

Financial Literacy Guide

Volume 1



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சியபத பிளான்ஸ்
Siyapatha Finance

(Finance Company of Sampath Bank Group)

Foreword

Financially literate consumers not only manage money with more confidence, but also have a better chance of handling the inevitable ups and downs of their financial lives by understanding how to prevent and manage issues as they arise. Handling finances the right way should be a priority, and it should drive daily spending and saving decisions.

Therefore, as a leading financial institution in Sri Lanka, our objective is to create a depth of knowledge and understanding on financial elements such as budgeting, financial planning, savings, borrowing and investing amongst our customers.

This information will facilitate and guide you to make financially viable decisions on how to manage your money.

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1.0 Manage your finances

It is important to understand the key terms that revolve around managing finances.

What is income?

Money earned from various sources such as salary, wages, earnings from business and investment activities etc is our income.

What is expenditure?

Money spent by us on various items is our expenditure. It includes spending money on essential as well as non essential items.

Let's understand the difference between essential and non-essential expenditure.

Essential items of expenditure is money spent on our basic needs. Hence such expenditure cannot be avoided e.g. food, shelter, clothes, education of children, health, etc. Non essential items of expenditure are our wants. We spend on these items because we like or enjoy them but these are not essential for our survival.



What is saving?

When income is more than expenses, then the excess money we have is money known as savings.

What is debt?

When expenses are more than the earned income , then there is shortage of money which is covered through borrowing, creating debt.

What is investment?

Allocating money from our savings expecting a higher returns overtime is investment. Eg: Purchase a land, placing money in a fixed deposit etc.

What is interest?

Interest is the amount our money earns when we save or it is the amount that we have to payback in addition to the burrowed money from a financial institution.

“Financial prosperity is impossible without constant planning and management of money”

2.0 What is financial planning?

It is an exercise of estimating our financial needs as also avenues to achieve them during our entire life time, e.g., birth of child, education, purchasing a car, building a house, marriage, purchasing equipment for business, etc., or to meet emergency situations like illness, accident, death, natural disasters like flood, drought, etc.

2.1 How to do financial planning ?

✓ **Start by setting financial goals**

A good financial plan is always guided by financial goals. If we approach our financial planning from the standpoint of what our money can do for us it will motivate anyone to make saving feel more intentional.

It's important to make our financial goals inspirational. Eg: what do you want to achieve in life in the next 5, 10, 20 years. Goals will inspire us to complete the next steps and provide a guiding light as we work to make those aims a reality.

✓ **Keep a track of your monthly expenses**

Get a sense of your monthly expenditure. For instance: spending on groceries, loans, medical, travelling, leisure etc. This will help to curb non essential expenses. It is vital to spend sensibly. An accurate picture of expense is key to creating a financial plan, and can reveal ways to direct more to savings or debt pay-down.

✓ **Keep a fund for emergencies**

Set aside a percentage of your income for emergency expenses. This amount can be transferred to a separate account only to be used during urgent requirements. This will provide the confidence for you to be prepared and cover future emergency needs such as sudden health problems, repairs, unexpected bills.

✓ **Invest to build savings**

Invest your savings by placing money in a savings account or fixed deposit so you can reap higher returns from your money at a future date. Also make a habit to determine the amount saved at the end of each week/month.



Key tasks in Financial Planning

- ✧ **Set your financial goals**
- ✧ **Track your monthly expenses**
- ✧ **Keep an emergency fund**
- ✧ **Build your savings**

“A good financial plan is a road map that shows us exactly how the choices we make today will affect our future”. - Alexa Von Tobel

3.0 Saving



3.1 Why should we save?

- ✓ To meet higher expenses on birth, education, marriage, purchasing own house, etc.
- ✓ To meet expenses on unexpected emergencies such as illness, deaths, accidents or natural disasters.
- ✓ To spend during lean periods when there are no avenues to earn. For example seasonal businesses.
- ✓ During our retirement or old age as we are no longer able to work.

“Do not save what is left after spending; instead spend what is left after savings.” - Warrent Buffet

3.2 Why save in a financial institution?

- ✓ **Your money safe** - Financial Institutions are governed and monitored by the Monetary Board of the Central Bank of Sri Lanka. Therefore, your money will not be lost, stolen or destroyed.
- ✓ **Your money will grow**- The financial institution will pay interest on your deposits so the you will receive higher returns overtime.
- ✓ **Use your money anytime** - The money in a financial institution can be used at anytime when you need it. Further the transactions with financial institutions are transparent.

- ✓ **Access to other additional services** - Deposit customers often are privileged to use additional services such as loans, leasing and other services at a competitive rate.

3.3 Credit rating

Credit rating is an important factor for any investment decision, they can express forward looking opinion about the capacity and willingness of an entity to meet its financial commitments as they come due. Hence, This will provide a snapshot of the financial stability of a bank or financial company which you plan to invest in.

These are mandatory for all regulated banks and finance companies in Sri Lanka and are issued by independent agencies such as Fitch Ratings Lanka Ltd and ICRA Rating Lanka Ltd.

Fitch Ratings Lanka has affirmed Siyapatha Finance PLC's National Long-Term Rating of 'A(lka)'. The Outlook is Stable which means the company is stable.

4.0 Borrowing or Credit Facilities

4.1 What are borrowings or credit facilities?

Borrowings or credit facilities are obtained from banks or financial institutions when the expenditure is more than the income or when there are emergencies such as education, housing, business requirement etc.

Financial institutions offer a range of facilities to use as borrowing for individual or business purposes. These services include leasing facilities, loans, gold loans, factoring etc.

4.2 Important points to consider when borrowing?

- ✓ Any credit facility taken by us has to be repaid back with the interest. Therefore it is important to make sure we are earning enough to pay back the loan.
- ✓ We should borrow for an activity which gives earnings more than the amount of interest payable, otherwise we may have to borrow again to repay earlier loans.
- ✓ We should not borrow for meeting consumption expenses such as festivals, jewelry or costly consumer durables and other non income generating activities.



- ✓ Avoid taking loans from informal sources such money lenders. Borrow only from regulated banks and financial institutions in the country as they are safe, reliable and transparent.

We should only borrow when our expenditure is more than our income or when there are emergencies or when we need money for business activities

4.3 Why it is important to repay the loan or lease facility?

- ✓ If we do not repay our credit facilities on time, the immediate financial implication would be anywhere from higher interest component (for missed instalment payments) to declaring of bankruptcy.
- ✓ If we have an unfavourable repayment history, it makes we a risky customer for banks and financial institutions. They, in turn, can opt to deny our loan application or charge a higher rate of interest; due to the perceived risk of recovering back the loan amount in time.
- ✓ The financial institutes use depositors' money for lending. If we do not repay, the financial condition of the company would become weak. It will affect the financial institute capacity to repay the depositors' money in time.
- ✓ In case we do not repay the loan, the financial institution will have the right to take possession of the security we have offered as guarantee for the loan and can initiate legal proceedings against us for recovering the loan amount along with the interest.

5.0 Understanding Terms & Conditions

- ✓ When you are obtaining a facility from us, you should read the terms and conditions of the service before signing any documents.
- ✓ This document will provide you a clear understanding on rights and responsibilities of both the parties.
- ✓ We request you to ask any questions on any unclear area to avoid misunderstanding during the course of contract.

6.0 Legal obligations of guarantors

- ✓ As a guarantor you may be bound to maintain repayments on a borrower's loan in circumstances where the borrower defaults on repayments.
- ✓ Alternatively you may be called upon to repay the loan in full.
- ✓ In addition, by agreeing to guarantee a loan, a guarantor limits your own ability to borrow from financial institutions until the guaranteed loan has been repaid as financiers will see the loan as a liability of the guarantor.
- ✓ Therefore, before you sign as a guarantor for a loan or lease facility obtained from someone else, we strongly recommend that you read and understand the terms and conditions associated with the contract

7.0 Hardship and financial difficulty



At Siyapatha Finance, our priority is establishing long lasting relationships with our customers. Therefore, we understand that Financial hardship could occur due to a number of factors such as unforeseen weather events, a major change in your circumstances, such as illness or injury, or a change in employment

If you find yourself experiencing financial difficulties, you should talk to us immediately. The earlier you let us know that you're experiencing financial difficulties, the more options that may be available to help you.

Visit <https://www.siyapatha.lk/contact-us.html> for contact details.