



PEOPLE'S MERCHANT FINANCE PLC FINANCIAL STATEMENTS For the year ended 31st March 2021

STATEMENT OF PROFIT OR LOSS	Company			Group		
	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %
For the year ended 31st March 2021						
Gross Income	629,491	629,528	(0.0)	629,491	629,528	(0.0)
Interest income	470,977	563,581	(16.4)	470,977	563,581	(16.4)
Less: Interest expense	237,591	300,039	(20.8)	237,591	300,039	(20.8)
Net interest income	233,386	263,542	(11.4)	233,386	263,542	(11.4)
Fee and commission income	11,001	6,182	78.0	11,001	6,182	78.0
Net income from financial assets at FVTPL	43,995	29,606	48.6	43,995	29,606	48.6
Other operating income	103,518	30,159	243.2	103,518	30,159	243.2
Total operating income	391,900	329,489	18.9	391,900	329,489	18.9
Less: Impairment (charges) / reversals and other losses	41,802	(122,535)	134.1	41,802	(122,535)	134.1
Net operating income	433,702	206,954	109.6	433,702	206,954	109.6
Personnel expenses	174,111	129,227	34.7	174,111	129,227	34.7
Depreciation of property, plant and equipment	4,267	4,378	(2.5)	4,267	4,378	(2.5)
Amortisation of intangible assets	392	3,285	(88.1)	392	3,285	(88.1)
Amortisation of right of use assets	35,085	28,930	21.3	35,085	28,930	21.3
Other operating expenses	119,297	109,407	9.0	119,374	109,494	9.0
Operating Profit / (Loss) before taxes on financial services	100,550	(68,273)	247.3	100,473	(68,360)	247.0
Less: Taxes on financial services	33,148	11,681	183.8	33,148	11,681	183.8
Profit/(Loss) before tax	67,402	(79,954)	184.3	67,325	(80,041)	184.1
Less: Income tax (expense) / reversal	397	(132)	401.1	397	(132)	401.1
Profit/(Loss) for the period	67,799	(80,086)	184.7	67,722	(80,173)	184.5
Basic earnings / (loss) per share (Rs.)	0.32	(0.40)		0.32	(0.40)	

Figures in brackets indicate deductions.

STATEMENT OF COMPREHENSIVE INCOME	Company			Group		
	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %
For the year ended 31st March 2021						
Profit/(loss) for the year	67,799	(80,086)	184.7	67,722	(80,173)	184.5
Other comprehensive income/(expense) (net of tax)						
Actuarial gain/(loss) on retirement benefit obligation	1,656	(470)	452.0	1,656	(470)	452.0
Deferred tax effect on actuarial gain/ (loss)	(397)	132	401.7	(397)	132	401.7
Other comprehensive income/(expense) for the period, net of taxes	1,259	(338)	473.0	1,259	(338)	473.0
Total comprehensive income/(loss) for the year attributable to the owners of the Company	69,058	(80,424)	185.9	68,981	(80,511)	185.7

Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION	Company			Group		
	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %	2021 Rs. '000 Audited	2020 Rs. '000 Audited	Change %
As at 31st March 2021						
Assets						
Cash and cash equivalents	707,190	291,440	142.7	707,437	291,690	142.5
Placements with banks and financial institutions	5,126	1,214,097	(99.6)	5,126	1,214,097	(99.6)
Financial assets measured at fair value	647,840	486,188	33.2	647,840	486,188	33.2
Financial assets measured at amortized cost - lease rental and hire purchase receivables	1,618,719	1,054,796	53.5	1,618,719	1,054,796	53.5
Financial assets measured at amortized cost - loans and receivables to other customers	1,537,849	603,514	154.8	1,537,849	603,514	154.8
Property, plant and equipment	24,879	11,539	115.6	24,879	11,539	115.6
Intangible assets	6,590	2,483	165.4	6,590	2,483	165.4
Right of use assets	68,787	63,643	8.1	68,787	63,643	8.1
Other assets	86,872	87,242	(0.4)	86,872	87,242	(0.4)
Total assets	4,703,852	3,814,942	23.3	4,704,099	3,815,192	23.3
Liabilities						
Due to banks	-	1,715	(100.0)	-	1,715	(100.0)
Financial liabilities at amortised cost - Deposits due to customers	2,289,491	2,100,936	9.0	2,289,491	2,100,936	9.0
Debt securities issued	16,600	16,000	3.7	16,600	16,000	3.7
Lease liabilities	80,424	74,386	8.1	80,424	74,386	8.1
Employee benefit obligation	18,360	23,457	(21.7)	18,360	23,457	(21.7)
Other liabilities	167,776	45,946	265.2	168,209	46,305	263.3
Total liabilities	2,572,651	2,262,440	13.7	2,573,084	2,262,799	13.7
Equity						
Stated capital	3,252,159	2,440,290	33.3	3,252,159	2,440,290	33.3
Advance against stated capital	-	300,000	(100.0)	-	300,000	(100.0)
Statutory reserve fund	10,649	7,259	46.7	10,649	7,259	46.7
Accumulated losses	(1,131,607)	(1,195,047)	5.3	(1,131,793)	(1,195,156)	5.3
Total equity attributable to the owners of the Company	2,131,201	1,552,502	37.3	2,131,015	1,552,393	37.3
Total liabilities and equity	4,703,852	3,814,942	23.3	4,704,099	3,815,192	23.3
Contingencies & Commitments	81,260	40,028	103.0	81,260	40,028	103.0
Net assets value per share (Rs.)	6.52	7.36		6.52	7.36	

SELECTED PERFORMANCE INDICATORS

	Company	
	As at 31.03.2021	As at 31.03.2020
Asset Quality (Rs. '000)		
Total Gross Accommodations	3,569,759	2,134,897
Net Total Accommodation (Net of provision for bad and doubtful debts)	3,156,398	1,658,310
Gross Non-Performing Accommodations	496,167	634,491
Gross Non-Performing Advances Ratio (%)	13.90%	29.72%
Liquidity (Rs. '000)		
Required Minimum Amount of Liquid Assets	138,682	212,462
Available Amount of Liquid Assets	739,867	1,442,077
Required Minimum Amount of Government Securities	116,536	184,134
Available Amount of Government Securities	663,288	250,803
Capital Adequacy		
Core Capital (Tier1 Capital) - Rs.'000	2,131,201	1,249,467
Total Capital Base - Rs.'000	2,123,555	1,248,916
Core Capital to Risk Weighted Assets Ratio (Minimum 6.5%)	44.39%	39.58%
Total Capital to Risk Weighted Assets Ratio (Minimum 10.5%)	44.38%	39.56%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	92.75%	59.45%
Cap imposed by the central Bank		
The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the Company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total deposits and borrowing liabilities (with accrued interest) at Rs 2,500 Mn and Rs 39 Mn respectively, until such time the company meets the required minimum core capital as per the Finance Business Act Direction No 2 of 2017 - Minimum Core Capital. However, the Company has met the required minimum core capital as at March 31, 2021 with the right issue of Rs. 811.9 Mn on 29th March 2021 and a request has been made to the Central Bank of Sri Lanka to lift the Cap on total deposits and borrowing liabilities.		
Profitability		
Interest Margin	7.22%	8.46%
Return on Average Assets (before Tax)	1.59%	-2.39%
Return on Average Equity	3.68%	-9.45%
Memorandum information		
Number of employees	168	118
Number of branches	11	11
Number of service centers	-	-
Number of pawning centers	1	1

CERTIFICATION

These Financial Statements have been prepared in compliance with the requirements of the requirements of the Companies Act, No. 07 of 2007.

(Signed)
Nalin Wijekoon
Chief Executive Officer

(Signed)
Darshana Wijayanayaka
Chief Manager - Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the Board:

(Signed)
Chandula Abeywickrama
Chairman

(Signed)
Channa Manoharan
Director

Date: 28th June 2021

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC



KPMG
NO: 32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo, Sri Lanka.
Tel : 0115 426426

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at March 31, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2021, and of their financial performance and 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 Group 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 our audit of the Company and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance for loans and lease rental receivable

Refer to Note 19 and Note 36 to the financial statements and Note 4.17 in the accounting policies

Risk description	Our response
As at the March 31, 2021 67% of total assets of the Group consisted of loans and advances. As disclosed in Note 19 to the financial statements, the Group and the Company has recorded Rs. 3,157 Mn as loans and advances net of Rs. 413 Mn expected credit losses as at the reporting date.	Our audit procedures to assess impairment of loans and advances to customers included, <ul style="list-style-type: none"> Assessment of the methodology inherent within the models against the requirements of SLFRS 9 - Financial Instruments; Assessing the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates; Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios; Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; Assessing how management had assessed the impact of COVID-19, including the implications of the moratoriums granted to customers, within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date; Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development. Assessing the appropriateness of the Group's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting standards.
Loans and advances impairment remain as one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak.	SLFRS 9 "Financial Instruments" requires the application of the expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required.
Therefore, We identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in the ECL model. This model is reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk.	

Management's assessment of the Group's ability to continue as a going concern

Risk description	Our response
The financial statements of the Group have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company's 12-months cash flow projections prepared by management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, taking into consideration the impact of COVID-19 related events.	Our audit procedures to assess the Group's ability to continue as a going concern included; <ul style="list-style-type: none"> Obtaining the Company's cash flow projections covering a period of not less than twelve months from the reporting period end date and assessing these key assumptions used in preparing the projections; Evaluating the sensitivity of the projected cash flows by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions; Assessing correspondence with the Regulator in order to evaluate the potential impact and the agreed rectifications for the non-compliances with regulatory requirements. Assessing adequacy of the disclosures in the financial statements.
Note 43 describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's, future prospects, performance and cash flows. The management has described how they plan to deal with these events and circumstances as the outbreak is still prevailing as at the date of this report.	
We identified the assessment of going concern as a key audit matter because the assessment of going concern involves consideration of future events and complying with the regulatory requirements of the Central Bank of Sri Lanka. Impact arising from COVID-19 requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential bias.	

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group'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:

- 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.
- 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 and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Group'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 Group to cease to continue as a going concern.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 1224

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka
28th June 2021