; Management</b> <ul style="list-style-type: none"> <li>• Lockdown weakened the capacity of the existing channel network; Channel expansion schedule interrupted</li> </ul>	<ul style="list-style-type: none"> <li>• More flexible staff rotation initiatives amongst branch network.</li> <li>• Alternative operational arrangements in place for interrupted branches within the business continuity plan (BCP) framework.</li> <li>• Digital processing and door step customer service on request.</li> </ul>
<b>Conducting Business Promotions and Business Development Activities</b> <ul style="list-style-type: none"> <li>• Lockdowns restrict business development / BTL promotional activities restricted across all product lines</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on more digital-based marcom and business development indicatives viz, use of social media marketing, mobile marketing and direct canvassing of business through personal networking.</li> </ul>

## Management Discussion and Analysis

### Key Product Portfolio and Performance

During the year, the Company introduced/further improved various features to its product portfolio, to help customers overcome challenging economic conditions and sustain their lifestyles.

#### -Corporate Social Responsibility (CSR)

As a responsible corporate entity, Siyapatha conducted three CSR initiatives of timely importance to help the people in need during 2020. The importance of online learning has surfaced due to the closure of schools in the Covid 19 pandemic.

With the aim of uplifting the quality of distance/online learning of the rural school students/underprivileged students who are unable to finance purchase of computers and those who do not have access to sufficient IT equipment, the Company donated 12 computers to the following institutes.

01. Erabadda Vidyalaya, Keppetipola  
- Donated 3 computers (classes from grade 6 to 11, with 62 students including a special educational unit and 20 teachers)
02. Presbyterian Girls' School, Dehiwala  
- Donated 1 computer to Grade One (The only national school in Dehiwala)
03. Thissamaharama Maha Vidyalaya, Thissamaharamaya - Donated 8 computers (classes from grade 1 to 13 with 1,500 students)

### Information Technology as an Enabler of Business Operations

In accordance with the Company's vision and goals, Siyapatha has always concentrated on harnessing its technological capabilities for ensuring business continuity and for offering a secure and efficient business platform

to its customers, which exercise was enriched by the introduction of the Siyapatha/ LankaPay/JCB ATM Card in February 2020. Despite the many obstacles imposed by the COVID 19 pandemic, Siyapatha was able to go ahead with a highly successful operational environment supported by the effective use of its hardware, software and network facilities. The underline key dynamics for this exercise came through the seamless integration of all major applications with the Finacle Core Banking System and by the implementation of a fully-automated Call Center System. Consequently, the lack of physical presence did not act as a barrier to Siyapatha back office staff in processing business transactions on-line real time or in communicating effectively with customers and attending to their needs. Also, the in-house operations were further enhanced by the introduction of an advanced Information System for providing user level-specific customer information and management information. This facility did assist Siyapatha to prudently conduct Delinquency Management which necessarily is a high priority area during a crisis situation. It should be emphasized that, as a high-end user of IT, Siyapatha has been able to positively cope with the numerous operational challenges faced by the Company in 2020.

### Digital Marketing Developments in 2020

Marketing officers were equipped with necessary devices to initiate digitalized field data entry on business creation to enhance their level of operational efficiency. Along with this approach, the Supplier Online Payment delivery platform was also developed with the view of expediting supplier service delivery.

The already upgraded MIS platform for report generation and extraction of transaction data was further improved/ modified to facilitate system wide convenient access to accurate and timely information for a large number of users.

Overall, remarkable growth with increase in presence for Social Media Growth was reported in 2020. The brand awareness score was 610. The total audience grew by 7.1% reaching 18,183 fans as at December 2020. Total engagement reported 10,364 interactions and total impressions grew by 106.4% reaching 154,805.

Currently, Facebook page reached 19,403 followers with total post reaching 159,000, with 69 posts in 2020 and 3,900 Engaged Users.

Instagram followers are 771 with 69 posts; LinkedIn followers are 196 while the official page was created in 2021.

As restrictions imposed on physical presence, thus restricting conducting of campaigns during Covid-19, Company extended its outreach/promotional activities via Social media. Social media reach/impressions for Sinhala and Tamil carousels were approximately 55,000 and 16,000 respectively. Similarly, Sinhala and Tamil posts in Facebook and Instagram were in the range of approx. 100,000-700,000 and 24,000-300,000 respectively.

### Quality Improvement Projects

The Central Operation Department was restructured for an efficient and improved monitoring mechanism. Credit facility approval process was further streamlined via green channel approvals and decentralized facility approval systems to improve facility processing efficiency.



Online supplier payment IT Infrastructure was developed.

## **GREENING FOOTPRINT / SUSTAINABILITY**

Siyapatha Finance PLC firmly believe in restoration of natural resources as a prime responsibility of the Company and always adopted the industry best practices on improving and enhancing environmental friendly business operations to a large extent.

To make this effort a success, Company is committed towards minimizing direct environment impacts arising out of its business operations, by monitoring and assessing the usage of natural resources and strive towards adhering to the industry best practices in discharging organic and non-organic waste.

Being a Company in the Financial Sector, impact to the environment from our business is limited to usage of energy, water and paper whilst outputs from operations mainly consist of office waste and emission from transportation/travel of employees for business-related activities.

### **Energy Management/Conservation**

We make every effort to consume energy in the most efficient, cost effective and environmentally responsible manner. Energy consumed by the Company consists of electricity from the national grid and fuel used by the Company-owned vehicles. The Company's electricity usage is monitored monthly to ensure optimizing energy usage as well as cost optimization.

To reduce electricity consumption and reduction of energy usage, Siyapatha introduced LED lights to branches and replaced 500w flasher lights with 50w LED flood lights.

### **Waste Paper Management**

Siyapatha has partnered with GEOCYC (Private) Ltd to recycle all used and discarded paper. As a result, the Company recycled 408 kg of waste paper during the year 2020.

### **Water Usage Management**

Being in the services industry, Company's water usage is limited to consumption and sanitation purposes. Usage of water resource is centrally monitored by the Company.

### **Corporate Social Responsibility (CSR)**

## **FUTURE OUTLOOK**

### **HUMAN RESOURCES**

Human Resources Department plays a vital role in a company. Human Resources Department could and should position Human Resources and act as a strategic partner in achieving company's mission, vision, and ambitious goals. HR is committed to making work lives easier and better and delivering an exceptional employee experience to all the employees. The Human Resources (HR) team of Siyapatha ensures that policies and procedures are in place for our employees to perform with drive and high levels of motivation.

### **Performance Management System**

The Company has in place a well-structured, transparent and effective performance management mechanism to evaluate employee performance, enable and motivate employees to work to the best of their abilities and knowledge, while supporting employees to meet their departmental goals and individual key performance indicators (KPIs).

Each category of employee is assigned a different weightage for the key performance areas falling under

organizational, financial, customer and operational excellence aligned with their job roles and responsibilities. Pre-defined competencies are also assigned to each employee category and grade-based on the relevant weightage. Performance appraisals are carried out semi-annually taking into consideration the result of employees' past performance together with their knowledge, skills, attitudes and competencies. Results of the performance appraisal process facilitate to provide feedback to employees in a structured manner, highlighting achievements and identifying areas for improvement.

Performance of the first 12-months of new recruits are reviewed during their first year (6 months) probation period with the Company. Based on this review, new recruits become eligible for confirmation of permanent employment with the Company.

### **Rewards and Recognition**

Employee career progression is linked to the Performance Appraisal process, inspiring employees to align their personal and career goals for mutual benefit and facilitating retention of critical talent. In 2020, approximately 10% of employees received promotions especially Marketing Department and the Gold Financing Department recorded the highest number of promotions. All employees in the permanent cadre employed full-time, received regular performance and career development reviews according to the Company policy without discrimination on any grounds.

### **Training and Development/E-learning**

The strategic role of training & development is to manage the development of people and expedite the

## Management Discussion and Analysis

process in a way that supports other key business priorities. The learning process of Siyapatha involves a strategic role in five key areas.

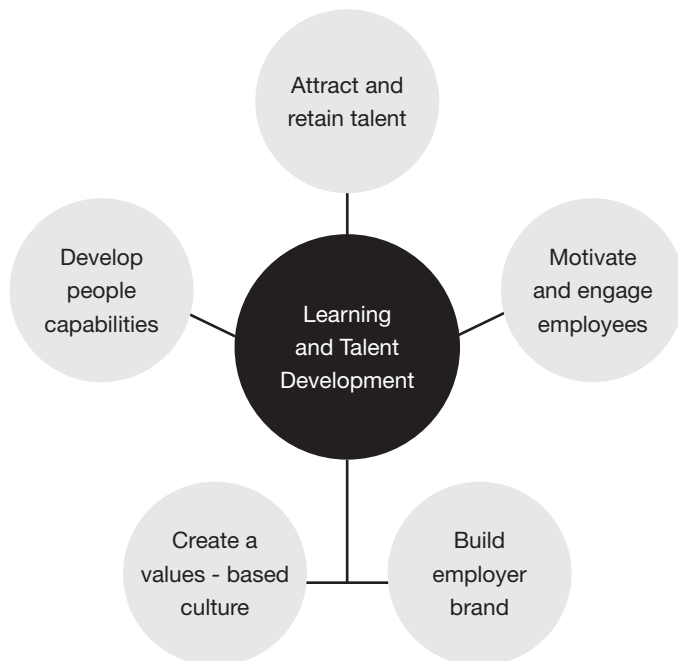


Figure 1: The five key areas of talent development

A wide range of training and development opportunities to enhance employee soft and technical skills are made available after critically evaluating the training and development needs at the organizational-level, departmental-level and the individual-level.

During the year under review, the Company conducted 116 training programs providing a total of 9,731 training hours to employees. Of these training sessions, 29% aimed at employee soft skills development and 71% conducted for the development of employees' technical skills. Based on the cadre composition of the Company, male employees underwent a higher number of training opportunities compared to those of female employees.

The Company commenced conducting of training programs with a positive note, and reached the monthly budgeted figures as set out in the annual training plan for the year 2020 in the first two months. However, due to the current COVID 19 pandemic-related uncertainties and post pandemic consequences as well as challenges and regulations concerning employee health and safety aspects, physical training sessions were on hold. Nevertheless, the company continued its training and development initiatives by conducting them through Zoom virtual platform. These online training sessions were successfully amidst the Covid pandemic, while ensuring employee's health and safety as well as employee engagement.

Overall, 24% physical training programs and 76% virtual training sessions were conducted during 2020.

### Internal Training programs

Many of the Company's training sessions are conducted internally by internal trainers' pool which consisted of Managers and other employees who have been well trained and well experienced. On-the-job training and job rotation are also methods employed to train newly recruited employees and those who are to be groomed for promotions. In the year under review, Company's new Management Trainee program was initiated to develop the young leaders and successors to critical talents. Employees were cross-trained within the organization as internal resource persons. Accordingly, such employees successfully conducted internal training programs related to technical expertise, operational knowledge and the corporate value system. These programs aimed for on-the job training needs of the Company.

Being the first Financial Institute to implement the Finacle system, our IT Team underwent training under the inclusive Finacle Core Training for continuous Finacle system support by our very own internal facilitators.

### External Training programs

Employees were exposed to external training programs, providing them with an opportunity to build their personal and professional networks and gain an in-depth understanding of new technologies, best practices and current trends in the industry. Siyapatha Finance PLC regularly directs employees to training workshops conducted by City and Guilds, Central Bank of Sri Lanka, Chartered Institute of Management Accountants (CIMA) Sri Lanka Division,



the Institute of Chartered Accountants of Sri Lanka (ICA), Chartered Institute of Personnel Management (IPM), Sri Lanka, Employee Federation of Ceylon and other reputed professional bodies.

### **Employee Benefits and Welfare Initiatives**

Through a wide range of initiatives for the betterment of employees, Siyapatha puts into practice that health and well-being of employees is vital beyond the regulatory obligations. Therefore, the Company is committed to create the environment for a happy and healthy workforce. Employees in the Full-time and in the permanent cadre are entitled to the below mentioned benefits and initiatives. Some of these include:

- Medical reimbursements: Medical coverage for Hospitalization and OPD reimbursement for employee and family members.
- Reimbursement of travelling, meal and accommodation:  
A transparent and fair procedures with reimburse schemes for travelling, meals and accommodations to initiate and encourage employees in achieving set targets.
- Death Donation Scheme:  
Financial aid in the event of death of a Siyapatha employee or a family member as stipulated in the policy.
- Insurance Scheme
- Staff Loan Facility
- Distress Loan Policy:  
Financial aid extended when employees are faced with a difficult/ tragic situations such as receiving medical treatment, recovery from natural disasters of other situations.
- Staff Vehicle Lease Policy:  
Concessionary rates apply for lease

of two wheel and four wheel vehicles based on employee job category.

- Maternity Benefits
- Membership subscription
- Medical Campaign

### **Work Life Balance**

To assure the work life balance, “Work from home policy” was introduced amidst Covid 19 pandemic by ensuring that employees are maintaining a work-life balance which is vital and is directly impacted in work performance of employee. Company encourages employees to be motivated while attending to their personal and social commitments, and lead a stress-free life. The Company has initiated some key policies in this regard, such as Attendance and leave policy, Occupational health and safety policy, Transfers and Secondments policy and Job rotation policy, Learning and development policy as an open pathway for encouraging work setting.

Although during the pandemic, hours of work and demands of job roles are experienced unexpected changes, the Company ensured that work-life balance was met within the policies set out as above.

### **Team Building Initiatives**

Siyapatha understands the importance of team spirit in the organization’s culture and its benefits. In the year under review, physical team building initiatives such as cross-functional get-togethers and training to foster team cohesiveness were unattainable due to social mobility restrictions imposed to combat the spread of the pandemic. As such, for this initiative, Siyapatha further increased its presence in the social media platform and

virtual platforms which were successful in many ways.

Employees engaged through the Team Lotus Facebook group especially during the Vesak and the Christmas festivals. Team engagement events were organized monthly and conducted through Team Lotus FB group.

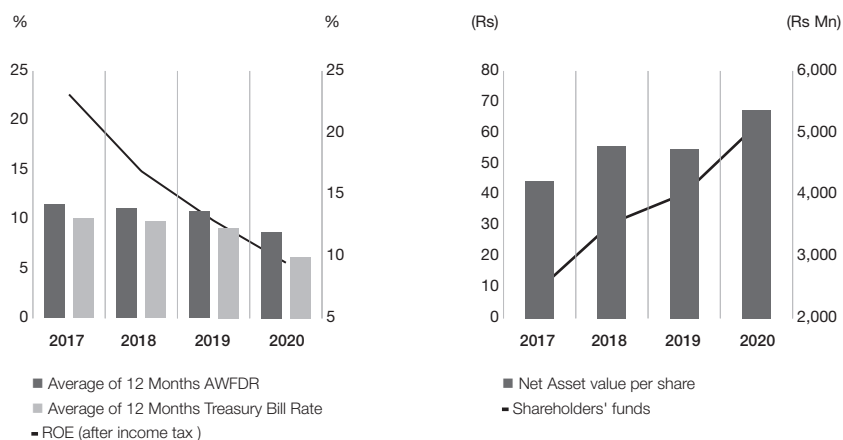
New employee orientation and other training programmes were conducted virtually via the Zoom online application, as an alternative method to employee orientation as well as other training interventions which are typically conducted in physically.

# Investor Information

## Value Creation for Shareholders

	2020	2019	Change %
Net asset value per share (Rs)	<b>67.26</b>	54.78	22.8
Earnings per share (Rs)	<b>5.37</b>	6.56	(18.1)
Dividend per share (Rs)	<b>1.37*</b>	1.95	(29.7)
Dividend payout ratio (%)	<b>30.09%</b>	29.77%	1.1

\* The Board of Directors have recommended a scrip dividend of Rs.1.37 per share on 89,937,562 ordinary shares, totaling to Rs 123.21 Million subject to approval of Shareholders of the Company.



## INFORMATION ON SHARES

	As at 31 December 2020		As at 31 December 2019	
	Number	Rs	Number	Rs
Ordinary Shares	76,212,072	1,522,880,852/-	73,312,409	1,379,921,654/-
Total	76,212,072	1,522,880,852/-	73,312,409	1,379,921,654/-

## Shareholders' list as at 31 December 2020

Name	No: of Shares	%
(01). Sampath Bank PLC	76,212,065	100.00%
(02). Mr. P.S.Cumaranatunga	01	0.00%
(03). Mr.Y.S.H.R.S.Silva	01	0.00%
(04). Mr.C.P.Palansuriya	01	0.00%
(05). Mr.J.H.Gunawardena	01	0.00%
(06). Mr.J.Selvaratnam	01	0.00%
(07). Ms.H.S.R.Ranatunga	01	0.00%
(08). Mr.S. Sudarshan	01	0.00%
	<b>76,212,072</b>	<b>100.00%</b>

## Public Holdings

The percentage of ordinary shares held by the public as at 31 December 2020 was 0%.

Directors'/ CEO's Holding in Shares as at 31 December 2020.

Name	Position	No: of Shares
Mr. P.S.Cumaranatunga	Director	01
Mr.Y.S.H.R.S.Silva	Director	01
Mr.J.H.Gunawardena	Director	01
Mr.J.Selvaratnam	Director	01
Ms.H.S.R.Ranatunga	Director	01

## DISTRIBUTION OF SHARE OWNERSHIP

	31-12-2020				31-12-2019			
	No: of shareholders	%	No: of shares	%	No: of shareholders	%	No: of shares	%
1-1,000 shares	7	87.50%	7	0.00%	7	87.50%	7	0.00%
1,001-10,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
10,001-100,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
100,001- 1,000,000 shares	-	0.00%	-	0.00%	-	0.00%	-	0.00%
over 1,000,000 shares	1	12.50%	76,212,065	100.00%	1	12.50%	73,312,402	100.00%
	8	100.00%	76,212,072	100.00%	8	100.00%	73,312,409	100.00%

## RECORD OF SCRIP ISSUES

Year	Issue	Basis / Proportion	No. of Shares Issued	Consideration per share (Rs)	Consideration to Stated Capital (Rs Mn)	Reason for Issue
2016	Final Scrip Dividend for 2015	1 for 32.31	1,624,726	31.99	51.98	Increase Stated Capital
2017	Final Scrip Dividend for 2016	1 for 32.75	1,652,420	35.67	58.94	Increase Stated Capital
2018	Final Scrip Dividend for 2017	1 for 35.54	1,569,242	39.99	62.75	Increase Stated Capital
2019	Final Scrip Dividend for 2018	1 for 116.28	625,111	50.00	31.25	Increase Stated Capital
2020	Final Scrip Dividend for 2019	1 for 25.28	2,899,663	49.30	142.96	Increase Stated Capital

## Investor Information

### RECORD OF RIGHTS ISSUES

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

Related Party Transactions Exceeding 10% of the Equity or 5% of the Total Assets of the Company (Disclosure as per section 9 of the CSE Listing Rules)

None of the transactions carried out by the Company with the Related Parties have exceeded the aggregate monetary value of 10% of the shareholder's equity of the Company or 5% of the total assets of the Company as at 31 December 2020.

### INFORMATION ON LISTED DEBENTURES

#### (i) Market Values

	Highest (Rs)		Lowest (Rs)		Period End (Rs)	
	2020	2019	2020	2019	2020	2019
Debentures-2016/2021	103.00	103.00	100.00	100.00	100.00	100.00
Debentures-2017/2022	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded	Not Traded
Debentures-2019/2024	108.00	Not Traded	108.00	Not Traded	108.00	Not Traded
Debentures-2020/2023	Not Traded	N/A	Not Traded	N/A	Not Traded	N/A

N/A – Not Applicable

#### (ii) Interest Rates

	2020		2019	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Debentures -2016/2021	13.50%	13.50%	13.50%	13.50%
Debentures -2017/2022	12.50%	12.50%	12.50%	12.50%
Debentures -2019/2024	13.33%	13.33%	13.33%	13.33%
Debentures -2020/2023	11.25%	11.25%	N/A	N/A

N/A – Not Applicable

#### (iii) Interest rates of comparable Government Securities

	31-12-2020	31-12-2019
6 months treasury bill	4.73%	7.95%
1 year treasury bill	4.97%	8.47%
5 year treasury bond	6.64%	9.94%

## (iv).Current Yield &amp; Yield to maturity

	2020		2019	
	Current Yield (%)	Yield to Maturity (%)	Current Yield (%)	Yield to Maturity (%)
Debentures Issued-September 2016				
5 year Fixed rated(13.50% p.a. payable annually)	13.50%	13.24%	13.50%	13.40%
Debentures Issued-October 2017				
5 year Fixed rated(12.50% p.a. payable annually)	12.50%	Not Traded	12.50%	Not Traded
Debentures Issued-August 2019				
5 year Fixed rated(13.33% p.a. payable annually)	13.33%	10.55%	13.33%	Not Traded
Debentures Issued-July 2020				
3 year Fixed rated(11.25% p.a. payable annually)	11.25%	Not Traded	N/A	N/A

N/A – Not Applicable

## (v) Ratios

	31-12-2020	31-12-2019
Debt to Equity Ratio (Times)	2.62	3.33
Interest Cover(Times)	1.18	1.19
Quick Asset Ratio (%)	63.50%	78.11%

# Board of Directors



## MR. SUMITH CUMARANATUNGA

Chairman / Independent Non-Executive Director

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

### Qualifications, Skills & Experience:

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

During his tenure at the David Pieris Group of Companies, the organisation transformed from a relatively small business unit in a single location with a turnover of Rs 43.3 million and a net profit of Rs 311,000 in 1985/86, to one of the most profitable, professionally managed conglomerates in Sri Lanka, with a turnover of Rs 86.2 billion and a net profit of Rs 11.1 billion in 2015/16, an island-wide reach and a consistent track record of exceptional performance, successfully overcoming numerous

challenges. The David Pieris Group of Companies was at the forefront of automotive, financial services, information technology and logistics businesses, with industry leadership in many spheres, breaching Rs 10 billion in net profit thrice in five years, from 2011/12 to 2015/16.

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

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

### Current Appointments:

Currently he serves as Chairman of Suvimie Associates (Pvt) Ltd, a Company engaged in local retailing, global trading, manufacturing and plantations. He was appointed as a Member of the Council of the University of Colombo with effect from 27th January 2020.

### Former Appointments:

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

### Membership of Board Sub-Committees:

He serves as the Chairman of the Board Human Resources and Remuneration Committee and the Board Nomination Committee. He stepped down as the Chairman of the Board Audit Committee w.e.f. 1st June 2020.

He is a member of the Board Audit Committee and the Board Integrated Risk Management Committee.



## MR. ANANDA SENEVIRATNE

Managing Director (Executive Director)

Appointed and assumed duties as the Managing Director (Executive Director) of Siyapatha Finance on 1st of March 2019.

### Qualifications, Skills & Experience:

Possessing over 36 years of working experience in various local and international Institutions, Mr. Seneviratne is a fellow member of the Institute of Chartered Accountants of Sri Lanka. He graduated in the Business Administration field from the University of Sri Jayawardenapura and proceeded in acquiring a Masters Degree in Business Administration from the University of Colombo.

Mr. Seneviratne served at Nestle Lanka Limited for a period of 17 years from May 1991 to June 2008, performing duties at various Senior Managerial levels. His tenure at Nestle commenced as the Head of Internal Audit and continued in the same position until 1995. Thereafter, he moved to the Financial Accounting Department as the Head of Financial Accounting in 1995 and in 1999 he was transferred to Nestle Middle East as the Business Excellence Manager until 2002 and assumed duties as the Head of Procurement in Nestle Lanka Limited subsequently. In 2008, he joined Loadstar (Pvt) Ltd as Director/General Manager of Procurement and continued up to 2009. Subsequently, he joined Assetline Leasing Company Limited in 2009 as Director Operations and was promoted as the Chief Executive Officer in 2015.

#### **Former Appointments:**

Chairman of the Leasing Association of Sri Lanka from 2016 to 2018 and simultaneously he was a Board Member of the Credit Information Bureau of Sri Lanka (CRIB) and David Pieris Global Ventures (Pvt) Ltd.

#### **Current Appointments:**

Vice Chairman of the Finance Houses Association of Sri Lanka and a Member of the Faculty Advisory Committee for the Centre for Banking Studies, Central Bank of Sri Lanka representing The Finance Houses Association of Sri Lanka (FHA).

#### **Membership of Board Sub-Committees:**

He currently serves as a member of the Board Integrated Risk Management Committee, the Board Credit Committee, the Board Information Technology Committee, the Board Corporate

Governance Committee and the Board Related Party Transaction Review Committee of Siyapatha Finance PLC. He attends the Board Human Resource & Remuneration Committee and the Board Audit Committee meetings of Siyapatha Finance PLC by invitation.



#### **MR. RUSHANKA SILVA – DEPUTY CHAIRMAN**

Non-Independent Non Executive Director

Appointed to the Board as a Non-Independent Non-Executive Director on 01st June 2018 and subsequently appointed as the Deputy Chairman to the Board on 26th May 2020.

#### **Qualifications, Skills & Experience:**

He is a dedicated professional with a solid background in Management Accounting, Marketing and Sales. He is an Associate Member of the Chartered Institute of Management Accountants, UK (ACMA). Strategic and creative thinker who has proven his ability to develop strong client relationships quickly and promote teamwork efficiently. A leader with a rich mixture of experience and successes in the business world, having completed his secondary education at Trinity College, Kandy. Holds a Masters

in Business Administration from the University of Western Sydney, Australia. An alumnus of Harvard Business School (USA).

#### **Current Appointments:**

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

#### **Former Appointments:**

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

#### **Membership of Board Sub-Committees:**

Currently he does not serve on any Board Sub-Committees.



#### **MR. JANAKAN SELVARATNAM**

Non-Independent Non-Executive Director

Mr. Janakan Selvaratnam was appointed to the Board as a Non-Independent Non-Executive Director on 18th December 2018.



## Board of Directors

### Qualifications, Skills & Experience:

In his career spanning 25 years with Citibank N.A., Sri Lanka was Vice President, Head of the Local Corporate Bank & Public Sector for the bank's Sri Lankan franchise. His exposure has been in managing client portfolios in corporate, multinational, non-banking financial sector and public sector segments. He was a member of the Bank's Management Committee, Credit Committee etc. The scope of his responsibilities included heading of businesses in a highly performance-driven culture, strategic & business planning, corporate governance & compliance and credit & risk management. He possesses widespread experience working with risk management, legal teams, product groups and regulators at all levels within and outside the country. He holds a Post Graduate Diploma in Business Administration from the University of Wales (Prifysgol Cymru) and Diploma in Banking from the Institute of Bankers Sri Lanka. He engages in business development and consultancies in the Banking, Non-Banking Financial Institution, Insurance Brokerage and Corporate sectors.

### Current Appointments:

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

### Former Appointments:

He commenced his career at Citibank N.A., Sri Lanka in 1990. He has held several key corporate positions which include Head of Sales and Marketing

for Commercial Banking and Vice President, Head Local Corporate Bank and Public Sector at Citibank N.A until 2015. Subsequently, he served as the Consultant on Risk Management to the Board of Directors of Richard Pieris Finance PLC and as the Consultant to Foresight Insurance Brokers (Pvt) Ltd

### Membership of Board Sub-Committees:

Currently he serves as the Chairman of the Board Credit Committee.

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



### MR. JAYANTHA GUNAWARDENA

Independent Non-Executive Director

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

### Qualifications, Skills & Experience and Previous Appointments :

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

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

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



**Membership of Board Sub-Committees :**

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

**MR DEEPAL SOORIYAARACHCHI**

Non-Independent, Non-Executive Director

Appointed to the Board on 20th November 2019 (Redesignated as an independent, non executive director w.e.f. 23.02.2021).

**Qualifications, Skills & Experience:**

Counts over 30 years' experience in Sales, Advertising, Marketing, Human Resources Development and Strategy with extensive experience in the field of Insurance. Fellow member of the Chartered Institute of Marketing UK and Sri Lanka Institute of Marketing. Holds a Masters of Business Administration from the University of Sri Jayewardenepura. Pioneer in

disseminating Management knowledge in Sinhala. Mr. Sooriyaarachchi is a leading Management Development Consultant, Author, Accredited Master Coach and Master Mentor.

**Current Appointments:**

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

**Former Appointments:**

He served the Board of Sampath Bank PLC as a Non-Independent, Non-Executive Director (parent company), He is a past President of Sri Lanka Institute of Marketing, Managing Director Aviva NDB Insurance PLC, and Commissioner - Sri Lanka Inventors' Commission.

**Membership in Board Sub-Committees:**

Currently he is a member of the Board Human Resource and Remuneration Committee, the Board Nomination Committee, the Board Information Technology Committee and the Board Related Party Transactions Review Committee.

**MR. SHIRAN PERERA**

Non-Independent Non-Executive Director

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

**Qualifications, Skills & Experience and Former Appointments:**

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

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

## Board of Directors

### Current Appointments:

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

### Membership of Board Sub Committees:

Currently he serves as the Chairman of the Board Information Technology Committee. He is a member of the Board Credit Committee.



### MS. SRIYANI RANATUNGA

Independent Non-Executive Director

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

### Qualifications, Skills & Experience:

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

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

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

A Past President of Rotary Club of Cinnamon Gardens and currently holds the Honourary position of Treasurer of Rotary Club of Cinnamon Garden. She served as the Honourary Treasurer of the Rotary International District 3220 Sri Lanka & Maldives for the years 2015/15, 2018/19 and 2019/20.

She has served as a Vice President of The Organisation of Professional Associations of Sri Lanka for three consecutive years commencing from 2013/14, 2014/15 & 2015/16.

### Former Appointments:

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

### Membership of Board Sub-Committees :

Currently she serves as the Chairperson of the Board Corporate Governance Committee w.e.f 1st December 2020.

She is a member of the Board Audit Committee, the Board Human Resource & Remuneration Committee, the Board Credit Committee, and the Board Related Party Transactions Review Committee.



### MR. MALINDA DILEEPA BANDARA BOYAGODA

Independent, Non-Executive Director

Appointed to the Board on 28th April 2020.

### Qualifications, Skills & Experience

Posses over 17 years of post qualification experience of which nearly 12 years is with PwC, working for the offices of Colombo – Sri Lanka, Gaborone - Botswana and Seattle – USA. Mr. Boyagoda has 3 years of experience working in the Cayman Islands heading the finance function of a company operating in the tourism industry. Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA – UK) and the Chartered Global Management Accountant (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in BSc Business Administration specialized in Finance.

**Current Appointments:**

Partner at PwC a leading audit and assurance engagements primarily focusing on the financial services sector clients.

Member of the Sri Lanka Accounting Standards implementation and interpretation task force of CA Sri Lanka.

**Former Appointments:**

His participation and contribution to the profession include being a member of the Sri Lanka Accounting Standards implementation and interpretation task force of CA Sri Lanka. He has also sat in a number of other forums and technical sub-committee of the Institute of Chartered Accountants of Sri Lanka formed to address accounting and auditing related issues in the industries of Banking and Insurance. He has also been a resource person for a number of training programs on International Financial Reporting Standards conducted locally and overseas.

**Membership in Board Sub-Committees:**

Currently he serves as the Chairman of the Board Audit Committee w.e.f 1st June 2020.

He is a member of the Board Information Technology Committee, the Board Integrated Risk Management Committee, the Board Corporate Governance Committee and the Board Related Party Transactions Review Committee.

**MR. SATHANANTHAN SUDARSHAN**

Company Secretary

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

**Qualifications, Skills & Experience:**

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

Successfully completed the 'Company Director's Course' conducted by the Commonwealth Association for Corporate Governance on behalf of the Commonwealth Fund for Technical Cooperation. After completing his education at Ananda College, he started his Company Secretary career at Hulugalle Associates (Pvt) Limited. Later joined the Corporate Secretarial division of PricewaterhouseCoopers (PWC) where he gained wide experience in many industries.

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

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

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

# Corporate Management Team



**Mr. Ananda Seneviratne**  
Managing Director



**Mr. Rajeev De Silva**  
Chief Operating Officer



**Mr. Rohana Dissanayake**  
Head of Deposits



**Mr. Mathisha Hewavitharana**  
Head of Leasing and Loans



**Mr. Prasad Udugampala**  
Head of Human Resources



**Mr. Shajeewa Dodanwatte**  
Head of Credit Administration



**Mr. Saman De Silva**  
Head of Credit Risk



**Mr. Ruwan Wanniarachchi**  
Head of Finance



**Mr. Damitha Giriagama**  
Head of Recoveries- Special Projects





**Ms. Mahika Rajakaruna**  
Head of Compliance



**Mr. Chathura Galhena**  
Head of Internal Audit



**Mr. Damith Shaminda**  
Head of Process Improvement



**Mr. Sanjaya Seneviratne**  
Head of Treasury

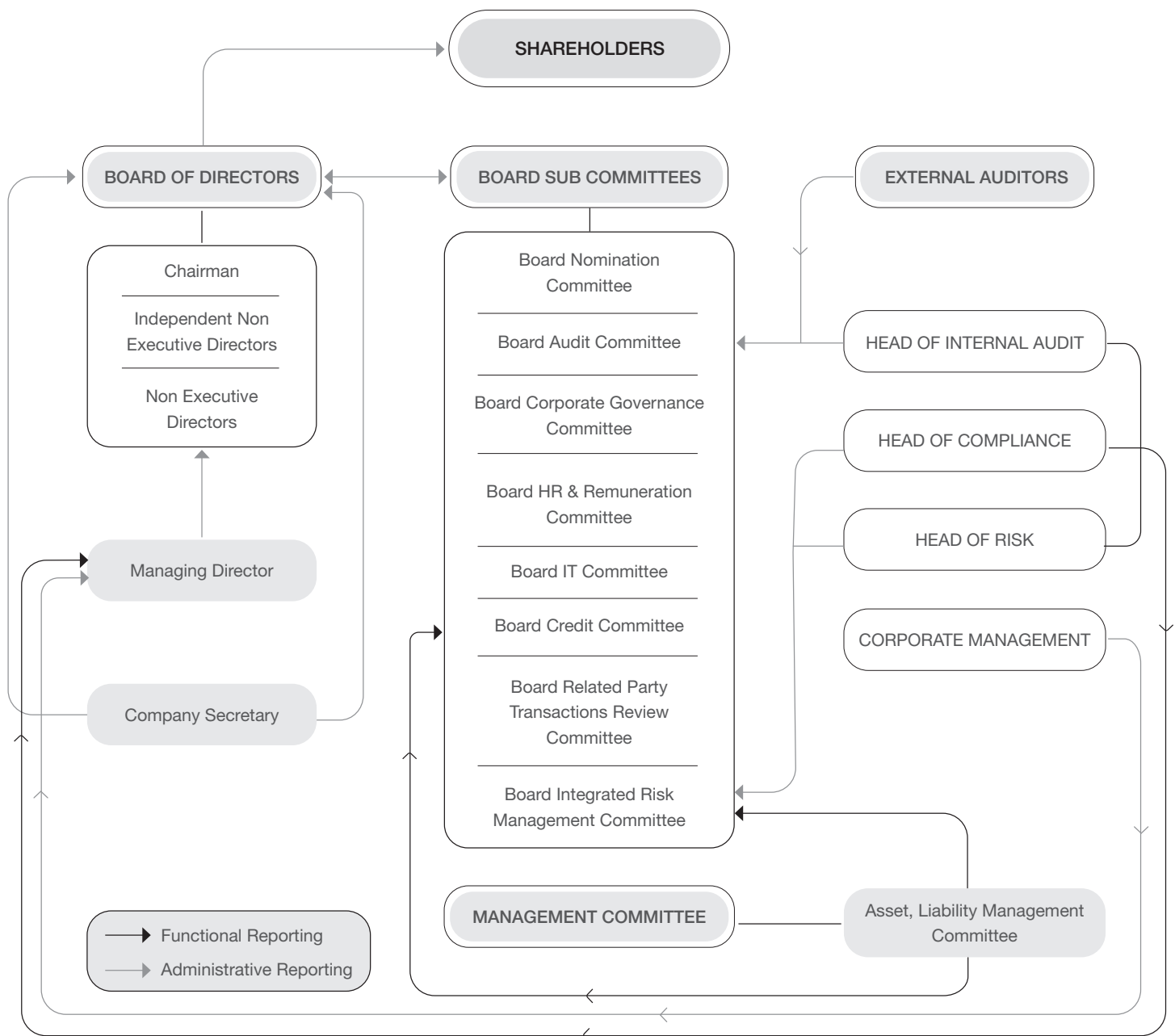


**Mr. Indraka Liyanage**  
Head of Risk Management

# Corporate Governance Report

Corporate governance is the structures and processes for the direction and control of companies. It is also about the relationships among the management, Board of Directors, shareholders, minority shareholders and other stakeholders. Open to public Information disclosure, high transparency and accountability are basic important elements of best corporate governance that strives the sustainability of corporations and society. To achieve this, Siyapatha Finance PLC has a robust corporate governance framework, which provides systems of checks and controls to ensure accountability and promotes sound decision-making.

## GOVERNANCE STRUCTURE



The Board of Directors bears ultimate responsibility for the affairs of the Company and have set in place an appropriate governance structure to facilitate the discharge of its duties. The Board Sub Committees assist the Board in its oversight functions in specialized areas or areas requiring significant attention. Accordingly, the Board Audit Committee and the Board Integrated Risk Management Committee have been appointed in line with the business requirements and in compliance with the regulatory requirements. The other committees of the Board have been appointed in line with the business needs of the Company. The reports of the Board Sub Committees on pages 81 to 96 has set out the terms of reference and the work of the committees.

The Board appointed Chief Executive Officer is responsible for day to day management of the operations of the Company and is accountable to the Board. He is supported by key management personnel who collectively form the Corporate Management Team with responsibility for business lines or key support functions.

#### GOVERNANCE FRAMEWORK

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

- Companies Act No.7 of 2007
- Finance Business Act No.42 of 2011
- Finance Leasing Act, No.56 of 2000
- The Finance Companies Directions, rules, determinations, notices, and guidelines applicable to Licensed Finance Companies issued by the Central Bank of Sri Lanka in terms of

the Finance Companies (Corporate Governance ) Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance.

- Continuing Listing Rules of the Colombo Stock Exchange.

Annual Report of the Board of Directors on the State of Affairs of the Company on pages 98 to 106 provides insights into how the Company complies with the requirements of the Companies Act No.7 of 2007. Compliance with the Finance Companies (Corporate Governance ) Direction No. 3 of 2008 is set out on pages 37 to 49 providing an overview of the governance mechanisms in place at the Company.

#### Finance Companies (Corporate Governance ) Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance issued by the Central Bank of Sri Lanka for Registered Finance Companies in Sri Lanka.

Section	Corporate Governance Principle	Compliance
<b>2. The Responsibilities of the Board of Directors</b>		
2. (1) (a)	Strategic objectives and corporate values	The Board approved Strategic Business Plan for 2020-2022 is in place. The Board and the Management are well aware of the strategic objectives and organizational values which have been communicated throughout the Company. Further, going forward the Board approved the Strategic Plan for 2021-2023.
2. (1) (b)	Overall business strategy of the finance Company including risk policy, risk management procedures and mechanism with measurable goals	Board approved Strategic Plan for 2020-2022 and projected financial statements / budget for the year 2020 are in place. Risk Policy including risk management procedures and mechanisms have been approved by the Board in line with the Strategic Plan. The Board measures the corporate performance against the predetermined goals.  Company's Strategic Plan 2020-2022 includes measurable goals for next three years.
2. (1) (c)	Managing the risk in the Company	The effective oversight of the Company's risk management including the identification and assessment of the principal risks and overseeing the management of those risks are monitored by the Board Integrated Risk Management Committee (BIRMC).  The Board assesses the overall risk management of the Company through the reports and the minutes of the BIRMC which are submitted.  There is a process in the Company where the Board members who are experienced leaders in the industry discuss new strategies of the Company, the risk arising out of new strategies and the ways and means to mitigate such risks.



## Corporate Governance Report

Section	Corporate Governance Principle	Compliance
2.(1) (d)	Effective Communication with stakeholders	The Board approved Communication Policy is in place which covers all stakeholders including Depositors, Creditors, Shareholder and Borrowers. Board of Directors, officers and employees comply with the policy in order to ensure effective communication for the best interest of all stakeholders.
2.(1) (e)	Internal control systems and Management Information System [MIS]	<p>The Board Audit Committee assists the Board in assessing the adequacy and the integrity of the Internal Controls system and the Management Information System and the financial reporting processes of the Company. Internal Audit Department helps the process by carrying out the audits to assess the internal controls over financial reporting and management information systems.</p> <p>Board reviews the adequacy and the integrity of the MIS through the critical Management Information reports submitted by the Internal Audit Department of the Company.</p> <p>Further, the External Auditors were engaged in providing assurance on the Directors' Responsibility Statement on Internal Controls over financial reporting included in the annual report, and their opinion is submitted to the Board.</p>
2.(1) (f)	Identification of KMPs of the Company	In line with the Central Bank of Sri Lanka (CBSL) direction on Corporate Governance, the Board has identified the Board of Directors, all Heads of Departments and the Company Secretary as KMPs of the Company.
2.(1) (g)	Authority and key responsibilities of the Board and Key Management Personnel	<p>The general and statutory duties and key responsibilities of the Board of Directors are set out in the Board approved Code for Board of Directors.</p> <p>Job Descriptions of Key Management Personnel approved by the Board includes the functions and responsibilities of the KMPs.</p> <p>Areas of authority of the KMPs are covered under the Delegation Authority (DA) limits assigned to them.</p>
2.(1) (h)	Appropriate oversight of affairs of the Company by KMPs	<p>To safeguard better governance practices, the affairs of the Company are reviewed and monitored by the Board of Directors through the Managing Director.</p> <p>To ensure better Management, development and effective performance of the Company, KMPs make regular presentations to the Board on matters under their purview.</p>
2.(1) (i)	<p>Effectiveness of the Board of Directors' own governance practices.</p> <p>Selection, nomination and election of Directors and Key Management Personnel.</p> <p>Management of conflicts of interests.</p> <p>Determination of weaknesses and implementation of changes</p>	<p>Siyapatha Finance has set up its own Board Nomination Committee, with a majority of Independent Non-Executive Directors, who recommend names of individuals to be appointed as Directors to the Board.</p> <p>Appointment of KMPs is recommended by the Board Nomination Committee under the direction of the Board of Directors of the Company.</p> <p>In terms of the Company's Article 26, there is a requirement in place for the Directors to declare the nature of their interest. Directors' interests (if any) are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from participating and voting.</p> <p>Further, there is a Board approved Conflict of Interest Policy for Directors in place.</p> <p>Determination of weaknesses in Board of Directors' own governance practices and implementation of changes is addressed through the annual self-evaluation process of the Board members.</p> <p>Self-evaluation forms for the year end 2020 have been obtained and a summary is presented at the Board.</p>

Section	Corporate Governance Principle	Compliance
2.(1) (j)	Succession plan of the KMPs	The Company has established a one to one succession plan for all the KMPs approved by the Board.
2.(1) (k)	Regular Meetings with KMPs	Managing Director and Chief Operating Officer are called for regular Board Meetings to review policies and monitor progress towards the corporate objectives. The other KMPs attend Board meetings on invitation and make presentations, which provide the opportunity to share their views and contribute towards the performance of the Company.
2.(1) (l)	Understanding the regulatory environment	<p>All directions issued by CBSL have been presented to the Board members by the Head of Compliance on a regular basis for their knowledge and guidance. The Head of Compliance submits a Compliance Certificate and Statutory Compliance report to the Board which contains the details of returns submitted to CBSL and to other Statutory Bodies, new regulations/statutes and their implications on the business, significant non-compliance events and compliance with regulatory requirements.</p> <p>Thus, the Directors are conversant with the regulatory environment, the Board of Directors including the Managing Director of the Company meets the Governor of the CBSL and the Director, Department of Non-Bank Supervision at meetings held at CBSL evidence the relationship maintained with the regulator.</p>
2.(1) (m)	Hiring and oversight of external auditors	<p>Company's Article 38(4) addresses the general procedure for the appointment of External Auditors by the shareholders. Further, as per the Terms of Reference (TOR), of the Board Audit Committee there is a process in this regard and the final approval is obtained from the Board.</p> <p>Rotation of the Audit Partner is monitored by the Board Audit Committee to maintain a high standard of transparency and good governance within the system.</p>
2.(2)	Appointment of Chairman and CEO and their responsibilities	<p>Appointment of Chairperson</p> <p>The Directors may elect one of their members to be the chairperson of the Board and may determine the period for which the chairperson is to hold office.</p> <p>Appointment of Managing Director</p> <p>The Board may from time to time appoint a director as Managing Director or a non director as Chief Executive Officer for such period and such term as it think fit.</p>
2.(3)	Procedure for seeking Independent Professional Advice	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances, at the Company's expense.
2.(4)	Dealing with conflicts of interest	<p>In terms of the Company's Article 26 (1 &amp; 5) Directors declare their nature of interest and abstain from participating at discussions and voting on any Board resolution in relation to a matter in which he/she or any of his/her close relation or an entity in which a Director has a substantial interest.</p> <p>Directors of the Company are independent from business transactions of the Company and have no personal connections with the Company's matters. They disclose their interest in the Affidavits and Declarations which are submitted to the regulator annually.</p>

## Corporate Governance Report

Section	Corporate Governance Principle	Compliance
2.(5)	Schedule of matters reserved for Board Decision	Board approved “Code for Board of Directors and Board sub Committees” is in place which defines the functions and matters specifically reserved for the Board.
2.(6)	Solvency of the Company	Members of the Board are aware of the requirement to inform the Director of the Department of Non -Bank Supervision with regard to the financial position of the Company where the Company is unable to meet its obligations and is about to become insolvent. Such a situation has not arisen during the year 2020.
2.(7)	Publish Corporate Governance Report	Corporate Governance Report is set out on the pages 36 to 69 of the Annual Report of the Company.
2.(8)	Scheme of self- assessment for Board	A procedure is in place for the annual self-assessments of Directors to be undertaken by each Director and the records of such assessments are maintained by the Company Secretary. The summary of the self-assessment is submitted to the Board enabling Directors to discuss relevant matters if any.
<b>3. Meetings of the Board</b>		
3.(1)	Regular Board Meetings	<p>Board Meetings for the year have been scheduled at the end of the previous year and an annual meeting calendar is submitted to the Board. Special meetings are conducted as and when required. Seventeen (17) Board Meetings were held during the year under review.</p> <p>Board approved procedure is in place to obtain consent through circulation of written or electronic resolutions/papers other than those under urgent circumstances.</p>
3.(2)	Arrangements for Board Members to include proposals in the agenda	Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3.(3)	Notice of Meetings	Annual Board meeting calendar is scheduled at the end of the previous year enabling Board of Directors to attend meetings. As a practice, Directors are given notice of at least 7 days for regular Board Meetings. All Board papers are circulated to Board members through the BoardPAC on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.
3.(4)	Attendance of Directors	<p>Board of Directors has fully complied with the requirement and each Director of the Board is well informed acquainted about their attendance. Further, the Company Secretary monitors the attendance.</p> <p>During the year 2020 none of the directors has been absent from three consecutive meetings. Details of Directors attendance are set out on pages 68 to 69 of the Annual Report.</p>
3.(5)	Company Secretary	In terms of Companies Act, No. 17 of 1982 and an Extraordinary Gazette No. 47/6 of 1987, A Chartered Corporate Secretary with adequate experience has been appointed by the Board as the Company Secretary. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.
3.(6)	Preparation of Agenda	Company Secretary is responsible for the preparation of the agenda, in consultation with the Chairman.
3.(7)	Access to advise and services of the Company Secretary	Board approved procedure is in place to enable all Directors to have access to advise and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed.

Section	Corporate Governance Principle	Compliance
3.(8)	Maintenance of Board Minutes	<p>Company Secretary maintains the minutes of Board Meetings and other Committee Meetings with sufficient details. Upon reasonable request, any Director can inspect the minutes.</p> <p>All Board papers are circulated to Board members through the BoardPAC on iPads and all current and previous Board minutes are archived on the system enabling Board members to access them at their convenience.</p>
3.(9)	Minutes of Board Meetings	<p>Minutes of the Board meetings are recorded in sufficient details with the following content.</p> <p>A summary of data and information used by the Board in its deliberations.</p> <p>The matters considered by the Board.</p> <p>The fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</p> <p>The matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.</p> <p>Board's knowledge and understanding of the risks to which the Company is exposed and an overview of the risk management measures adopted.</p> <p>The decisions and Board resolutions.</p> <p>Minutes are kept under safe custody of Company Secretary.</p>
<b>4. Composition of the Board</b>		
4.(1)	Composition of the Board	<p>The Board consists of nine Directors which is within the statutory range.</p> <p>Mr. P. S. Cumararatunga (Chairman), Mr. C. P. Palansuriya (former Chairman, resigned w.e.f. 31st January 2020), Mr. Y. S.H. R. S. Silva (Deputy Chairman w.e.f. 26th May 2020), Mr. H. M. A. Seneviratne (Managing Director), Mr. W. M. P. L. De Alwis (retired w.e.f. 24th February 2020), Mr. L. T. Ranwala (resigned w.e.f. 01st April 2020), Mr. J. Selvaratnam, Mr. J.H. Gunawardena, Mr.D. Sooriyaarachchi, Mr. W.S.C Perera (appointed w.e.f. 16th January 2020) Ms. H.S.R. Ranatunga (appointed w.e.f. 28th January 2020) Mr. M. D. B. Boyagoda (appointed w.e.f. 28th April 2020), are the Directors of the Company during the year 2020.</p>
4.(2)	Period of Service of Directors	There are no Directors who have exceeded 9 years of service at the Board during the year 2020.
4.(3)	Number of Executive Directors	Mr. H. M. A. Seneviratne is the only Executive Director of the Company, who is currently holding the position of Managing Director.
4.(4)	Number of Independent Non Executive Directors	<p>The Company had four Independent Non-Executive Directors up to 31.12.2020 and complied with the requirement.</p> <p>The composition of the Board of Directors is published on page 102 of the Annual Report</p>
4.(5)	Appointment of Alternate Director	No such appointments occurred during the year 2020.
4.(6)	Skills and experience of Non-Executive Directors	All the Non-Executive Directors of the Company possess vast experience and skills in the relevant fields.

## Corporate Governance Report

Section	Corporate Governance Principle	Compliance
4.(7)	Quorum for Board Meetings	Board approved procedure is in place which stipulates the number of members required to meet the quorum at a Board meeting to be not less than 50% of the total Directors of the Company and out of this quorum, at least one third should include Non-Executive Directors. Section 31 of the Articles of Association also states the requirement of the quorum, which has been complied with at all Board Meetings during the year 2020. A summary of attendance at the Meetings is set out on page 68 of Annual Report.
4.(8)	Composition of Board	Composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors has been disclosed on page 102 of the Annual Report
4.(9)	Appointment of new Directors	Board approved procedure is in place for appointing new Directors. The Board Nomination Committee of the company recommends names of proposed Directors to the Siyapatha Finance PLC Board.
4.(10)	Appointment of Directors to fill casual vacancy	In terms of the Company's Article 24 (2), the Board has power to appoint Directors to fill a casual vacancy which is subject to re-election by shareholders at the Annual General Meeting.
4.(11)	Resignation and removal of Directors	Directors' resignation or removal and the reason for such resignation or removal are duly informed to the Department of Non-Bank Supervision of Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).
<b>5. Criteria to Assess the Fitness and Propriety of Directors</b>		
5.(1)	Age Limit of a Director	None of the present Directors of the Company are above the age of 70 years.
5.(2)	Directorships in other companies	As per declarations given by the Directors for the year 2020, none of the Directors holds office as a Director of more than 20 Companies.
<b>6. Delegation of Functions</b>		
6.(1)	Delegation of Authority	The Board does not delegate matters to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.
6.(2)	Reviewing of delegation processes	Board has reviewed the delegated authority limits regularly to ensure that delegation is acted upon within the controls.
<b>7. The Chairman &amp; The Chief Executive Officer</b>		
7.(1)	Roles of Chairman & CEO	The roles of the Chairman and the Managing Director are separated and not performed by the same individual.
7.(2)	Appointing a Senior Director where Chairman is non independent	Current Chairman, Mr. P. S. Cumaranatunga is an Independent, Non-Executive Director (appointed as the Chairman of the Company w.e.f. 12th February 2020). Hence, the appointment of a Senior Director is not arisen.  Former Chairman, Mr. C.P. Palansuriya resigned as the Chairman/Non-Independent Non-Executive Director from the Board w.e.f. 31st January 2020.
7.(3)	Identification and disclose relationship between Chairman, CEO and among Board Members	The names of the Chairman and the Managing Director are published in the Annual Report and there is no financial, business, family or other material relationship between Chairman, Managing Director and Board members. A Board approved procedure is in place to monitor the relationship between the Managing Director and the Board of Directors and among the Board Members.
7.(4)	Role of the Chairman	Chairman's key responsibilities and duties have been approved by the Board. Self-evaluation process of the Board ensures that the said requirements are fulfilled.
7.(5)	Preparation of Agenda	Company Secretary prepares the agenda in consultation with the Chairman, as this function has been delegated to the Company Secretary by the Chairman.

Section	Corporate Governance Principle	Compliance
7.(6)	Chairman to ensure all directors are well informed on the issues arising at board meetings	The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.
7.(7)	Full and active contribution of Directors	The Chairman encourages all Directors to make a full and active contribution to the Board's affairs. Further, this is also evaluated through the Self Evaluation process designed for the Board of Directors.
7.(8)	Effective contribution of Non-Executive Directors and constructive relationships between Executive and Non-Executive Directors	<p>Board consists of Non-Executive Directors and Executive Directors and they give their fullest and effective contribution to the Company while discharging their duties collectively.</p> <p>Chairman ensures that a constructive relationship exists between the Board members as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.</p> <p>Self-Evaluation process covers the contributions of both Executive and Non-Executive Directors.</p>
7.(9)	Refrain from direct supervision of KMPs and executive duties	Chairman does not engage directly or indirectly in supervision of KMPs and performing executive duties. The Managing Director is responsible for the day to day operations of the Company.
7.(10)	Effective Communication with shareholders	Effective communication is maintained with the Parent as Mr. Y.S.H.R.S. Silva, the Deputy Chairman of the Sampath Bank PLC is the Deputy Chairman of Siyapatha Finance PLC. Further, the Board of Directors of Siyapatha Finance PLC meets the Board of Directors of Sampath Bank PLC at the AGM.
7.(11)	APEX Executive of the Company	The Managing Director functions as the apex executive in charge of the day to day operations of the Company and he acts as a direct liaison between the Board and Management of the Company.
<b>8. Board Appointed Committees</b>		
8.(1)	Board sub committees, their functions and reporting	<p>Board has established two Board Committees namely Board Audit Committee (BAC) and Board Integrated Risk Management Committee (BIRMC) as per the requirements of CBSL.</p> <p>Apart from the above two Committees, the Company has established six more Board Sub-Committees, namely Board HR &amp; Remuneration Committee, Board Corporate Governance Committee, Board Credit Committee, Board Related Party Transactions Review Committee and Board Nomination Committee and Board IT Committee.</p> <p>Company Secretary is the secretary to all Board Sub Committees. He discharges his secretarial functions under the supervision of the Chairmen of Committees. Performance, duties and functions of all Committees are disclosed on pages 81 to 96 of the Annual Report.</p> <p>Minutes of all above Committees are submitted to the Board for their review.</p>
<b>8.(2) Board Audit Committee (BAC)</b>		
8.(2) (a)	Chairman of the Board Audit Committee and qualifications	The Board appointed Mr.M.D.B. Boyagoda as the Chairman of the Board Audit Committee w.e.f. 01st June 2020. Mr.M.D.B. Boyagoda is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of Chartered Institute of Management Accountants (CIMA) and the Chartered Global Management Accountants (CGMA). Mr. P.S. Cumaranatunga stepped down as a Chairman of the Board Audit Committee w.e.f. 01st June 2020 is an Associate member of the Chartered Management Accountants of UK (ACMA, UK), holds the Chartered Global Management Accountants (CGMA) qualification, a Certified Practising Accountant (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).

## Corporate Governance Report

Section	Corporate Governance Principle	Compliance
8.(2) (b)	Composition of the Committee	All members of the Board Audit Committee are Independent Non-Executive Directors. Members are Mr.M.D.B. Boyagoda (appointed w.e.f. 01st June 2020), Mr. P.S. Cumaranatunga, Mr. W.M.P.L. De Alwis (retired w.e.f. 24th February 2020), Mr. J.H Gunawardena, Ms. H.S.R. Ranatunga (appointed w.e.f. 23rd April 2020). All of them have expertise and knowledge in the fields of banking, finance, leasing, information technology etc.
8.(2) (c)	Recommendations made by the Board Audit Committee	<p>Audit Committee has made recommendations with regard to the following.</p> <p>The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes.</p> <p>The implementation of the Central Bank guidelines issued to auditors from time to time; The application of the relevant accounting standards;</p> <p>The service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the Audit before the expiry of three years from the date of the completion of the previous term.</p> <p>Implementation of the Whistle Blowing Policy within the Company.</p>
8.(2) (d)	Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes	The BAC obtains representation from the External auditors on their independence and that the audit is carried out in accordance with the applicable standards and best practices.
8.(2) (e)	Provision for Non-Audit Services by external auditors	Board approved policy on the engagement of an external auditor to provide non-audit service is in place.
8.(2) (f )	Nature and scope of the external audit	The Board Audit Committee has discussed and finalized the nature and scope of the audit, with the External Auditors in accordance with Sri Lanka Accounting Standards. The Audit Engagement Letter for the year ending 31st December 2020 has been submitted to the Board Audit Committee.
8.(2) (g)	Review the financial information of the Company	<p>Quarterly Financial Statements as well as year-end Financial Statements are presented and discussed at the Audit Committee.</p> <p>A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit judgments in the Financial Statements, going concern assumption and compliance with Accounting Standards and other legal requirements takes place and required clarifications are obtained in respect of all areas before being recommended for Board approval.</p>
8.(2) (h)	Discussions with the External Auditor on Interim and final audits	The Board Audit Committee discusses issues, problems and reservations arising from the interim and final audits with the external auditors. During the year Committee has held two meetings with External Auditors, without the Executive Management being present, to discuss any matters (if any) the auditor may wish to discuss.
8.(2) (i)	External Auditor's Management Letter and Management's response	Committee has reviewed the External Auditor's Management letter and Management responses thereto, relating to the audit for the year ended 31st December 2020.



Section	Corporate Governance Principle	Compliance
8.(2) (j)	<p>Committee's responsibility with regard to Internal Audit Function</p> <p>i) Review the adequacy of the scope, functions and resources of the internal audit department</p> <p>ii) Review the internal audit program and results of the internal audit process</p> <p>iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department</p> <p>iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function</p> <p>v) Appraisal of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning</p> <p>vi) Independence of the audit activities, impartiality of the performance, proficiency and due professional care.</p>	<p>i) Board Audit Committee has discussed the adequacy of the scope, functions and resources of the Internal Audit Department.</p> <p>ii) The Board Audit Committee has reviewed and approved the annual internal audit program. Internal audit reports, with the management comments have been discussed at length and action taken to rectify the same.</p> <p>iii) The Board Audit Committee has carried out the performance appraisal of the Head of Internal Audit for the year 2020.</p> <p>iv) There was no change of the Head of Internal Audit during the year 2020.</p> <p>v) There were no resignations of senior staff members of the internal audit department including the Head of Internal Audit.</p> <p>vi) As per the organization chart of Siyapatha Finance PLC the internal auditor reports direct to the BAC and the audit work has been performed with impartiality proficiency and due care.</p>
8.(2) (k)	Major findings and management response	The Committee oversees the major findings of internal audit investigations and Management response thereto
8.(2) (l)	<p>Participation at Audit Committee Meetings</p> <p>External Auditors' meeting without the Executive Directors</p>	<p>Members of the Board Audit Committee, Head of Internal Audit, Head of Finance attend the meetings. Managing Director and Chief Operating Officer attends by invitation.</p> <p>Two meetings were held with the External Auditors without the Executive Management being present.</p>
8.(2) (m)	Authority, Resources and access to information of Board Audit Committee (BAC)	<p>The Board approved Terms of Reference is in place and it stipulates the required authority of the BAC.</p> <p>The BAC has the required resources and can access the information and is also empowered to obtain external professional advice and to invite outsiders with relevant experience to attend meetings if necessary.</p>

## Corporate Governance Report

Section	Corporate Governance Principle	Compliance
8.(2) (n)	Regular Meetings of Board Audit Committee (BAC)	Audit Committee calendar is scheduled enabling members to attend the meetings held quarterly. If necessary, Committee may decide to convene additional meetings. There were eleven (11) Audit Committee Meetings held during the year 2020 including two meetings without the executive management.
8.(2) (o)	Board Audit Committee disclosures in Annual Report	Number of BAC meetings and attendance of BAC members have been published in the Annual Report on pages 81 to 83 and 68.
8.(2) (p)	Secretary of the committee	Company Secretary who is the Secretary of the Audit Committee maintains detailed minutes of meetings held.
8.(2) (q)	Whistle Blowing Policy	Board approved Whistle Blowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and any other matters.
<b>8. (3) Board Integrated Risk Management Committee (BIRMC)</b>		
8.(3) (a)	Composition of BIRMC	<p>Committee consisted of four Non-Executive Directors and one Executive Director. BIRMC consists of Key Management Personnel who supervise the credit, market, liquidity, operational and strategic risks of the Company, in addition to the Managing Director.</p> <p>The Committee closely works with Key Management Personnel and makes decisions on behalf of the Board on matters which are within their jurisdictions.</p>
8.(3) (b)	<p>Assessment of the risk of the Company.</p> <p>Assessment of Risk In the case of subsidiary companies and associate companies, risk management shall be done, both on a finance company basis and group basis.</p>	<p>BIRMC has an appropriate process to assess all risks including credit, market, liquidity, operational and strategic risks in the Company through appropriate risk indicators and management of information.</p> <p>Not relevant for Group basis, since there are no subsidiaries or associate Companies of Siyapatha Finance PLC.</p>
8.(3) (c)	Review the adequacy and effectiveness of management level committees	<p>In fulfilling its responsibilities, the Committee reviewed the adequacy and effectiveness of management Committees to manage risks within quantitative and qualitative risk limits.</p> <p>BIRMC assessed the adequacy and effectiveness of the Assets &amp; Liabilities Committee (ALCO) to address specific risks .</p>
8.(3) (d)	Corrective action to mitigate risk exceeding prudential level	BIRMC regularly reviews the risk indicators which have gone beyond the specified quantitative and qualitative risk limits against the set limits and take prompt action to mitigate the effects.
8.(3) (e)	Frequency of Meetings	The Committee meets at least quarterly, or more frequently as circumstances arise. BIRMC held six (6) meetings during the financial year 2020 and assessed all aspects of risk management
8.(3) (f)	Actions against officers who fail to identify risk	BIRMC is responsible for assessing different types of risk, to which the Company is exposed. At Siyapatha Finance PLC, risks are identified by the Integrated Risk Management Committee and as such, decisions are taken collectively.
8.(3) (g)	Submission of Risk assessment report to the main Board	<p>Board of Directors has ultimate responsibility in risk management of the Company. Minutes of the BIRMC meetings are tabled at the subsequent Board meeting and the Chairman of BIRMC briefs the main Board, on Significant issues raised and decisions taken. at the committee meetings, enabling the Board to make correct decisions.</p> <p>Risk Trajectory Report based on discussions at the BIRMC is submitted to the subsequent Board Meeting.</p>

Section	Corporate Governance Principle	Compliance
8.(3) (h)	Compliance Function	<p>The Head of Compliance who has been identified as a KMP in the Company assesses the level of Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.</p> <p>Compliance Officer has obtained confirmations from all Department Heads to ensure compliance with approved policies/procedures of the Company.</p>
<b>9. Board Related Party Transaction Review Committee (BRPTRC)</b>		
9.(2)	Identification of related parties and avoid conflict of interest	The Board is well aware of the requirement of identification of related party transactions and a Board approved Procedure on identification Related Parties and their transactions is in place which speaks on categories of related parties, and for the Company to avoid any conflicts of interest that may arise from any transaction of the Company.
9.(3)	Types of related party transactions	<p>There is a documented process approved by the Board which speaks on types of related party transactions and for the Company to avoid any conflicts of interest that may arise from any transaction with the related parties.</p> <p>All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives during the year 2020.</p>
9.(4)	Avoid More Favourable Treatment	<p>There is a documented process approved by the Board which clearly defines related party transactions and to ensure that the Company does not engage in such transactions in a manner that would grant such related parties "more favorable treatment" than what is accorded to other constituents of the Company carrying out similar transactions with the Company.</p> <p>The Company has a detective system which has been developed in-house to monitor all RPT transactions where the Company inputs details of NIC numbers of related parties and Business Registration numbers of related party concerns to ensure that there are no favorable treatments offered to such related parties than that accorded to other constituents of the Company carrying on the same business.</p>
<b>10. Disclosures</b>		
10.(1) (a)	Annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards.	Annual Financial statements and periodical financial Statements are prepared in accordance with the applicable accounting standards.
10.(1) (b)	That such statements published in the Newspapers in an abridged form, in Sinhala, Tamil and English.	Such statements are published in three Newspapers in Sinhala, Tamil and English.

## Corporate Governance Report

Section	Corporate Governance Principle	Compliance												
10.(2) (a)	The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	This is been disclosed in the “Annual Report of the Board of Directors on the state of affairs of the Company” appearing on pages 98 to 106 of the Annual Report.												
10.(2) (b)	Report by the Board of Directors on the internal Control mechanism of the company.	Effectiveness of the Company’s internal control mechanism has been certified by the Directors on pages 107 to 108 of the Annual Report under the heading “Directors’ Statement on Internal Controls over Financial Reporting”.												
10.(2) (c)	Certification on the effectiveness of the internal control mechanism by external auditors	The Auditors’ certification on the Directors Responsibility Statement on Internal Controls over Financial Reporting has been obtained and included in the Annual Report .												
10.(2) (d)	Details of the Directors including names and transactions with the finance company.	Details of the Directors including names and transactions with the Finance Company are given in pages 28 to 33 and 187 to 188 of the Annual Report.												
10.(2) (e)	Directors’ fees and Remuneration	The fees & remuneration paid to Directors are been disclosed in Note 45 on page 187 of the Annual Report.												
10.(2) (f )	Accommodation granted for related parties.	<table> <tr> <th>Category of RPT</th><th>Net Accommodation as at 31.12.2020 (Rs.)</th><th>% of Capital Fund</th></tr> <tr> <td>Directors</td><td>-</td><td>-</td></tr> <tr> <td>KMP</td><td>14,040,037</td><td>Nil</td></tr> <tr> <td>Relatives of Directors or KMP</td><td>-</td><td>-</td></tr> </table>	Category of RPT	Net Accommodation as at 31.12.2020 (Rs.)	% of Capital Fund	Directors	-	-	KMP	14,040,037	Nil	Relatives of Directors or KMP	-	-
Category of RPT	Net Accommodation as at 31.12.2020 (Rs.)	% of Capital Fund												
Directors	-	-												
KMP	14,040,037	Nil												
Relatives of Directors or KMP	-	-												
10.(2) (g)	Aggregate values of remuneration paid for KMPs and aggregate values of transaction of the company with KMPs.	<p>Total value of short term employee benefits paid to KMPs during the year is Rs. 107,767,119/-.</p> <p>Total accommodation granted Rs. 14,040,037/-</p> <p>Debenture, Term Deposits and Saving Deposits Rs. 69,890,466/-</p>												
10.(2) (h)	Details of Compliance with prudential requirements, regulations, laws and internal controls and measures relevant to non-compliance.	Details of compliance & non-compliance would be highlighted in the ‘Annual Report of the Board of Directors on the State of Affairs of the Company’ on pages 98 to 106 of the Annual Report.												

Section	Corporate Governance Principle	Compliance
10.(2) (i)	A statement of the regulatory and supervisory concerns on lapses in the finance Company's risk management, or non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance Company to address such concerns.	There were no regulatory and supervisory concerns in the Company's risk management or non-compliance with the Companies Act No. 07 of 2007, rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions. However, based on the inspection carried out by the Financial Intelligence Unit of the Central Bank of Sri Lanka, imposed a penalty due to a shortcoming in relation to screening the United Nations Security Council Resolutions. The Company adopted rectification measures and now compliant with the regulations.
10.(2) (j)	The external auditors' certification of the compliance with the Corporate Governance and directions issued by the Monetary Board in the annual corporate governance report.	The Board has obtained a Factual Finding report from the External Auditors over compliance with Corporate Governance Directions.

# Corporate Governance Report

**The Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.**

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>A. DIRECTORS</b>			
<b>A.1 THE BOARD</b>			
The Board of Directors at Siyapatha Finance PLC (the “Company”) represents professionals from different disciplines such as Legal, Marketing, Management, Finance, Engineering, Information Technology and they bring with them a wealth of business experience to provide leadership to the Company			
A.1.1	Board meetings	Complied	<p>Board meetings are planned well ahead and dates of the monthly meetings are finalized at the end of the previous year.</p> <p>Board meetings are mainly focused on reviewing the Performance of the Company and more on Strategic Planning and the Company's future directions. Key Officers in their monthly presentations to the Board, focus 100% on their performances and future plans to achieve the strategic goals. Special Board meetings are convened whenever necessary. These meetings ensure that prompt action is taken to align the business processes to achieve the expectations of all stakeholders. During the reviewed period seventeen (17) Board meetings were held.</p> <p>Please refer ‘Directors’ attendance and Committee Memberships’ table given in pages 68 and 69 in the Annual report.</p>
A.1.2	Responsibilities of the Board	Complied	<p>The Board while acting in line with the organization and the Group values is responsible for the formulation of a sound business strategy for the organization. The Management formulates a three years strategic plan which addresses the future challenges, which would be tabled, discussed and approved by the Board.</p> <p>During the last few years, the Board recognized the importance of Human Capital, and the grooming of the Corporate Management and individuals who are capable, talented with required skills, experience and knowledge to accept any challenges that the Company may face in the future. The Board has implemented a succession plan, with a view to ensuring that the Company would have a strong successor to shoulder the responsibilities of the Company, if it becomes necessary.</p> <p>The Board takes necessary steps to fulfill the duties entrusted to them by securing the integrity of the information, managing risks and implementing an effective internal control system. In this process, compliance ensures that all applicable laws and regulations and adherence to the organization and the group ethical standards and corporate values are met in order to ensure that the interests of all stakeholders are taken into consideration in the corporate decision- making process.</p>

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



## Corporate Governance Report

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

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
			<ul style="list-style-type: none"> <li>• Not to engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.</li> <li>• Ensure that appropriate steps are taken to maintain effective communication with shareholders (at general meetings and in general) and that the views of shareholders are communicated to the Board</li> </ul>
<b>A. 4 FINANCIAL ACUMEN</b> <p>The Code of Best Practice requires that the Board comprises of members with sufficient financial acumen and knowledge to offer guidance on matters of finance. The Board of the Company has met the above requirement as four Board members out of Nine Directors are Qualified Accountants having professional qualifications and are equipped with sufficient financial acumen and knowledge to offer guidance on matters of finance.</p>			
A. 4	Financial acumen and knowledge	Complied	<p>The Chairman of the Audit committee, Mr. M.D.B.Boyagoda (appointed w.e.f. 01st June 2020) is a Fellow member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK) and the Chartered Global Management Accountants (CGMA). He graduated from the University of Sri Jayawardenepura, with a Degree in BSc Business Administration specialized in Finance.</p> <p>Mr. P. S. Cumaranatunga (stepped down as a Chairman of the Audit Committee w.e.f. 01st June 2020) is an Associate member of the Chartered Management Accountants of UK (ACMA, UK), holds the Chartered Global Management Accountants (CGMA) qualification, a Certified Practising Accountants (CPA) and a Member of the Chartered Institute of Marketing (DipM MCIM).</p> <p>Mr. H. M. A. Seneviratne is a Fellow member of the Institute of Chartered Accountants of Sri Lanka (FCA), graduate in Business Administration from the University of Sri Jayawardenepura and a holder of Master Degree in Business Administration (MBA) from the University of Colombo.</p> <p>Ms. H.S.R.Ranatunga is a Fellow member of the Chartered Institute of Management Accountants, UK (FCMA-UK), holds the Chartered Global Management Accountants (CGMA) qualification and MBA from Postgraduate Institute of Management, University of Sri Jayawardenepura. Also hold a MA in Economics from University of Colombo.</p> <p>These members of the Board have the ability to offer advise &amp; guidance on matters of finance to the Board.</p>

## Corporate Governance Report

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>A.5 BOARD BALANCE</b>			
The Code requires that a balance is maintained between the Executive and Non-Executive Directors (NEDs) thus that no individual or a small group of individual Directors is able to dominate the Board's decision making.			
A.5.1	Presence of a strong team of Non-Executive Directors (NEDs)	Complied	Eight out of nine Directors of the Board are NEDs which complies with the minimum number prescribed by this Code, which is at a minimum two NEDs or NEDs equivalent to one-third of the total number of Directors, whichever is higher. This ensures that the views of Non- Executive Directors are taken into consideration in Board decisions.
A.5.2 & A.5.3	Independence of NEDs	Complied	Four out of Eight NEDs are Independent which complies with the minimum prescribed by this Code which is at a minimum two NEDs or NEDs equivalent to one third of NEDs appointed to the Board of Directors whichever is higher should be 'independent'.
A.5.4	Annual Declaration of NEDs	Complied	Every NED of the Company has made written declarations as to their independence against the specified criteria set out by the Company, which is in line with the requirements of Schedule H of this Code.
A.5.5	Annual Declaration by the Board on the independence of Directors	Complied	The Board has determined the independence of Directors based on the declarations submitted by the NEDs as to their independence as a fair representation and will continue to evaluate their independence on this basis annually in line with CBSL directions, the SEC and the Code of Best Practice. No circumstances have arisen for the determination of independence by the Board, beyond the criteria set out in the Code. Independent Non-Executive Directors are: Mr. W.M.P.L. De Alwis (Retired w.e.f. 24th February 2020), Mr. P. S. Cumaranatunga, Mr. J.H. Gunawardena, Ms. H.S.R. Ranatunga (Appointed w.e.f. 28th January 2020) and Mr. M.D.B. Boyagoda (Appointed w.e.f. 28th April 2020).
A.5.6	Alternate Director	Complied	At present, there are no alternate Directors.
A.5.7 & A.5.8	Requirement to appoint a 'Senior Non-Executive Director' and making himself available for confidential discussions.	Complied	The current Chairman of the Company is an Independent Non Executive –Director. Hence, the requirement to appoint a 'Senior Non-Executive Director' was not arisen.
A.5.9	Conducting meetings with NEDs only	Complied	During the year the Chairman met the Non Executive Directors in the absence of the Managing Director.
A.5.10	Recording of concerns in Board minutes	Complied	<p>Deliberations raised by the Directors are part of the Board Meetings and such information is adequately detailed by the Company Secretary in the minutes.</p> <p>Rather than Minuting only the decisions, the Company Secretary minutes as to how the decision had been arrived at all times. All minutes are kept in a detailed manner.</p>

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

## Corporate Governance Report

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>A.8 RE-ELECTION</b>			
The Code requires all Directors to submit themselves for re-election, on regular intervals and at least once in every three years			
A.8.1 & A.8.2	Re-election of Non-Executive Directors including Chairman and Directors	Complied	In accordance with Articles 24 (7) & (8) of the Articles of Association, the procedure adopted by the Company to re-elect by rotation, at least one-third of the Directors should retire at the Annual General Meetings. A policy is in place to elect Directors who have joined the Board during the year and to make themselves available for election at the subsequent Annual General Meeting.
<b>A.9 APPRAISAL OF BOARD PERFORMANCE</b>			
The Code requires the Board to appraise its own performance periodically to ensure that its responsibilities are satisfactorily discharged.			
A.9.1 & A.9.2	Annual appraisal of the Board's performance and the performance of its Sub-Committees	Complied	The performance of the Board is evaluated by the Chairman and the Directors. The Board Sub-Committees carry out a self-assessment process annually to ensure they function effectively and efficiently with the objective of facilitating continuous improvement and to be in line with the good governance.
A.9.3	Disclosure of criteria used for the performance evaluation	Complied	The Company Secretary submits the Self Evaluation Questionnaire to each director and obtains their individual responses. Summary of the responses are submitted to the Board for further action if deemed necessary.
<b>A.10 DISCLOSURE OF INFORMATION IN RESPECT OF DIRECTORS</b>			
The Code requires that details of Directors be disclosed in the Annual Report for information of the shareholders			
A.10.1	Disclosures on Directors in the Annual Report	Complied	The following details pertaining to each Director are disclosed in the Annual Report (a) Brief profile with expertise and experience - pages 28 to 33. (b) Other business interests - page 98. (c) Remuneration - Note 45.2 on page 187. (d) Status of independence - page 102. (e) Details of Board Meetings and Board Committee Meetings held during the year - pages 68 and 69.
<b>A.11 APPRAISAL OF MANAGING DIRECTOR</b>			
The Code requires the Board to assess the performance of the Managing Director at least annually to ascertain the degree to which the Managing Director met the pre-set financial and non-financial targets			
A.11.1 & A.11.2	Setting annual targets and the appraisal of performance of the CEO/Managing Director	Complied	At the beginning of each financial year, the Board discusses and agrees with the Managing Director and sets long term, medium term and short term financial and non-financial goals for the Company that are to be guided and achieved by the Managing Director within the course of that year. Assessment of performance of the Managing Director is carried out by the Board yearly to ensure that performance is achieved.

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

## Corporate Governance Report

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
B.2.5	Executive share options	Not Applicable	No Executive Share Options were granted during the year.
B.2.6	Designing the remuneration of Executive Directors	Complied	The remuneration of the Executive Directors is determined by the Parent Company in line with the Group Remuneration Policy.
B.2.7 & B.2.8	Early termination of Executive Directors	Not arisen	This is in line with the contract of appointment.
B.2.9	Levels of Remuneration of Non-Executive Directors	Complied	Non-Executive Directors of the Company are paid a nominal fee for their time spent and role in the Board, in line with the Group Policy approved by the Parent Company.

### B.3 DISCLOSURE OF REMUNERATION

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

B.3.1	Disclosure of Remuneration	Complied	Please refer 'Board Human Resources and Remuneration Committee Report' for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company
			Please refer Note 45.2 to the Financial Statements for the aggregate remuneration paid to Directors.

### C. RELATIONS WITH SHAREHOLDERS

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

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

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

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



Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
C.1.4 & C1.5	Adequate Notice of AGM to shareholders together with summary of the procedure governing voting.	Complied	Annual Reports are dispatched to all Shareholders of the Company, whereas a form of proxy together with the Notice of Meeting detailing the summary of procedure as per legal requirements giving adequate notice is dispatched to shareholders.
<b>C.2 COMMUNICATION WITH SHAREHOLDERS</b>			
The Code requires effective communication with shareholders.			
The Company is a fully owned subsidiary of Sampath Bank PLC.			
C.2.1	Channel to reach all shareholders of the Company	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.2	Policy and methodology for communication	Complied	By circular to shareholders and Notice of shareholder meetings.
C.2.3	Implementation of the policy and methodology for communication with shareholders	Complied	By circular to shareholders and Notice of Shareholder meetings.
C.2.4 & C.2.6	Contact person in relation to shareholder matters	Complied	The main contact person is the Group Company Secretary
C.2.5	Process to make all Directors aware of major issues and concerns of shareholders	Complied	Any major issue of concern of shareholders are informed to Board Members by the Common Directors or the Company Secretary.
C.2.7	Process responding to shareholder matters	Complied	The Company is a fully owned subsidiary of Sampath Bank PLC.
<b>C.3 MAJOR AND MATERIAL TRANSACTIONS</b>			
The Code requires the Directors to disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company, if entered into.			
C.3.1	Disclosures on proposed major transactions	Not Applicable	There were no major transactions involving acquisition or disposal of assets greater than half of the net asset value of the Company.

## Corporate Governance Report

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>D. ACCOUNTABILITY AND AUDIT</b>			
<b>D.1 FINANCIAL REPORTING</b>			
This Principle requires the Board of the Company to present a balanced and understandable assessment of the Companies' financial position, performance and prospects.			
D.1.1	Board's Responsibility for Statutory and Regulatory Reporting	Complied	<p>The Board is well aware of its responsibility to present regulatory and statutory reports in a balanced and understandable manner and a statement to this effect is given on page 99 of this Annual Report.</p> <p>The Company has complied with the requirements of the Companies Act No. 07 of 2007, the Finance Leasing Act, No. 56 of 2000, the Finance Business Act, No. 42 of 2011 and amendments thereto, in the preparation of Quarterly and Annual Financial Statements which are prepared and presented in conformity with Sri Lanka Accounting Standards. Further, the Company has complied with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka and the Colombo Stock Exchange.</p>
D.1.2	Declarations by Directors in the Directors' Report	Complied	The Annual Report of the Board of Directors on the State of affairs of the Company on pages 98 to 106 contains the declarations as required by the Code.
D.1.3	Statements by Directors' and Auditors' on responsibility for financial reporting	Complied	<p>The 'Responsibility for Financial Statements' for the preparation and presentation of financial statements is given in Note 2.1 on page 119 of the Annual Report.</p> <p>Please also refer pages 110 to 113 for the Independent Auditor's Report.</p>
D.1.4	Management Discussion and Analysis	Complied	Please refer 'Management Discussion and Analysis'. (MD&A) set out on pages 14 to 23 presented as an integrated report covering all aspects referred in the code.
D.1.5	Declaration by Board on the going concern of the Business	Complied	Please refer 'Annual Report of the Board of Directors on the State of affairs of the Company' and Note 2.11 Estimates and Assumptions to the Audited Financial Statements on page 120.
D.1.6	Requirement to Summon an Extraordinary General Meeting (EGM) to notify serious loss in net assets (capital)	Not applicable	No such event occurred during the financial year

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
D.1.7	Declaration by Board on Related Party Transactions	Complied	<p>Each Director and KMP has declared their interest in transactions with the Company during the year ended 31st December 2020, if any.</p> <p>Internal controls are placed within the Company to identify, record and disclose related party transactions.</p> <p>All Related Party Transactions as defined in Sri Lanka Accounting Standards - LKAS 24 (Related Party Transactions) are disclosed in Note 45 to the Audited Financial Statements.</p>
<b>D.2 INTERNAL CONTROL</b>			
The Code requires the Company's Board to ensure that an effective system of internal controls, which safeguards the Company's assets to protect the interest of shareholders is in place			
D.2.1	Directors to conduct an annual review of internal controls	Complied	The Company obtained the External Auditor's Certification on the Directors Responsibility Statement on Internal Control over financial reporting included in the Annual Report.
D.2.2	Need for an internal audit function for companies	Complied	This is not applicable as the Company already has its own in-house Internal Audit Department, which is responsible for internal audit function.
<b>D.3 AUDIT COMMITTEE</b>			
The Code requires the Board to have formal and transparent arrangements in selecting and applying the accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's External Auditor			
D.3.1	Composition of the Audit Committee	Complied	Details of the members, are found on the 'Board Audit Committee Report' on pages 81 to 83.
D.3.2	Duties of the Audit Committee	Complied	As stated in the Report of the Board Audit Committee of the Company, it regularly reviews the scope of the External Auditors, results and effectiveness of the audit. It also ensures that non audit services provided by the External Auditors do not affect their independence.
D.3.3	Terms of Reference of the Audit Committee	Complied	Terms of reference of the Board Audit Committee is in place approved by the Board of Directors. This clearly explains the purpose of the Committee, its duties and responsibilities, together with the scope and functions of the Committee. The Committee mainly deals with the matters pertaining to statutory and regulatory compliance in financial reporting, matters with regard to the External Auditors, internal audit and risk management procedures of the Company.
D.3.4	Disclosure of names of the members of the Audit Committee	Complied	Names and composition of the members of the Audit Committee are given under Audit Committee Report.

# Corporate Governance Report

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>D.4 CODE OF BUSINESS CONDUCT AND ETHICS</b>			
The Code requires the Company to adopt an Internal Code of Conduct and Ethics to be adhered to by all Directors and members of the senior management of the Company			
D.4.1	Disclosures on presence of Code of Business Conduct and Ethics	Complied	<p>The Company has an internally developed Code of Conduct for its Directors and this Code covers the following areas of conflict of interest, accurate accounting and record keeping, confidentiality of information, fair dealing, protecting and proper use of the Company's assets, compliance with laws and regulations and encouraging the reporting of any illegal or unethical behavior etc.</p> <p>Further the "Code of Conduct" is available for all employees including the Corporate and Senior Management. This code focuses mainly on the following areas:</p> <p>Fair dealing, protection and proper use of the Company assets, record- keeping and reporting, accounting and financial reporting concerns, reporting illegal or unethical behavior, discrimination and harassment, Health and Safety, Discipline etc.</p>
D.4.2	Affirmative Statement by the Chairman	Complied	Please refer the Chairman's message for details on pages 7 to 9.
<b>D.5 CORPORATE GOVERNANCE DISCLOSURES</b>			
Directors of the Company disclose annually the Company's adherence to the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka (CBSL). Direction No. 03 of 2008 and Amendment Direction No. 06 of 2013 of CBSL on Corporate Governance for Finance Companies of Sri Lanka and subsequent Amendments thereto, in the 'Corporate Governance Report'.			
D.5.1	Annual Corporate Governance Report in the Annual Report	Complied	Corporate Governance reports for CBSL, Securities Exchange Commission and Code of Best Practice are included on pages 36 to 69 in the Annual Report.
<b>SECTION 2 : SHAREHOLDERS</b>			
<b>E. INSTITUTIONAL INVESTORS</b>			
<b>E.1 SHAREHOLDER VOTING</b>			
Due to the Parent Company holding 100% of equity of the Company, the requirement of disclosures to institutional investors have not arisen from an equity point of view. In the event such need arises from the perspective of accountability and transparency, all material disclosures would be made to strengthen the positive relationship between management and institutional investors.			
E.1.1	Communication with shareholders	Complied	Parent Company holds 100% of shares and is the only institutional investor. All required information to the Parent Company is provided in a timely manner.

Code of Best Practice Reference	Requirement	Level of Compliance	Explanation of the Company
<b>E.2 EVALUATION OF GOVERNANCE DISCLOSURES</b>			
The Code requires the Company to encourage institutional investors to give due weight to all relevant factors drawn to their attention			
E.2.1	Due weight by Institutional Investors on matters relating to Board structure and composition	Complied	Sampath Bank PLC as the only institutional investors is at liberty to give due weight on matters relating to the Board structure and composition.
<b>F. OTHER INVESTORS;</b>			
<b>F.1 INVESTING/DIVESTING DECISION</b>			
F.1.1	Seek independent advice in investing or divesting decisions	Not applicable	Sampath Bank PLC owns 100% of the Company shares.
<b>F.2 SHAREHOLDER VOTING</b>			
F.2.1	Encourage voting by Individual Investors in General Meetings	Complied	The Parent Company and subscribers/shareholders use its voting rights at the AGMs.
<b>G. SUSTAINABILITY REPORTING</b>			
Sustainability is a business approach that creates long term stakeholder value. It focuses on managing risks arising from economic, environmental and social aspects.			
Sustainability reporting aims towards the goals of sustainable developments in the context of business strategy and activities.			
G.1.1	Economic Sustainability	Complied	Please refer 'Management Discussion and Analysis' on pages 14 to 23.
G.1.2	The Environment	Complied	This is covered in the 'Management Discussion and Analysis' on pages 14 to 23.
G.1.3	Labour Practices	Complied	Please refer 'Management Discussion and Analysis' on pages 14 to 23.
G.1.4	Society	Complied	Please refer 'Management Discussion and Analysis' on pages 14 to 23.
G.1.5	Product and Service Responsibility	Complied	Please refer 'Management Discussion and Analysis' on pages 14 to 23.
G.1.6	Stakeholder Identification, Engagement & Effective	Complied	Please see the contents of the 'Management Discussion and analysis on pages 14 to 23.
G.1.7	Sustainable Reporting & Disclosure	Complied	Please see the contents of the 'Management Discussion and analysis on pages 14 to 23.

## Corporate Governance Report

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

Rule No	Applicable Requirement	Compliance Status	Comment
<b>Non Executive Directors</b>			
7.10.1(a)	2 or 1/3 of the total number of Directors should be Non-Executive Directors whichever is higher.	Complied	During the year there were eight NEDs appointed out of a total number of nine directors.
<b>Independent Directors</b>			
7.10.2 (a)	2 or 1/3 of Non-Executive Directors appointed to the Board whichever is higher shall be independent	Complied	During the year there were four Independent Non- Executive Directors. The Company is in compliance with the requirement of one third of Non-Executive Directors.
7.10.2(b)	Submission of declarations annually, declaring independence of Directors	Complied	Declarations have been obtained from the Directors regarding their independence/non independence status against the specified criteria and copies of the same are under the custody of Company Secretary for review.
<b>Disclosure Relating To Directors</b>			
7.10.3(a)	The Board shall annually determine the independence or non independence of Directors	Complied	The Board is well aware of the requirement and the Board evaluates the independence of Directors.
	Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are set out on page 102 of the Annual Report.
7.10.3(b)	The basis for the Board's determination of independent Directors, if criteria specified on independence is not met	Complied	The Board determines the independence of Directors based on the criteria set out in the CSE Listing Rule No. 7.10.4. The requirement is met.
7.10.3(c)	Publish a brief resume of each Director	Complied	Profiles of each Director has been published pages 28 to 33 to of the Annual Report.
7.10.3(d)	Provide a brief resume of new Directors appointed to the Board	Complied	The Company has appointed Mr. W.S.C.Perera (appointed w.e.f. 16th January 2020), and Ms. H. S. R. Ranatunga (appointed w.e.f. 28th January 2020) and Mr. M.D.B. Boyagoda (appointed w.e.f. 28th April 2020) to the Board and a brief profile of the said Directors are set out on pages 32 to 33 of the Annual Report.

Rule No	Applicable Requirement	Compliance Status	Comment
<b>Criteria For Defining Independence</b>			
7.10.4 (a-h)	Determination of Independence	Complied	The Board has met the criteria of defining independence which is in line with CSE and CBSL Directions on Corporate Governance based on independence of Directors.
<b>Remuneration Committee</b>			
7.10.5(a)	Composition	Complied	During the year under review, the Board HR & Remuneration Committee comprised of Mr. P. S. Cumararatunga, Mr. C.P. Palansuriya (resigned w.e.f. 31st January 2020), Mr. D. Sooriyaarachchi and Ms. H.S.R. Ranatunga (appointed w.e.f. 20th March 2020).
7.10.5(b)	Recommendation on Remuneration for Executive Directors, CEO and /or equivalent position	Complied	Main role of the Committee is to focus on the HR related matters of the Company and determine the remuneration policies (salaries, allowances and other financial payments) relating to the Managing Director and the rest of the staff of the Company.
7.10.5(c)	Names of Directors comprising the Remuneration Committee	Complied	Published in the Annual Report on pages 84 to 85 under HR & Remuneration Committee Report.
	Remuneration Policy	Complied	Remuneration of the Board of Directors of the Company is determined by Sampath Bank PLC which is the parent Company, based on the Group Remuneration Policy.
	Aggregated remuneration paid to Directors	Complied	Published in the Annual Report of the Board of Directors on the state of affairs of the Company on pages 98 to 106 of the Annual Report.
<b>Audit Committee</b>			
7.10.6(a)	Composition and Role of the Audit Committee	Complied	All members of the Board Audit Committee are independent, Non-Executive Directors and the Committee comprises of Mr. M.D.B. Boyagoda (Chairman, appointed w.e.f. 01st June 2020.) Mr. P.S Cumararatunga (stepped down as the Chairman of the Committee w.e.f. 01st June 2020), Mr. W. M. P. L. De Alwis (retired w.e.f. 24th February 2020), Mr. J.H.Gunawardena and Ms. H.S.R. Ranatunga (appointed w.e.f. 23rd April 2020). Please refer the contents of the Board Audit Committee Report on pages 81 to 83 for the role of the Audit Committee.
	Chairman of the Audit Committee	Complied	Mr. M.D.B. Boyagoda is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK) and the Chartered Global Management Accountant (CGMA) .
	Attendance at Audit Committee Meetings	Complied	In addition to the members of the Board Audit Committee, the Managing Director, the Chief Operating Officer, Head of Finance, Head of Internal Audit and External Auditors of the Company attend meetings. Head of Internal Audit of Sampath Bank PLC would attend some of the meetings by invitation.



## Corporate Governance Report

Rule No	Applicable Requirement	Compliance Status	Comment
7.10.6(b)	i) Preparation, presentation and adequacy of disclosures in the financial statements of the Company in accordance with Sri Lanka Accounting standards.	Complied	The Company is in compliance with Sri Lanka Accounting Standards (SLFRS & LKASs ) as laid down by the Institute of Chartered Accountants of Sri Lanka. This fact is stated in Note 2.1 on page 119 to the Audited Financial Statements under Statement of Compliance.
	ii.) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Complied	The Company is in compliance with the requirements of the Companies Act No. 7 of 2007. This fact is stated in Note 2.1 on page 119 to the Audited Financial Statements under Statement of Compliance.
	iii) process to ensure that the Company's internal control and risk management are adequate to meet the requirements of the Sri Lanka Auditing standards	Complied	The Auditors certification on the Directors Responsibility Statement on Internal Controls over financial reporting included in the annual report has been obtained.
	iv) Assessment of the independence and performance of the Company's external auditors	Complied	The Board Audit Committee (BAC) assesses the independence of External Auditors and their performance. The Board Audit Committee regularly reviews the scope of the External Auditors and the effectiveness of the Audit. Furthermore, the Committee ensures that non-audit services provided by the External Auditors do not affect their independence.
	v) Recommendations to the Board pertaining to appointment, reappointment and to approve the remuneration and terms of engagement of the external auditor	Complied	The Board Audit Committee makes recommendations to the Board for appointment of the External Auditor for Audit services, their service period, Audit scope and Audit fee.
7.10.6(c)	Names of Directors comprising the Audit Committee.	Complied	Published in the Annual Report on page 81 under Audit Committee Report

Rule No	Applicable Requirement	Compliance Status	Comment
	Determination of the independence of the Auditors and the basis for such determination	Complied	The Company entrusts any non-audit services to be performed by the External Auditors and such non-audit service assignments requires the prior approval of the Audit Committee. The Board approved policy for non-audit services is available.
	Report of the Audit Committee setting out the manner of compliance by the Company	Complied	Please refer report of the Audit Committee, published on pages 81 to 83 of the Annual Report.

On behalf of the Board Corporate Governance Committee



**H. S. R. Ranatunge**

Chairperson - Board Corporate Governance Committee

31st January 2021

## Corporate Governance Report

### Directors' Attendance and Committee Memberships

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee	Board Nomination Committee	Board IT Committee
Mr. C.P. Palansuriya (resigned w.e.f. 31.01.2020)	2/2			1/1	1/1				
Mr. W.M.P.L. De Alwis (retired w.e.f 24.02.2020)	4/4	4/4	2/2			1/1	1/1	1/1	0/1
Mr. P.S. Cumararatunga	17/17	11/11	6/6		3/3			4/4	2/2
Mr. Y.S.H.R.S. Silva	16/17								0/1
Mr. L.T. Ranwala (resigned w.e.f 01.04.2020)	4/5			4/4					
Mr. H.M.A. Seneviratne	17/17		6/6	12/12		4/4	4/4		7/7
Mr. J.H. Gunawardena	17/17	11/11	5/6			4/4	4/4	4/4	
Mr. J. Selvaratnam	16/17		6/6	12/12		4/4	4/4		
Mr. D. Sooriyaarachchi	17/17				3/3		3/3	4/4	5/5
Mr. W.S.C Perera (appointed w.e.f 16.01.2020)	16/16			10/11					7/7
Ms. H.S.R. Ranatunga (appointed w.e.f 28.01.2020)	15/15	7/7		11/11	2/2	4/4	4/4		
Mr. M. D. B. Boyagoda (appointed w.e.f 28.04.2020.)	12/12	6/6	4/4			3/3	3/3		5/5
Total No. of Meetings	17	11	6	12	3	4	4	4	7

### Directors' Attendance for the Year 2020

1. Mr. C. P. Palansuriya , former Chairman resigned w.e.f. 31st January 2020.
2. Mr. W. M. P. L. De Alwis was retired from the Board w.e.f. 24th February 2020.
3. Mr. Tharaka Ranwala resigned from the Board w.e.f. 01st April 2020.
4. Mr. W.S.C Perera was appointed to the Board w.e.f. 16th January 2020.
5. Ms. H.S.R. Ranatunga was appointed to the Board w.e.f. 28th January 2020.
6. Mr. M. D. B. Boyagoda was appointed to the Board w.e.f. 28th April 2020.
7. The Board Audit Committee had nine meetings during the year 2020 and two (02) separate Board Audit Committee meetings were held without the Executive Directors being present.
8. Mr. Y. S.H. R. S. Silva was appointed as the Deputy Chairman of the Company w.e.f. 26th May 2020.

### Directors' Attendance and Committee Memberships

Director	Board Meetings	Board Audit Committee	Board Integrated Risk Management Committee	Board Credit Committee	Board HR & Remuneration Committee	Board Corporate Governance Committee	Board Related Party Transactions Review Committee	Board Nomination Committee	Board IT Committee
Mr. C.P. Palansuriya (resigned w.e.f. 31st January 2020)	C[1]			M[1]	M[1]			M[1]	
Mr. W.M.P.L. De Alwis (retired w.e.f. 24th February 2020)	M[3]	M[3]	C[3]			M[3]	M[3]	M[3]	M[3]
Mr. P.S. Cumararatunga	C[2]	M[2]	M[2]		C[2]			C[2]	M[2]
Mr. Y.S.H.R.S. Silva	M[5]								M[5]
Mr. L.T. Ranwala (resigned w.e.f. 01st April 2020)	M[4]			M[4]					
Mr. H.M.A. Seneviratne	M		M	M		M	M		M
Mr. J.H. Gunawardena	M	M	C[10]			M[10]	C[10]	M	
Mr. J. Selvaratnam	M		M	C[6]		M	M		
Mr. D. Sooriyaarachchi	M				M[11]		M[11]	M[11]	M[11]
Mr. W.S.C Perera (appointed w.e.f. 16th January 2020)	M[7]			M[7]					C[7]
Ms. H.S.R. Ranatunga (appointed w.e.f. 28th January 2020)	M[8]	M[8]		M[8]	M[8]	C[8]	M[8]		
Mr. M. D. B. Boyagoda (appointed w.e.f. 28th April 2020)	M[9]	C[9]	M[9]			M[9]	M[9]		M[9]
Total No. of Members	9	4	5	4	3	5	6	3	4

(C- Chairman/Chairperson M - Member)

- 1 Mr. C.P. Palansuriya resigned from the Board w.e.f. 31st January 2020, resigned as a member of the Board Credit Committee, Board Nomination Committee and Board HR & Remuneration Committee w.e.f. 31st January 2020.
- 2 Mr. P.S. Cumararatunga was appointed as the Chairman of the Board and Board Nomination Committee w.e.f. 12th February 2020 and 01 January 2020 respectively, stepped down as the Chairman and a member of Board Related Party Transactions Review Committee w.e.f. 12th February 2020, stepped down as a member of the Board Corporate Governance Committee w.e.f. 12th February 2020, stepped down as Chairman of the Board IT Committee w.e.f. 28th January 2020 and as a Member of the Board IT Committee w.e.f. 01st June 2020 and stepped down as the Chairman of the Board Audit Committee w.e.f. 01st June 2020 and continued to be as a member.
- 3 Mr. W.M.P.L. De Alwis was retired from the Board w.e.f. 24th February 2020, retired as a Chairman of the Board Integrated Risk Management Committee w.e.f. 24th February 2020 and was retired as a member of the Board Audit Committee, Board Corporate Governance Committee, Board Related Party Transactions Review Committee, Board Nomination Committee and Board IT Committee w.e.f. 24th February 2020.
- 4 Mr. L.T. Ranwala resigned as a member from the Board and the Board Credit Committee w.e.f. 01st April 2020.
- 5 Mr. Y.S.H.R.S. Silva was appointed as the Deputy Chairman of the Board w.e.f. 26th May 2020, stepped down as a Member of the Board IT Committee w.e.f. 12th February 2020.
- 6 Mr. J. Selvaratnam was appointed as the Chairman of the Board Credit Committee w.e.f. 01st January 2020.
- 7 Mr. W.S.C Perera was appointed as a member of the Board w.e.f. 16th January 2020, as the Chairman of the Board IT Committee w.e.f. 28th January 2020 and as a member of the Board Credit Committee w.e.f. 28th January 2020.
- 8 Ms. H.S.R. Ranatunga was appointed as a member of the Board w.e.f. 28th January 2020, as a member of the Board Audit Committee w.e.f. 23rd April 2020, as a member of the Board Credit Committee w.e.f. 28th January 2020, as a member of the Board HR & Remuneration Committee w.e.f. 12th February 2020, as a member of the Board Corporate Governance Committee w.e.f. 12th February 2020 (appointed as the Chairperson of the Committee w.e.f. 01st December 2020) and as a member of the Board Related Party Transactions Review Committee w.e.f. 12th February 2020.
- 9 Mr. M. D. B. Boyagoda was appointed as a member of the Board w.e.f. 28th April 2020, as a member of the Board Audit Committee w.e.f. 28th April 2020, as the Chairman of the Board Audit Committee w.e.f. 01st June 2020, as a member of the Board Integrated Risk Management Committee w.e.f. 28th April 2020, as a member of the Board Corporate Governance Committee w.e.f. 01st June 2020, as a member of the Board Related Party Transactions Review Committee w.e.f. 01st June 2020 and as a member of the Board IT Committee w.e.f. 01st June 2020.
- 10 Mr. J.H. Gunawardena was appointed as the Chairman of the Board Integrated Risk Management Committee w.e.f. 28th April 2020, was appointed as the Chairman of the Board Related Party Transactions Review Committee w.e.f. 12th February 2020. He stepped down as the Chairman of the Board Corporate Governance Committee w.e.f. 01st December 2020 and continued to be as a member.
- 11 Mr. D. Sooriyaarachchi was appointed as a member of the Board Related Party Transactions Review Committee and the Board IT Committee w.e.f. 01st June 2020. He was appointed to the Nomination Committee and Board HR and Remuneration Committee w.e.f. 01st January 2020.

# Managing Risk

## Risk Environment

### Global Outlook

Decades later, the FY2020 had a number of adverse effects on the world economy, health, political and global climate. The COVID-19 epidemic has claimed a large number of lives worldwide and presents an unprecedented challenge to the world of public health, food systems and services. The economic and social devastation caused by the epidemic is catastrophic: millions of people are at risk of falling into poverty, and the number of people suffering from malnutrition, currently estimated at nearly 690 million, could rise to 132 million. Millions of enterprises face an existential threat. Nearly half of the world's 3.3 billion global workforce is at risk of losing their livelihoods.

The COVID-19 epidemic continues to disrupt life, economic activity, and social cohesion worldwide, and climate change is advancing rapidly during FY2021 too. Extreme weather events such as heat, wildfires, floods and droughts were more prevalent during the year. There were severe droughts in the southwestern United States, North Africa, and South Africa. Extensive summer wildfires were raging in the western United States. The first ten months of 2020 were warmer than average around the world, according to the Global Climate Report.

Biden won the US presidential election in November 2020, and Biden's foreign policy will focus on multilateral cooperation. There were not many other political changes which took place in other parts of the world, but all economies continue have a slow phase in recovery after the pandemic. International travel is limited or restricted in many parts of the globe while some countries are going into lockdown after the second wave of the virus attack. Many third world countries have lost FDI

due to the restrictions on movement. Equity markets and other commodity markets have declined during the year under review. However, we saw the gold market picking up towards the later part of the year and settling around towards the end of the year. Many investors were looking for safer havens to park their funds until this pandemic ends hence the activities were not that aggressive. Since the global trading activities were limited the circulation of money slowed down during the year. Due to travel bans there were lesser tourist movements and many countries which were depending on the same were severely impacted during the year. Some countries tried out promoting local tourism but it was not that effective when compared to the amount of foreign currency inflow from the tourists. Some big names in the industries were compelled to sell out or declare closure due to the pandemic. Many countries had to introduce financial stimulation packages to revive the industries or introduce moratoriums for debt repayments to banks and finance companies. Many analysts are positive about 2021 with the vaccinations being administered, but a clear time line is not predicted for the pandemic to be completely eradicated. However, a silver lining is seen in many areas after the introduction of the vaccine and many countries opting to distribute it among the public.

### Domestic Outlook

The political instability that prevailed due to the Presidential Election in late 2019 and the General Election in 2020 has been resolved. The country now has a new leader and a parliament with majority 2/3rd power which denotes a steady political structure.

However, during the first quarter of 2020, the first wave of the Covid-19

spread across the country and was successfully controlled. The country was under lockdown during that period and therefore had a severe impact on the economy. At the end of the third quarter the second wave of the Covid-19 began, which seems to be affecting many parts of the country with growing number of cases and deaths been detected.

Based on the statistics given by the Central Bank of Sri Lanka, real GDP grew by 1.5% in the third quarter of 2020. The agriculture sector contributed 4.3%, the industrial sector 0.6% and the services sector 2.1% to the GDP growth in the third quarter of 2020. Unemployment rose to 5.8% in the third quarter of 2020 from 4.8% in 2019. The NCPI's core inflation in November 2020 was 4.5 percent, reflecting the underlying inflation in the economy. Meanwhile, the average annual NCPI core inflation for November 2020 was 4.2 percent. In October 2020, the deficit in the trade account narrowed to US dollars 514 million from US dollars 838 million in October 2019. The considerable reduction in the trade deficit in October 2020 was due to the decline in import expenditure by 24.9 percent (year-on-year). Earnings from tourism in January to October recorded a decline of 66.1 percent (year-on-year) reflecting partly the impact of the Covid-19 pandemic situation.

Despite many industries such as tourism, construction and entertainment being affected due to the pandemic the Colombo Stock Exchange had a boom towards end of the calendar year surpassing the daily turnover of LKR 10.0 billion. The government budget for FY2021 indicates many reliefs to the local industries and production which has resulted in demand for local manufacturing company stocks. The appointment of cabinet ministries

to support such industries denotes the way forward of the country and its vision. With political unrest being curtailed coupled with expansion in local industries a steady growth could be expected, However many essential areas such as education and industries such as tourism and foreign worker remittances will continue to be affected during 2021. In the meantime the ban on non-essential goods will have an impact on trading activities while restrictions on vehicle imports will highly impact the local finance companies. Though the concessions provided by the regulator on statutory reserves and low interest regimes seems a positive move, less activates in local markets will impact the turnover of the financial products. While vehicle registrations have declined by more than 75% there is less demand for new leasing business. While the interest rates on deposits are coming down, the public will try out alternate investment opportunities.

### Risk Management at Siyapatha Finance PLC

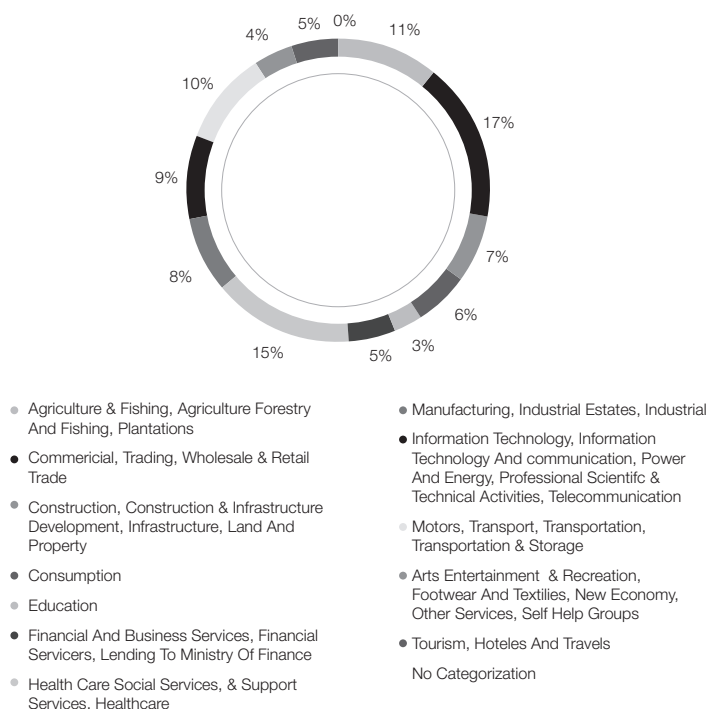
At Siyapatha Finance PLC, risk management is developed alongside the strategic concepts to ensure the growth is balanced with respective controls and monitoring. Risk Management is considered to be of utmost importance since it forms an integral part of policy formulation and business sustainability.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

The Company's objective is to strengthen the going concern of the entity by adding maximum sustainable value to all activities by considering the potential

vulnerabilities of all the factors that can adversely affect the Business operation of the Company.

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

During the challenging environment of FY2020, the Company managed to control the credit risk impact with continuous monitoring and a robust action plan on recovery. The escalating credit risk was a concern for the Company which was common in the industry and was controlled with the appointment of segregated teams to monitor the tickets. We were able to identify the affected segments in the portfolio and take action accordingly to prevent any adverse impact to the Company.



When perusing the industry composition of the leasing portfolio of the Company, it was noted that ~ 17% of the portfolio consisted of affected industries such as tourism, construction transport and entertainment. A significant part of the Company's portfolio consisted of positive industries such as trading, agriculture, health and education. Others were having mixed variations of impact but the outcome of recovery was positive. With the restrictions on recovery actions by the regulator, finance companies were facing lesser opportunities for a proper action plan on managing credit risk. The moratorium declared by the government during April 2020 and September 2020 had a further impact on credit risk management. However, activities were at more controllable

## Managing Risk

stage by the end of the year creating a positive vibe and the infection ratio too was at a satisfactory stage by year end. The Company has incorporated stringent credit risk management plans in its strategic plan and is hoping to carry out these plans with close monitoring and review.

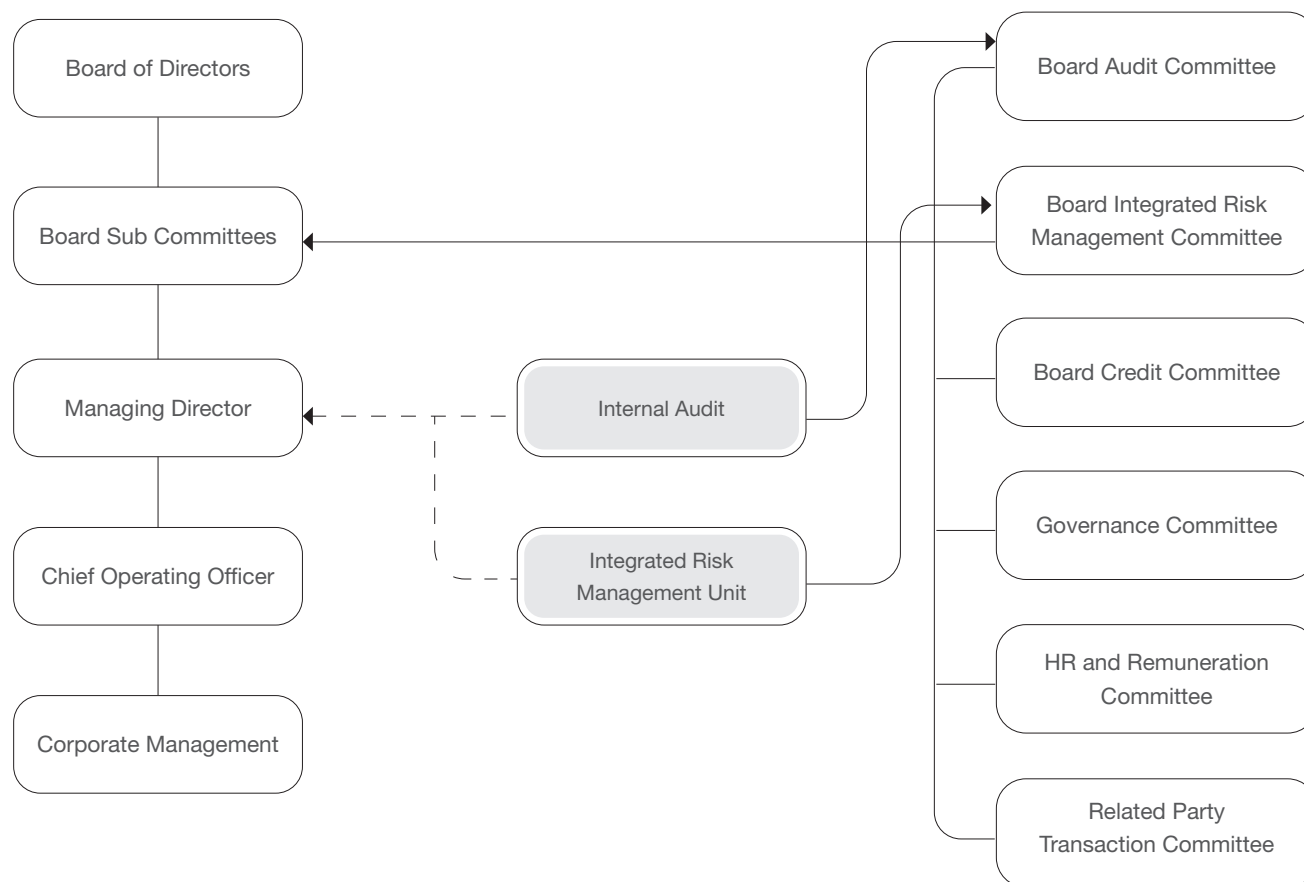
In addition to credit risk monitoring, the Company also takes precautionary action on managing Market, operational, legal, compliance and reputational risks. R & CSA process was introduced during the year 2020 and is now implemented across the Company. In addition the risk grid and tolerance limits were redefined to suit the present market conditions and monitoring,

The Operational Risk Management framework describes the approach to operational risk management followed by Siyapatha Finance PLC. The purpose of this document

is to establish an explicit operational risk management process that results in the identification, assessment and/or measurement, monitoring and control/mitigation of operational risk including Information Technology (IT) risk which is associated with the use and operation of information technology.

### Risk management Framework

#### Risk Governance Structure of Siyapatha Finance PLC





The directive for risk management is descending from the Board of Directors which has a strategic view for risk management activities of the Company. They are responsible for upholding of far-sighted risk management mechanisms and orderly implementation of the risk framework in the Company. The Board approves the policies, strategies and systems and operational approach for risk management. The Board Integrated Risk Management Committee (BIRMC) and the corporate management of the Company carry out the efficient implementation of the risk management function in the Company.

#### Board Integrated Risk Management Committee (BIRMC)

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

#### Risk Management Department (RMD)

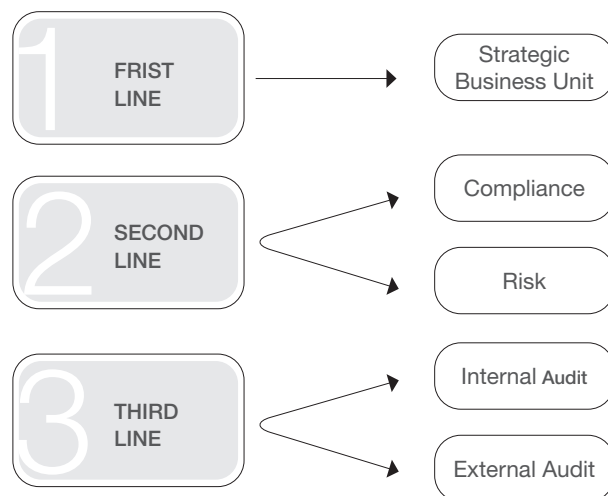
The Company's Risk Management function operates independently from the risk assuming business Functions. RMD is accountable for carrying out the overall risk management function of the Company at operational levels.

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

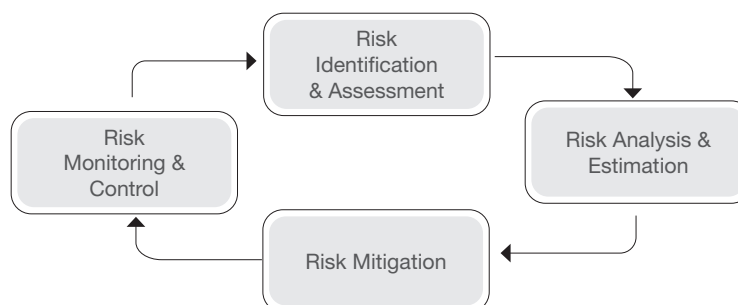
#### Approach to Risk Management

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

#### Three Lines of Defense at Siyapatha Finance PLC



#### Risk Management Principles



## Managing Risk

### Risk Identification and assessment

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

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

### Risk Analysis & Estimation

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

#### a) Risk appetite

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

#### b) Stress testing

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

early detection of market impacts to the portfolio and adopt risk mitigation action.

### Risk Mitigation

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

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

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

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

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

### Control and Monitoring

#### Key Risk Indicators (KRIs)

Key Risk Indicators (KRIs) are critical reflectors of undesirable events or thresholds that can have an impact on the company. Monitoring the impact of changes in the key factors that affects on the company's performance is done through the KRI which thus forms the early warning signs for the Company. The key risk indicators for all the key risks are formulated based on identified key areas which are reviewed and analyzed frequently and monitored.

#### Risk appetite and Tolerance limits

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

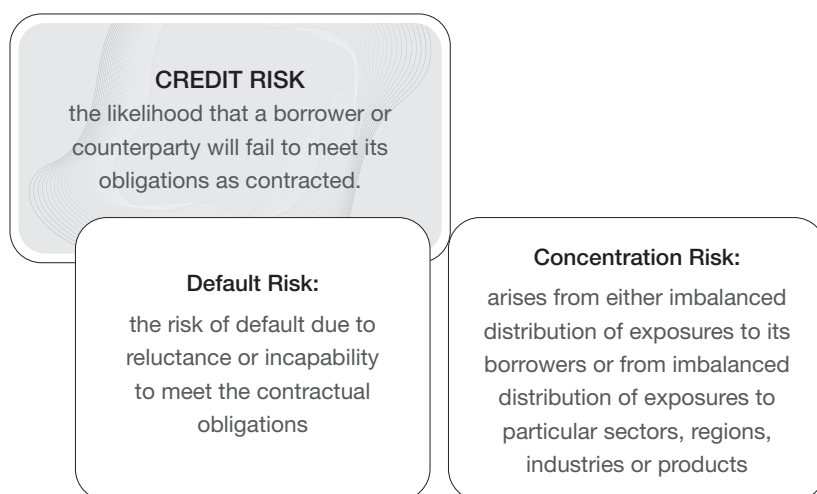
Tolerance limits are quantitative indicators of the highest amount of risk the company is geared to accept. Risk tolerances are set at the overall enterprise level to capture all key areas especially credit and funding. Real levels of risk undertaken are monitored and compared against the established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

## Managing key risks faced by the Company

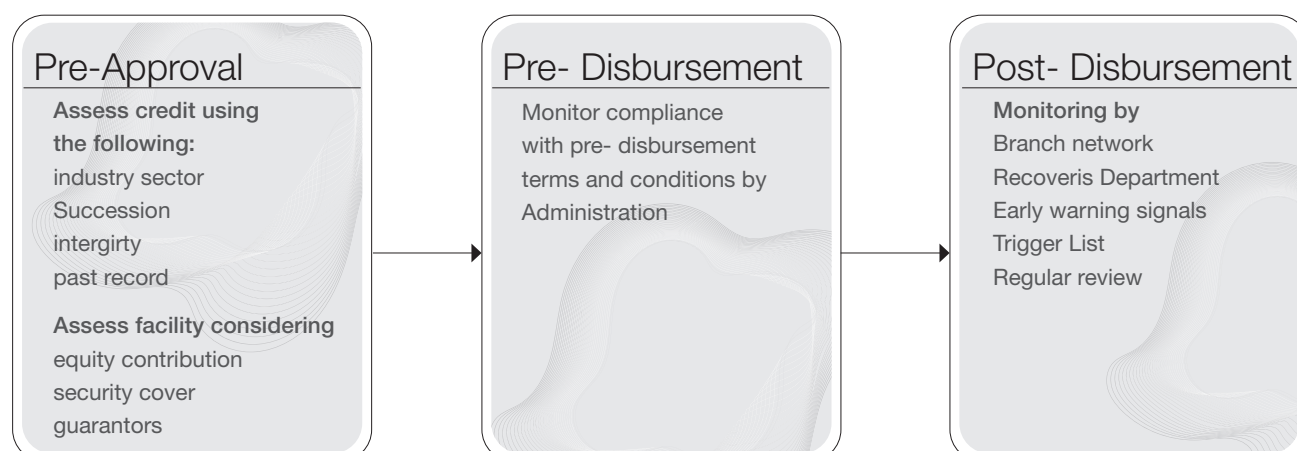
### Credit Risk

#### Identification and assessment

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



The credit risk assessment process throughout the lifecycle of the loan is graphically given below.



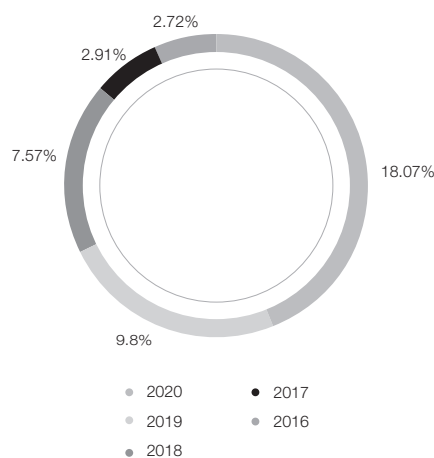
## Managing Risk

### Control and Monitoring

#### a) Asset quality

The product portfolio of the Company consists of finance leases, hire purchase facilities, and loans, gold financing and factoring. The market segments to which the company caters mainly consist of salaried individuals and small and medium sized enterprises. Segregation of the credit sanctioning process is a key risk management tool and authority is granted based on the type of the facility, exposure and security as well.

#### Gross NPA Movement



#### Stress testing on NPA

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

impact to provisioning with respect to NPA. NPA levels have mainly increase due to defaults in factoring product, which is now contained.

#### b) Concentration

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

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

#### KRI for Concentration

##### Tolerance limit Portfolio concentration

Limits are reviewed based on market trends and strategic direction

##### Asset concentration

Limits are reviewed based on market trends and macro environment. Concentrations pertaining to industry wise and geographical segments are monitored for action and behavior. Warnings are identified when tolerance limits are breached and controls are imposed to ensure adherence according to the risk appetite of the company.

### Branch concentration

Limits are reviewed based on the performance and maturity of the branch. Branch wise asset movement with special reference to the delinquency is monitored and discussed periodically to control the credit risk. High risk branches are identified are sensitized at BIRMC level too for close monitoring.

### Interest Rate Risk

#### Identification and assessment

**Interest Rate Risk:**  
the risk that arises from the fluctuation of interest rates

Potential impacts on earnings, valuation of assets, cost of borrowings

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

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

Stress testing is carried out on to assess the impact of different interest rate scenarios to the net interest position and the re-pricing cycles of interest sensitive assets and liabilities. Simulations to the

interest rates is done to assess potential impact on the Company's profitability resulting from alternative interest rate scenarios.

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

### Control and Monitoring

#### Volatile Liability Dependency Ratio

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

#### KRI for Interest Rate Risk

##### Tolerance limit

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

Further ALCO closely monitors the movements in interest rate and review the interest rate structures within

the company for both lending and borrowings. Accordingly the committee issues directions on the adjustments to be done to the interest rates required.

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

### Liquidity and Funding Risk Identification and assessment

**Liquidity Risk:**  
an institution's incapability to meet its financial commitments

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

Liquidity risk refers to an institution's incapability to meet its financial commitment which would ultimately have an impact on the Company's stability. Thus having a strong system to identify funding requirements of the Company to ensure that funds are available at required time at the right price is a concept that Siyapatha believes in. A main element of liquidity risk management at Siyapatha is observing and evaluating the firm's present and potential fund requirement including debt obligations and planning for contingencies stemming from all possible scenarios.

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

### Control and Monitoring

#### Volatile Liability Dependency Ratio (maturity)

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

### Operational Risk

*"operational risk is known as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes IT risk and legal risk, but excludes strategic and reputational risk"*

## Managing Risk

### Identification and assessment

**Operational Risk:**  
risk of losses resulting due to errors, breaches, interruption or damages

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

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

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

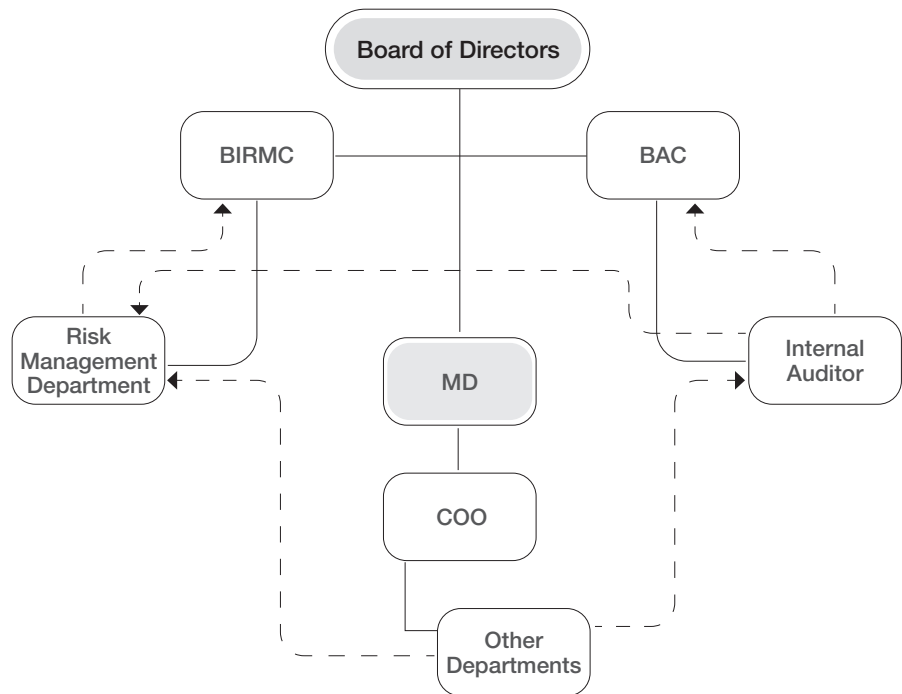
### Control and monitoring

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

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

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

### Reporting Structure for operational risk management within the organizational structure





## Operational Risk Assessment

- The operational risk shall be assessed from two perspectives.

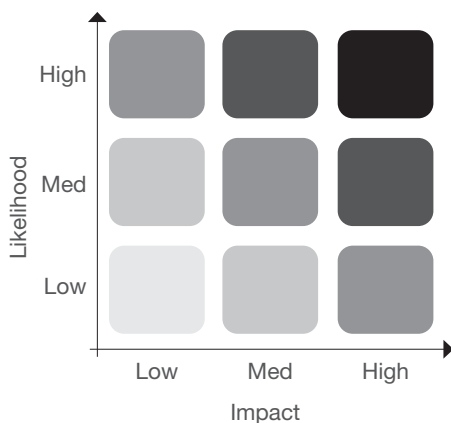
### 1. Likelihood of Risk and

### 2. Possible Impact of Risk if it materializes

- Likelihood represents the possibility that a given event will occur, while the impact represents its effect should it occur.
- Under this approach the identified risks are rated for their likelihood and the impact and plotted in a 2D graph. So the actual risk to the company is calculated by multiplying the likelihood by the impact.

$$\text{Likelihood} \times \text{Impact} = \text{Risk}$$

- Based on the past data the activities are rated as high risk, medium risk and low risk so that necessary actions can be taken accordingly



- High Risk
- Medium Risk
- Low Risk

## People/ Conduct Risk

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

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

### Identification and assessment

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

### Control and monitoring

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

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

## Technology Risk

**Technology Risk:**  
any potential for technology failures to disrupt business such as information security incidents or service outages

Arises from the use, ownership, operation, involvement, influence and adoption of IT within an organization.

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

### Identification and assessment

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

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



## Managing Risk

### Control and monitoring

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

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

### Compliance and Legal Risk

#### Compliance Risk:

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

### Identification and assessment

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

### Control and monitoring

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

All non-compliances are reported to the Committee and the Board directly. Compliance department disseminate regulatory directives through internal circulars based on the requirements.

### Strategic Risk

#### Strategic Risk:

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

### Identification and assessment

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

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

### Control and monitoring

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

### Reputational Risk

#### Reputational Risk:

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

### Identification and assessment

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

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

### Control and monitoring

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

# Committee Reports

## Board Audit Committee Report

The Board Audit Committee (the Committee) is appointed by the Board of Directors of Siyapatha Finance PLC (the Company). The Committee comprises of four Independent, Non-Executive Directors who conducted Committee proceedings in accordance with the Terms of Reference approved by the Board of Directors of the Company.

### COMPOSITION

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. M.D.B. Boyagoda - Chairman  
(Appointed as Member w.e.f. 28.04.2020 and appointed as the Chairman w.e.f. 01.06.2020)

Mr. P. S. Cumaratunga - Member  
(served as the Chairman until 31.05.2020 and continued to be a Member of the Committee)

Mr. J. H. Gunawardena - Member

Ms. H.S.R. Ranatunga - Member  
(Appointed on 23.04.2020)

Mr. W. M. P. L. De Alwis - Member  
(Retired w.e.f. 24.02.2020)

Brief profiles of the members are given on pages 28 to 33 of the Annual Report.

The Chairman of the Committee, is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, an Associate Member of the Chartered Institute of Management Accountants of UK (CIMA-UK) and the Chartered Global Management Accountants (CGMA). He graduated from the University of Sri Jayawardenepura, Sri Lanka with a Degree in BSc. Business Administration specialized in Finance.

### MEETINGS

The Committee met on eleven (11) occasions during the year 2020. Details of attendance of the Committee members at these meetings are given in the table on page 68 of the Annual Report. The Head of Finance and the Head of Internal Audit normally attend meetings. Other Board members and the Managing Director may also attend meetings upon the invitation of the Committee.

Two (02) meetings were held between the Committee and the External Auditors during the year, without members of the Executive Management being present.

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

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

### THE TERMS OF REFERENCE

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

### FUNCTIONS OF THE COMMITTEE

The Committee assists the Board of Directors to effectively carry out its supervisory responsibilities by reviewing accounting and financial information of the Company, in order to monitor the integrity of its annual and Quarterly

financial statements, Annual Reports, Management Accounts and other periodical reports prepared for disclosure and the critical accounting estimates and judgments they contain.

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

### REGULATORY COMPLIANCE

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

### ROLES AND RESPONSIBILITIES

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

# Committee Reports

## Board Audit Committee Report

### Financial Reporting

a) To review quarterly, half-year and annual financial statements before submission to the Board, focusing particularly on:

- (i) Any changes in accounting policies and practices.
- (ii) Major judgmental areas and significant estimates.
- (iii) Significant adjustments resulting from the audit.
- (iv) The going concern assumption.
- (v) Compliance with accounting standards.
- (vi) Compliance with legal requirements applicable to financial reporting.
- (vii) Approve and recommend the financial statements to the Board of Directors.

### External Audit

- a) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes, the audit fee, service period and any questions of resignation or dismissal.
- b) To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable regulations, corporate governance principles and/or best practices.
- c) To discuss with the External Auditor before the audit commences the nature and scope of the audit and ensure coordination where more than one audit firm is involved.
- d) To review the External Auditor's Management Letter and the responses provided by the Management.

- e) To develop and implement a policy with the approval of the Board, on the engagement of an External Auditor to provide non-audit services permitted under the statutes, regulations, requirements and guidelines. The Committee shall ensure that provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity.
- f) To discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of the Management where necessary);

### Internal Audit

- a) To take the following steps with regard to internal audit function of the Company.
  - i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work.
  - ii. Review the internal audit programs and results of the internal audit process.
  - iii. Review any appraisal or assessment of the performance of the Head and senior staff members of the Internal Audit Department.
  - iv. Recommend any appointment or termination of the Head, senior staff members and outsourced service providers to the internal audit function.
  - v. Ensure that the Committee is apprised of the resignation of senior staff members of the Internal Audit Department

including the Head of Internal Audit and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning.

- vi. Ensure that the internal audit function is independent of the activities it audits and it is performed with impartiality, proficiency and due professional care.
- b) To review the Company's statement on internal control systems prior to endorsement by the Board, and to make sure of the adequacy and effectiveness of the internal control systems in the Company.
- c) To review the internal audit program, comment on the audit findings, recommend appropriate action, ensure coordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.
- d) To consider the major findings of internal investigations and relevant responses provided by the Management.
- e) To review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee shall ensure that proper arrangements are in place for fair and independent investigation of such matters.
- f) To consider other areas as delegated by the Board.

## Committee Reports

### REPRESENTATION BY EXTERNAL AUDITORS

As per the CBSL guidelines, the Company's Audit Partner, representing Messrs. Ernst & Young attended certain meetings in his capacity and has expressed an opinion on whether the Company's financial statements give a true and fair view over the financial position, financial performance and cash flows of the Company.

### WHISTLE BLOWING

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

### REPORTING TO THE BOARD

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

### PROFESSIONAL ADVICE

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

### APPRECIATION

The Committee wishes to thank Mr. W.M.P.L.De Alwis who served on the Committee until 24th February 2020 for the valuable contribution towards the betterment of the Company.

On behalf of the Board Audit Committee



**M.D.B. Boyagoda**  
Chairman – Board Audit Committee

23rd February 2021

## Committee Reports

### Board Human Resource and Remuneration Committee Report

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

The Committee consists of three (03) Independent, Non-Executive Directors and one Non-Independent, Non-Executive Director. The Committee is chaired by an Independent, Non-Executive Director appointed by the Board who is a Chartered Management Accountant, a Certified Practising Accountant and a member of the Chartered Institute of Marketing.

#### COMPOSITION

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. P.S. Cumaranatunga (ID/NED) - Chairman

Ms. H.S.R. Ranatunga (ID/NED) - Member (Appointed on 12.02.2020)

Mr. D. Sooriaarachchi (NID/NED) - Member (Appointed on 01.01.2020)

Mr. C. P. Palansuriya (NID/NED) - Member (Resigned on 31.01.2020)

ID – Independent Director, NID – Non-Independent Director, NED – Non-Executive Director

Brief profiles of the members are given on pages 28 to 33 of the Annual Report.

#### MEETINGS

The Committee had three (03) meetings during the year 2020 and the attendance of the Committee members at these meetings are given in the table on page 68 of the Annual Report. The Managing Director (MD) and other members of Corporate Management attend meetings by invitation on a need basis and assist in the Committee's deliberations by providing relevant information except when their own compensation packages or other matters relating to them are reviewed.

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

#### THE TERMS OF REFERENCE

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

#### FUNCTIONS OF THE COMMITTEE

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

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

The Committee would act in the best interest of the employees, bringing about synergy of teamwork. The Company believes that this staff could be groomed

to take increased responsibility through necessary training and skills development and be promoted to the next level.

#### REGULATORY COMPLIANCE

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

#### ROLES AND RESPONSIBILITIES

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

- a) The Committee shall determine the remuneration and incentive framework including any equity incentive awards, terminal benefits/ pension rights relating to the Managing Director (MD)/Chief Executive Officer (CEO) and any other Executive Directors and the Key Management Personnel. The aggregate remuneration paid to the Directors from 1st January 2020 to 31st December 2020, is set out on page 187 of the Annual Report.
- b) The Committee shall periodically evaluate the performance of the MD/ CEO and Key Management Personnel (KMP) against set targets and goals and determine the basis for revising remuneration, benefits and other payments of performance based incentives.
- c) The Committee shall advise the MD/ CEO of the Company regarding all aspects of HR functions including the revision of salaries of staff and of any major organizational changes needed for the Company and succession planning.

- d) The Committee shall consider any other areas and enlarge its scope of review or do so, if in the Board's view, it is desirable to do so.

#### **REPORTING TO THE BOARD**

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

#### **PROFESSIONAL ADVICE**

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

#### **APPRECIATION**

The Committee wishes to thank Mr. C.P. Palansuriya who served on the Committee until 31st January 2020 for his valuable contributions towards the betterment of the Company.

On behalf of the Board Human Resources and Remuneration Committee



**P. S. Cumararatunga**

Chairman – Board Human Resources and Remuneration Committee

23rd February 2021

## Committee Reports

### Board Integrated Risk Management Committee Report

The Board of Directors of Siyapatha Finance PLC has appointed the Board Integrated Risk Management Committee (the Committee) to assist the Board in setting risk strategies, policies, frameworks and procedures in liaison with the Key Management Personnel and in the discharge of its duties relating to corporate accountability and associated risk in terms of management assurance and reporting. The Committee reviews the Key Risk Indicators using the risk grid, which is derived out of parameters determined as per the Integrated Risk Management Policy of the company. Special attention was drawn with the escalating impact on internal and external environment arising out of the Covid 19 pandemic and its repercussion on the company portfolio.

#### COMPOSITION

The Committee comprises of three (03) Independent, Non-Executive Directors, one (01) Non-Independent, Non-Executive Director and the Managing Director of the Company. In compliance with Section 8(1) and 8(3) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, issued by the Monetary Board of the Central Bank of Sri Lanka. Managing Director / Chief Executive Officer (MD/CEO) and number of Key Management Personnel supervising Broad risk categories, i.e., Credit, Market, Liquidity, Operational and Strategic risks serves on the Committee.

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. J. H Gunawardena (ID/NED) - Chairman  
(Appointed as Chairman on 28.04.2020)

Mr. W. M. P. L. De Alwis (ID/NED) - Chairman  
(Retired w.e.f. 24.02.2020)

Mr. P.S. Cumararatunga (ID/NED) - Member

Mr. J. Selvaratnam (NID/NED) - Member

Mr. H.M.A. Seneviratne(ED) - Managing Director/Member

Mr. M.D.B. Boyagoda (ID/NED) - Member  
(Appointed on 28.04.2020)

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

#### Members of the Management

Mr. R. De Silva  
Chief Operating Officer

Mr. I. Liyanage  
Head of Risk

Ms. M. Rajakaruna  
Head of Compliance

Mr. R. Wanniarachchi  
Head of Finance

Mr. S. De Silva  
Head of Credit Risk

Mr. S. Seneviratne  
Head of Treasury

#### MEETINGS

During the year the Committee had six (06) meetings. The attendance of the Committee members is listed on page 68 of the Annual Report.

#### ACTIVITIES

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

#### Strengthening Policy Framework

- Reviewed the Risk Management Policy updating operational and regulatory environmental changes and recommended for approval of the Board.
- Risk & Control Self Assessment Policy framework was introduced and implemented in the Company during the year under review to manage operational risk.
- ALM policy was reviewed in line with the new strategies introduced by the Company and to manage liquidity issues.

#### Regulatory and Compliance Risk

- Reviewed the capital plan of the Company in the context of the regulatory framework and recommended it along with a proposal for a debenture issue to address Tier II capital requirement, for the approval of the Board.
- High level independent standards were implemented for monitoring compliance risk to ensure regulatory adherence.
- Close follow up and contingency planning with periodical cash flow management were carried out during the early days of the pandemic in the island.

#### Credit Risk

- Reviewed the quarterly progress of identified asset categories with high Non-Performing Asset (NPAs) ratios for consistent improvement in asset quality.



- Facilities channeled through the Credit Risk Department were reviewed to evaluate justification for approval of facilities flagged down by Credit Risk.
- Segmental monitoring was enhanced by way of introducing industry specific monitoring and geographical monitoring of the portfolio.

#### ROLES AND RESPONSIBILITIES

- The approved Terms of Reference of the Committee stipulates authority, structure, responsibilities and tasks of the Committee. Accordingly, the primary responsibilities of the Committee include,
  - i. Assessing all risks such as credit, market, liquidity, operational and strategic risks of the Company on a quarterly basis through appropriate risk indicators and management information.
  - ii. Reviewing the adequacy and effectiveness of the Assets and Liability Committee (ALCO) to address specific risks and manage those risks within quantitative and qualitative risk limits specified by the Committee.
  - iii. Taking prompt corrective action to mitigate the effects of specific risks in case such risks are at levels beyond the prudent levels determined by the Committee based on the Company's policies and regulatory and supervisory requirements.
  - iv. Meeting at least quarterly to assess all aspects of risk management including the updated Business Continuity Plan.

- v. Taking appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective measures as recommended by the Committee and/or as directed by the Central Bank Corporate Governance Directions.

- vi. Approving in principle all policies relating to risk management and recommending them for the approval of the Board.

- vii. Establishing a protective risk management culture within the Company by using Risk Management framework of the Company.

- viii. Periodically reviewing the risk exposures of the Company to be in line with its risk and business strategies and objectives.

- ix. Engaging external and independent reviews for the validation of risk measurement, methodology and outputs.

- x. Submit a risk trajectory report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.

- xi. Establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations.

- xii. Appoint a dedicated compliance officer selected from Key Management Personnel to carry out the compliance function and report to the Committee periodically

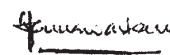
- xiii. In addition to the above, the Committee may perform such other functions which are necessary or appropriate for the discharge of its duties.

#### REPORTING TO THE BOARD

The approved minutes of the Committee meetings are tabled at Board meetings, for seeking the Board views and specific directions.

#### APPRECIATION

On behalf of the Board Integrated Risk Management Committee



**J.H. Gunawardena**  
Chairman

Board Integrated Risk Management Committee

23rd February 2021

## Committee Reports

### Board Related Party Transactions Review Committee Report

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

#### COMPOSITION

The Committee comprises of three (03) Independent Non-Executive Directors, two (02) Non-Independent Non-Executive Director and an Executive Director.

The composition of the Committee is in compliance with the section 9.2.2 of the Listing Rules of the Colombo Stock Exchange and provisions of the Board Related Party Transactions Review Committee.

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. J.H. Gunawardene (ID/NED)  
- Chairman (Appointed on 12.02.2020)

Mr. H.M.A. Seneviratne (ED) - Member

Mr. J. Selvaratnam (NID/NED) - Member

Mr. M.D.B. Boyagoda (ID/NED) - Member  
(Appointed on 01.06.2020)

Ms. H.S.R. Ranatunga (ID/NED)  
- Member (Appointed on 12.02.2020)

Mr. D. Sooriyaarachchi (NID/NED)  
- Member (Appointed on 01.06.2020)

Mr. P.S. Cumararatunga (ID/NE)  
- Chairman until 11.02.2020 and resigned from the Committee w.e.f. 12.02.2020)

Mr. W.M.P.L. D Alwis (ID/NED)  
- Member (Retired w.e.f. 24.02.2020)

NID - Non Independent Director, ID  
- Independent Director, NED - Non  
Executive Director and ED - Executive  
Director

The above composition is in compliance with the provisions of the rules regarding the composition of the Board Related Party Transactions Review Committee. Brief profiles of the members are given on pages 28 to 33 of the Annual Report. The Group Company Secretary functions as the Secretary to the Board Related Party Transactions Review Committee.

#### MEETINGS

During 2020, the Committee had four (04) meetings. Attendance of each Committee member at each of the said meetings is given in page 68 of the Annual Report.

#### TERMS OF REFERENCE

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

#### ROLE AND RESPONSIBILITIES

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

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

#### REVIEW FUNCTIONS OF THE COMMITTEE

Review of the relevant RPTs by the Committee takes place quarterly and the Committee communicates its observations to the Board whenever necessary. RPTs are published in Note 45 to the Financial Statements. An in-house developed software is available for identification of RPTs and the relevant information captured is fed into the Company's data collection system. The system is updated based on information obtained from the Secretariat Department, Human Resources Department and the Finance Department of the Company and that of Sampath Bank PLC, on a quarterly basis.

**REPORTING TO THE BOARD**

Approved minutes of the Committee meetings are tabled at the Board, for Board's view and specific direction.

**APPRECIATION**

The Committee wishes to thank Mr. W.M.P.L. De Alwis and Mr. P.S. Cumaranatunga who served on the Committee until 24th February 2020 and 11th February 2020 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Related Party  
Transactions Review Committee



**J.H. Gunawardena**

Chairman - Board Related Party  
Transactions Review Committee

23rd February 2021

## Committee Reports

### Board Nomination Committee Report

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

#### COMPOSITION

The Committee consists of three (03) Independent, Non-Executive Directors and one (01) Non-Independent, Non-Executive Director. The Committee is chaired by an Independent, Non-Executive Director appointed by the Board.

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. P.S. Cumaranatunga (ID/NED)  
- Chairman (Appointed on 01.01.2020)

Mr. J. H. Gunawardena (ID/NED)  
- Member

Mr. D. Sooriyaarachchi (NID/NED)  
- Member (Appointed on 01.01.2020)

Dr. H.S.D. Soysa (ID/NED)  
- Retired on 01.01.2020 - served as Chairman until 31.12.2019

Mr. C. P. Palansuriya (NID/NED)  
- Member (Resigned on 31.01.2020)

Mr. W. M. P. L. De Alwis (ID/NED)  
- Member (Retired w.e.f. 24.02.2020)

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

Brief profiles of the members are given on pages 28 to 33 of the Annual Report.

#### MEETINGS

During year 2020, the Committee held four (04) meetings and the attendance of the Committee members at these meetings are given in the table on page 68 of the Annual Report. The Managing Director attends by invitation except when matters relating to him are reviewed.

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

#### THE TERMS OF REFERENCE

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

#### FUNCTIONS OF THE COMMITTEE

The Board of Directors has entrusted to the Committee, the tasks of annual assessment of the Board's composition against predefined criteria of skill and knowledge to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company and the number of directorships of listed company boards on which a Director serves.

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

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

#### ROLES AND RESPONSIBILITIES

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

- The Committee should make recommendations to the Board on appointments considering skills, knowledge, expertise and experience the Board requires in comparison to the current industry environment.
- The Committee should recommend succession planning for Directors resigning, relinquishing their positions or retiring.
- The Committee is accountable for making recommendations, after review, to reappoint Non-Executive Directors annually as recommended by guidelines issued by the Central Bank of Sri Lanka and when they are due for reappointment in accordance with the Articles of Association of the Company.
- The Committee shall ensure that the Directors, the Managing Director and the Key Management Personnel (KMPs) are fit and proper persons to hold office in compliance with the regulatory and statutory provisions.
- The Committee sets criteria including qualifications, experience and key attributes required for eligibility to be considered for appointments or promotions to the posts of Managing Director and other KMPs.
- The Committee carefully reviews management progression and succession planning for KMPs.
- The Committee is also responsible for recommending to the Board of Directors, with regard to the positions

of Managing Director and KMPs as and when vacancies occur.

- h) The Committee makes recommendations to any other matter delegated to it by the Board of Directors.

#### **PERFORMANCE**

The members of the Committee work closely with the Board, in reviewing the structure and skills needed for a strong and successful organization. During the year under review, the Committee has recommended three (03) Directors, which recommendations and the Board accepted.

#### **REPORTING TO THE BOARD**

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

#### **PROFESSIONAL ADVICE**

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

#### **APPRECIATION**

The Committee wishes to thank Dr. H.S.D. Soysa, Mr. C.P. Palansuriya and Mr. W.M.P.L. De Alwis who served on the Committee until 31st December 2019, 31st January 2020 and 24th February 2020, respectively for their valuable contributions towards the betterment of the Company.

On behalf of the Board Nomination Committee



**P.S. Cumaranatunga**

Chairman – Board Nomination Committee

23rd February 2021

# Committee Reports

## Board Credit Committee Report

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

### COMPOSITION

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. J. Selvaratnam (NID/NED) -  
Chairman (Appointed w.e.f. 01.01.2020)

Mr. H.M.A. Seneviratne (ED) - Member

Ms. H.S.R. Ranatunga (ID/NED) - Member  
(Appointed w.e.f. 28.01.2020)

Mr. W.S.C. Perera (ID/NED) - Member  
(Appointed w.e.f. 28.01.2020)

Dr. H.S.D. Soysa (ID/NED) -  
Chairman (Served as the Chairman until  
31.12.2020 and retired w.e.f. 01.01.2020)

Mr. C.P. Palansuriya (NID/NED) -  
Member (Resigned w.e.f. 31.01.2020)

Mr. L.T. Ranwala (NID/NED) - Member  
(Resigned w.e.f. 01.04.2020)

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

### MEETINGS

During the year, the Committee met on twelve (12) occasions. The attendance of the Committee members is listed on

page 68 of the Annual Report. Meetings were held once a month and additional meetings were called for when deemed necessary. Given the challenges posed by the pandemic a majority of the meetings were held via the web. The Chairman of the Committee in consultation with the Group Company Secretary scheduled meetings and the Group Company Secretary is the Secretary to the Committee. The Committee approves credit proposals by circulation depending on the urgency. In such an instances consent of the majority of the members is mandatory.

### ACTIVITIES

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

#### Credit Evaluation & Approval Process

- Client Selection Criteria, Credit Risk Grading and Credit Process were reviewed and recommendations implemented.
- Re-assessed the delegated authority limits in line with the economic environment.
- Ensured that sufficient credit training sessions were provided within the branch network.
- Focused effort to improve credit quality and the infection rate was made a priority.

#### Strengthening Collections & Recoveries

- Stringent monitoring on the overall progress of collections given the challenges created by the pandemic was a primary focus area for the committee.

- Overlooked the re-organization of the recoveries department.
- Re-evaluated the strategy and the management of the yard
- The Committee closely followed up the progress of non-performing facilities in order to strengthen the recovery & re-structure process, and where necessary the institution of legal action.
- Initiated measures to strengthen & re-organize the legal department.
- Stressed / Watch listed portfolio clients were monitored on a regular basis.

### ROLES AND RESPONSIBILITIES

The Committee shall oversee the credit management process of the Company, including reviewing internal credit policies and establishing portfolio limits.

The Committee shall review the quality and performance of the Company's credit portfolio, specifically the non-performing loans & collection efficiencies. Monitor the progress of the yard vehicle, missing vehicle movements & recommend write-offs to the Board of Directors.

The Committee shall maintain an appropriate credit administration, measuring and monitoring process through reviewing credit approval framework and assign credit delegated limits and single borrower limits in line with the Company's Credit Policy.

The Committee shall conduct a proper evaluation of new business opportunities by ensuring all new credit risk related products are reviewed from a credit risk management perspective.

## Committee Reports

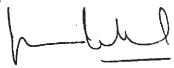
### REPORTING TO THE BOARD

The Minutes of the Committee meetings are tabled at Board meetings, enabling all Board members to have access to them with necessary briefings provided by the Chairman as and when required.

### APPRECIATION

The Committee wishes to thank Dr. H.S.D. Soysa, Mr. C.P. Palansuriya, and Mr. L.T. Ranwala who served on the Committee until 31st December 2019, 31st January 2020, 31st March 2020 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Credit Committee



**J. Selvaratnam**

Chairman - Board Credit Committee

23rd February 2021



## Committee Reports

### Board Corporate Governance Committee Report

#### COMPOSITION

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

The Committee's composition during the period ended 31st December 2020 is as follows:

Ms. H.S.R. Ranatunga (ID/NED)  
- Chairperson (Appointed as Member on 12.02.2020 and as Chairperson on 01.12.2020)

Mr. J.H. Gunawardena (ID/NED)  
- Member (served as Chairman until 30.11.2020)

Mr. H.M.A. Seneviratne (ED - Member

Mr. J. Selvaratnam (NID/NED) - Member

Mr. M.D.B. Boyagoda (ID/NED) - Member  
(Appointed w.e.f. 01.06.2020)

Ms. P.S. Cumararatunga ID/NED -  
Member (Resigned from the Committee membership w.e.f. 12.02.2020)

Mr. W.M.P.L. De Alwis ID/NED - Member  
(Retired w.e.f. 24.02.2020)

NID – Non-Independent Director, ID  
- Independent Director, NED – Non-  
Executive Director and ED - Executive  
Director

#### STRATEGIC PLANNING PROCESS

The Strategic Planning Process aims to enhance the strategic structure with the

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

All members of the Corporate Management are expected to implement the strategic direction outlined by the Board and set comprehensible, measurable goals and targets.

Implementation and achievement of the sectional strategies are monitored by each department, with quarterly reviews being carried out to assess the effectiveness of the strategic plan.

#### CODE OF CONDUCT FOR EMPLOYEES

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

#### WHISTLE BLOWING POLICY

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

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

#### COMMUNICATION POLICY

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

#### GOVERNANCE STRUCTURE

##### BOARD OF DIRECTORS

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

The Board has standard and exceptional administrative powers to manage the activities of the Company in a way that would achieve its corporate aspiration. Further, as the highest governance body of the Company, it is expected to use its skill and expertise to determine the wider social, environmental and economic implications that may arise of all business decisions. The Board is therefore, the principal authority providing oversight to the Corporate Management team that directs and executes all operational functions within the Company. The Board of Directors meets the Key Management Personnel on a regular basis when a need arises to exercise appropriate oversight of the affairs of the finance company.

#### **BOARD MEETINGS**

The Board of Directors held 17 Board meetings during the 12 months period ending 31st December 2020, with Strategic Growth, Digitalization and Performance Optimization being some of the key topics of discussion. Meanwhile, the Board Sub Committees held a total of 51 meetings during the same period under review.

#### **BOARD SUB COMMITTEES**

To assist the Board in its supervisory role, a number of Board subcommittees have been appointed by the Board. As an integral component of the Company's Corporate Governance Framework, each Board subcommittee reports to the Board with detailed information on its activities. The Board subcommittee comprise of a combination of Board members and number of Key Management Personnel as required by the Terms of Reference of the respective Committee and as per the Regulator Guidelines.

Board subcommittee members are selected from a combination of Board

members, except in the instance of the Board Integrated Risk Management Committee.

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

The above Board Subcommittees come under the purview of the Board. The Board Subcommittees function in a supervisory capacity, overseeing the different Key Management Personnel (KMPs) under their purview. In this context, Head of Internal Audit reports to the Board Audit Committee whilst the Risk and Compliance was segregated into two divisions and the Head of Risk and the Head of Compliance report to the Board Integrated Risk Management Committee to ensure their independency and impartiality.

#### **GROUP COMPANY SECRETARY**

The Group Company Secretary is independent who acts as a conduit between the Board and the Company. The Group Company Secretary, whose primary responsibilities is to handle the secretariat services to the Board, shareholder meetings and accomplish other functions specified in the statutes and other regulations. Further, the Group

Company Secretary is responsible to liaison with the Registrar of Companies and other relevant regulators and advising the Board members as and when required.

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

#### **REPORTING TO THE BOARD**

The approved minutes of the Board Subcommittee meetings are tabled at Board meetings, for Board's views and specific directions.

#### **APPRECIATION**

The Committee wishes to thank Mr. W.M.P.L. De Alwis and Mr. P.S. Cumaranatunga who served on the Committee until 24th February 2020 and 11th February 2020 respectively, for their valuable contribution towards the betterment of the Company.

On behalf of the Board Corporate Governance Committee



**H.S.R. Ranatunga**  
Chairperson- Board Corporate Governance Committee

23rd February 2021

## Committee Reports

### Report of the Board IT Committee

The Board Information Technology (IT) Committee ('the Committee') was established on 24th April 2018 by the Board of Directors (the Board), to provide oversight to the adoption of Policies and execution of processes under the purview of the Company's IT strategies.

#### COMPOSITION

The Committee comprising of one (01) Independent, Non-Executive Director, two (02) Non-Independent, Non-Executive Directors and one (01) Executive Director. The Committee proceedings are conducted in accordance with the Terms of Reference approved by the Board. The Committee's composition may be determined by the Board from time to time. The Corporate Management members are invited to attend the Committee meetings if desired by the members of the Committee.

The Chairman of the Committee is Mr. S. Perera who holds Honours Degree in Engineering from the University of Moratuwa.

The Committee's composition during the period ended 31st December 2020 is as follows:

Mr. W.S.C. Perera - Chairman (Appointed on 28.01.2020)

Mr. P.S. Cumararatunga - Chairman until 27.01.2020 and resigned from the Committee w.e.f. 01.06.2020

Mr. D. Sooriyaarachchi - Member (Appointed on 01.06.2020)

Mr. H.M.A. Seneviratne - Member

Mr. M.D.B. Boyagoda - Member (Appointed on 01.06.2020)

Mr. W.M.P.L. De Alwis - Member (Retired w.e.f. 24.02.2020)

Mr. Y.S.H.R.S. Silva - Member (Resigned from the Committee w.e.f. 12.02.2020)

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

Brief profiles of the members are given on pages 28 to 33 of the Annual Report. The Group Company Secretary functions as the Secretary to the Board Information Technology Committee.

#### MEETINGS

During the year, the Committee had seven (07) meetings. The attendance of the members is listed on page 68 of the Annual Report. The Chairman of the Committee in consultation with the Group Company Secretary schedules the Committee meetings as and when necessary. The Group Company Secretary is the Secretary to the Committee.

#### ROLES AND RESPONSIBILITIES

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

- To review and recommend the Company's policies related to IT
- To review and recommend the Company's IT expenditure and budgets
- To review, monitor and advise on appropriate measures with regard to the IT security requirements and measures of the Company
- To align investments in technology to business needs and be competitive in the market
- To review the progress of the Digitalization Journey of the Company including service improvements and efficiencies driven by IT investment

- To review and manage projects to complete on time and get the best return to Company

#### ACTIVITIES

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

1. Ensure confidentiality, integrity and availability of information
2. Improve efficiency of operations and reduce manual processes
3. Develop and maintain cost effective information systems
4. Minimize the cost of delivery of services
5. Facilitate product innovation
6. Develop business partner eco system to design, develop and integrate IT systems for a seamless operation.

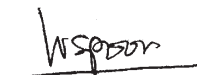
#### REPORTING TO THE BOARD

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

#### APPRECIATION

The Committee wishes to thank Mr. W. M. P. L. De Alwis who served on the Committee until 24th February 2020, for his valuable contribution towards the betterment of the Company

On behalf of the Board IT Committee



**W.S.C. Perera**  
Chairman - Board IT Committee

23rd February 2021

# Our Results

## FINANCIAL CALENDAR 2020

Audited Financial Statements for the year ended 31 December 2019 signed on	12 February 2020
Annual General Meeting held on	01 June 2020
Publication of half yearly Financial Statements (2nd half of year 2019) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	28 February 2020
Rs 1.95 per share Scrip Dividend for 2019 declared on	01 June 2020
Publication of half yearly Financial Statements (1st half of year 2020) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	21 August 2020
Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange to be published	
1st Quarter ended 31 March 2020	13 May 2020
2nd Quarter ended 30 June 2020	07 August 2020
3rd Quarter ended 30 September 2020	12 November 2020
4th Quarter ended 31 December 2020	24 February 2021

## PROPOSED FINANCIAL CALENDAR 2021

Audited Financial Statements for the year ended 31 December 2020 signed on	15 February 2021
Annual General Meeting to be held on	25 May 2021
Publication of half yearly Financial Statements (2nd half of year 2020) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	25 February 2021
Rs 1.37 per share Scrip Dividend for 2020 to be declared *	25 May 2021
Publication of half yearly Financial Statements (1st half of year 2021) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 31 August 2021
Publication of half yearly Financial Statements (2nd half of year 2021) (audited) as per the requirements of Central Bank of Sri Lanka in Sinhala, Tamil, & English Language	On or before 28 February 2022
Interim Financial Statements in terms of Rules 7.4 of the Colombo Stock Exchange to be published	
1st Quarter ended 31 March 2021	On or before 15 May 2021
2nd Quarter ended 30 June 2021	On or before 15 August 2021
3rd Quarter ended 30 September 2021	On or before 15 November 2021
4th Quarter ended 31 December 2021	On or before 28 February 2022

\*Subject to confirmation by Shareholders

# Annual Report of the Board of Directors on the Affairs of the Company

The Board of Directors of Siyapatha Finance PLC have pleasure in presenting its Annual Report on the State of Affairs of the Company, to the members of Siyapatha Finance PLC for the financial year ended 31st December 2020, together with the Audited Financial Statements of the Company, and the Auditors' Report on the said Financial Statements, conforming to the requirements of the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange. The Financial Statements reviewed and recommended by the Board Audit Committee were approved by the Board of Directors on 01st February 2021. The Report includes the information as required by the Companies Act No. 7 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) and the Listing Rules of the Colombo Stock Exchange and also guided by the Recommended Best Practices on Corporate Governance.

This report was approved by the Board of Directors on 11th May 2021.

The appropriate number of copies of the Annual Report will be submitted to the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Registrar of Companies, and the Securities and Exchange Commission of Sri Lanka within the statutory deadlines.

## GENERAL

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

Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015. The Company is the largest fully owned subsidiary of Sampath Bank PLC.

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

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

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

Information required to be disclosed	Reference to the Companies Act	Extent of compliance by the Company
I) The nature of the business of the Company, together with any change thereof during the accounting period.	Section 168 (1) (a)	Refer page 99
II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)	Refer pages 114 - 191
III) Auditor's Report on Financial Statements of the Company.	Section 168 (1) (c)	Refer pages 110- 113
IV) Any changes made to the accounting policies during the year under review.	Section 168 (1) (d)	Refer page 99
V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)	Refer page 105
VI) Remuneration and other benefits paid to Directors of the company during the period.	Section 168 (1) (f)	Refer pages 187-188
VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)	Refer page 105
VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)	Refer pages 102-103
IX) Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)	Refer page 106
X) Auditors' relationship or any interest with the Company	Section 168 (1) (j)	Refer page 106
XI) Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company	Section 168 (1) (k)	Refer page 106



## CORPORATE VALUES

The Company's vision, mission and values are provided on page 3 of the Annual Report. Business activities of the Company are conducted in an environment of high level of compliance while conforming to ethical practices.

## PRINCIPAL ACTIVITIES

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

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

## REVIEW OF OPERATIONS

A review of the financial and operational performance of the Company, together with significant events which took place during the year 2020 are stated in the Chairman's Message on pages 7 to 9 and Managing Director's Review on pages 10 to 13 and Management discussion and analysis on pages 14 to 23 which form an integral part of the Annual Report of the Board of Directors.

## FUTURE DEVELOPMENTS

An overview of the future developments of the Company is given in the Chairman's Message on pages 7 to 9 and Managing Director's Review on pages 10 to 13. These reports form an integral part of the Annual Report of the Board of Directors.

## FINANCIAL STATEMENTS

The Financial Statements of the Company have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs &

LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No.42 of 2011 and regulatory requirements inclusive of specific disclosures.

The aforementioned Financial Statements for the year ended 31 December 2020 duly signed by the Head of Finance, Managing Director and two Directors of the Company are given on page 114 to page 191. These Financial Statements form an integral part of this Annual Report of the Board of Directors.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Directors are of the view that the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and Notes to Financial Statements appearing on pages 114 to 191 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the amendments thereto, directions and guidelines issued under the Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting is given on page 119 and forms an integral part of the Annual Report of the Board of Directors.

## DIRECTORS' STATEMENT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Board has issued a statement on the internal control mechanism of the Company as per Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008. The said statement which forms an integral part of the Annual Report of the Board of Directors on the affairs of the Company is given on pages 107 to 108. The Board has obtained an Assurance Report from the Independent Auditors on the Directors' Statement on Internal Control over Financial Reporting as referred to in page 109.

## AUDITORS' REPORT

The Auditors of the Company are Messrs Ernst & Young, Chartered Accountants carried out the audit on the Financial Statements of the Company for the year ended 31 December 2020 and their report on the said Financial Statements and Auditors' report is given on pages 110 to 113.

## SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES DURING THE YEAR

The significant accounting policies adopted in the preparation of the Financial Statements are given on pages 119 to 139.

## FINANCIAL RESULTS AND APPROPRIATIONS

### Interest Income

Total interest income of the Company for the year ended 31 December 2020 was Rs. 6,814,216,000/- (Rs 7,229,612,000/- in 2019). An analysis of the interest income is given in Note 5 to the Financial Statements.

# Annual Report of the Board of Directors on the Affairs of the Company

## Profit and Appropriations

The Company has recorded a 15.09% decline in profit before tax and 14.72% decline in profit after tax in 2020 compared to 2019. The Company's Total Comprehensive Income (net of tax) for the year was Rs. 410,140,000/- (2019: Rs. 479,922,000/-). A detailed breakup of the profits and appropriations of the Company is given below.

For the year ended 31 December	2020 Rs.000	2019 Rs.000
Profit before tax	678,019	798,530
Less: Income tax expense	(268,528)	(318,336)
Net profit after tax	409,491	480,194
Actuarial (losses) / gains on defined benefit plans, net of tax	649	(10,460)
	410,140	469,734
Unappropriated balance brought forward from previous year	2,353,951	1,945,561
Profit available for appropriation	2,764,091	2,415,295
<b>Appropriations</b>		
Transfer to Statutory Reserve Fund	(21,000)	(25,000)
<b>Dividend</b>		
Final scrip dividend paid-2018 (Rs. 0.50 per share)	-	(36,344)
Final scrip dividend paid-2019 (Rs. 1.95 per share)	(142,959)	-
Unappropriated balance carried forward	2,600,133	2,353,951
<b>Proposed dividend</b>		
Final scrip dividend - 2019 (Rs. 1.95 per share)		142,959
Final scrip dividend - 2020 (Rs. 1.37 per share)	123,214	

## TAXATION

The Income Tax rate applicable on the Company's operations is 28% (2019:28%). As per the announcement dated 12th February 2020, income tax rate applicable for the Finance sector has been reduced to 24% with effect from 1 January 2020. However, the Company continued using 28% in calculating both income tax and deferred tax liabilities/assets as at 31 December 2020 as this amendment was not substantially enacted by the end of the reporting period.

The Company is also liable for VAT on financial services at 15% (2019: 15%). The Company paid NBT at 2% up to 30 November 2019 and was also liable for Debt Repayment Levy (DRL) at 7% up to 31 December 2019. However, with both NBT and the DRL abolished with effective from 01 December 2019 and 01 January 2020 respectively, the Company was not liable for either one in 2020.

The Company has also provided deferred taxation on all known temporary differences under the liability method, as

permitted by the Sri Lanka Accounting Standard - LKAS 12 (Income Taxes).

## DIVIDEND

The Directors have recommended a scrip dividend of Rs. 1.37 per share (2019: Rs. 1.95 per share) to be paid for the financial year ended 31 December 2020, such right to the dividend applying to the increased number of shares allotted pursuant to the Rights Issue in 2021 as well. The said dividend is subject to approval of the shareholders at the Annual General Meeting to be held on 25 May 2021.

The Board of Directors were satisfied that the Company would meet the solvency test immediately after the payment of final scrip dividend proposed, in terms of the Section 31(3) of the Companies Act No. 7 of 2007. The Company provided the Statement of Solvency to the Auditors and obtained the Certificate of Solvency from the Auditors in respect of the dividend payment conforming to the statutory provision. Further details are given in Note 14 to the Financial Statements.



## RESERVES

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

As at 31st December	2020 Rs.000	2019 Rs.000
Statutory Reserve Fund	185,000	164,000
Revaluation Reserve	117,951	117,951
Retained Earnings	2,600,133	2,353,951
Total	2,903,084	2,635,902

## CAPITAL EXPENDITURE

The total capital expenditure on acquisition of property, plant and equipment and intangible assets of the Company amounted to Rs. 404,406,000/- (2019: Rs. 442,483,000/-). Details are given in Notes 26 and 28 to the Financial Statements.

## CAPITAL COMMITMENTS

The capital expenditure approved and contracted for, as at the reporting date is given in Note 42.1 to the Financial Statements.

## PROPERTY, PLANT AND EQUIPMENT (PPE)

Details of property, plant and equipment are given on Note 26 to the Financial Statements.

## MARKET VALUE OF FREEHOLD LAND

The Company applies Revaluation model given in Sri Lanka Accounting Standard - LKAS 16 (Property, Plant and Equipment) to the freehold land of the Company. Such freehold land is revalued every three years or more frequently if the fair value is substantially different from the carrying value. Accordingly, freehold land of the Company was revalued as at the end of 2019 by professionally qualified independent valuers. The results of the revaluation were brought into the

Financial Statements to ensure that the carrying amount of such freehold land reflects the market price prevailed at that time. On the basis that changes in land prices were not significant compared to the previous year due to the prevailing market situation in the country, the Company did not revalue its freehold land during this year for accounting purposes. The Directors are of the view that the previous year prices reflect the current market value of such freehold land as at 31 December 2020.

## STATED CAPITAL AND DEBENTURES

### Stated Capital

The Stated Capital of the Company as at 31 December 2020 amounted to Rs. 1,522,880,851.55 consisting of 76,212,072 ordinary shares (2019: Rs. 1,379,921,654.00 consisting of 73,312,409 ordinary shares). The number of shares issued by the Company increased from 73,312,409 ordinary shares to 76,212,072 ordinary shares as a result of the payment of Scrip Dividend for 2019.

### Debt Capital

The Company has issued rated, unsecured, subordinated, redeemable debentures to the value of Rs 2,500,000,000/- as at 31 December 2020 (2019: Rs 2,500,000,000/-). Further the Company has also issued

rated, unsecured, senior, redeemable debentures to the value of Rs. 3,078,010,000/- as at 31 December 2020 (2019: Rs.1,078,010,000/-) and these debentures of the Company are listed on the Colombo Stock Exchange. The details of debentures outstanding as at 31 December 2020 are given in Note 30.3 to the Financial Statements. The rated, unsecured, subordinated, redeemable debentures issued in year 2017 and year 2019 totalling to Rs. 2,500,000,000/- are eligible for the Tier II Capital of the Company.

## SHARE INFORMATION

Information relating to earnings, dividends and net assets are given in the Financial Highlights on page 06 and in the Investor Information section on pages 24 to 27.

## Annual Report of the Board of Directors on the Affairs of the Company

### SHAREHOLDING

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

Name	No. of Shares	% of Issued Share Capital
Mr. C.P.Palansuriya	1	>0.001%
Mr. Y. S. H. R. S. Silva	1	>0.001%
Mr. P. S. Cumararatunga	1	>0.001%
Mr. J. H. Gunawardena	1	>0.001%
Mr. J. Selvaratnam	1	>0.001%
Ms. H. S. R. Ranatunga	1	>0.001%
Mr. S. Sudarshan	1	>0.001%
Sampath Bank PLC	76,212,065	99.99%
Total	76,212,072	100.00%

### EQUITABLE TREATMENT TO SHAREHOLDERS

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

### THE BOARD OF DIRECTORS

The Board of Directors of the Company comprises of nine Directors (2019: ten)

with wide financial and commercial knowledge with experience. The names of the Directors during the financial year from 01 January 2020 to 31 December 2020 are given below. The classification of Directors is given next to the names of the Directors as per Listing Rules of the Colombo Stock Exchange and the

Finance Companies Direction No.03 of 2008, subsequent amendments thereto issued by the Central Bank of Sri Lanka. A brief profile of the Directors is given on pages 28 to 33 of the Annual Report.

Name	Classification	Remarks (Appointed date, change of directorate to chairman etc)
Mr. C. P. Palansuriya	NID/NED	02.05.2014 Appointed to the Board as the Chairman. Stepped down as the Chairman w.e.f. 06.10.2016 while continuing as a Director. Reappointed as the Chairman w.e.f. 15.11.2017 and resigned from the position w.e.f. 31.01.2020
Mr. P. S. Cumararatunga	IND/NED	30.10.2017 (Appointed as the Chairman w.e.f. 12.02.2020)
Mr. W. M. P. L. De Alwis	IND/NED	25.02.2011 (retired on 24.02.2020)
Mr. H. M. A. Seneviratne	ED	01.03.2019 (Appointed as the Managing Director)
Mr. L. T. Ranwala	NID/NED	28.07.2015 (resigned from the position w.e.f. 01.04.2020)
Mr. Y. S. H. R. S. Silva	NID/NED	01.06.2018
Mr. J. Selvaratnam	NID/NED	18.12.2018
Mr. J. H. Gunawardena	NID/NED	29.01.2019
Mr. D. Sooriyaarachchi	ID/NED	20.11.2019
Mr. W. S. C. Perera	NID/NED	16.01.2020
Ms. H. S. R. Ranatunga	IND/NED	28.01.2020
Mr. M. D. B. Boyagoda	IND/NED	28.04.2020

All Directors have submitted affidavits and declarations for the year 2020 under the Finance Companies (Assessment of Fitness and Propriety of all Directors on the Board and Officers Performing Executive Functions) Direction No. 03 of 2011.

### CHANGES IN DIRECTORATE

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

### RETIREMENT AND REELECTION / REAPPOINTMENT OF DIRECTORS

In terms of Articles 24(7) and 24(8) of the Articles of Association of the Company, Mr. J H Goonawardena, Mr. D. Sooriyaarachchi and Mr. W. S. C. Perera retire by rotation and being eligible, offered themselves for re-election on the unanimous recommendation of the Board of Directors.

Mr. M. Boyagoda having being appointed to the Board with effect from 28 April 2020 offers himself for election by the shareholders on the recommendation of the Board in terms of Article 24 (2) of the Articles of Association of the Company.

### REGISTER OF DIRECTORS AND SECRETARIES

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

dates of resignation (if applicable) of each Director and the Secretary.

### BOARD SUB-COMMITTEES

The Board of Directors of the Company has formed eight Board sub-committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008, the Securities and Exchange Commission of Sri Lanka and Listing Rules of the Colombo Stock Exchange and as per the recommended Code of Best Practice on Corporate Governance 2013 issued jointly by Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

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

#### The Board Audit Committee

- Mr. M. D. B. Boyagoda (appointed as Chairman w.e.f. 01.06.2020)
- Mr. P. S. Cumarathunga – (served as the Chairman until 31.05.2020)
- Mr. J. H. Gunawardena
- Mr. W. M. P. L. De Alwis (served until 24.02.2020)
- Ms. H. S. R. Ranatunga (appointed w.e.f. 23.04.2020)

The Report of the Board Audit Committee appears on pages 81 to 83.

#### The Board Integrated Risk Management Committee

- Mr. J. H. Gunawardena (appointed as

Chairman w.e.f. 28.04.2020)

- Mr. W. M. P. L. De Alwis (served as the Chairman until 24.02.2020)
- Mr. P. S. Cumarathunga
- Mr. H. M. A. Seneviratne
- Mr. J. Selvaratnam
- Mr. M. D. B. Boyagoda (appointed w.e.f. 28.04.2020)

The Report of the Board Integrated Risk Management Committee appears on pages 86 to 87.

#### The Board Human Resource and Remuneration Committee

- Mr. P. S. Cumarathunga - Chairman
- Mr. D. Sooriyaarachchi (Appointed w.e.f. 01.01.2020)
- Ms. H. S. R. Ranatunga (appointed w.e.f. 12.02.2020)
- Mr. C. P. Palansuriya (served until 31.01.2020)

The Report of the Board Human Resources and Remuneration Committee appears on pages 84 to 85.

#### The Board Credit Committee

- Mr. J. Selvaratnam – Chairman (appointed as the Chairman w.e.f. 01.01.2020)
- Dr. H.S.D. Soysa (served as the Chairman until 31.12.2020)
- Mr. H. M. A. Seneviratne
- Ms. H. S. R. Ranatunga (appointed w.e.f. 28.01.2020)
- Mr. W. S. C. Perera (appointed w.e.f. 28.01.2020)
- Mr. L. T. Ranwala (served until 31.03.2020)
- Mr. C. P. Palansuriya (served until 31.01.2020)

# Annual Report of the Board of Directors on the Affairs of the Company

The Report of the Credit Committee appears on page 92 to 93.

## The Board Corporate Governance Committee

- Ms. H. S. R. Ranatunga (appointed as Member on 12.02.2020 and as Chairperson on 01.12.2020)
- Mr. J. H. Gunawardena – (served as the Chairman until 30.11.2020)
- Mr. H. M. A. Seneviratne
- Mr. J. Selvaratnam
- Mr. P. S. Cumararatunga (served until 12.02.2020)
- Mr. M. D. B. Boyagaoda (appointed w.e.f. 01.06.2020)
- Mr. W. M. P. L. De Alwis (served until 24.02.2020)

The Report of the Board Corporate Governance Committee appears on pages 94 to 95.

## The Board Related Party Transactions Review Committee

- Mr. J. H. Gunawardena – (appointed as Chairman w.e.f. 12.02.2020)
- Mr. H. M. A. Seneviratne
- Mr. J. Selvaratnam
- Ms. H. S. R. Ranatunga (appointed w.e.f. 12.02.2020)
- Mr. W. M. P. L. De Alwis (served until 24.02.2020)
- Mr. M. D. B. Boyagaoda (appointed w.e.f. 01.06.2020)
- Mr. D. Sooriyaarachchi (appointed w.e.f. 01.06.2020)
- Mr. P. S. Cumararatunga (served as Chairman until 11.02.2020)

The Report of the Board Related Party Transactions Review Committee appears on pages 88 to 89.

## The Board Nomination Committee

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

The Report of the Board Nomination Committee appears on pages 90 to 91.

## The Board IT Committee

- Mr. W. S. C. Perera – Chairman (appointed w.e.f. 28.01.2020)
- Mr. P. S. Cumararatunga (served as Chairman until 27.01.2020 and resigned from the committee w.e.f. 01.06.2020)
- Mr. H. M. A. Seneviratne
- Mr. Y. S. H. R. S. Silva (Resigned from the committee w.e.f. 12.02.2020)
- Mr. W. M. P. L. De Alwis (Resigned from the committee w.e.f. 12.02.2020)
- Mr. D. Sooriyaarachchi (appointed w.e.f. 01.06.2020)
- Mr. M. D. B. Boyagaoda (appointed w.e.f. 01.06.2020)

The Report of the Board IT Committee appears on page 96.

## DIRECTORS' MEETINGS

The details of the Board meetings, the Board Sub Committee meetings and the attendance of the Directors at these meetings are given in the Corporate Governance Report on pages 36 to 69 of the Annual Report.

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

The Company maintains the Directors' Interest Register as required under the provisions of Section 168 (1) (e) of the Companies Act No.7 of 2007, the Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts, in terms of the Sections 192 (1) and 192 (2) of the Companies Act No.7 of 2007. These interests have been recorded in the Interest Register which is available for inspection in terms of the Companies Act No.7 of 2007. The particulars of the Directors' Interest in Contracts are given on page 105 of the Annual Report and form an integral part of the Annual Report of the Board of Directors. As a practice action and in terms of Corporate Governance, the Directors have refrained from voting on matters in which they were materially interested. The Directors have no direct or indirect interest in a contract or a proposed contract with the Company other than those disclosed, in the notes to the Financial Statements.

## RELATED PARTY TRANSACTIONS

The Directors have also disclosed transactions if any, that could be classified as Related Party Transactions in terms of Sri Lanka Accounting Standard - LKAS 24 (Related Party Disclosure) which is disclosed in the Financial Statements. Those transactions disclosed by the Directors are given in

Note 45 to the Financial Statements which form an integral part of the Annual Report of the Board of Directors. The Company has complied with the requirement of the Code of Best Practice issued by the Securities Exchange Commission of Sri Lanka, Listing Rules of the Colombo Stock Exchange and with all disclosure requirements stipulated thereunder.

## DIRECTORS' INTEREST IN ORDINARY SHARES AND DEBENTURES

The Directors' shareholding and the relevant interests of the Directors in the shares of the Company as at 31 December 2020 and 31 December 2019 are as follows:

Name	Position	No. of Shares as at 31 December 2020	No. of Shares as at 31 December 2019
Mr. P. S. Cumararatunga	Chairman	01	01
Mr. Y. S. H. R. S. Silva	Director	01	01
Mr. J. H. Gunawardena	Director	01	-
Mr. J. Selvaratnam	Director	01	-
Ms. H. S. R. Ranatunga	Director	01	-

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

## DIRECTORS' REMUNERATION

Details of Directors' emoluments and other benefits paid in respect of the Company during the financial year under review are given in Note 45.2 to the Financial Statements.

## OUR TEAM MEMBERS

The Company believes that its real potential rests on the strength and capabilities of its team members in a rapidly changing environment. All efforts are directed at having a motivated and competent team in order to grow and achieve results as projected in the Strategic Plan and Budget. As at 31 December 2020, the number of employees on the payroll of the Company was 783 (2019: 710).

## ENVIRONMENTAL PROTECTION

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

## STATUTORY PAYMENTS

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

## OUTSTANDING LITIGATION

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

are given in Note 42.2 to the Financial Statements.

## EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the Statement of Financial Position date which would require adjustments to, or disclosure in, the accounts, except those disclosed in Note 43 to the Financial Statements.

## GOING CONCERN

The Directors, after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto issued by the CBSL, are satisfied that the Company has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

## DONATIONS

During the year the Company made donations to the value of Rs. Nil (2019: Rs. Nil). The Company does not make donations for political purposes.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Material Foreseeable Risk Factors

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. This process is detailed in the Risk Management Report on pages 70 to 80.

## Annual Report of the Board of Directors on the Affairs of the Company

The Directors, on a regular basis review the above mentioned process through the Board Integrated Risk Management Committee.

### Internal Controls

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

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

### CORPORATE GOVERNANCE AND COMPLIANCE WITH LAWS AND REGULATIONS

The Directors of the Company are committed towards maintaining an effective Corporate Governance Framework by implementing processes required to ensure that the Company is compliant with the Code of Best Practices on Corporate Governance issued jointly by Securities Exchange Commission of Sri Lanka 2013, the Finance Companies Direction No. 03 of 2008 and subsequent amendments thereto issued by the CBSL and Requirements of Section 7.6 of the Listing rules of the Colombo Stock Exchange. Details are given on Corporate Governance Report on pages 36 to 69 of this Annual Report.

Further the Board of Directors confirm that the Company is compliant with prudential requirements, regulations, laws and internal controls while measures have been taken to rectify any material non-compliances.

### AUDITORS

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

Audit fees paid to Ernst & Young for the year ended 31 December 2020 by the Company amounted to Rs. 1,430,000/- (2019: Rs. 1,430,000/-). Further, the Company paid Rs. 4,087,000/- (2019: Rs. 2,508,000/-) to Messrs Ernst & Young as permitted non-audit related services including tax consultancy services. Details of the audit fees paid are given in Note 10 to the Financial Statements.

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

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

### NOTICE OF MEETING

The Annual General Meeting of the Company will be held at the Board Room of Siyapatha Finance PLC, No. 46/12, Sayuru Sevana, Nawam Mawatha, Colombo 02 or virtually on 25 May 2021. The Notice of Meeting is given on page 201 of this Annual Report.

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

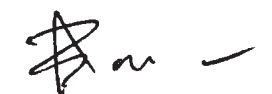
For and on behalf of the Board of Directors,



**P. S. Cumararatunga**  
Chairman



**Y. S. H. R. S. Silva**  
Deputy Chairman



**Ananda Seneviratne**  
Managing Director



**P W Corporate Secretarial (Pvt) Ltd**  
Company Secretary

Siyapatha Finance PLC  
11 May 2021



# Directors' Statement on Internal Control over Financial Reporting

## Responsibility

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

The board is responsible for ensuring the adequacy and effectiveness of the internal control mechanism of the Company. This mechanism is designed to provide a reasonable assurance to maintain proper accounting records and generate reliable financial information and also to safeguard assets of the Company. The internal control mechanism can therefore provide only reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses of fraud.

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

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

Board policies and procedures pertaining to internal control over financial reporting have been documented.

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

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

- Establishment of various sub committees to assist the Board with a view to ensuring the effectiveness of the Company's daily operations and such operations conform to Company's corporate objectives, strategies and the annual budget as well as policies and business directions approved by the Board.
- The Internal Audit Department of the company verifies whether policies and procedures of the Company are being complied with, while ascertaining effectiveness of the internal control mechanism, on an ongoing basis, using samples and rotational procedures and highlights any significant non compliance. All departments and branches are subjected to audits, the frequency of which is determined by the level of risk assessed which is approved by the Board Audit Committee.

The Internal Audit Department submits the Annual Audit Plan for review and approval of the Board Audit Committee. Independent and objective reports covering significant observations of the Internal Audit Department are also tabled for review by the Board Audit Committee, at their periodic meetings.

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



## Directors' Statement on Internal Control over Financial Reporting

officers of the Company. The Internal Audit Department verifies the suitability of design and operating effectiveness of such procedures and controls, on an ongoing basis.

- The Company further strengthened its internal control processes to ensure that the impact on COVID-19 moratorium on interest income and impairment provisions were timely and accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.
- To ensure business continuity, protect workers and continue to serve customers during the COVID-19 pandemic, the Company had to move certain areas of its operations online. However, this was done with all required safeguards in place that are necessary to safeguard the organization and its customers.
- The comments made by the External Auditors in connection with Internal Control System Over Financial Reporting in previous years, were reviewed during the year and appropriate steps were taken in 2020 to address any matters raised. The recommendations made by the External Auditors in 2020 in connection with the Internal Control System Over Financial Reporting will be dealt with in the future.

### Confirmation

Based on the above process, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation

of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements of the Central Bank of Sri Lanka.

### Review of the Statements by External Auditors

The external Auditors, Messrs Ernst & Young, have reviewed the above Directors' statement on Internal Control over Financial Reporting included in this Annual Report of the Company for the year ended 31 December 2020 and reported to the board that nothing has come to their attention that caused them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal Controls over Financial Reporting of the Company. Their report on the statement of Internal Control over Financial Reporting is given on page 109 of this Annual Report.

By order of the Board,



**H. M. A. Seneviratne**  
Managing Director



**P. S. Cumararatunga**  
Chairman



**M. D. B. Boyagoda**  
Chairman Board Audit Committee

**Siyapatha Finance PLC**  
23 February 2021

# Independent Assurance Report

## to the Board of Directors of Siyapatha Finance PLC



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

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### Report on the Director's Statement on Internal Control

We were engaged by the Board of Directors of Siyapatha Finance PLC ("The Company") to provide assurance on the Directors' Responsibility Statement on Internal Control over Financial Reporting ("The Statement") included in the annual report for the year ended 31 December 2020.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with section 10(2) (b) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008/ section 10 (2) (b) of the finance Leasing (Corporate Governance) Direction no. 4 of 8 2009, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

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

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding

compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Our responsibilities and compliance with SLSAE 3051

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

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

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

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

### Summary of work performed

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

The procedures performed were limited primarily to inquiries of Company

personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Company, the event or transaction in respect of which the Statement has been prepared.

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

### Our conclusion

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

23 February 2021

Colombo

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

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# Independent Auditors' Report

## to the Shareholders of Siyapatha Finance PLC



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

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

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Siyapatha Finance PLC ("the Company"), which comprise the statement of financial position as at 31 December 2020, income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements gives a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed

in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
<p><b>Impairment Allowance for Lease receivables, Factoring receivables and Loan receivables carried at amortised cost</b></p> <p>As at 31 December 2020 the total of the Lease receivables, Factoring receivables and Loan receivables amounted to LKR 31,029 Million (Note 18, 20 and 21), net of total allowance for impairment of LKR 2,742 Million (Note 18, 20 and 21). These collectively contributed 74.7% to the total assets.</p>	<p>We assessed the alignment of the company's impairment computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID-19 impacts and related industry responses based on the best available information up to the date of our report. Our audit procedures included amongst others the following:</p> <ul style="list-style-type: none"> <li>We evaluated the design, implementation and operating effectiveness of controls where relevant over estimation of impairment of loans and advances, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.</li> </ul>

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA FCMA W K B S P Fernando FCA FCMA  
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Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principals: G B Goudian ACMA T P M Ruberu FCMA FCCA

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Key audit matter	How our audit addressed the key audit matter
<p>As described in Note 3.1.9, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>materiality of the reported provision for credit impairment which involved complex manual calculations; and</li> <li>the degree of assumptions, judgements and estimation uncertainty associated with the calculations.</li> </ul> <p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following:</p> <ul style="list-style-type: none"> <li>the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company);</li> <li>the determination on whether or not customer contracts have been substantially modified due to such COVID-19 related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances; and</li> <li>forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>We test-checked the underlying calculations.</li> <li>In addition to the above, following focused procedures were performed:</li> </ul> <p><b>For a sample of loans and advances individually assessed for impairment:</b></p> <ul style="list-style-type: none"> <li>Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and</li> <li>Evaluating the reasonableness of the provisions made with particular focus on the impact of COVID-19 on elevated risk industries, strategic responsive actions taken, collateral values, and the value and timing of future cashflows.</li> </ul> <p><b>For loans and advances collectively assessed for impairment:</b></p> <ul style="list-style-type: none"> <li>Assessing the reasonableness of assumptions and estimates used by management including the reasonableness of forward-looking information and scenarios; and</li> <li>As relevant, assessing the basis for and data used by management to determine overlays in consideration of the probable effects of the COVID-19 pandemic.</li> </ul> <p><b>For loans and advances affected by government stimulus and debt moratorium relief measures granted:</b></p> <ul style="list-style-type: none"> <li>Assessing the appropriateness of judgements, reasonableness of calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and</li> <li>Evaluating the reasonableness of the interest income recognized on such affected loans and advances.</li> </ul> <ul style="list-style-type: none"> <li>We assessed the adequacy of the related financial statement disclosures as set out in Note 3.1.9, 18, 20, 21, and 40.4.</li> </ul>

## Independent Auditors' Report to the Shareholders of Siyapatha Finance PLC



Key audit matter	How our audit addressed the key audit matter
<p><b>Company's controls over financial reporting process and related IT systems</b></p> <p>The Company uses multiple IT systems in its operations. The COVID-19 pandemic necessitated the company to adapt various operating processes and procedures including modification of relevant controls to mitigate the resulting risks.</p> <p>IT systems and controls relevant to financial reporting was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• A changed working environment of increased remote access;</li> <li>• The Company's financial reporting process being heavily dependent on information derived from its IT systems; and</li> <li>• Key financial statement disclosures involving the use of multiple system – generated reports, collation and spreadsheet – based calculations.</li> </ul>	<p>Our audit procedures included the following, amongst others:</p> <ul style="list-style-type: none"> <li>• Understanding the security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access;</li> <li>• Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures;</li> <li>• Checking the source data of the reports used to generate significant disclosures for accuracy and completeness;</li> <li>• Checking the underlying calculations and the reasonableness of classifications made by management; and</li> </ul> <p>Evaluating the management's general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.</p>

### Other information included in the 2020 Annual Report

Management is responsible for the other information. The other information comprises the Company's 2020 annual report is expected to be made available to us after the date of this auditor's report.

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

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

in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

error.

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

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



### Auditor's responsibilities for the audit of the financial statements

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

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

1. identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to

communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

### Report on Other Legal and Regulatory Requirements

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

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

15 February 2021  
Colombo



# Income Statement

For the year ended 31 December		2020	2019
	Note	Rs.'000	Rs.'000
Interest income		6,814,216	7,229,612
Less: Interest expenses		(3,856,315)	(4,230,657)
<b>Net interest income</b>	5	<b>2,957,901</b>	<b>2,998,955</b>
Fee and commission income		278,704	311,765
Less: Fee and commission expenses		-	-
<b>Net fee and commission income</b>	6	<b>278,704</b>	<b>311,765</b>
Other operating income	7	486,775	378,528
<b>Total operating income</b>		<b>3,723,380</b>	<b>3,689,248</b>
Less: Credit loss expense on financial assets and other losses	8	(1,356,264)	(1,050,938)
<b>Net operating income</b>		<b>2,367,116</b>	<b>2,638,310</b>
<b>Less: Operating expenses</b>			
Personnel expenses	9	(873,311)	(777,688)
Other operating expenses	10	(589,235)	(655,723)
<b>Operating profit before taxes on financial services</b>		<b>904,570</b>	<b>1,204,899</b>
Less: Taxes on financial services	11	(226,551)	(406,369)
<b>Profit before income tax</b>		<b>678,019</b>	<b>798,530</b>
Less: Income tax expense	12	(268,528)	(318,336)
<b>Profit for the year</b>		<b>409,491</b>	<b>480,194</b>
<b>Basic/Diluted earnings per share (Rs.)</b>	13	<b>5.37</b>	<b>6.56</b>
<b>Dividend per share (Rs.)</b>	14	<b>1.95</b>	<b>0.50</b>

The Accounting policies and Notes to the Financial Statements from pages 119 to 191 form an integral part of these Financial Statements.



# Statement of Comprehensive Income

For the year ended 31 December		2020	2019
	Note	Rs.'000	Rs.'000
Profit for the year		409,491	480,194
Other comprehensive income/ (expenses)			
Other comprehensive income not to be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit plan	34.3	901	(14,527)
Deferred tax effect on actuarial gain/(loss)	33	(252)	4,067
		649	(10,460)
Surplus from revaluation of property, plant & equipment		-	14,150
Deferred tax effect on revaluation surplus		-	(3,962)
	37	-	10,188
Other comprehensive income for the year, net of tax		649	(272)
Total comprehensive income for the year, net of tax		410,140	479,922
Attributable to :			
Equity holders of the parent company		410,140	479,922
		410,140	479,922

The Accounting policies and Notes to the Financial Statements from pages 119 to 191 form an integral part of these Financial Statements.

# Statement of Financial Position

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

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



Managing Director



Head of Finance

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



Chairman



Director

The Accounting policies and Notes to the Financial Statements from pages 119 to 191 form an integral part of these Financial Statements.

# Statement of Changes in Equity

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

The Accounting policies and Notes to the Financial Statements from pages 119 to 191 form an integral part of these Financial Statements.

# Statement of Cash Flows

For the year ended 31 December		2020	2019
	Note	Rs. '000	Rs. '000
<b>Cash flows from operating activities</b>			
<b>Profit before taxation from operations</b>		<b>678,019</b>	<b>798,530</b>
Interest expenses	5.2	3,856,315	4,230,657
Fee & commission expenses	6	-	-
Credit loss expense on financial assets	8	1,356,264	1,050,938
Provision for staff gratuity	34.2	23,726	16,084
Provision for depreciation	26	62,899	58,116
Amortisation of software	28	23,119	23,273
Amortisation expenses on right-of-use assets	27	107,589	103,384
(Profit)/Loss on sale of motor vehicles		(1,280)	-
		<b>5,428,632</b>	<b>5,482,452</b>
<b>Operating profit before working capital changes</b>		<b>6,106,651</b>	<b>6,280,982</b>
(Increase)/Decrease in lease receivables		(915,686)	(3,699,109)
(Increase)/Decrease in hire purchase receivables		664	47,331
(Increase)/Decrease in factoring receivables		392,026	460,863
(Increase)/Decrease in gold loan receivables		240,304	(1,461,614)
(Increase)/Decrease in loan receivables		(497,150)	590,036
Increase/(Decrease) in due to other customers		4,018,841	3,212,525
(Increase)/Decrease in other assets		(466,116)	(936,801)
Increase/(Decrease) in other payables		150,361	834,067
		<b>2,923,244</b>	<b>(952,702)</b>
<b>Cash generated from operating activities</b>		<b>9,029,895</b>	<b>5,328,280</b>
Interest expense paid		(3,739,845)	(3,915,904)
Gratuity paid	34.1	(3,530)	(3,434)
Income tax paid	32	(449,053)	(238,240)
Dividend tax paid		-	(5,088)
<b>Net cash inflow from operating activities</b>		<b>4,837,467</b>	<b>1,165,614</b>
<b>Cash flow from investing activities</b>			
Net investments in government bonds & government securities		504,502	(1,754,282)
Purchase of property, plant and equipment and intangible assets		(404,405)	(415,926)
Proceeds from sale of property, plant and equipment		1,280	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>101,377</b>	<b>(2,170,208)</b>
<b>Net cash outflow before financing activities</b>		<b>4,938,844</b>	<b>(1,004,594)</b>
<b>Cash flow from financing activities</b>			
Proceeds from long term loans & securitizations	30.1	2,450,000	6,000,000
Repayments of long long term loans	30.1	(5,719,243)	(5,455,411)
Proceeds from debentures	30.3	2,000,000	1,500,000
Debentures redeemed	30.3	-	(2,421,990)
Share application money pending allotment	35.1	700,000	-
Net proceeds from short term borrowings	30.1	(3,100,000)	350,000
Repayment of principal portion of lease liabilities	31.1	(139,824)	(133,258)
<b>Net cash outflow from financing activities</b>		<b>(3,809,067)</b>	<b>(160,659)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,129,777</b>	<b>(1,165,253)</b>
<b>Cash &amp; cash equivalents at the beginning of the year</b>		<b>(88,146)</b>	<b>1,077,107</b>
<b>Cash and cash equivalents at end of the year</b>		<b>1,041,631</b>	<b>(88,146)</b>
Analysis of the cash and cash equivalents at the end of the year			
Cash and bank balances (Note 16)		292,051	273,440
Securities purchased under repurchase agreements less than three months		1,000,116	-
Bank overdraft		(250,536)	(361,586)
		<b>1,041,631</b>	<b>(88,146)</b>

The Accounting policies and Notes to the Financial Statements from pages 119 to 191 form an integral part of these Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

### 1.1 General

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

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

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

### 1.2 Principal Activities and Nature of Operations

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

### 1.3 Parent Enterprise and Ultimate Parent Enterprise

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

## 2. BASIS OF PREPARATION

### 2.1 Statement of Compliance

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

### 2.2 Responsibility for Financial Statements

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

### 2.3 Approval of Financial Statements by Directors

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

### 2.4 Basis of Measurement

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

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

### 2.5 Functional and Presentation Currency

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

### 2.6 Presentation of Financial Statements

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

## Notes to the Financial Statements

### 2.7 Materiality, Aggregation and Offsetting

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

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

### 2.8 Comparative Information

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

### 2.9 Statement of Cash Flow

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

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

### 2.10 Events After the Reporting Date

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

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

### 2.11 Significant Accounting Judgements, Estimates and Assumptions

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

of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur.

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

### COVID-19 impact on the use of estimates and assumptions

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

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

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

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

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

### 2.11.1 Going Concern

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

and does not intend either to liquidate or to cease operations. Further, the Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Company, in making this assessment. Therefore, the Financial Statements continue to be prepared on the going concern basis.

### 2.11.2 Impairment losses on loans and receivables

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

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

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

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

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

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



## Notes to the Financial Statements

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

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

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

A breakdown of the loans and advances of the Company classified under stage

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

### **2.11.3 Fair Value of Financial Instruments**

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

### **2.11.4 Financial Assets and Financial Liabilities Classification**

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

reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

### **2.11.5 Taxation**

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

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

### **2.11.6 Defined Benefit Plans**

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

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

The sensitivity of assumptions used in actuarial valuations are set out in Note 34 to the Financial Statements.

#### **2.11.7 Fair value of Property, Plant & Equipment**

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

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

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

#### **2.11.9 Commitments and Contingencies**

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit

is not probable or cannot be reliably measured. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless they are remote. Details of commitments and contingencies are given in Note 42 to the Financial Statements.

### **3. GENERAL ACCOUNTING POLICIES**

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

#### **3.1 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement**

##### **3.1.1 Date of Recognition**

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

##### **3.1.2 Initial measurement of Financial Instruments**

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

#### **3.1.3 ‘Day 1’ profit or loss**

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

#### **3.1.4 Measurement categories of Financial Assets and Financial Liabilities**

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

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

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

#### **(i). Financial Assets at Amortised cost:**

The Company only measures loans, receivables, and other financial

## Notes to the Financial Statements

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 Equity under LKAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

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

### (iii) Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised

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

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

### **3.1.5 Classification and Subsequent Measurement of Financial Liabilities**

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

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

The subsequent measurement of financial liabilities depends on their classification.

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

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

recognized in the Income Statement.

#### **ii. Financial Liabilities at Amortised Cost**

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

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

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

#### **3.1.6 Reclassifications of Financial assets and Financial Liabilities**

The Company does not reclassify its financial assets subsequent to their initial

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

### **3.1.7 Derecognition of Financial Assets and Financial Liabilities**

#### **3.1.7.1 Derecognition due to substantial modification of terms and conditions**

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

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

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

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

## Notes to the Financial Statements

been recorded.

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

### 3.1.7.2 Derecognition other than for substantial modification

#### (a) Derecognition of Financial Assets

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

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

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

or

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

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset

(the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

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

A transfer only qualifies for derecognition if either:

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

or

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

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally

and without imposing additional restrictions on the transfer.

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

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

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

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



lower of the fair value of the transferred asset and the option exercise price.

### **(b) Derecognition - Financial Liabilities**

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

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

#### **3.1.8. Determination of Fair Value**

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when

pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy

by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

### **3.1.9 Impairment of Financial Assets**

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

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

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

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

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

The Company established a policy to perform an assessment, at the end of

## Notes to the Financial Statements

each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

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

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

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

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

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a

proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

### b. The Calculation of Expected Credit Loss (ECL)

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

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

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

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

**EAD:** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including

repayments of principal and interest, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued interest from missed payments.

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

The mechanism of the ECL method are summarised below.

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

**Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.



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

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

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

**Financial Guarantee contracts:**

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

**c. Debt instruments measured at fair value through OCI**

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

**d. Debt factoring and revolving loans**

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

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

**e. Forward looking information**

The COVID-19 pandemic has significantly impacted the local economy. The economic environment remains uncertain and future impairment charges may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment measures.

To reflect these uncertainties in the calculation of expected credit losses, the Company has changed the weightages assigned for multiple economic scenarios during the year. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

**(ii) Reversals of impairment**

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

**(iii) Renegotiated Loans**

The Company sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise

## Notes to the Financial Statements

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

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

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

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

The COVID-19 pandemic has significantly impacted the local economy as the

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

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

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

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

As per the Circular No. 4 of 2020 and the subsequent communication issued by the CBSL in this regard, finance companies

were required to charge interest at a reduced rate of 11.5% per annum during the moratorium period .

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

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

Second wave of the COVID-19 outbreak in the country resulted in reimposing the travel restrictions, leading to disruption of economic activities. Giving due consideration to the requests received from affected individuals and businesses, CBSL advised licensed finance companies, to extend the debt moratorium for a further period of six months commencing from 1 October 2020 to 31 March 2021. Finance Companies shall convert the capital and interest falling due during the moratorium period commencing from 1 October 2020 to 31 March 2021 into a term loan of which repayment shall commence from July 2021. Further, the finance companies are eligible to charge an interest rate for the converted loan, not exceeding the latest auction rate for 364-days Treasury Bills, available as at 1 April 2021, plus 5.5 percent per annum not exceeding 11.5 percent per annum. Repayment period of the new loan

shall be two years in general; however this may vary based on the terms and conditions agreed with the borrower. The finance companies were also allowed to recover interest at the original EIR during the moratorium period and therefore did not recognize any modification loss on account of the second phase of the COVID-19 moratorium. An analysis of the loans eligible for the second phase of the COVID-19 moratorium is presented in Note 40.4.1 (j) to the Financial Statements.

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

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

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

#### **(vi) Collateral Valuation**

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

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

#### **(vii) Collateral repossessed**

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

#### **(viii) Offsetting Financial Assets and Liabilities**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position

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

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

### **3.2 Leases**

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

#### **a. The Company as lessor**

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

## Notes to the Financial Statements

### b. The Company as lessee

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

#### Right-of-use assets

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

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

#### Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain

to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

### 3.3 Property, Plant & Equipment and Right-of-use assets

#### 3.3.1 Recognition

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

#### 3.3.2 Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to, replace part of an item of property, plant & equipment. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items

and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### 3.3.3 Cost Model

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

#### 3.3.4 Revaluation Model

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

On revaluation of an asset, any increase in the carrying amount is recognised in 'Other comprehensive income' and accumulated in equity, under revaluation reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Income Statement. In these circumstances, the increase is recognised as income to

the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited to the other comprehensive income to the extent of any credit balance existing in the capital reserve in respect of that asset.

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

### 3.3.5 Subsequent Cost

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

### 3.3.6 Repairs and Maintenance

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

### 3.3.7 Capital Work -in -Progress

Capital work in progress is stated at cost. It would be transferred to the relevant asset when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Capital work in progress is stated at cost less any accumulated impairment losses.

### 3.3.8 Borrowing Costs

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

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

### 3.3.9 De-recognition

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

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

### 3.3.10 Depreciation

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

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

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

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



## Notes to the Financial Statements

### 3.3.11 Change in Estimates

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

### 3.4 Intangible Assets

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

#### 3.4.1 Basis of Recognition

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

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

#### 3.4.2 Subsequent Expenditure

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

#### 3.4.3 Useful Economic life, Amortization and Impairment

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

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the intangible asset.

#### 3.4.4 Amortization

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

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

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

#### 3.4.5 Derecognition

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

### 3.5 Impairment of Non Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

### 3.6 Dividend Payable

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

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

### 3.7 Retirement Benefit Obligations

#### 3.7.1 Defined Benefit Plan - Gratuity

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

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

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

#### Recognition of Actuarial Gains and Losses

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

### Interest Cost

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

### Funding Arrangements

The Gratuity liability is not externally funded.

#### 3.7.2 Defined Contribution Plans

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

The Company contributes to the following Schemes:

#### Employees’ Provident Fund

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

#### Employees’ Trust Fund

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

### 3.8 Statutory Reserve Fund

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

period is transferred to the Statutory reserve fund during the financial year.

### 3.9 Provisions

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

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

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

### 3.10 Segment Information

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

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



## Notes to the Financial Statements

- Leasing and hire purchase
- Gold Loan
- Others

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

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

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

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

### 3.11 Recognition of Interest Income/ Expense

#### 3.11.1 Interest Income/Expense

Interest income and interest expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under SLFRS 9 is also recorded using the EIR method.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

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

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

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

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

#### 3.11.2 Interest Income on Overdue Rentals

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

### 3.12 Fee and Commission Income and Expenses

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

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

A contract with a customer that results in a recognised financial instrument in

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

The Company earns a fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided in to two categories.

**a) Fee Income earned from services that are provided over a certain period of time**

Fees earned for the provision of services over a period of time are accrued over that period.

**b) Fee Income from providing transaction services**

Fees arising from negotiating or participating in the negotiation of a transaction for a third party.

**3.13 Other operating income**

**(a) Dividend Income**

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

**(b) Recovery of Bad Debts Written Off**

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

**(c) Other Income**

Other income is recognised on an accrual basis.

**3.14 Personnel Expenses**

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

**3.15 Taxes**

As per Sri Lanka Accounting Standard –LKAS 12(Income Taxes), tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxation. Income tax expense is recognised in the Income Statement, except to the extent it relates to items recognised directly in equity or other comprehensive income in which case it is recognised in equity or in other comprehensive income.

**3.15.1 Current tax**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year, using the tax rates and tax laws enacted or substantially enacted

on the reporting date and any adjustment to the tax payable in respect of prior years.

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

**3.15.2 Deferred tax**

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the

## Notes to the Financial Statements

asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

### 3.15.3 Value Added Tax (VAT) on Financial Services

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

### 3.15.4 Nation Building Tax (NBT) on Financial Services

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

### 3.15.5 Debt Repayment Levy (DRL)

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

### 3.15.6 Withholding Tax (WHT) on Dividends

Withholding tax on dividends distributed by the Company that arise from the distribution of dividends of the company is recognised at the time of liability to pay the related dividend is recognized up to 31 December 2019 at the rate of 14 % was deducted at source.

### 3.15.7 Economic Service Charge (ESC)

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

## 3.16 Regulatory provisions

### 3.16.1 Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Companies Direction No.2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments thereto, all Finance Companies are required to insure their

deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No.1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1 October 2010. The said Scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No. 1 of 2013.

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

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

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

### 3.16.2 Crop Insurance Levy (CIL)

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

### 3.17 Earnings per Share (EPS)

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

### 3.18 Commitments and Contingencies

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

#### Financial guarantees and undrawn loan commitments

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

Financial guarantees are initially recognised in the Financial Statements

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

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

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

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

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

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

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

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

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

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

### 2. SLFRS 17 Insurance Contracts

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

## Notes to the Financial Statements

### 5. NET INTEREST INCOME

For the year ended 31 December

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

### 6. NET FEE AND COMMISSION INCOME

For the year ended 31 December

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

## 7. OTHER OPERATING INCOME

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Profit on early terminations	333,835	257,016
Profit on disposal of motor vehicles	1,280	-
Recovery of bad debts written off	29,327	12,838
Recovery of charges	33,937	41,132
Sundry income	88,396	67,542
<b>Total other operating income</b>	<b>486,775</b>	<b>378,528</b>

## 8. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS AND OTHER LOSSES

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

For the year ended 31 December	2020	2020	2020	2020
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 1	Stage 2	Stage 3	Total
Lease receivables	20,959	153,865	746,384	921,208
Hire purchase receivables	(5)	1,848	(1,195)	648
Factoring receivables	(934)	(13,823)	15,928	1,171
Loan receivables	17,780	18,388	244,579	280,747
Gold loan receivables	(181)	(156)	1,585	1,248
Repossessed stock	-	-	150,397	150,397
Bank balances	4	-	-	4
Credit related commitments & contingencies	635	206	-	841
	<b>38,258</b>	<b>160,328</b>	<b>1,157,678</b>	<b>1,356,264</b>

For the year ended 31 December	2019	2019	2019	2019
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
	Stage 1	Stage 2	Stage 3	Total
Lease receivables	35,459	14,778	227,610	277,847
Hire purchase receivables	(11)	(15)	(2,217)	(2,243)
Factoring receivables	(20,804)	14,405	222,705	216,306
Loan receivables	(5,049)	(2,756)	365,631	357,826
Gold loan receivables	(1,410)	(884)	1,306	(988)
Repossessed stock	-	-	201,908	201,908
Bank balances	7	-	-	7
Credit related commitments & contingencies	117	158	-	275
	<b>8,309</b>	<b>25,686</b>	<b>1,016,943</b>	<b>1,050,938</b>

## Notes to the Financial Statements

### 9. PERSONNEL EXPENSES

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Salaries and bonus	710,674	629,481
Contribution to defined contribution plan	73,279	60,927
Gratuity charge for the year	23,726	16,084
Others	65,632	71,196
	873,311	777,688

### 10. OTHER OPERATING EXPENSES

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Directors' emoluments	28,385	42,228
Auditors' remuneration	1,430	1,430
Non- audit fees to auditors	4,087	2,508
Professional & legal expenses	20,002	19,411
Depreciation on property, plant & equipment	62,899	58,116
Amortization of intangible assets	23,119	23,273
Deposit insurance premium	22,115	17,391
Amortisation expenses on right-of-use assets	107,589	103,384
Office administration & establishment expenses	248,716	251,183
Advertising expenses	28,918	54,963
Other expenses	41,975	81,836
	589,235	655,723

### 11. TAXES ON FINANCIAL SERVICES

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Value added tax	226,551	234,698
Nation building tax	-	33,680
Debt repayment levy	-	137,991
	226,551	406,369



## 12. INCOME TAX EXPENSE

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

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Income statement</b>		
<b>Current tax expense</b>		
Income tax for the year	280,949	572,894
Under/ (Over) provision of current taxes in respect of previous years	(110,411)	(35,169)
	170,538	537,725
<b>Deferred tax expense</b>		
Deferred taxation charge/(reversal) (refer note 33)	97,990	(219,389)
	268,528	318,336
<b>Effective tax rate</b>	39.60%	39.87%

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

For the year ended 31 December	2020 Rs. '000	2019 Rs. '000
<b>Accounting profit before income taxation</b>	678,019	798,530
At the statutory income tax rate of 28%	189,845	223,588
Tax effect of non deductible expenses	896,810	404,482
Tax effect of other allowable credits	(805,706)	(55,177)
Tax effect of losses claimed	-	-
Under/ (Over) provision of current taxes in respect of previous years	(110,411)	(35,169)
Deferred tax charge/(reversal)	97,990	(219,389)
	268,528	318,336

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

### 12.3 Amendments to the Income Tax Law announced by the Government

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

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

## Notes to the Financial Statements

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

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Profit attributable to ordinary shareholders (Rs. 000)	409,491	480,194
Weighted average number of ordinary shares during the year (13.1)	76,212,072	73,248,186
Basic/Diluted earnings per ordinary share- (Rs.)	5.37	6.56

#### 13.1 Weighted average number of ordinary shares (basic)

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

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

### 14. DIVIDEND PAID

For the year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Scrip dividends paid (Rs. 000)	142,959	36,344
Number of Ordinary Shares	73,312,409	72,687,298
Dividends per Ordinary Share (Rs.)	1.95	0.50

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

## 15. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

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

	Amortised Cost Rs. '000	Equity instruments- FVOCI Rs. '000	Total Rs. '000
<b>As at 31 December 2020</b>			
<b>Financial Assets</b>			
Cash and bank balances	292,036	-	292,036
Securities purchased under repurchase agreements	2,781,162	-	2,781,162
Factoring receivables	261,944	-	261,944
Gold loan receivables	4,769,716	-	4,769,716
Loan Receivables	1,750,116	-	1,750,116
Lease receivables	29,017,672	-	29,017,672
Hire purchase receivables	2,125	-	2,125
Other assets	747,028	-	747,028
Equity instruments at fair value through OCI	-	56	56
Debt instruments at amortised cost	34,145	-	34,145
<b>Total Financial Assets</b>	<b>39,655,944</b>	<b>56</b>	<b>39,656,000</b>
<b>Financial Liabilities</b>			
Bank overdraft	250,536	-	250,536
Due to other customers	17,279,614	-	17,279,614
Debt issued and other borrowed funds	17,049,706	-	17,049,706
Other payables	1,192,954	-	1,192,954
<b>Total Financial Liabilities</b>	<b>35,772,810</b>	<b>-</b>	<b>35,772,810</b>
<b>As at 31 December 2019</b>			
<b>Financial Assets</b>			
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
<b>Total Financial Assets</b>	<b>39,359,659</b>	<b>56</b>	<b>39,359,715</b>
<b>Financial Liabilities</b>			
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
<b>Total Financial Liabilities</b>	<b>36,025,473</b>	<b>-</b>	<b>36,025,473</b>

## Notes to the Financial Statements

### 16. CASH AND BANK BALANCES

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Cash in hand	119,237	149,917
Balances with local banks	172,814	123,523
Less: Allowance for expected credit losses	(15)	(11)
	292,036	273,429

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

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

### 17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENTS

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Securities purchased under repurchase agreements	2,781,162	2,304,392
	2,781,162	2,304,392

### 18. FACTORING RECEIVABLES

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Factoring receivables	604,825	1,001,610
Less: VAT suspense	(293)	(293)
Gross factoring receivable	604,532	1,001,317
Less : Allowance for expected credit losses/ individual impairment(Note 18.3)	(333,028)	(322,948)
Allowance for expected credit losses/ collective impairment(Note 18.4)	(9,560)	(23,228)
	261,944	655,141

#### 18.1 Analysis of factoring receivables on maximum exposure to credit risk

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Individually impaired factoring receivables	-	162,485	426,618	589,103
Factoring receivables subject to collective impairment	15,429	-	-	15,429
Gross factoring receivables	15,429	162,485	426,618	604,532
Allowance for expected credit losses(ECL)	(160)	(9,401)	(333,027)	(342,588)
	15,269	153,084	93,591	261,944

**18.2 Analysis of factoring receivables on maximum exposure to credit risk**

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Individually impaired factoring receivables	-	501,574	387,448	889,022
Factoring receivables subject to collective impairment	112,295	-	-	112,295
Gross factoring receivables	112,295	501,574	387,448	1,001,317
Allowance for expected credit losses(ECL)	(1,094)	(23,224)	(321,858)	(346,176)
	111,201	478,350	65,590	655,141

**18.3 Allowance for expected credit losses/Impairment**

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

**18.4 Allowance for expected credit losses/Impairment**

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

**18.5 Movement in allowance for expected credit losses**

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

## Notes to the Financial Statements

### 18. FACTORING RECEIVABLES (Contd..)

#### 18.6 Movement in allowance for expected credit losses

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

### 19. GOLD LOAN RECEIVABLES

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Gold loan receivables	4,780,476	5,020,780
Less : Allowance for expected credit losses/ collective impairment(Note 19.3)	(10,760)	(9,512)
	4,769,716	5,011,268

#### 19.1 Analysis of gold loan receivables on maximum exposure to credit risk

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold loan receivables- subject to collective impairment	3,531,089	693,108	556,279	4,780,476
Allowance for expected credit losses(ECL)	(3,586)	(2,987)	(4,187)	(10,760)
	3,527,503	690,121	552,092	4,769,716

#### 19.2 Analysis of gold loan receivables on maximum exposure to credit risk

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gold loan receivables- subject to collective impairment	3,721,436	1,207,720	91,624	5,020,780
Allowance for expected credit losses(ECL)	(3,767)	(3,143)	(2,602)	(9,512)
	3,717,669	1,204,577	89,022	5,011,268

#### 19.3 Allowance for expected credit losses/Impairment

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

**19.4 Movement in allowance for expected credit losses**

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

**19.5 Movement in allowance for expected credit losses**

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

**20. LOAN RECEIVABLES**

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Revolving loan receivables	91,272	120,899
Vehicle loan receivables	-	1,723
Personal/Business loan receivables	2,543,323	2,014,823
Gross loan receivables	2,634,595	2,137,445
Less : Allowance for expected credit losses/ individual impairment(Note 20.3)	(538,525)	(369,638)
Less : Allowance for expected credit losses/ collective impairment(Note 20.4)	(345,954)	(234,094)
	1,750,116	1,533,713

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

As at 31 December 2020	Stage 1	Stage 2	Stage 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Individually impaired loan receivables	-	167,053	901,637	1,068,690
Loan receivables subject to collective impairment	698,980	37,714	829,211	1,565,905
Allowance for expected credit losses(ECL)	(20,210)	(23,449)	(840,820)	(884,479)
	678,770	181,318	890,028	1,750,116

**20.2 Analysis of loan receivables on maximum exposure to credit risk**

As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Individually impaired loan receivables	10,173	136,480	680,734	827,387
Loan receivables subject to collective impairment	425,078	188,486	696,494	1,310,058
Allowance for expected credit losses(ECL)	(2,430)	(5,061)	(596,241)	(603,732)
	432,821	319,905	780,987	1,533,713



## Notes to the Financial Statements

### 20. LOAN RECEIVABLES (Contd..)

#### 20.3 Allowance for expected credit losses/Impairment

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

#### 20.4 Allowance for expected credit losses/Impairment

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

#### 20.5 Movement in allowance for expected credit losses

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

#### 20.6 Movement in allowance for expected credit losses

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

## 21. LEASE RECEIVABLES

As at 31 December	2020	2019
	Rs. '000	Rs. '000
<b>At Amortized cost</b>		
Total lease rentals receivable	39,486,385	39,335,106
Less: Unearned lease interest income	(8,952,904)	(9,620,205)
Less: VAT suspense	(802)	(802)
Less: Prepaid rentals	-	(23)
Gross lease receivable	30,532,679	29,714,076
Less: Allowance for expected credit losses/ collective impairment(Note 21.5)	(1,515,007)	(690,882)
Net lease receivable (Note 21.1 & 21.2)	29,017,672	29,023,194

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

### 21.1 Maturity analysis of net lease receivable

	1 Year	1 - 5 Year	More than 5 Year	Total
As at 31 December 2020	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,096,350	23,327,826	61,407	39,485,583
Less: Unearned lease interest income	(4,157,620)	(4,791,295)	(3,989)	(8,952,904)
Gross lease receivable	11,938,730	18,536,531	57,418	30,532,679
Less: Allowance for expected credit losses	(598,218)	(913,653)	(3,136)	(1,515,007)
Net lease receivable	11,340,512	17,622,878	54,282	29,017,672

### 21.2 Maturity analysis of net lease receivable

	1 Year	1 - 5 Year	More than 5 Year	Total
As at 31 December 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Total lease rentals receivable (Net of VAT suspense and prepaid rentals)	16,171,148	23,087,858	75,280	39,334,286
Less: Unearned lease interest income	(4,313,462)	(5,299,388)	(7,360)	(9,620,210)
Gross lease receivable	11,857,686	17,788,470	67,920	29,714,076
Less: Provision for collective impairment	(276,456)	(412,824)	(1,602)	(690,882)
Net lease receivable	11,581,230	17,375,646	66,318	29,023,194

## Notes to the Financial Statements

### 21. LEASE RECEIVABLES (Contd..)

#### 21.3 Analysis of lease receivables on maximum exposure to credit risk

As at 31 December 2020	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	10,846,414	11,561,610	8,124,655	30,532,679
Allowance for expected credit losses(ECL)	(96,115)	(258,109)	(1,160,783)	(1,515,007)
	10,750,299	11,303,501	6,963,872	29,017,672

#### 21.4 Analysis of lease receivables on maximum exposure to credit risk

As at 31 December 2019	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
Gross lease receivables- subject to collective impairment	17,993,628	7,806,361	3,914,087	29,714,076
Allowance for expected credit losses(ECL)	(75,156)	(104,244)	(511,482)	(690,882)
	17,918,472	7,702,117	3,402,605	29,023,194

#### 21.5 Allowance for expected credit losses/Impairment

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

#### 21.6 Movement in allowance for expected credit losses

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

#### 21.7 Movement in allowance for expected credit losses

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

## 22. HIRE PURCHASE RECEIVABLES

As at 31 December	2020 Rs. '000	2019 Rs. '000
Total hire purchase rentals receivable	4,729	5,659
Less: Unearned hire purchase interest income	(754)	(1,020)
Gross hire purchase receivable	3,975	4,639
Less: Allowance for expected credit losses/ collective impairment(Note 22.5)	(1,850)	(1,202)
Net hire purchase receivable (Note 22.1 & 22.2)	2,125	3,437

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

### 22.1 Maturity analysis of net hire purchase receivable

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
As at 31 December 2020				
Total hire purchase rentals receivable	2,996	1,734	-	4,730
Less: Unearned hire purchase interest income	(269)	(486)	-	(755)
Gross hire purchase receivable	2,727	1,248	-	3,975
Less: Allowance for expected credit losses	(1,289)	(561)	-	(1,850)
	1,438	687	-	2,125

### 22.2 Maturity analysis of net hire purchase receivable

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
As at 31 December 2019				
Total hire purchase rentals receivable	3,490	2,169	-	5,659
Less: Unearned hire purchase interest income	(284)	(736)	-	(1,020)
Gross hire purchase receivable	3,205	1,433	-	4,639
Less: Allowance for expected credit losses	(838)	(364)	-	(1,202)
	2,368	1,069	-	3,437

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

	Stage 1 Rs. '000	Stage 2 Rs. '000	Stage 3 Rs. '000	Total Rs. '000
As at 31 December 2020				
Gross hire purchase receivables- subject to collective impairment	-	3,975	-	3,975
Allowance for expected credit losses(ECL)	-	(1,850)	-	(1,850)
	-	2,125	-	2,125

## Notes to the Financial Statements

### 22. HIRE PURCHASE RECEIVABLES (Contd..)

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

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gross hire purchase receivables- subject to collective impairment	1,757	381	2,501	4,639
Allowance for expected credit losses(ECL)	(5)	(2)	(1,195)	(1,202)
	1,752	379	1,306	3,437

#### 22.5 Allowance for expected credit losses/Impairment

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

#### 22.6 Movement in allowance for expected credit losses

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

#### 22.7 Movement in allowance for expected credit losses

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

**23. OTHER ASSETS**

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Financial Assets</b>		
Reposessed stock	163,950	133,234
Less: Provision for reposessed stock (Note 23.1 & 23.2)	(163,950)	(133,234)
Insurance premium receivable	487,876	290,847
Staff loan	160,444	203,558
Less: Staff loan fair value adjustment	(16,417)	(18,392)
Insurance commission receivable	62,872	52,350
Other financial assets	52,253	11,421
	747,028	539,784
<b>Non Financial Assets</b>		
Pre paid expenses	35,542	42,592
Pre-paid staff cost (Note 23.3)	16,417	18,392
Advance payments	19,132	6,034
Inventories	3,001	3,356
Taxes receivable	250	20,980
Other non financial assets	30,301	22,572
	104,643	113,926
	851,671	653,710

**23.1 Movement in provision for reposessed stock**

As at 31 December 2020	Lease Rs. '000	Hire purchase Rs. '000	Loan Rs. '000	Factoring Rs. '000	Total Rs. '000
Balance as at 01 January	128,473	4,614	82	66	133,235
Charge/ (Reversal) during the year	147,119	761	1,773	744	150,397
Write-off during the year	(116,150)	(3,532)	-	-	(119,682)
Balance as at 31 December	159,442	1,843	1,855	810	163,950

**23.2 Movement in provision for reposessed stock**

As at 31 December 2019	Lease Rs. '000	Hire purchase Rs. '000	Loan Rs. '000	Factoring Rs. '000	Total Rs. '000
Balance as at 01 January	138,934	31,581	4,901	2,239	177,654
Charge/ (Reversal) during the year	200,883	744	80	201	201,908
Write-off during the year	(211,344)	(27,711)	(4,899)	(2,374)	(246,328)
Balance as at 31 December	128,473	4,614	82	66	133,234

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

## Notes to the Financial Statements

### 23. OTHER ASSETS (Contd..)

#### 23.3 The movement in the pre-paid staff cost

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

### 24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Equity instruments at fair value through OCI	56	56
	56	56

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

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

### 25. DEBT INSTRUMENTS AT AMORTISED COST

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Government debt securities - treasury bills & bonds	34,145	15,301
	34,145	15,301

### 26. PROPERTY, PLANT & EQUIPMENT

#### 26.1 Cost/Valuation

	Freehold Land Rs. '000	Fixtures Rs. '000	Office furniture Rs. '000	Office equipment Rs. '000	Motor vehicles Rs. '000	Computer equipment Rs. '000	Capital work-in- progress Rs. '000	Total Rs. '000
Balance as at 1 January 2019	353,750	155,647	36,704	76,311	8,529	95,014	104,609	830,564
Additions and improvements	-	37,112	6,044	22,571	-	17,859	358,606	442,192
Revaluation surplus	14,150	-	-	-	-	-	-	14,150
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	41	(41)	6	(1)	(99)	-	(94)
<b>Balance as at 31 December 2019</b>	<b>367,900</b>	<b>192,800</b>	<b>42,707</b>	<b>98,888</b>	<b>8,528</b>	<b>112,774</b>	<b>463,215</b>	<b>1,286,812</b>
Additions and improvements	-	26,522	3,761	5,860	0	11,803	355,143	403,089
Revaluation surplus	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	(2,730)	-	-	(2,730)



	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
Transfers/Adjustments	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>367,900</b>	<b>219,322</b>	<b>46,468</b>	<b>104,748</b>	<b>5,798</b>	<b>124,577</b>	<b>818,358</b>	<b>1,687,171</b>
<b>Accumulated Depreciation</b>								
Balance as at 1 January 2019	-	90,839	19,894	40,535	7,244	56,650	-	215,162
Depreciation charge for the year	-	27,877	4,793	11,975	536	12,935	-	58,116
Disposals during the year	-	-	-	-	-	-	-	-
Transfers/Adjustments	-	(7)	(34)	(46)	-	(4)	-	(91)
<b>Balance as at 31 December 2019</b>	<b>-</b>	<b>118,709</b>	<b>24,653</b>	<b>52,464</b>	<b>7,780</b>	<b>69,581</b>	<b>-</b>	<b>273,187</b>
Depreciation charge for the year	-	31,012	4,724	12,662	191	14,310	-	62,899
Disposals during the year	-	-	-	-	(2,730)	-	-	(2,730)
Transfers/Adjustments	-	-	-	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>-</b>	<b>149,721</b>	<b>29,377</b>	<b>65,126</b>	<b>5,241</b>	<b>83,891</b>	<b>-</b>	<b>333,356</b>
<b>Net book value as at 31 December 2020</b>	<b>367,900</b>	<b>69,601</b>	<b>17,091</b>	<b>39,622</b>	<b>557</b>	<b>40,686</b>	<b>818,358</b>	<b>1,353,815</b>
<b>Net book value as at 31 December 2019</b>	<b>367,900</b>	<b>74,091</b>	<b>18,054</b>	<b>46,424</b>	<b>748</b>	<b>43,193</b>	<b>463,215</b>	<b>1,013,625</b>

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

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

### 26.3 Fair value related disclosures of freehold land

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

Valuer / Location	Date of Valuation	Net book value before revaluation Rs. '000	Revaluation Amount Rs. '000	Revaluation Gain Rs. '000	Revaluation Gain Recognized in OCI Rs. '000
<b>Valuer -C Wellappilli</b>					
No:534, Baudhaloka Mawatha, Colombo 08	31.12.2019	353,750	367,900	14,150	14,150

### Fair value hierarchy

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

### Valuation techniques and significant unobservable inputs

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

## Notes to the Financial Statements

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

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

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

### 27. RIGHT-OF-USE ASSETS

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

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

### 28. INTANGIBLE ASSETS

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

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

## 29. DUE TO OTHER CUSTOMERS

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Fixed deposits	17,199,403	13,159,472
Saving deposits	80,211	61,554
	17,279,614	13,221,026

## 30. DEBT ISSUED AND OTHER BORROWED FUNDS

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Loans (30.2)	10,761,230	17,612,690
Securitized (30.2.2)	447,924	-
Redeemable debentures (30.3)	5,840,552	3,729,537
	17,049,706	21,342,227

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

### 30.1 Movement in Debt issued and other borrowed funds

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

### 30.2 Loans - on terms

As at 31 December		Amortised cost	
	Period	2020	2019
		Rs. '000	Rs. '000
<b>Short term loans</b>			
Sampath Bank PLC	01 Month	-	1,202,441
Hatton National Bank PLC	03 Months	-	751,817
Muslim Commercial Bank	03 Months	-	100,034
Nations Trust Bank PLC	03 Months	550,524	1,710,530

## Notes to the Financial Statements

As at 31 December	Period	Amortised cost	
		2020 Rs. '000	2019 Rs. '000
Seylan Bank PLC	03 Months	800,562	500,262
Union Bank PLC	03 Months	-	200,362
		<b>1,351,086</b>	<b>4,465,446</b>
<b>Long term loans</b>			
Sampath Bank PLC	60 Months	2,974,556	4,930,762
Commercial Bank PLC	60 Months	1,986,961	1,186,478
Hatton National Bank PLC	60 Months	3,277,467	4,782,065
Seylan Bank PLC	60 Months	1,171,160	2,147,452
Muslim Commercial Bank	60 Months	-	100,487
		<b>9,410,144</b>	<b>13,147,244</b>
		<b>10,761,230</b>	<b>17,612,690</b>

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

### 30.2.1 Loans - on maturity

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

### 30.2.2 Securitizations - on maturity

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

### 30.3 Redeemable debentures - movement

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

**30.3.1 Redeemable debentures - maturity**

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

**30.3.2 Details of debentures issued**

	No of Debentures	Issue Date	Maturity Date	Rate of Interest	Amortised cost	
					2020 Rs. '000	2019 Rs. '000
Rated unsecured senior redeemable debentures	10,780,100	20-Sep-16	20-Sep-21	13.50%	1,119,476	1,119,077
Rated unsecured subordinated redeemable debentures	10,000,000	4-Oct-17	4-Oct-22	12.50%	1,030,822	1,030,479
Rated unsecured subordinated redeemable debentures	15,000,000	8-Aug-19	8-Aug-24	13.33%	1,580,528	1,579,981
Rated unsecured senior redeemable debentures	20,000,000	7-Jul-20	7-Jul-23	11.25%	2,109,726	-
					5,840,552	3,729,537

**31. OTHER PAYABLES**

As at 31 December	2020 Rs. '000	2019 Rs. '000
<b>Financial Liabilities</b>		
Vendor payable	238,610	239,136
Insurance premium payable	198,664	164,746
Lease liabilities(Note 31.1 & 31.2)	441,322	421,624
Other financial liabilities	314,358	275,128
	1,192,954	1,100,634

## Notes to the Financial Statements

As at 31 December	2020	2019
	Rs. '000	Rs. '000
<b>Non Financial Liabilities</b>		
VAT payable	-	73
Other taxes payable	69,494	147,802
Accrued expenses	22,837	24,488
Deposit insurance premium	2,007	1,513
Deferred guarantee income	48	28
Other non financial liabilities	24,740	27,005
	119,126	200,909
	1,312,080	1,301,543

### 31.1 Movement of lease liabilities during the year is as follows.

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

### 31.2 Maturity analysis of lease liabilities

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

### 32. CURRENT TAX LIABILITIES

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

### 33. DEFERRED TAX LIABILITIES/(ASSETS)

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

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

### 34. RETIREMENT BENEFIT OBLIGATIONS

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

#### 34.1 Defined benefit obligation reconciliation

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

#### 34.2 Amount recognised in the Income Statement

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



## Notes to the Financial Statements

### 34.3 Amounts recognised in Other Comprehensive Income (OCI)

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

### 34.4 Assumptions

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

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

### 34.5 Sensitivity assumptions employed in actuarial valuation

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

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

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

### 35. STATED CAPITAL

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

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

#### 35.1 Share application money pending allotment

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

### 36. STATUTORY RESERVE FUND

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

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

## Notes to the Financial Statements

### 37. REVALUATION RESERVE

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

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

### 38. RETAINED EARNINGS

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

### 39. FAIR VALUE OF ASSET AND LIABILITIES

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

#### Assets for which fair value approximates carrying value

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

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

Equity instruments at fair value through OCI/Available for sale financial assets primarily consist of unquoted equity securities.

Unquoted equity securities are carried at cost since it is the most reasonable value available to represent the price of such securities.

#### Fixed Rate Financial Instruments

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

#### Variable rate Financial Instruments

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

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

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

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

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

#### Assets

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

#### Liabilities

Bank overdraft  
 Other payables

# Notes to the Financial Statements

## 40. RISK MANAGEMENT

### 40.1 Introduction

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

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

### 40.2 Risk Management Framework

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

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

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

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

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

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

### Responding to COVID-19 pandemic risks

The Company's risk measurement and reporting functions were further strengthened during the year amidst the COVID-19 pandemic. The credit risk of the Company's loan book increased as the loan repayments were impacted by the lock downs and movement restrictions imposed locally and globally. Further, the Company monitored the liquidity position with concern as it was under

pressure due to the payment holidays offered under moratoriums. The operational risks too increased owing to the work from home arrangements etc. during the lock down periods.

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

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

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

#### 40.3 Risk measurement & Reporting System and Risk Mitigation

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

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

Credit Risk			
	<b>1.Default Risk</b> Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations  <b>2. Concentration Risk</b> Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	<ul style="list-style-type: none"> <li>• Probability of Default</li> <li>• Loss Given Default</li> <li>• Sector / Asset / Client / Branch Concentrations of Lending Portfolio</li> <li>• Concentrations in Repossessed assets</li> <li>• Macro Credit Portfolio risk measures such as</li> </ul>	<ul style="list-style-type: none"> <li>• Board approved credit policies/ procedures/ framework and annual review</li> <li>• Delegated authority levels/ segregation of duties</li> <li>• Setting Prudential limits on maximum exposure</li> <li>- Overall NPL Ratio setting based on risk appetite</li> <li>- Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios</li> <li>- Concentration limits for clients/ groups, asset types</li> <li>• Monitoring of exposures against the limits</li> <li>• Trend analysis reported to BIRMC</li> </ul>

## Notes to the Financial Statements

### 40. RISK MANAGEMENT (Contd...)

<b>Credit Risk</b>		a) Provision Coverage b) Net NPL as a % of Equity Funds	Strict compliance with CBSL Guidelines
<b>Interest rate risk</b>	Adverse effect on Net Interest Income	<ul style="list-style-type: none"> <li>• Net Interest Yield and Movement in Net Interest Yield</li> <li>• Lending to Borrowing Ratio</li> <li>• Tracking of Movements in Money Market rates</li> </ul>	
		<ul style="list-style-type: none"> <li>• Marginal Cost of funds / Risk based Pricing</li> <li>• Gaps in asset Liability Re-Pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets</li> <li>• Setting of Lending to Borrowing ratios</li> </ul>
<b>Liquidity Risk</b>	Inability to meet obligations as they fall due	<ul style="list-style-type: none"> <li>• Cumulative Gaps as a % of Cumulative Liabilities</li> <li>• Gaps in dynamic liquidity flows</li> <li>• Stocks of high quality liquid assets</li> </ul>	<ul style="list-style-type: none"> <li>• Gaps limits for structural liquidity,</li> <li>• Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets</li> </ul>
			<ul style="list-style-type: none"> <li>• Volatile Liability Dependency measures</li> <li>• Balance sheet ratios</li> </ul>

#### 40.4 Credit Risk

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

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

#### Management of Credit Risk

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

At the initial level, the credit facilities are preliminary screened at the branch level and a credit evaluation is done. Then based on the



exposure the facility is escalated upwards for approval along with a credit risk assessment. In determining the borrower's credit risk the industry in which he performs, succession, integrity, past payment records inter alia are considered. In assessing the facility the equity contribution, security cover and guarantors are taken in to consideration.

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

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

#### **40.4.1 Impairment Assessment**

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

##### **40.4.1. (a) Definition of default and cure**

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

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

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

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

## Notes to the Financial Statements

### 40. RISK MANAGEMENT (Contd...)

#### 40.4.1 Assessment of Impairment (Contd...)

##### 40.4.1 (b) Significant increase in credit risk

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December	2020			2019		
	Stage 1 and 2 Actual ECL Rs. '000	ECL - If all performing loans in Stage 1 Rs. '000	Impact of staging Rs. '000	Stage 1 and 2 Actual ECL Rs. '000	ECL - If all performing loans in Stage 1 Rs. '000	Impact of staging Rs. '000
Total allowance for expected credit losses	416,999	244,885	(172,114)	218,259	146,752	(71,507)

As at 31 December	2020			2019		
	Stage 1 and 2 Actual ECL Rs. '000	ECL - If all performing loans in Stage 2 Rs. '000	Impact of staging Rs. '000	Stage 1 and 2 Actual ECL Rs. '000	ECL - If all performing loans in Stage 2 Rs. '000	Impact of staging Rs. '000
Total allowance for expected credit losses	416,999	621,430	204,431	218,259	479,525	261,266

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

## Notes to the Financial Statements

### 40. RISK MANAGEMENT (Contd...)

#### 40.4.1 Assessment of Expected Credit Losses (Contd...)

##### 40.4.1 (g) Loans past due but not impaired

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

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

##### 40.4.1 (h) Breakdown of loans classified under stage 2

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

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

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

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

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

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

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

#### 40.4.2 Maximum Exposure to Credit Risk

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

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

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

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

#### 40. RISK MANAGEMENT (Contd...)

#### 40.4.4 Offsetting financial assets and liabilities

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

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

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
As at 31st December 2020	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and bank balances	-	-	-	-	-	-	-	-	292,036	-	-	292,036
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	2,781,162	-	-	-	2,781,162
Factoring receivables	171,184	-	22,786	34,774	2,880	-	30,320	-	-	-	-	261,944
Gold loan receivables	-	-	-	-	-	-	-	-	-	4,769,716	-	4,769,716
Loan receivables	304,918	36,681	54,084	463,637	279,491	63,740	164,121	-	-	228,111	155,333	1,750,116
Lease receivables	2,420,865	1,380,914	2,987,262	5,055,334	2,023,709	2,725,798	8,655,739	-	1,561,661	1,720,932	485,458	29,017,672
Hire purchase receivables	-	-	267	555	-	-	-	-	1,303	-	-	2,125
Other assets	-	-	-	-	-	-	-	-	-	-	747,028	747,028

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
As at 31st December 2020	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	34,145	-	-	-	34,145
	2,896,967	1,417,595	3,064,399	5,554,300	2,306,080	2,789,538	8,850,180	2,815,307	1,855,056	6,718,759	1,387,819	39,656,000

	Manufacturing	Tourism	Agriculture	Trade	Construction	Transport	Services	Government	Financial Institutions	Consumers	Others	Total
As at 31st December 2019	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000	Rs 000
Cash and bank balances	-	-	-	-	-	-	-	-	273,429	-	-	273,429
Securities purchased under repurchase agreements	-	-	-	-	-	-	-	2,304,392	-	-	-	2,304,392
Factoring receivables	517,664	-	28,839	64,639	7,582	6,497	29,920	-	-	-	-	655,141
Gold loan receivables	-	-	-	-	-	-	-	-	-	5,011,268	-	5,011,268
Loan receivables	241,948	39,268	18,575	337,980	355,622	10,084	66,333	-	32,269	333,952	97,682	1,533,713
Lease receivables	2,152,456	1,613,277	2,779,404	5,178,806	1,942,742	2,396,162	8,735,858	-	1,848,115	1,931,003	445,371	29,023,194
Hire purchase receivables	838	116	-	633	-	-	1,809	-	-	41	-	3,437
Other assets	-	-	-	-	-	-	-	-	-	-	539,784	539,784
Equity instruments at fair value through OCI	-	-	-	-	-	-	-	-	56	-	-	56
Debt instruments at amortised cost	-	-	-	-	-	-	-	15,301	-	-	-	15,301
	2,912,906	1,652,661	2,826,818	5,582,058	2,305,946	2,412,743	8,833,920	2,319,693	2,153,869	7,276,264	1,082,837	39,359,715

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

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



## Notes to the Financial Statements

### 40. RISK MANAGEMENT (Contd...)

#### 40.5 Interest Rate Risk

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

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

#### Management of Interest Rate Risk

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

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

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

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.

#### 40.5.1 Interest Rate Sensitivity

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

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

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

#### 40.5.2 Interest Rate Risk Exposure On Non Trading Financial Assets & Liabilities

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

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

## Notes to the Financial Statements

### 40. RISK MANAGEMENT (Contd...)

#### 40.5.2 Interest Rate Risk (Contd..)

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	Non Interest Bearing Rs'000	Total Rs'000
<b>Financial Assets</b>							
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
<b>Total Financial Assets</b>	<b>9,996,519</b>	<b>11,092,772</b>	<b>12,961,138</b>	<b>4,902,828</b>	<b>70,176</b>	<b>336,282</b>	<b>39,359,715</b>
<b>Financial Liabilities</b>							
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
<b>Total Financial Liabilities</b>	<b>20,228,838</b>	<b>8,346,844</b>	<b>4,107,294</b>	<b>2,241,311</b>	<b>552</b>	<b>1,100,634</b>	<b>36,025,473</b>
<b>Interest Sensitivity Gap</b>	<b>(10,232,319)</b>	<b>2,745,928</b>	<b>8,853,844</b>	<b>2,661,517</b>	<b>69,624</b>	<b>(764,352)</b>	<b>3,334,242</b>

#### 40.6 Liquidity Risk

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

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

#### Management of Liquidity Risk

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

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

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

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

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

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

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

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

#### **40.6.1 Statutory Liquid Asset Ratio**

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

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

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

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

## Notes to the Financial Statements

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

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

<b>As at 31 December 2019</b>	<b>Up to 03 Months Rs'000</b>	<b>03-12 Months Rs'000</b>	<b>01-03 Years Rs'000</b>	<b>03-05 Years Rs'000</b>	<b>Over 05 Years Rs'000</b>	<b>Total Rs'000</b>
<b>Financial Assets</b>						
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
<b>Total Financial Assets</b>	<b>11,731,244</b>	<b>15,745,027</b>	<b>18,258,344</b>	<b>5,798,055</b>	<b>79,193</b>	<b>51,611,863</b>
<b>Financial Liabilities</b>						
Bank overdraft	361,586	-	-	-	-	361,586
Due to other customers	4,589,851	7,852,600	1,929,306	869,296	552	15,241,605
Debt instruments issued and other borrowed funds	6,406,427	5,196,483	9,584,526	4,175,238	-	25,362,674
Other payables	747,968	98,289	198,360	132,048	167,124	1,343,789
<b>Total Financial Liabilities</b>	<b>12,105,832</b>	<b>13,147,372</b>	<b>11,712,192</b>	<b>5,176,582</b>	<b>167,676</b>	<b>42,309,654</b>
<b>Net Financial Asset/Liabilities</b>	<b>(374,588)</b>	<b>2,597,655</b>	<b>6,546,152</b>	<b>621,473</b>	<b>(88,483)</b>	<b>9,302,209</b>

## Notes to the Financial Statements

### 41. MATURITY ANALYSIS

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



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
<b>Assets</b>						
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
<b>Total Assets</b>	<b>10,364,860</b>	<b>11,127,868</b>	<b>12,987,414</b>	<b>4,912,767</b>	<b>1,554,436</b>	<b>40,947,345</b>
<b>Liabilities</b>						
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
<b>Total Liabilities</b>	<b>11,426,759</b>	<b>11,438,099</b>	<b>9,305,098</b>	<b>4,397,698</b>	<b>363,866</b>	<b>36,931,520</b>

## Notes to the Financial Statements

### 42. COMMITMENTS AND CONTINGENCIES

As at 31 December		2020				2019				
		Rs. '000				Rs. '000				
	On Demand	With in 01 year	1-5 years	More than 5 years	Total	On Demand	With in 01 year	1-5 years	More than 5 years	Total
<b>Commitments</b>										
Commitment for unutilised facilities-										
Direct credit facilities										
- Factoring	44,663	-	-	-	44,663	11,780	-	-	-	11,780
-Revolving Loans	4,569	-	-	-	4,569	12,750	-	-	-	12,750
Capital commitments										
(Note 42.1)	-	677,124	-	-	677,124	-	699,528	-	-	699,528
	49,232	677,124	-	-	726,356	24,530	699,528	-	-	724,058
<b>Contingent Liabilities</b>										
Guarantees	-	6,500	-	-	6,500	-	5,200	-	-	5,200
	-	6,500	-	-	6,500	-	5,200	-	-	5,200
<b>Total gross commitments &amp; contingencies</b>										
	49,232	683,624	-	-	732,856	24,530	704,728	-	-	729,258
Impairment for expected credit losses - credit related commitments & contingencies										
	(1,117)	-	-	-	(1,117)	(275)	-	-	-	(275)
<b>Commitments &amp; contingencies net of impairment for expected credit losses</b>										
	48,115	683,624	-	-	731,739	24,255	704,728	-	-	728,983

#### 42.1 Capital commitments

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

As at 31 December	2020	2019
	Rs. '000	Rs. '000
Approved and contracted for	670,247	699,528
Approved but not contracted for	6,877	-
	677,124	699,528

#### 42.2 Litigation filed by the Company/ against the Company

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company makes adjustments to account for any adverse effects which the claims may have on its financial standing. There were no pending litigation against the Company as at 31 December 2020 which would have a material impact on the Financial Statements.

#### 43. EVENTS AFTER THE REPORTING PERIOD

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

#### 44. COMPARATIVE INFORMATION

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

#### 45. RELATED PARTY TRANSACTIONS

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

##### 45.1 Parent and Ultimate Controlling Party

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

##### 45.2 Transactions with Key Managerial Personnel

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

Year ended 31 December	2020	2019
	Rs. '000	Rs. '000
Directors' fees & short term employee benefits	49,013	48,423
<b>Total</b>	<b>49,013</b>	<b>48,423</b>

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.

## Notes to the Financial Statements

### 45. RELATED PARTY TRANSACTIONS (Contd...)

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

##### 45.3.1 Loans and advances granted

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

##### 45.3.2 Deposits and Borrowings from KMPs are detailed below.

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

##### 45.3.3 Borrowings through Debt Instruments

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

#### 45.4 Transactions with Group Companies

##### 45.4.1 Sampath Bank PLC - Parent Company

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

Balance outstanding as at 31 December	2020	2019
	Rs. '000	Rs. '000
<b>Investment in government securities - REPOs/Treasury bills</b>		
Opening Balance	10,772	9,733
Net investments during the year	989,345	1,039
Closing Balance	1,000,116	10,772
Other receivables	505	333
<b>Term Loan (Only capital)</b>		
Opening Balance	4,920,733	3,488,300
Granted during the year	-	3,000,000
Less : Repayment during the year	(1,950,400)	(1,567,567)
Closing Balance	2,970,333	4,920,733
<b>Short Term Loan (Only capital)</b>	-	1,200,000
<b>Bank Overdraft</b>	249,605	325,033
Total Accommodation obtained	3,219,938	6,445,766
Less : Favourable balances in current accounts with bank	132,895	85,263
<b>Net Accommodation</b>	<b>3,087,043</b>	<b>6,360,503</b>
<b>Net Accommodation as a percentage of Capital Funds</b>	<b>60.22%</b>	<b>158.39%</b>

	2020	2019
Transaction during the year	Rs. '000	Rs. '000
<b>Expenses</b>		
Interest paid	522,879	619,290
Rent paid ( for the branch located within Sampath Bank premises)	416	3,923
Fees paid for acting as Bankers to the debentures issued in year 2020 & 2019.	324	315
Other expenses	156	149
<b>Income</b>		
Fee for locating ATM machines at Company's branch premises operations	56	293
Interest Income on short term government securities	852	1,039
Interest Income on call/savings deposits	5,139	3,079
The company has invested in short term government securities through Sampath Bank PLC.		
<b>Issue of shares/Dividend</b>		
Proceeds for rights issue of shares	700,000	-
Scrip Dividend(Gross)-number of shares-2,899,663 (2019-625,111)	142,959	36,344

#### 45.4.2 Sampath Information Technology Solutions Ltd

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

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

Balance outstanding as at 31 December	2020	2019
	Rs. '000	Rs. '000
Other receivables	134	309

	2020	2019
Transaction during the year	Rs. '000	Rs. '000
Hardware/Software maintenance paid	1,183	833
Operating lease expenses(Computer hire charges)	64	93

## Notes to the Financial Statements

### 45. RELATED PARTY TRANSACTIONS (Contd..)

#### 45.4 Transactions with Group Companies (Contd..)

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

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

### 46. SEGMENT INFORMATION

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

	Leasing and Hire Purchase		Gold Loan		Others		Total	
For the year ended 31 December	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000	2020 Rs. '000	2019 Rs. '000
Interest Income	5,414,925	5,583,704	1,125,558	1,073,790	273,733	572,118	6,814,216	7,229,612
Less: Interest expenses	(3,017,256)	(3,189,707)	(468,710)	(525,590)	(370,349)	(515,360)	(3,856,315)	(4,230,657)
<b>Net interest income</b>	<b>2,397,669</b>	<b>2,393,997</b>	<b>656,848</b>	<b>548,200</b>	<b>(96,616)</b>	<b>56,758</b>	<b>2,957,901</b>	<b>2,998,955</b>
Net fee and commission income	184,667	206,707	93,638	102,669	399	2,389	278,704	311,765
Other operating income	469,757	359,184	-	-	17,018	19,344	486,775	378,528
<b>Total operating income</b>	<b>3,052,093</b>	<b>2,959,888</b>	<b>750,486</b>	<b>650,869</b>	<b>(79,199)</b>	<b>78,491</b>	<b>3,723,380</b>	<b>3,689,248</b>
Less: Impairment (charges)/reversal on loans and losses	(1,072,252)	(477,513)	(1,247)	988	(282,765)	(574,413)	(1,356,264)	(1,050,938)
<b>Net operating income</b>	<b>1,979,841</b>	<b>2,482,375</b>	<b>749,239</b>	<b>651,857</b>	<b>(361,964)</b>	<b>(495,922)</b>	<b>2,367,116</b>	<b>2,638,310</b>
Less: Total operating expenses (Including taxes on financial services)	(180,029)	(1,420,987)	(38,132)	(250,340)	(1,470,936)	(168,453)	(1,689,097)	(1,839,780)

	Leasing and Hire Purchase		Gold Loan		Others		Total	
For the year ended	2020	2019	2020	2019	2020	2019	2020	2019
31 December	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Operating profit before taxes</b>	<b>1,799,812</b>	<b>1,061,388</b>	<b>711,107</b>	<b>401,517</b>	<b>(1,832,900)</b>	<b>(664,375)</b>	<b>678,019</b>	<b>798,530</b>
Less: Income tax expenses							<b>(268,528)</b>	<b>(318,336)</b>
<b>Profit for the year</b>							<b>409,491</b>	<b>480,194</b>
Non-controlling interest							-	-
<b>Profit attributable to equity holders of the Company</b>							<b>409,491</b>	<b>480,194</b>
<b>As at 31 December</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>	<b>Rs. '000</b>
Segment assets	<b>29,019,797</b>	<b>29,026,631</b>	<b>4,769,716</b>	<b>5,011,268</b>	<b>7,762,147</b>	<b>6,909,447</b>	<b>41,551,660</b>	<b>40,947,345</b>
<b>Total assets</b>	<b>29,019,797</b>	<b>29,026,631</b>	<b>4,769,716</b>	<b>5,011,268</b>	<b>7,762,147</b>	<b>6,909,447</b>	<b>41,551,660</b>	<b>40,947,345</b>
Segment liabilities	<b>25,442,444</b>	<b>26,179,905</b>	<b>4,181,514</b>	<b>4,519,798</b>	<b>6,801,737</b>	<b>6,231,817</b>	<b>36,425,695</b>	<b>36,931,520</b>
<b>Total liabilities</b>	<b>25,442,444</b>	<b>26,179,905</b>	<b>4,181,514</b>	<b>4,519,798</b>	<b>6,801,737</b>	<b>6,231,817</b>	<b>36,425,695</b>	<b>36,931,520</b>

#### 47. CAPITAL

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

##### Capital Management

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

##### Regulatory Capital

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



# Ten Year Summary

Year ended 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Interest income	555,329	1,033,557	1,620,272	1,837,546	1,973,921	2,838,995	4,599,470	6,395,898	7,229,612	<b>6,814,216</b>
Interest expenses	(210,207)	(600,406)	(899,069)	(778,661)	(824,699)	(1,620,783)	(2,764,290)	(3,680,060)	(4,230,657)	<b>(3,856,315)</b>
<b>Net interest income</b>	<b>345,122</b>	<b>433,151</b>	<b>721,202</b>	<b>1,058,885</b>	<b>1,149,223</b>	<b>1,218,212</b>	<b>1,835,180</b>	<b>2,715,838</b>	<b>2,998,955</b>	<b>2,957,901</b>
Other income	44,410	61,610	114,085	139,354	232,315	312,774	465,904	567,459	690,293	<b>765,479</b>
Operating income	389,532	494,761	835,287	1,198,239	1,381,537	1,530,986	2,301,083	3,283,298	3,689,248	<b>3,723,380</b>
Operating expenses	(178,366)	(224,412)	(431,028)	(547,930)	(679,804)	(808,111)	(1,048,290)	(1,328,499)	(1,433,411)	<b>(1,462,546)</b>
<b>Operating profit</b>	<b>211,166</b>	<b>270,349</b>	<b>404,259</b>	<b>650,309</b>	<b>701,733</b>	<b>722,875</b>	<b>1,252,794</b>	<b>1,954,799</b>	<b>2,255,837</b>	<b>2,260,834</b>
Impairment (charges)/ reversals/provision for doubtful debts	49,324	(262)	(67,237)	(183,217)	(49,275)	(79,189)	(236,744)	(829,751)	(1,050,938)	<b>(1,356,264)</b>
Taxes on financial services	(16,207)	(18,100)	(35,740)	(61,536)	(93,305)	(128,500)	(230,810)	(291,259)	(406,369)	<b>(226,551)</b>
<b>Profit before taxation</b>	<b>244,283</b>	<b>251,987</b>	<b>301,281</b>	<b>405,556</b>	<b>559,153</b>	<b>515,186</b>	<b>785,240</b>	<b>833,789</b>	<b>798,530</b>	<b>678,019</b>
Tax expenses	(46,268)	(51,752)	(80,301)	(145,379)	(174,629)	(187,904)	(286,378)	(317,268)	(318,336)	<b>(268,528)</b>
<b>Profit for the year</b>	<b>198,015</b>	<b>200,235</b>	<b>220,980</b>	<b>260,177</b>	<b>384,524</b>	<b>327,282</b>	<b>498,862</b>	<b>516,521</b>	<b>480,194</b>	<b>409,491</b>

As at 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Cash and bank balances	29,520	32,586	65,378	88,655	130,070	169,333	297,858	191,556	273,429	<b>292,036</b>
Securities purchased under repurchase agreements	4,045	5,341	323,792	489,685	601,679	777,438	1,200,981	1,768,461	2,304,392	<b>2,781,162</b>
Investments in fixed deposits	-	87,246	-	-	-	-	65,699	-	-	-
Factoring receivables	532,458	566,584	1,052,411	996,440	1,157,136	1,979,243	1,899,702	1,332,310	655,141	<b>261,944</b>
Gold loan receivables	-	-	-	-	770,839	1,768,922	2,563,352	3,548,666	5,011,268	<b>4,769,716</b>
Pawning receivables	-	-	412,753	456,193	-	-	-	-	-	-
Loan receivables	-	-	568,573	506,526	286,968	743,740	2,724,776	2,481,575	1,533,713	<b>1,750,116</b>
Lease receivables	2,027,939	2,678,159	2,833,933	3,383,597	9,230,730	13,851,890	19,873,470	25,601,932	29,023,194	<b>29,017,672</b>
HP receivable	1,253,322	2,155,384	3,393,593	4,250,553	2,083,571	837,560	252,000	48,525	3,437	<b>2,125</b>
Other assets	276,531	285,219	335,131	246,141	378,334	662,612	932,742	1,193,305	2,142,771	<b>2,676,889</b>
<b>Total Assets</b>	<b>4,123,815</b>	<b>5,810,520</b>	<b>8,985,564</b>	<b>10,417,790</b>	<b>14,639,326</b>	<b>20,790,738</b>	<b>29,810,580</b>	<b>36,166,330</b>	<b>40,947,345</b>	<b>41,551,660</b>
Bank overdraft	-	62,124	63,982	83,921	163,583	460,494	456,018	321,821	361,586	<b>250,536</b>
Customer deposits	-	-	-	-	1,233,041	3,362,662	9,333,622	9,672,008	13,221,026	<b>17,279,614</b>
Debt issued and other borrowed funds	3,211,375	4,655,317	7,487,912	8,528,922	10,925,421	14,187,266	16,310,778	21,391,367	21,342,227	<b>17,049,706</b>
Other payables	216,198	216,553	359,769	493,303	706,150	849,956	1,231,877	1,240,142	2,006,680	<b>1,845,839</b>
<b>Total Liabilities</b>	<b>3,427,573</b>	<b>4,933,994</b>	<b>7,911,662</b>	<b>9,106,146</b>	<b>13,028,194</b>	<b>18,860,377</b>	<b>27,332,295</b>	<b>32,625,339</b>	<b>36,931,520</b>	<b>36,425,695</b>

As at 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>Shareholders' Funds</b>										
Stated capital	525,000	525,000	525,000	525,000	525,000	576,975	635,917	948,666	1,379,922	<b>1,522,881</b>
Share application money pending allotment	-	-	-	-	-	-	-	400,000	-	<b>700,000</b>
Statutory reserve fund	16,726	26,738	37,787	50,831	70,059	86,422	113,000	139,000	164,000	<b>185,000</b>
Investment fund reserve	12,841	29,988	58,488	-	-	-	-	-	-	<b>-</b>
Revaluation Reserve	-	-	-	-	-	-	56,823	107,763	117,951	<b>117,951</b>
Accumulated profit/ (loss)	141,675	294,800	452,627	735,813	1,016,073	1,266,964	1,672,545	1,945,562	2,353,952	<b>2,600,133</b>
<b>Shareholders' Funds</b>	<b>696,242</b>	<b>876,526</b>	<b>1,073,902</b>	<b>1,311,644</b>	<b>1,611,132</b>	<b>1,930,361</b>	<b>2,478,285</b>	<b>3,540,991</b>	<b>4,015,825</b>	<b>5,125,965</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>4,123,815</b>	<b>5,810,520</b>	<b>8,985,564</b>	<b>10,417,790</b>	<b>14,639,326</b>	<b>20,790,738</b>	<b>29,810,580</b>	<b>36,166,330</b>	<b>40,947,345</b>	<b>41,551,660</b>

As at 31 December	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Growth in Interest Income	45%	86%	57%	13%	7%	44%	62%	39%	13%	<b>-5.75%</b>
Growth Interest Expenses	57%	186%	50%	-13%	6%	97%	71%	33%	15%	<b>-8.85%</b>
Cost to income ratio with taxes on financial services (%)	49.95%	49.02%	55.88%	50.86%	55.96%	61.18%	55.59%	49.33%	49.87%	<b>45.36%</b>
Cost to income ratio without taxes on financial services (%)	45.79%	45.36%	51.60%	45.73%	49.21%	52.78%	45.56%	40.46%	38.85%	<b>39.28%</b>
Interest Cover ratio	2.16	1.42	1.59	1.73	1.84	1.32	1.28	1.23	1.19	<b>1.18</b>
Growth in Operating Profit	17%	28%	50%	61%	8%	3%	73%	56%	15%	<b>0.22%</b>
Growth in Profit After Tax(PAT)	56%	1%	10%	18%	48%	-15%	52%	4%	-7%	<b>-14.72%</b>
Earning/(Loss) Per Share-Rs.	3.77	3.81	4.21	4.96	7.32	6.14	8.70	8.43	6.56	<b>5.37</b>
Growth in Advances	168%	42%	53%	16%	41%	42%	42%	21%	10%	<b>-1.17%</b>
Growth in Deposits and Borrowings	230%	47%	60%	14%	43%	46%	45%	20%	11%	<b>-0.99%</b>
Growth in Shareholder's Funds	40%	26%	23%	22%	23%	20%	28%	43%	13%	<b>27.64%</b>
Debt/Equity Ratio	4.61	5.38	7.03	6.57	7.65	9.33	10.53	8.86	8.70	<b>6.75</b>
Net Assets per Share-Rs.	13.26	16.70	20.46	24.98	30.69	35.67	44.43	55.68	54.78	<b>67.26</b>
Return on Average Total Assets	7%	4%	3%	3%	3%	2%	1.91%	1.50%	1.22%	<b>0.96%</b>
Return on Average Equity	33%	25%	22%	22%	26%	18%	23%	17%	13%	<b>9.54%</b>

# Capital Adequacy

## Capital Adequacy

Capital Adequacy is one of the Key measures which illustrate the financial strength and the stability of a finance company. By having a healthy capital adequacy ratio, company can create confidence among its investors and create a positive image among prospective investors. Central bank of Sri Lanka issued a new direction (Finance Business Act Direction No. 03 of 2018) to be effect from 01st July 2018. New Capital adequacy framework has introduced a more risk sensitive approach covering credit risk and operational risk. Market risk was not considered under this framework because the sector exposure to market risk was considered to be minimal.

In accordance with Finance Business Act Direction No. 03 of 2018, every finance company shall at all times maintain the minimum capital adequacy ratios of Tier I – 6.50% and Total Capital – 10.50% in relation to total risk weighted assets. Tier I, Tier II and Risk weighted assets are defined under this new capital adequacy framework as follows.

### Tier 1 - Core capital

Tier 1 capital represents core capital of the company. Core capital includes shareholder's equity and reserves.

$$\bullet \text{ Tier I Ratio} = \frac{\text{Tier I Capital}}{\text{Total Risk Weighted Amount}}$$

## Total of Tier 1 and Tier 2 Capital

Tier II capital represents supplementary capital such as instruments containing characteristics of equity and debt, revaluation gains and general provisioning/impairment allowances.

$$\bullet \text{ Total Capital ratio} = \frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}}$$

## Risk Weighted Assets

Risk weighted assets are a measure of company's assets and off balance sheet exposures, weighted according to their risks, with each asset class assigned a different risk weightage.

As at 31 December 2020, the Company maintained a Tier I ratio of 9.77% and a Total Capital ratio of 14.18%. Both ratios are above the minimum regulatory requirements (Tier I – 6.50% and Total Capital – 10.50%) set by CBSL.

## Computation of Capital Ratios

Item	Amount Rs.'000
Tier 1 Capital	3,659,309
Total Capital	5,313,191
Total Risk Weighted Amount	37,461,336
Risk Weighted Amount for Credit Risk	32,610,671
Risk Weighted Amount for Operational Risk	4,850,666
Tier 1 Capital Ratio, %	9.77
Total Capital Ratio, %	14.18

# Glossary of Financial Terms

## A

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

### Accrual Basis

Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post-employment benefits.

### Allowance for Impairment

A provision held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

### Amortization

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

### Asset and Liability Committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management

levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

### Average Weighted Prime Lending Rate (AWPLR)

AWPLR is calculated by the Central Bank weekly, based on commercial banks' lending rates offered to their prime customers during the week.

## B

### Basis Point (BP)

One hundredth of a percentage point (0.01 per cent); 100 basis points is 1 percentage points: Used in quoting movements in interest rates or yields on securities.

## C

### Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Cash

Cash comprises cash in hand and demand deposits.

### Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Cash Flows

Inflows and outflows of cash and cash equivalents.

### Collectively Assessed Impairment

Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

### Commercial Paper (CP)

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

### Commitments

Credit facilities approved but not yet utilised by the clients as at the reporting date.

### Compounded Annual Growth Rate (CAGR)

The rate at which a variable would have grown if it grew at an even rate compounded annually.

### Contingencies

A condition or situation existing at the Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

### Contract

An agreement between two or more parties that creates enforceable rights and obligations.

### Control

An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

## Glossary of Financial Terms

### Corporate Governance

The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

### Cost to Income Ratio

Operating expenses excluding loan/ lease loss provision as a percentage of total operating income.

### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

### Credit Risk

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

### Credit Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantee and credit protection.

### Customer Deposits

Money deposited by account holders. Such funds are recorded as liabilities.

## D

### Deferred Tax

Sum set aside for tax in the Financial Statements that may become payable/ receivable in a financial year other than the current financial year.

### Delinquency

A debt or other financial obligation is considered to be in a state of delinquency when payments are overdue.

Loans and advances are considered to be delinquent when consecutive payments are missed. Also known as 'Arrears'.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

### Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

### Dividend Cover

Profit after tax divided by gross dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

### Dividend pay-out ratio

The percentage of earnings paid out to shareholders as dividends.

### Dividend per share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current year's dividend attributable to an ordinary share in issue.

### Dividend Yield

Dividend earned per share as a percentage of its market value.

## E

### Earnings per Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

### Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

### Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation expressed as a percentage of Profit before Tax.

### Employee Retention Ratio

Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

### Equity Method

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post- acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

### Events after the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue.

### Expected Loss (EL)

A regulatory calculation of the amount expected to be lost on an exposure using a 12 month time horizon and downturn loss estimates. EL is calculated by multiplying the Probability of Default (a

percentage) by the Exposure at Default (an amount) and Loss Given Default (a percentage).

### **Exposure**

A claim, contingent claim or position which carries a risk of financial loss.

## **F**

### **Factoring**

Factoring is a time-honored financial tool used by companies worldwide. It is the purchase of account receivables (invoices) for immediate cash.

### **Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### **Fair Value through Profit or Loss**

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

### **Finance Lease**

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### **Financial Asset**

Any asset that is cash, an equity instrument of "another" entity or a contractual right to receive cash or

another financial asset from another entity.

### **Financial Guarantee Contract**

A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

### **Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

### **Financial Liability**

A contractual obligation to deliver cash or another financial asset to another entity.

### **Functional and Presentation Currency**

These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. All financial information has been rounded to the nearest Rupee unless otherwise specifically indicated.

## **G**

### **Going concern**

An entity shall prepare Financial Statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

### **Group**

A Group is a parent and all its subsidiaries.

### **Gearing**

Long term borrowings divided by the total funds available for shareholders.

### **Gross Dividend**

The portion of profits distributed to the shareholders including the tax withheld.

### **Guarantees**

A promise made by a third party (guarantor), who is not a party to a contract between two others, that the guarantor will be liable if the guarantee fails to fulfill the contractual obligations.

## **H**

### **Hire purchase**

A hire purchase is a contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

## **I**

### **International Financial Reporting Standards (IFRS)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

### **Intangible Assets**

An intangible asset is an identifiable non-monetary asset without physical substance.

### **Interest Cover**

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

### **Interest Margin**

Net Interest income expressed as a percentage of average interest earning assets.



## Glossary of Financial Terms

### Interest Spread

Represents the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

### Interest in Suspense

Interest suspended on non- performing leases, hire purchases and other advances.

### Impairment

This occurs when the recoverable amount of an asset is less than its carrying amount.

### Impaired Loans

Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

### Impairment Allowances

Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

### Impairment Provisions

Provisions held on the Statement of Financial Position as a result of the raising of a charge against profit for the incurred loss.

### Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

### Individually Significant Loan Impairment Provision (Specific Impairment Provision)

Impairment is measured individually for assets that are individually significant to the Group.

### Integrated Reporting

A methodology of reporting an organisation's strategy, governance, financial performance and prospects in relation to the creation of value over the short, medium and long-term in its economic, social and environmental context.

### Interest Rate Risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

### Investment Properties

A property (land or a building - or part of a building - or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

### Investment Securities

Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

## K

### Key Management Personnel

Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

## L

### Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

### Lifetime Expected Credit Losses

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

### Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

### Loan/Credit Losses and Provisions

Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

### Loans and Receivables

Non derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those intended to sell immediately or in the near term and designated as fair value through profit or loss or available for sale on initial recognition.

### Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### Loss Given Default (LGD)

The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

## M

### Market Risk

This refers to the possibility of loss arising from changes in a value of a financial instrument as a result in changes of



market variables such as interest rate, exchange rates, credit spread and other asset prices.

### **Materiality**

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## **N**

### **Net Assets per Share**

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

### **Net Interest Income**

The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

### **Net Interest Margin (NIM)**

Net interest income expressed as a percentage of average interest earning assets.

### **Non Performing Advances**

A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognised when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collectability of principal and/ or interest. Rentals receivable in arrears for more than six rentals have been categorised as non-performing. Non-performing advances are reclassified as performing when all arrears rentals are settled in full.

### **NPA Ratio**

The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

## **O**

### **Off- Balance Sheet Items**

Items that are not recognised as assets or liabilities in the Statement of Financial Position, which give rise to commitments and contingencies in future.

### **Offsetting of financial statements**

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

### **Operational Risk**

Operational risk refers to the losses arising from fraud, negligence, oversight, human error, process errors, system failures, external events, etc.

## **P**

### **Parent Company**

An entity that controls one or more subsidiaries.

### **Past Due**

A financial asset is past due when a counter party has failed to make a payment when contractually due.

### **Power**

The Power is the existing rights that give the current ability to direct the relevant activities.

### **Probability of Default (PD)**

The probability that an obligor will default within a one-year time horizon.

### **Projected Unit Credit Method (PUC)**

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up

the final obligation (sometimes known as the accrued benefit method pro-rated on service or as the benefit/ years of service method).

### **Provision Cover**

Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on nonperforming loans, leases and advances.

### **Prudence**

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

## **R**

### **Related Parties**

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### **Residual Value**

The estimated amount that is currently realizable from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

### **Return on Average Assets (ROA)**

Profit after tax expressed as a percentage of average assets.

### **Return on Equity (ROE)**

Net Profit after Tax less dividend on preference shares if any, expressed as a percentage of average ordinary shareholders' equity.

## Glossary of Financial Terms

### Reverse Repurchase Agreements

Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

### Right-of-use asset

An asset that represents a lessee's right to use an underlying asset for the lease term.

### Risk Weighted Assets

The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

## S

### Shareholders' Funds

The total of stated capital and capital and revenue reserves.

### Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka. They comprise of the following: Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

### Staff Turnover Ratio

Represents the number of employee attrition during the year as a percentage of average number of employees for the year end.

### Stated Capital

All amounts received by the Company or due and payable to the Company - (a) in respect of the issue of shares, (b) in respect of calls on shares.

### Statutory Reserve Fund

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003

### Substance over Form

The consideration that the accounting treatment and the presentation in financial statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

### Subsidiary Company

An entity, including an unincorporated entity, which is controlled by another entity.

## T

### Tier I Capital (Core Capital)

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital (Supplementary capital)

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

### Total Capital (Capital Base)

Capital base is the summation of the core capital (Tier I) and the supplementary capital (Tier II).

### Transaction Costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

## U

### Useful Life

The period over which an asset is expected to be available for use by an entity or the number of production or similar units expected to be obtained from the asset by an entity.

## V

### Value Added

Wealth created by providing financial and other services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

### Volatile Liability Dependency Ratio

Short Term borrowings (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

## Y

### Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

### Yield to Maturity

Discount rate at which the present value of future payments would equal the security's current price.

# Notice of Annual General Meeting

NOTICE IS HEREBY given that the 16th Annual General Meeting of Siyapatha Finance PLC will be held on 25th May 2021 at 10.00 a.m. the Boardroom of Siyapatha Finance PLC at No. 46/12, Sayuru Sevana, Nawam Mawatha , Colombo 2 / virtually.

## AGENDA

- (1) To receive and consider the Report of the Board of Directors on the Affairs of the Company and the Statement of Audited Accounts for the year ended 31st December 2020 with the Report of the Auditors thereon.
- (2) To reelect Mr. J.H. Gunawardena as a Director under Articles 24(8) of the Articles of Association of the Company.
- (3) To reelect Mr. D. Sooriyaarachchi as a Director under Articles 24(8) of the Articles of Association of the Company.
- (4) To reelect Mr.W.S.C. Perera as a Director under Articles 24(8) of the Articles of Association of the Company.
- (5) To elect Mr. M.D.B. Boyagoda as a Director in accordance with the Article 24(2) of the articles of Association of the Company.
- (6) To declare a Dividend of Rs. 1.37 per share for the financial year 2020 and if thought fit, to pass the following resolution by way of an Ordinary Resolution.

“It is hereby resolved that a dividend of Rs. 1.37 per share be distributed in the form of a scrip dividend amounting to a total sum of Rupees One Hundred and Twenty Three Million Two Hundred and Forteen Thousand Four Hundred and Fifty Nine and Cents Ninety Four (Rs123,214,459.94) The shares issued in the scrip dividend shall be valued at Rs. 60.53 per share which results in One (01) share being issued for each existing 44.1824656586726 shares. Consequently the total number of shares to be issued under the scrip dividend shall be 2,035,594 Ordinary Shares.”

- (7) To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.

By order of the Board



**P W Corporate Secretarial (Pvt) Ltd**

18th May 2021

[illegible]

# Proxy Form

I/We.....

of.....

Being a member/s of Siyapatha Finance PLC hereby appoint

Mr. P. S. Cumaranatunga of 325, Park Road, Colombo 5	failing him
Mr. Y. S. H. R. S. Silva of 90, Galkanda Road, Aniwatte, Kandy.	failing him
Mr. H. M. A. Seneviratne of 156/12, Weragala Place, Thalawathugoda	failing him
Mr. J. Selvaratnam, 441/5A, 2nd Lane, Cotta Road, Rajagiriya.	failing him
Mr. J. H. Gunawardena of 88, Pirivena Road, Ratmalana	failing him
Mr. D. Sooriyaarachchi of 28/10, Birnamwood, Wijesekara Mawatha, Mirihana, Nugegoda.	failing him
Mr. W. S. C. Perera of 8 2/2, Skyline Residency, Magazine Road, Colombo 8.	failing him
Ms. H. S. R. Ranatunga of 36/50, Rosmead Place, Colombo 7.	failing her
Mr. M.D.B. Boyagoda of 396/17, Isuru Place, School Lane, Thalawathugoda	failing him or

Mr/Mrs/Miss.....

.....of.....

as my/our proxy to present me/us and vote at the Annual General Meeting of the Company to be held on 25th May 2021 at 10.00 a.m. and at any adjournment thereof.

	FOR	AGAINST
(1) To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31.12.2020.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To re-elect Mr. J.H. Gunawardena as a Director under Articles 24(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(3) To re-elect Mr. D. Sooriyaarachchi as a Director under Articles 24(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(4) To re-elect Mr.W.S.C. Perera as a Director under Articles 24(8) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(5) To elect Mr. M.D.B. Boyagoda as a Director under Articles 24(2) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(6) To declare a Scrip Dividend of Rs. 1.37 per share for the financial year 2020	<input type="checkbox"/>	<input type="checkbox"/>
(7) To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Mark your preference with 'X'

Signed ..... day of .....2021.

NOTE : i. Proxy need not be a member of the Company  
ii. Instructions regarding completion of Proxy are given on the reverse.

#### **INSTRUCTIONS AS TO COMPLETION**

1. Kindly perfect the form of proxy, after filling in legibly your full names and address, and by signing on the space provided.
2. The completed form of proxy should be deposited at the Registered Office of the Company at 4th Floor, No. 110, Sir James Peiris Mawatha, Colombo 02, not less than 48 hours before, the appointed time for the holding of the meeting.
3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (below names of the Board of Directors) on the Proxy form.
4. Article 16(6) of the Articles of Association of the Company provides that;  
“Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company”.
5. Please indicate with an ‘X’ in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.
6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

# Corporate Information

## NAME OF THE COMPANY

Siyapatha Finance PLC (formerly known as Sampath Leasing and Factoring Limited)

Registration No. : PB 917PQ

Telephone : +94117605605

Fax : +94117605606

E-mail : info@siyapatha.lk

Website : www.siyapatha.lk

## CREDIT RATING

Fitch Rating Lanka Limited has affirmed Siyapatha Finance PLC's National Long Term Rating of A(lka) Stable Outlook.

## LOCATION OF HEAD QUARTERS

No. 46/12, Nawam Mawatha,  
Colombo 02.

## REGISTERED OFFICE

No. 110, Sir James Peiris Mawatha,  
Colombo 02

## OPERATING COUNTRIES

Operations are limited to Sri Lanka

## OWNERSHIP

Siyapatha Finance PLC is a fully owned subsidiary of Sampath Bank PLC. Siyapatha Finance PLC does not have any subsidiaries established.

## LEGAL FORM

Sampath Leasing and Factoring Limited was incorporated on 3rd March 2005 under the Companies Act No. 17 of 1982 as a specialized leasing company and re-registered under the Companies Act No. 07 of 2007 on 18th March 2009.

Sampath Leasing and Factoring Limited was renamed as "Siyapatha Finance Limited" on 2nd September 2013 upon being recognised as a Licensed Finance Company under the Finance Business Act No. 42 of 2011. Upon the listing of the unsecured subordinated redeemable

debentures on the Colombo Stock Exchange on 31 December 2014, the status of the Company was changed from Siyapatha Finance Limited to Siyapatha Finance PLC with effect from 02nd January 2015.

## BOARD OF DIRECTORS

### Mr. P. Sumith Cumaranatunga

Chairman (Independent / Non-Executive Director)

### Mr. Rushanka Silva

Deputy Chairman (Non Independent / Non Executive Director)

### Mr. Ananda Seneviratne

Managing Director (Executive)

### Mr. Janakan Selvaratnam

Director (Non Independent / Non Executive)

### Mr. Jayantha Harishchandra Gunawardena

Director (Independent / Non-Executive)

### Mr. Deepal Sooriyaarachchi

Director (Independent / Non-Executive)

### Mr. Shiran Perera

Director (Non-Independent / Non-Executive)

### Ms. Sriyani Ranatunga

Director (Independent / Non-Executive)

### Mr. Malinda Dileepa Bandara Boyagoda

Director (Independent / Non-Executive)

## LAWYERS

Messrs Nithya Partners  
Attorneys-at-Law

## COMPANY SECRETARY

P W Corporate Secretarial (Pvt) Ltd  
(Appointed w.e.f. 11.05.2021)

## AUDITORS

Messrs Ernst & Young  
Chartered Accountants  
No.201, De Seram Place, Colombo 10,  
Sri Lanka.

Tel : +94112463500

Fax : +94112697369

## BANKERS

Sampath Bank PLC  
Commercial Bank of Ceylon PLC  
Hatton National Bank PLC  
Bank of Ceylon  
Nations Trust Bank PLC  
National Development Bank PLC  
Seylan Bank PLC  
Deutsche Bank AG  
MCB Bank Ltd  
Union Bank of Ceylon PLC

## MEMBERSHIPS

Leasing Association of Sri Lanka  
Finance Houses Association of Sri Lanka  
Employers Federation of Ceylon (EFC)  
Credit Information Bureau of Sri Lanka

## MARKETS SERVED

Our operations are spread across the island covering all provinces except one. Our primary market segments are individual customers, SMEs and corporate clients.

## SIGNIFICANT CHANGES DURING THE REPORTING PERIOD

There were no significant changes to the organization size, structure, ownership or supply chain during the reporting period.

This Annual Report is conceptualised, designed and produced by Redworks.



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[www.siyapatha.lk](http://www.siyapatha.lk)