

Stepping Up



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Stepping Up

With our futuristic outlook for 2020 and beyond we at People's Merchant Finance PLC are stepping up our performance to transform and take on new challenges.

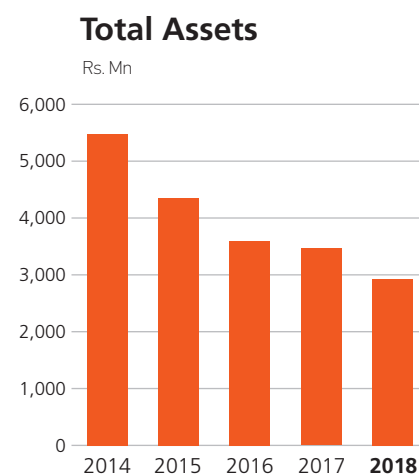
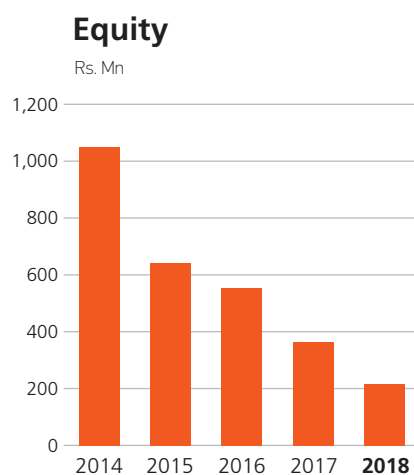
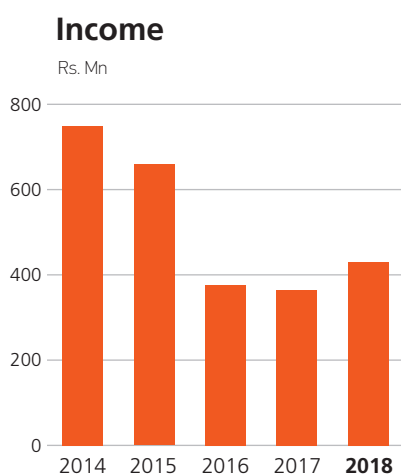
We envision ourselves to offer services which are of quality and are competitive in the contemporary financial services landscape.

As we create a platform for growth and stability we strive to ensure that we match up to the expectations of all our Stakeholders with sustainable performance levels.

Financial Highlights

For the Year Ended 31st March	Company			Group		
	2018 Rs '000	2017 Rs '000	Change (%)	2018 Rs '000	2017 Rs '000	Change (%)
Income (Rs. '000)	431,790	365,433	18.16	431,790	365,433	18.16
Loss before tax (Rs. '000)	(148,525)	(203,034)	(26.85)	(147,691)	(203,842)	(27.55)
Loss for the year (Rs. '000)	(148,312)	(199,352)	(25.60)	(147,478)	(200,340)	(26.39)
Loss per share (Rs.)	(2.20)	(2.95)	(25.42)	(2.18)	(2.97)	(26.60)
Return on assets (%)	(4.64)	(5.65)	(17.83)	(4.62)	(5.68)	(18.73)
Return on equity (%)	(51.22)	(43.49)	17.77	(51.49)	(44.18)	16.56
As at 31st March						
Total Assets (Rs. '000)	2,927,939	3,462,512	(15.44)	2,928,209	3,458,844	(15.34)
Equity (Rs. '000)	215,691	363,454	(40.66)	214,744	358,075	(40.03)

The notes to the Financial Statements form an integral part of these Financial Statements.



Chairman's Statement

"We will remain committed to delivering sustainable growth by investing in the future, and we will continue to be prudent and cautious in our business expansion."



Dear valued Shareholders,

On behalf of the Board of Directors, it gives me great pleasure to present to you our strategic and financial outlook and accomplishments during the financial year 2017/18. During this time, we were at a juncture where the global economy continued its uneven expansion amidst rising trade tensions; while expansion in some of the major economies appeared to be at its peak, the levels of growth demonstrated less synchronicity and therefore higher risk. However, for the emerging and developing Asia, robust performance was observed with steady growth. In the Sri Lankan context, we observed some favourable indicators for the financial sector.

PMF was able to end its financial year 2017/18 with sound growth and momentum while demonstrating a major financial turnaround at its peak. Marking a major financial milestone for the Company, the strategic interventions of the new management demonstrated improved revenue and earnings trends recording an all-time high disbursement of 370 Million Rupees for a month. After 6 years of continuous losses, PMF was able to record a profit in March 2018 and a much improved non-performance ratio of 9.83%. Overall, we have reduced our loss by around 26% when compared with the 2016/17 financial year. The main focus now is to maintain this growth trend and instigate better recovery strategies in the coming financial years to enhance and sustain the turnaround.

With customer and employee centric development initiatives of the management, the Company is growing steadily. As the Board of Directors, we placed our confidence and unequivocally supported these initiatives to ensure sustainable growth continued. The Board is strongly committed and united towards enhancing performance and to make it a source of pride for all Shareholders and Employees. We will remain committed in delivering sustainable growth by investing in the future and we will continue to be prudent and cautious in our business expansion.

Looking at the years ahead, as a company, we are continuing to sharpen our strategy to create more value for our stakeholders and the economy as a whole and build an innovative and admirable outlook for the Company. We hope to focus more on green lending opportunities and to deliver value to the community we engage in. We are seeking to expand our current offerings and establish physical and virtual distribution channels adding to customer experience and customer convenience. While we are focusing on improving the company's processes, we envision healthy relationships with our regulatory stakeholders, upholding compliance as both a prime practice and value. We aim to achieve good governance through transparency and accountability at all levels of the organization and give more agility and control to the key stakeholders to have more constructive visibility of the business processes.

I take this opportunity to extend my heartiest gratitude to our loyal stakeholders who place confidence in the Company. I take this opportunity to thank People's Bank, People's Leasing & Finance PLC and the Board of Directors, CEO, Senior Management, and staff of PMF for the support extended under challenging circumstances. I further, wish to convey my gratitude to the Governor of the Central Bank of Sri Lanka (CBSL) and the Supervisory Division of Non-Banking Financial Institutions of the CBSL for the continuous guidance and support.

Hemasiri Fernando
Chairman

25th June 2018

Chief Executive Officer's Message

"It's a matter of embracing innovation, but not without a comprehensive understanding of its implications"



Dear valued Shareholders,

In 2017/18, there were certain shifts in the economy, politics, demographics, technology and consumer behaviour. We work and live in a time of incessant change and disruption, and across virtually all areas of the contemporary society, its expectations are evolving in real time. The competitive landscape is thus being transformed with the confluence of digitalization, mobile solutions, consumer analytics instigating the need of the hour to review the orthodox business models and operations. The global economy kept up its predicted growth and the economic reports compiled by the International Monetary Fund indicates robust performance and steady growth of economies on the emerging and developing Asia, growing at 6.5 percent in 2018. Although fiscal factor in general aligned in favour of growth, there were powerful crosswinds in the emerging and developing economies such as variations in oil prices, dollar appreciations, geopolitical conflicts and trade tensions.

For PMF, the 2017/18 financial year marked tremendous progress moving forward its agenda. It was a transformative milestone where the company amidst its many challenges recorded unprecedented strength in delivering on its promises. Outgrowing the predicaments in the past fiscal performance, in March 2018 we crossed the long-awaited boundary of profitability marking the highest ever recorded disbursements of 370 Million Rupees. Importantly, we have managed to significantly reduce the NP ratio in comparison to last year and the NIM indicates a smooth and steady growth. The NPA ratio which was 28% in December 2017 has been brought down to a record 9.83% by the end of March 2018 through intensified recovery drives. The

results from our principal business sectors reflected the momentum flowing from investments we have been making over the past few months as we executed the PMF's employee and customer-focused strategies.

A 5-year strategic plan: An employee - process centric growth plan

A disciplined growth strategy was in place to drive consistent performance. All levels of performance were guided by a clear set of strategic priorities however not without a deeper insight of transforming the way in which people across the organization think, behave and work together. There are transformative measures at work in all levels of the organization to enhance corporate culture and to uphold the value of trust as prime as also the most valuable capital a financial service is committed to maintain.

Training and developing the employees was identified as a key strategy and an essential investment for sustainable growth of the company, especially in harvesting the best out of its experienced minds. The key objective of the training and development was to inculcate a vision in the workforce in transcending mere client satisfaction and going beyond to exceed expectations. The outcome thus expected is already reflected in the stabilization of business growth and improved customer orientation. The results observed depicted consistent performance of an enhanced workforce and the soundness of strategic interventions employed.

A lot of focus was given to aligning and optimizing the business processes. Specialized Performance Monitoring Systems to capture the overall growth of the company were implemented across multiple business areas capable of capturing and measuring both

financial and non-financial data. In remedying compliance conflicts with regulatory Stakeholders and as a measure of enhancing the compliance processes internally, a Compliance Committee was appointed which lead to the identification and resolution of a number of compliance issues with CBSL and CSE.

The Digital initiatives

In an environment where information exchange happened so rapidly, who you are and what you stand for is universally visible. The guidance on the way forward therefore should arise from a coherent view of our action plans. PMF expects to become a most digitized player in the Lankan Finance Industry. It's a matter of embracing innovation, but not without a comprehensive understanding of its implications.

The future

As we head towards 2020 and beyond, we will continue to transform ourselves and take on new challenges with the aim of creating a solid operating platform that can deliver consistent growth in any market environment. We need to ensure our growth is sustainable and our commitment to generate gain is in balance with the quality of our services at an optimal price, our investments towards a highly trained workforce and technology.

Nishantha Gunasekara
Chief Executive Officer

25th June 2018

Profiles of Directors



Mr. Hemasiri Fernando

Non-Executive, Non-Independent Chairman

Mr. Fernando holds a Bachelor's Degree in Economics (Special) from the University of Colombo. He is an Associate Member of the Institute of Travel and Tourism UK (A INST TT), as well as a Fellow of the British Institute of Management (FBIM).

He entered the public sector as the Secretary to the Prime Minister in 1994. He serves as an Advisor to the President on sports from 2011 to date and has served as the Secretary to the Ministry of Postal Services from June 2011 to February 2015, Chairman of Sri Lanka Telecom, Sri Lanka Telecom Services Limited, Airport and Aviation Services (Sri Lanka) Limited and the Independent Television Network.

Mr. Fernando is the Immediate Past President of the National Olympic Committee of Sri Lanka, the President of the Sri Lanka Archery Association, the Vice President of the Commonwealth Games Federation (Asia Region), the Vice President of the Olympic Council of Asia and the Vice President of the Association of Portuguese Speaking National Olympic Committees (ACOLOP). He is also the Honorary Consul for the Kyrgyz Republic in Sri Lanka. Mr. Fernando serves as the Chairman of People's Bank, People's Leasing Havelock Properties Limited and People's Leasing & Finance PLC. He is a Director of People's Leasing Property Development Limited and People's Leasing Fleet Management Limited and Lankan Alliance Finance Limited.

Mr. Michael Pradeep Amirthanayagam

Non-Executive, Non-Independent Director

Mr. Amirthanayagam is a Fellow Member of the Chartered Institute of Marketing (UK) and an Associate Member of Trinity College of London Speech and Drama ATCL (SP/DR).

Mr. Pradeep Amirthanayagam is a reputed advertising and media personality in Sri Lanka who counts over 30 years of experience in the advertising field. He is currently the Chairman and Managing Director of the leading advertising agency Holmes Pollard & Stott, which he was instrumental in setting up 25 years ago.

Mr. Amirthanayagam is also a media icon. He was a News Presenter for media networks Rupavahini, ITN and SLBC, and was also an interviewer and cricket commentator. He has the distinction of having trained at Bush House - the headquarters of the BBC in London, and was the CNN correspondent for Sri Lanka.

Mr. Amirthanayagam is a Past President of the Rotary Club of Colombo West and was awarded the Rotarian of the Year in 2012. He is the Vice President of Society for the Uplift and Rehabilitation of Leprosy Affected Persons (SUROL) and a Director of the Anura Bandaranaike Foundation.

Mr. Amirthanayagam is the Deputy Chairman of People's Leasing & Finance PLC and a Director of Lankan Alliance Finance Limited.



Mr. N. Vasantha Kumar

Non-Executive, Non-Independent Director

Mr. Vasantha Kumar holds a Master's Degree in Business Administration and counts over 32 years of experience in Treasury Management.

He currently functions as the CEO/ General Manager of People's Bank, and has served as the Treasurer at ANZ Grindlays Bank, Colombo prior to joining People's Bank. He also serves on the Boards of Lanka Financial Services Bureau Ltd., Sri Lanka Banks' Association (Guarantee) Ltd., Financial Ombudsman Sri Lanka Guarantee Ltd., Credit Information Bureau of Sri Lanka,

Institute of Bankers of Sri Lanka, National Payment Council, Lanka Alliance Finance Ltd, Bangladesh, People's Insurance Limited, People's Travels (Pvt) Limited, People's Leasing Havelock Properties Limited and People's Leasing Property Development Limited.

He was also a Past President of the Association of Primary Dealers and of the Sri Lanka Forex Association.



Profiles of Directors



Mr. A.S. Ibrahim

Non-Executive, Non-Independent Director

Mr. Ibrahim is presently functioning as the Chief Executive Officer/ General Manager of People's Leasing & Finance PLC. (Since July 01, 2017). He is also a Director of People's Insurance PLC, People's Microfinance Limited, People's Leasing Fleet Management Limited, People's Leasing Property Development Limited and People's Leasing Havelock Properties Limited.

He has held very senior positions both locally and internationally including the positions of Senior Deputy General Manager, Wholesale Banking (October 2014 to September 2016) and Senior Deputy General Manager, Risk Management (August 2007 to October 2014) at People's Bank. Deputy General Manager, Head of Treasury, Head of Corporate Banking & Recoveries, Chief Risk Officer and Chief Credit Officer of Hatton National Bank PLC. (2004 to July 2007) and Head of Credit and GSAM at Standard Chartered Bank (2002 to 2004).

Mr. Ibrahim has over 34 years of banking experience primarily in the areas of Corporate Banking, Treasury Management and Risk Management and holds an Honours Degree (B.Sc) from the University of Colombo and is a fellow of the Chartered Institute of Bankers –UK (FCIB).

Mr. Ibrahim has served as a Director of HNB Securities (Pvt) Limited (2005 to 2007) and People's Merchant Bank PLC (2009 to 2011).

Mr. Anil Weerasinghe

Non-Executive, Independent Director

Mr. Weerasinghe holds Directorates in several companies including Silicon Valley Software solutions, J.P. Weerasinghe & Co. J.P. Weerasinghe Beverages and JSA Business Promoters (Pvt) Ltd.

Mr. Weerasinghe has formally served as a Director at People's Bank, Export Development Board and Lanka Cement. He has also served as the Senior Deputy General Manager at Hyosung Corp Korea and has overseas experience and exposure through working for Etacol in Hong Kong and brings with him a wealth of experience in business and banking. Mr. Weerasinghe holds a degree with a second class honors in Textile Technology and holds a MBA from University of Victoria.



Mr. Lakshman De Fonseka

Non-Executive, Non-Independent Director

Mr. De Fonseka is the Chairman of Capital TRUST Securities (Pvt) Ltd and he was the Chairman & Managing Director of JF Packaging (Pvt) Ltd. founded in 1987. JF Packaging (Pvt) Ltd prides itself in supplying packaging material to multinationals such as Nestle and Unilever. He was educated at Trinity College, Kandy, Sri Lanka and received his secondary and tertiary education in Australia. Mr. De Fonseka returned to Sri Lanka to start the operations of JF Packaging (Pvt) Ltd. With an experience of over 27 years in the flexible packaging industry, he has been the sole force in turning the company to one of the biggest flexible packaging converter in Sri Lanka. He was also awarded Bronze in the National level for the large scale category at the "Entrepreneur of the year" awards.





Mr. Johnson Anthony Fernando

Non-Executive, Non-Independent Director

Mr. Johnson Fernando currently serves as a Director of Expo Property Developers (Pvt) Ltd., Expo Industrial Engineering (Pvt) Ltd., Shore to Shore (Pvt) Ltd., Expo Printers (Pvt) Ltd, Expo Regional Holdings (Pvt) Ltd., Expo Cargo Links (Pvt) Ltd. and Lankan Alliance Finance Limited. He is also an Advisory Board Member of the Benedict XVI Catholic Institute of Higher Education and Colombo Catholic Press, a Committee Member of National Hospital of Sri Lanka and Vice Chairman of the International Chamber of Commerce Sri Lanka.

Mr. Fernando has held many senior positions within the Expo Industrial Group which has diversified interests including in apparel, food packaging, industrial printing, commercial printing, logistics management, engineering and construction. He has also served as the President of the Sri Lanka Association of Printers and as Vice-President of the Sri Lanka-China Business Council Cooperation.

Dr. Dandeniya Walawwe Singhapathi Shelton Rahula Nanda Jayasena Dandeniya

Non-Executive, Non-Independent Director

Dr. Dandeniya holds a Ph.d in Buddhist Philosophy from University of Kelaniya, Postgraduate Diploma on Media from University of Jayewardenepura, Postgraduate Diploma and M.A in Buddhist Philosophy from University of Kelaniya, Postgraduate Diploma and MSc in Archaeology from University of Kelaniya Postgraduate Diploma in English Language from University of Colombo and also a BSc in Development Planning and Administration from University of Colombo.



Dr. Dandeniya was attached to the Government Service for over 25 years and has also served in the private sector for 7 years in Tri-Star Apparel (Pvt) Limited and Samson Silva & Company Ltd.

Dr. Dandeniya is a fellow member of The Council of Sri Lanka Archaeologists.



Mr. Nishantha Gunasekara

Chief Executive Officer

Mr. Gunasekara was appointed as the Chief Executive Officer of People's Merchant Finance PLC on November 17, 2017. Prior to his appointment as the CEO, he served as a Director of People's Merchant Finance PLC for the period of June 2015 to November 2017. He has over 24 years of experience in Banking & Finance sector and in the Corporate Sector with over 12 years of experience holding Corporate Management Level & above positions. He is also the immediate Past President of the Postgraduate Institute of Management Alumni Association. He serves as Cabinet Treasurer of Lions Club International District 306 B 1, currently.

Mr. Gunasekara holds a Master's degree in Business Administration from the Postgraduate Institute of Management of University of Sri Jayewardenepura, an Associateship in Banking from the Institute of Bankers of Sri Lanka (IBSL), a Diploma in Banking & Finance from IBSL and IFS School of Finance (UK), Certificate in Bank Compliance and Regulations from IBSL and also an Advanced Diploma in Management Accounting from CIMA (UK).





Corporate Governance & Risk

Promoting corporate governance through prudent policies, openness, transparency and accountability.

Corporate Governance

Corporate governance provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Essentially People's Merchant Finance PLC (PMF), as a Finance Company is stabilized on trust and confidence placed by the public on the affairs of the Company. Therefore, the Best Corporate Governance practices have been put in place at PMF to achieve its vision while complying with statutory rules and regulations. The Company has to comply with the directions and guidelines on Corporate Governance issued by the following Institutions;

01. Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended by Directions No. 4 of 2008 and No. 6 of 2013 Issued by the Central Bank of Sri Lanka. ("Corporate Governance Directions")
02. Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.
03. Listing Rules issued by the Colombo Stock Exchange.

The Company's commitment with respect to the above directions, code and rules are summarized below.

Rule of Reference	Principle	Level of Compliance
Code A.1	Every public company should be headed by an effective Board, which should direct, lead and control the Company.	Compliant. PMF is headed by an effective Board to direct, lead and control the Company.
2. Responsibilities of the Board		
CBSL 2.(1) Strengthening the safety and soundness of the Company		
a.) and Code A.1.2.2.1	Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company.	Compliant. Strategic objectives and values are incorporated in the Board approved strategic plan and these have been communicated to the staff. The Board of Directors approves and oversees the implementation of strategies mainly through the monthly Board meetings. The Board's views relating to such strategies are communicated to the staff through management meetings.
b.) and Code A.1.2.2.1	Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years.	Compliant. A Board approved strategic plan is in place addressing the Company's overall business strategy. The Board provides direction in the development of short, medium and long term strategies of the Company. The Board approves and monitors the annual budget with updates on execution of the agreed strategies. The Board sub committees namely, Audit Committee and the Integrated Risk Management Committee oversee the risk management aspect of the Company. The Board approved risk policy and risk management framework is also in place.

Rule of Reference	Principle	Level of Compliance
c.)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently.	Compliant. Identifying major risks, establishing governance structures and systems to measure, monitor and manage those key risks are carried out mainly through the Board Integrated Risk Management Committee. The decisions and actions taken are submitted for Board's information where necessary. Please refer to the Risk Management report on page 31 to 35 for further details.
d.)	Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers.	Compliant. The Board has adopted and approved the policy on communication to ensure effective internal and external communication of corporate information with all stake holders.
e.)	Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems.	Compliant. Adequacy and integrity of the Company's internal control systems and management information systems are reviewed by the Board Audit Committee on behalf of the Board. The Committee is assisted in this function by the Company's Internal Auditors who perform both regular and ad-hoc reviews of internal control systems and management information systems the results of which are reported to the Board Audit Committee and the Board for their information. The Committee reviews the scope of audits prior to it being implemented and apprises the Board of results outlined in internal audit reports and system review reports. Appropriate action is taken accordingly.
f.)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management.	Compliant. The Board of Directors, Chief Executive Officer and Deputy General Managers of the Company have been identified and designated as the Key Management Personnel of the Company.
g.)	Defining the areas of authority and key responsibilities for the Board and for the key management personnel.	Compliant. The key responsibilities of the corporate management personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the applicable laws, regulations and directions, including, the Directions issued under the Finance Business Act No. 42 of 2011.
h.)	Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy.	Compliant. The Board of Directors formulate policies and exercises oversight of the affairs of the Company through the CEO. Affairs of the Company by corporate management personnel are discussed at the monthly Board meetings and reviewed by the Board. Further, board sub committees and other committees separately review and monitor the designated areas of business operations and report to the Board as it deems necessary.
i.)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Compliant. Evaluation of the Board's own governance practices are assessed by the Directors individually and collectively and discussed/reviewed by the Board on a periodic basis.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
j.)	Ensuring that the finance company has an appropriate succession plan for key management personnel.	Compliant. A Board approved Succession Plan is in place.
k.)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Compliant. The Board of Directors meet regularly. The Chief Executive Officer represents the company's management at these meetings of the Board of Directors and apprises the Board of any concerns/critical issues raised by the Key Management Personnel at their meetings. Furthermore, the Key Management Personnel are invited to participate in Board Sub Committee Meetings to review policies, submit reports, establish lines of communication and monitor progress towards corporate objectives.
l.)	Understanding the regulatory environment.	Compliant. The Board is updated of the changes in the regulatory environment and new directions, circulars etc. issued are made available to the Directors.
m.)	Exercising due diligence in the hiring and oversight of External Auditors.	Compliant. The Audit Committee carries out the due diligence in hiring the External Auditors and makes recommendations to the Board. The Committee reviews the work carried out by the External Auditors including the audited accounts, management letter and any other documents referred to the Audit Committee. External Auditors attend Audit Committee meetings by invitation.
2(2)	Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Compliant. The Chairman and the Chief Executive Officer have been appointed by the Board. The Chairman provides leadership to the Board and the Chief Executive Officer is responsible for effective management of the Company's operations. Functions and responsibilities of the chairman and the CEO have been defined and approved by the Board.
2(3) / Code A.1.3	Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the company's expense.	Compliant. The Board approved Corporate Governance Charter includes an appropriate procedure to enable the Board of Directors to seek independent professional advice.
2(4)	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Compliant. Directors abstain from voting on any resolution in which the Directors have an interest and he is not counted in the quorum for the relevant agenda item at the Board Meeting.

Rule of Reference	Principle	Level of Compliance
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Compliant. The Board has a formal schedule of matters specifically reserved for the Board for decision to ensure that the direction and control is firmly under its authority. The Board approved Corporate Governance Charter contains it.
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Not applicable. No such situation has arisen during the year under review.
2(7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Compliant. This report from Page 10 to Page 30 serves this requirement
2(8) Code A.9	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Compliant. The Board approved Corporate Governance Charter includes an appropriate procedure relating to the self-assessment of the Directors.
3. Meetings of the Board		
3(1) Code A.1.1	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Not Compliant. The Performance and other significant matters of the Company which requires review by Board are submitted to the Board for information and approval. Eight Board meetings were held during the year 2017/2018.
3(2) Code A.1.5	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Compliant. All Directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda for regular meetings.
3(3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Compliant. The date of the next Board meeting is collectively agreed to by the members present during the previous Board meeting and subsequently communicated to all the members, so as to ensure that at least 7 days' notice is given of a meeting. Reasonable notice is given of any other special Board meeting.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
3(4)	A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Compliant. Board meetings are usually held at regular intervals unless the holding of meetings of shorter intervals are required by the business exigencies. Eight Board meetings were held during the year 2017/18. No Director has been absent from three (03) consecutive meetings. Refer page No 29 for details of individual Directors' attendance at Board and Board Committee Meetings.
3(5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Compliant. An Attorney-at-law 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)	If the Chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Compliant. The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
3(7) Code A.1.4	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Compliant. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Compliant. Minutes of Board Meetings are maintained by the Company Secretary. The minutes are approved at the subsequent Board meeting. Minutes are open for inspection by any Director.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: <ol style="list-style-type: none"> a summary of data and information used by the Board in its deliberations; the matters considered by the Board; 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; 	Compliant. Detailed minutes are maintained by the Company Secretary covering the given criteria.

Rule of Reference	Principle	Level of Compliance
	<p>d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations;</p> <p>e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted;</p> <p>f) decisions and Board Resolutions.</p>	

4. Composition of the Board

Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect of Directors.	<p>Compliant.</p> <p>Required information on Board of Directors has been published in Annual Report under "Profiles of Directors" (pages 5 to 7), "Related Party Transactions" (Page 82) and "Attendance of the Directors during the year" (Page 29).</p>
4(1)	The number of Directors on the Board shall not be less than 5 and not more than 13.	<p>Compliant.</p> <p>The Board comprised of eight Directors as at March 31,2018.</p>
4(2)	The total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Directors shall not exceed nine years.	<p>Compliant.</p> <p>The total period of service of all Non-Executive Directors is less than nine years as at date.</p>
4(3) Code A.5	An employee may be appointed, elected or nominated as a director (as an "Executive Director") provided that the number of Executive Directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the company.	<p>Compliant.</p> <p>All Board members are Non-Executive Directors.</p>
4(4) Code A.5.2	<p>The number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total numbers of Directors.</p> <p>Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non-Executive Directors should be 'Independent'. In all other instances two or one third of Non-Executive Directors appointed to the Board of Directors whichever is higher should be 'Independent'.</p>	<p>Non-compliant.</p> <p>As the current Board of Directors of the Company is an interim board appointed by the Monetary Board of the Central Bank of Sri Lanka, the number of Independent Non-Executive Directors thereon is only one.</p>

Corporate Governance

Rule of Reference	Principle	Level of Compliance
Rule 7.10.2 (b) , Rule 7.10. 3 (a) CSE Listing Rules	<p>The Board shall require each Non-Executive Director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.</p> <p>Disclosure relating to Directors:</p> <p>The Board shall make a determination annually as to the independence or non-independence of each non-executive Director based on such declaration and other information available to the board.</p>	<p>Compliant.</p> <p>The declarations have been obtained from all directors</p> <p>Compliant.</p> <p>The determination of the Board as to the Independence or Non-Independence of each Non-Executive Director is indicated in pages 5 to 7.</p>
4(5)	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	<p>Not applicable.</p> <p>As no alternate directors have been appointed to represent Independent Non-Executive Directors during the year under review.</p>
4(6)	Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	<p>Compliant.</p> <p>The Non-Executive Directors of the Board are eminent personnel and they possess extensive knowledge, expertise and experience in different business fields. Their detailed profiles are given in pages 5 to 7.</p>
4(7)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	<p>Compliant.</p> <p>At all Board meetings held during the year 2017/2018, more than one half of the numbers of directors that constitute the quorum were Non-Executive Directors.</p>
Code A.4	The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	<p>Compliant.</p> <p>The Board consist of persons with graduate, post graduate and professional qualifications in Banking, Accounting and related financial matters. Please refer "Profiles of Directors" on pages 5 to 7 in this annual report.</p>
Code A.7, A.7.1, A.7.2	There should be a formal and transparent procedure for the appointment of new Directors to the Board.	<p>Compliant.</p> <p>The existing Board collectively decides on new Board appointments.</p>
4(8)	The Independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the finance company. The finance company shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the annual corporate governance report which shall be an integral part of its Annual Report.	<p>Compliant.</p> <p>Please refer pages 10 to 30 of the Corporate Governance Report.</p>

Rule of Reference	Principle	Level of Compliance
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Compliant. The Articles of Association of the Company provides for the general procedure applicable to selection and appointment of Directors of the Company. Upon the nominees being found to be "fit and proper" for appointment as Directors of the Company, approval of the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka is obtained for the same.
4(10)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Not Applicable. No Directors have been appointed to fill a casual vacancy during the year under review.
4(11)	If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.	Compliant. All resignations/removals and appointments of Directors have been duly communicated to the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and other regulatory authorities.
5. Criteria to assess the fitness and propriety of Directors		
5(1)	The age of a person who serves as Director shall not exceed 70 years.	Compliant. All Directors were below the age of 70 years as at March 31, 2018.
5(2)	A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Compliant. No Director holds Directorships of more than 20 companies/societies/bodies/institutions. The Directorships held by each Director is disclosed on pages 5 to 7.
6. Delegation of Functions		
6(1)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Compliant. In terms of Article 27(2) of the Articles of Association of the Company, the Board is empowered to delegate to a committee of Directors or to any person it deems fit, any of the powers vested in the Board which are permissible for delegation in terms of the applicable law. Accordingly, the Board has delegated authority to the Board Committees and the Management with clearly defined mandates and authorities, while preserving its accountability.
6(2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Compliant. Delegation arrangements are reviewed periodically to ensure that they remain relevant to the needs of the Company.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
7. The Chairman and the Chief Executive Officer		
7.(1)	The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person.	Compliant. The positions of the Chairman and the Chief Executive Officer are separate and performed by two different individuals.
7.(2) Code A.2	The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Not compliant. The Chairman is considered to be a Non-Independent Director by virtue of the fact that he also holds the office of Chairman of the parent company, People's Bank. However, considering that the current Board is an interim board appointed by the Monetary Board of the Central Bank of Sri Lanka, the Board has not designated an Independent Non-Executive Director as a Senior Director.
7(3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/ relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Compliant. Refer: Related Party Disclosures on Pages 82 to 84.
7(4) Code A.3	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Compliant. The Chairman provides leadership to the Board and ensures that the Board effectively discharges its responsibilities and that all key issues are discussed and resolved in a timely manner.
7(5)	Role of the Chairman in the preparation of the agenda for Board meetings.	Compliant. The Chairman has delegated the function of preparing the agenda to the Company Secretary.
7(6) Code A.6.1	The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Compliant. Board papers covering adequate information of matters to be taken up for discussions are circulated in advance prior to the meeting.
7(7)	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Compliant. All Directors are encouraged to actively participate in Board's affairs.
7(8)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Compliant. The Company does not have any Executive Directors. However, there is a constructive relationship among all Directors and they work together in the best interest of the Company.
7(9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Compliant. The Chairman is a Non-Executive Director and does not engage in direct supervision of the key management personnel or any other executive duties.

Rule of Reference	Principle	Level of Compliance
7(10) Code C.1	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Compliant. The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with shareholders and they are given the opportunity to take up matters for where clarification is needed and also their views are communicated to the Board.
7(11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Compliant. The Chief Executive Officer is responsible for the day-to-day operations and business of the Company with the support of members of the corporate management.
Code A .11	The Board should be required, at least annually to assess the performance of the CEO.	Compliant. The performance of the CEO was evaluated by the Board at the end of the financial year against the targets that had been set at the beginning.
8. Board appointed Committees		
8(1)	Every finance company shall have at least the two Board Committees set out in paragraphs 8(2) and 8(3) hereof. Each Committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee. The Board shall present a report on the performance, duties and functions of each Committee, at the Annual General Meeting of the Company.	Complied. The following Board Sub - Committees have been appointed by the Board; 1.) Board Audit Committee 2.) Integrated Risk Management Committee 3.) Board Remuneration Committee 4.) Related Party Transactions Review Committee Each Committee reports directly to the Board. The Company Secretary functions as the Secretary to these Committees. The Report of the Audit Committee is given on page 44 of this Annual Report.
8(2.) Audit Committee		
a.)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Compliant. The Chairman of the Audit Committee is a Non-Executive Director and possesses qualifications and related experience, which are disclosed in page 5 of the Annual Report.
b.)	The Board members appointed to the Committee shall be Non-Executive Directors.	Compliant. All the members of the Audit Committee are Non-Executive Directors.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
c.)	<p>The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an 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>Compliant.</p> <p>In accordance with the Terms of Reference, the Committee has made the following recommendations:</p> <ul style="list-style-type: none"> (i) The appointment of Messrs. KPMG, Chartered Accountants as the External Auditor for audit services to be provided in compliance with the relevant statutes. (ii) The implementation of CBSL Guidelines applicable to the Auditors. (iii) Application of relevant Accounting Standards. (iv) The service period, audit fee and any resignation or dismissal of the auditor Complied with the requirement that the engagement of the audit partner does not exceed five years.
d.)	<p>The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>Compliant.</p> <p>The External Auditor, has provided an independence confirmation in compliance with the guidelines for appointment of Auditors of Listed Companies. In order to safeguard the objectivity and independence of the External Auditor, the Audit Committee reviewed the nature and scope taking into account the regulations and guidelines.</p>
e.)	<p>The Committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity.</p>	<p>Compliant.</p> <p>In the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee. The Audit Committee evaluates the Company's requirement, nature of the non-audit service required by the Company, fee structure, skills and the experience required to perform the said service of such Auditors. If the Audit Committee is of the view that the independence is likely to be impaired with the assignment of any non-audit service to External Auditors, no assignment will be made to obtain such services.</p>

Rule of Reference	Principle	Level of Compliance
f.)	<p>The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) An assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved. 	<p>Compliant.</p> <p>The Committee has discussed and finalized the nature and the scope of audits, with the External Auditors before the audit commences.</p>
g.)	<p>The Committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) major judgemental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Compliant.</p> <p>Quarterly Financial Statements as well as Year-End Financial Statements are circulated to the Audit Committee. A detailed discussion focused on major judgemental areas, changes in accounting policies, significant audit adjustments and compliance with statutory requirements takes place and the Committee obtains required clarifications in respect of all areas, before making its recommendations for Board's approval.</p>
h.)	<p>The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p>Compliant.</p> <p>The Auditors are invited to the Board Audit Meetings and the issues to address are discussed.</p>
i.)	<p>The Committee shall review the External Auditor's management letter and the management's response thereto.</p>	<p>Compliant.</p> <p>The Committee has reviewed the External Auditor's Management Letter and the management response thereto. Follow up actions were taken accordingly.</p>

Corporate Governance

Rule of Reference	Principle	Level of Compliance
j.)	<p>The Committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> (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 programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (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 resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. 	<p>Compliant.</p> <p>The Company's Internal Audit function has been outsourced and carried out by M/s BDO Partners.</p> <ul style="list-style-type: none"> (i) The Internal Audit plan is reviewed and approved by the Audit Committee at the beginning of each financial year. (ii) Audit reports are circulated to the Audit Committee members and the relevant items are discussed in detail with suitable actions agreed upon. Where required, the Corporate Management is invited to attend the meeting to provide clarifications. (iii) Performance of M/s. BDO Partners as Internal Auditors is reviewed by the Audit Committee. (iv), (v) & (vi) The Internal Audit function is an independent function which directly reports to the Board Audit Committee and the audits are performed with impartiality and due professional care.
k.)	<p>The Committee shall consider the major findings of internal investigations and management's response thereto.</p>	<p>Compliant.</p> <p>Significant findings of investigations carried out by the Internal Auditors along with the responses of the Management are circulated and discussed at Audit Committee meetings.</p>

Rule of Reference	Principle	Level of Compliance
l.)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the external auditors without the Executive Directors being present.	Compliant. The Chief Executive Officer, Finance Manager generally attend meetings. Where it is deemed necessary, other members of the corporate management are invited to attend the meeting. During the year under review the Committee met once with the External Auditors and twice with Representatives of the Internal Auditors.
m.)	The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Compliant. (i),(ii) & (iii) The terms of reference of the Board Audit Committee include scope and responsibilities of the Committee. (iv) The Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its terms of reference.
n.)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Compliant. The Audit Committee meets regularly and members of the Committee are provided with due notice of issues to be discussed. Minutes of the meetings are maintained by the Company Secretary.
o.)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Compliant. Please refer Audit Committee Report on page 44.
p.)	The Secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.	Compliant. The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
q.)	<p>The Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters.</p> <p>Accordingly, the Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the External Auditor.</p>	<p>Compliant.</p> <p>Compliant.</p> <p>The Audit Committee is the key representative body for overseeing the Company's relations with the External Auditor and meets the Auditor at least on a once a year basis to discharge this function.</p>
8 (3) Integrated Risk Management Committee		
a.)	<p>The Committee shall consist of at least one Non-Executive Director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks, The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	<p>Compliant.</p> <p>The Committee comprised of three Non-Executive Directors and the CEO. The heads of other departments attend meetings by invitation.</p>
b.)	<p>The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.</p>	<p>Compliant.</p> <p>A process is in place to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Company on a monthly basis through appropriate risk indicators and management information. The Board is continuously kept informed on timely basis.</p>
c.)	<p>The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset-Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.</p>	<p>Non-Compliant.</p>
d.)	<p>The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.</p>	<p>Compliant.</p> <p>All risk indicators which exceed the specified quantitative and qualitative risk limits are reviewed and discussed for action. The progress of rectification of the position and implementation of the recommendations are also being monitored closely by the Committee.</p>
e.)	<p>The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p>	<p>Non-Compliant.</p> <p>The Committee has met only once during the year under reference.</p>

Rule of Reference	Principle	Level of Compliance
f.)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Compliant. The Committee did not come across any such material violations by staff during the year under review. Any non-compliance to regulations would be followed up by the Committee with the Board as and when detected.
g.)	The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Non-compliant. As the Committee met only once during the year under review this has not been done, but steps will be initiated for future compliance with the same.
h.)	The Committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	Compliant. The Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. Deputy General Manager – Legal & HR, carries out the compliance function.

9. Related Party Transactions

9(2)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction: a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A Director of the finance company; d) A key management personnel of the finance company; e) A relative of a Director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a Director of the finance company or a relative of a Director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	Compliant. The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties. The Related Party Transactions Review Committee was established in March 2016 in line with the Code of Best Practices on Related Party Transactions, issued by The Securities and Exchange Commission of Sri Lanka (SEC). Transactions carried out with related parties in the normal course of business are disclosed in Note 32 on "Related Party Disclosures" in the Financial Statements.
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Corporate Governance

Rule of Reference	Principle	Level of Compliance
9(3)	The transactions with a Related Party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any Related Party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such Related Party.	Compliant. Information in this regard is disclosed in Note 32 on "Related Party Disclosures" in the Financial Statements.
9(4)	The Board shall ensure that the finance company does not engage in transactions with a Related Party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company.	Compliant. The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties in the manner mentioned herein. However, monitoring mechanism necessary to ensure that that the company does not grant any favourable treatment to Related Parties will be strengthened.
10. Disclosure		
10(1)	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Compliant. The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) and the formats prescribed by the Supervisory Regulatory Authorities and such statements are published in the newspapers in all three languages. Interim (unaudited) Financial Statements as well as Audited Financial Statements are submitted to the Colombo Stock Exchange (CSE) and the financials are made available on the website of the CSE.

Rule of Reference	Principle	Level of Compliance
10(2) Code D.1	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
a.)	A 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.	Compliant. Relevant disclosures are included in page 43 of the annual report under "Directors Responsibility for Financial Reporting".
b.)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Compliant. "Annual Report of the Board of Directors on the affairs of the Company" is given on pages 38 to 41.
c.)	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in sub-paragraph (2) (b) above, in respect of any statements prepared or published.	Non-Compliant.
d.)	Details of Directors, including names, transactions with the finance company.	Compliant. Please refer pages 5 to 7 for details of Directors, pages 82 to 84 on "Related Party Disclosures" for transactions with the Company.
e.) Code B.3	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published.	Compliant. This has been disclosed in note 11 to the Financial Statements.
f.)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Compliant. Relevant disclosures are included in the Annual Report pages 82 to 84 under "Related Party Disclosures".
g.)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Compliant. Relevant disclosures are included in the Annual Report pages 82 to 84 under "Related Party Disclosures".
h.)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Compliant. The "Corporate Governance Report", pages 11 to 30 and "Annual Report of the Board of Directors on the affairs of the Company", pages 38 to 41 satisfy this requirement.

Corporate Governance

Rule of Reference	Principle	Level of Compliance
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.	Compliant. Apart from those stated in the notes disclosed in the Annual Report, there were no other significant supervisory concerns on lapses in the Company's Risk Management system or non-compliance with the Finance Business Act and rules and directions thereunder, that have been required by the Monetary Board to be disclosed to the public.
j.)	The External Auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance reports published.	Non-Compliant.
Code D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with a statement by the auditors about their reporting responsibilities.	Compliant. The Directors' Responsibility Statement is included in Page 43 of this Annual Report and the Auditors' Responsibilities have been explained in the Auditors' Report on page 45.

11. The Company has complied with the transitional provisions contained in this rule.

The Board of Directors

The Board comprises Eight (08) members, all members including the Chairman are Non-Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the Company. The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on pages 38 to 41.

The Board formulates and approves strategies and provides leadership for the Company while directing and controlling the operations of the Company within a prudent and effective internal control framework with continuous monitoring and feedback communication system by holding regular

meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.

Duties of Chairman and CEO

The roles of Chairman and CEO are separated and are performed by two unrelated individuals. The Chairman provides leadership to the Board and the CEO carries out leadership for day to day business operations.

The Chairman is responsible for the conduct of Board's functions and meetings as per the agenda for each meeting. The Chairman ensures that all the Board members actively contribute to the matters taken up at

the Board meetings, and work effectively in discharging their responsibilities. The Chairman also ensures that all key issues are addressed by the Board in a timely manner. The Chairman directs the Board to act in the best interest of the Company and encourages them to give their full commitment towards the Board's affairs.

The Chairman takes the initiative to maintain active and effective communication with shareholders and that the views of shareholders are communicated to the Board.

Board Meetings

PMF's Board continues to evaluate and monitor its performance on a regular basis.

This ensures the effective discharge of duties and responsibilities owed to the Company. All required information is provided to the Board allowing sufficient time for them to review and call for additional information. This enhances the performance measurement of operations and internal controls. These meetings also focus on risk

faced by the Company and risk mitigation strategies adopted on a regular basis.

The participation of Directors at Board and subcommittee meetings is depicted in the below table as follows in FY 2017/18,

Name of Director	Board Meetings/ Committees attended during 2017/18				
	Board Meetings	Board Audit Committee Meeting	Integrated Risk Management Committee	Remuneration Committee	Related Party Transactions Review Committee
Mr. Hemasiri Fernando	8/8	N/A	N/A	N/A	N/A
Mr. M.P. Amirthanyagam	7/8	N/A	N/A	N/M	N/M
Mr. A.P. Weerasinghe	6/8	5/6	N/A	N/M	N/M
Mr. Johnson A. Fernando	7/8	5/6	1/1	N/A	N/A
Mr. A.S. Ibrahim	4/4	2/2	N/A	N/A	N/A
Dr. D. W. S. S. R. N. J. Dandeniya	7/8	N/A	1/1	N/A	N/A
Mr. L.D. Fonseka	5/8	N/A	1/1	N/A	N/M
Mr. N. Vasantha Kumar	8/8	N/A	N/A	N/M	N/A
Mr. D.P. Kumarage* Note	1/2	N/A	N/A	N/M	N/A
Mr. U.N. Gunasekara**Note	5/6	4/4	N/A	N/A	N/A

N/A – not a member of the Committee

NM – no meetings held during the year

**Note-Has ceased to be a Director*

*** Note-Has ceased to be a Director*

Board Audit Committee (BAC)

People's Merchant Finance PLC has established a Board Audit Committee (BAC) to review the performance and monitor the operations of the Company on a continuous basis. BAC was established by the Board in a formal and transparent manner and the Board ensures the maintenance of independence of the Committee which consists of three Non-Executive Directors. One out of the three committee members is independent. The Chairman of BAC is a Non-Executive, Non Independent Director appointed by the Board, who possesses

qualifications and experience in the field of Banking and Finance.

The names of the BAC members during the Financial Year 2017/18 were as follows;

- Mr. U. N. Gunasekara (Chairman of the Committee until he was appointed CEO of the Company w.e.f. 17th November 2017)
- Mr. Johnson A. Fernando (Chairman of the Committee in the interim)
- Mr. Anil Weerasinghe
- Mr. A.S. Ibrahim

Board Remuneration Committee (BRC)

The Remuneration Committee consists of three (03) Directors who are all Non-Executive Non-Independent Directors. However, no meetings were held during the financial year ended 31.03.2018.

The names of the BRC members during the Financial Year 2017/18 were as follows;

- Mr. M.P. Amirthanyagam (Chairman of the Committee)
- Mr. N. Vasantha Kumar
- Mr. Anil Weerasinghe

Corporate Governance

The main functions of Remuneration Committee are;

- Developing policy on executive remuneration and packages for directors and to ensure that no director is involved in deciding his own remuneration
- Recommendation to the Board on the company's framework for remuneration packages for executive directors and senior management
- To seek appropriate professional advice as and when it is required as authorized by the Board

Directors allowances paid during the period are disclosed under Note 11.

Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee (IRMC) consists of three (03) Directors, and the CEO. The Directors in the Committee are Non-Executives. The names of the IRMC members during the Financial Year 2017/18 were as follows;

- Mr. Johnson A. Fernando
- Mr. L. De Fonseka
- Dr. D.W.S.S.R.N.J.R. Dandeniya
- Mr. U.N. Gunasekara - CEO

Related Party Transactions Review Committee (RPTRC)

The names of the RPTRC members during the Financial Year 2017/18 were as follows,

- Mr. M.P. Amirthanayagam – Chairman of the Committee
- Mr. L. De Fonseka
- Mr. Anil Weerasinghe

Risk Management and Internal Control

1. INTRODUCTION

The forecasting and evaluation of financial risk together with the identification of procedures to eliminate or minimize the business impact to the Company is the key objective of the Financial Risk Management Framework of the Group.

2. STRUCTURE OF THE RISK MANAGEMENT FRAMEWORK.

2.1 The Board of Directors

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors hold the risk retentiveness for the establishment and guardianship for the Company's frame work and manage the risk through Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC).

The main roles of the Board of Directors in Risk Management are,

- Increasing scrutiny over risk.
- Identification of potential loss areas.
- Finding the balance between taking and managing risk.
- Development of policies, procedures and awareness.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive

control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

2.2 Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC)

The IRMC has the overall responsibility for developing and monitoring the risk management strategy and implementing principal frame work, policies and limits, managing risk related decisions and monitoring risk levels and report to the Board of Directors with the support of Assets and Liability Committee (ALCO).

2.3 Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and consists of Deputy General Managers (Legal & HR, Business Development and Assets & Credit Finance) with the Heads of Finance, Fixed Deposits, Treasury and Pawning divisions. The committee will meet at least quarterly to manage the Assets and Liabilities of the Company and to keep the liquidity levels under satisfying requirements.

The Company has exposure to following risk from financial instruments.

- A. Credit Risk
- B. Liquidity Risk.
- C. Market Risk.
- D. Operational Risk.

A. CREDIT RISK

The credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meets its contractual obligations and arises principally from default on a debt that may arise from a borrower failing to make required payments, in the first resort; the risk is that of the lender and includes cost principals and interest, disruption to cash flows and increased collection flows.

Company Credit Management process with –

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk including business feasibility, verifying CRIB status of clients.
- Establishing the authorisation structure for the approval and renewal of credit facilities by Deputy General Managers, Company CEO and The Board of Directors depending on the quantum of the financial facilities.
- Reviewing and setting up individual customer and credit exposure levels. (Adherence to the Single Borrower Limits).

Risk Management and Internal Control

Exposure and Credit Quality by Class of Financial Assets

Credit quality of the Company related to the financial assets is analysed below.

B. LIQUIDITY RISK

Liquidity risk is the risk, that for a certain period of time, a given financial asset, security or commodity cannot be traded quickly enough in the market without impacting the market price thereby the Company will encounter difficulties in meeting obligations associated with its financial liabilities, which are settled by delivering cash or other financial assets.

The Board of Directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation to ALCO. Group ensures that sufficient liquidity to meet its liabilities when due, under normal and stressed conditions and maintains company reputation. The treasury division manages the liquidity of the Company by obtaining information from other divisions with regard to their liquidity situation of the financial operations on regular basis and with estimated cash flows from business activities based on the recommendation of the ALCO.

Company liquidity strategy as follows,

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate).
- Carrying a portfolio of highly liquid assets diversified by maturity.

- Monitoring maturity mismatches, behavioural characteristics of the Company's financial assets and liabilities.

C. MARKET RISK

Market risk is the risk of losses in positions arising from movements in market prices. There is no unique classification as each classification may refer to different aspects of market risk. Interest rate, Exchange rate, equity prices will affect the Company's income or the value of the holdings of financial instruments.

- Interest rate risk, the risk that interest rates or their implied volatility will fluctuate will resulting in adverse impact to the future cash flows or the fair values of financial instruments of the Company.

The Company holds interest bearing assets and Liabilities such as Investments in Fixed Deposits, loans and advances to customers, financial instruments – held for sale, due to banks, deposits from customers and debt security issued. The Company's exposure to interest rate risk with instruments with variable interest rates and repricing of interest rates of liabilities which have shorter maturities. Interest risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO of the Company regularly reviews the current interest structure with the market rates. ALCO is responsible for setting the overall interest risk management strategy of the Company which is implemented by the treasury unit.

The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations ranging from one month to five (05)

years and bank borrowing bearing both fixed and variable interest rates.

- Currency risk (Foreign Exchange Risk), the risk that foreign exchange rates or their implied volatility will change.

Currency risk arises due to change in exchange rates of currencies, The Company mitigates the exposure to exchange risk by matching foreign currency liabilities with corresponding assets in the same currency.

- Equity price risk, is subject to regular monitoring by group market risk, but is not currently significant in relation to the Group's overall results and financial position.

D. OPERATIONAL RISK

"Operational Risk" is the prospect of indirect or direct losses resulting from wide variety of causes associated with the Company's inadequate or failed procedures, systems or policies and also human errors, systems/ technology failures, fraud or other criminal activity which includes any external event that disrupts business processes other than market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk in a cost effective manner for avoiding/ minimizing financial losses and damages to the group and without imposing restrictions on initiative and creativity. The Board of Directors delegates the responsibility to the of Corporate Management , heads of Operational divisions and branch

management for development and implementation of control to address operational risk related to each division and branch. This responsibility is supported by the continuous improvement of overall group standards for the management of operational risk including,

- Appropriate segregation of duties on requirements, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions on requirements;
- Compliance with regulatory and other legal requirements and keeping up to date with changes;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Documentation of control and procedures;
- Requirements for the reporting of operational losses and proposed remedial action;
- Training and professional developments;
- Ethical and business standards;
- Risk mitigation, including insurance where this is cost effective.

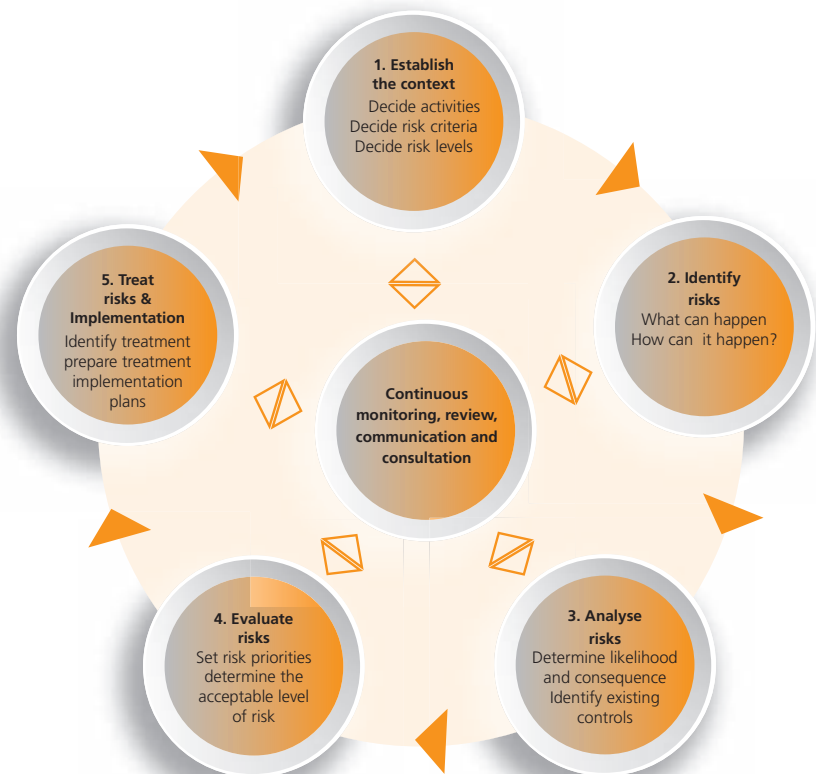
Compliance with group stands is supported by a programmed of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

Risk Management and Internal Control

Risk is the probability of occurrence of an uncertain event which damages or lowers the effectiveness of business processes; ultimately reduce the profitability of the Company.

The Risk Management policy in People's Merchant Finance PLC has been developed based on best practices for identification, evaluation and planning the risks and taking measures to control risks in a cost effective manner in order to ensure that risks are either eliminated or reduced to an acceptable level. It takes a holistic view at risks both from the downside and the upside.

Being a Finance Company, risk management and internal controls implemented within the Company consist of policies, processes, procedures and practices established by management to manage the impact of the risks based on the concept "prevention is better than cure".



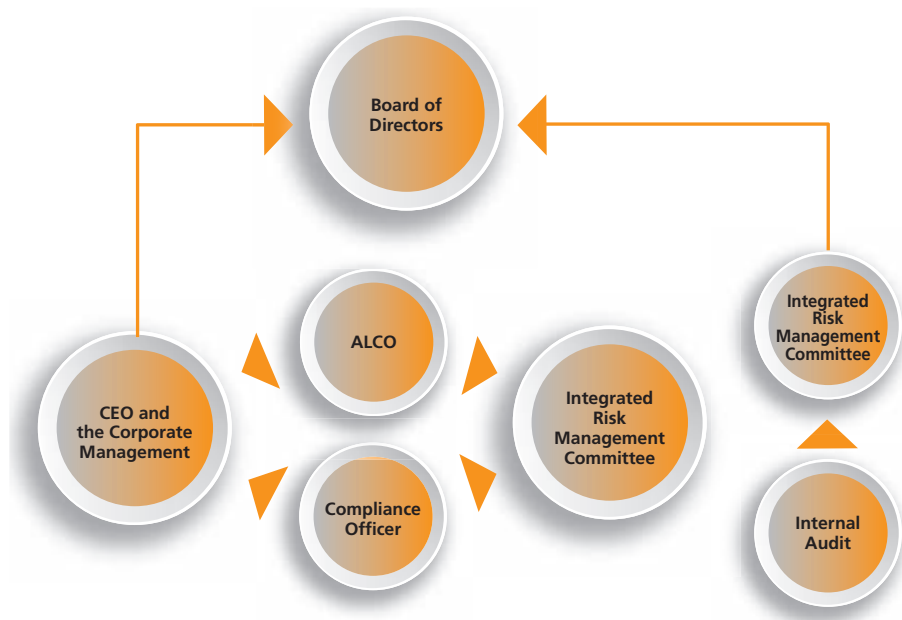
A "Policy statement for Risk Management" was introduced by the Integrated Risk Management Committee of PMF to ensure sound Risk Management practices within the Company.

Objectives of the Risk Management Policy Statement

- Assesses and monitors the risk profile of the Company in line with the Company's risk appetite and the regulatory compliance requirements.
- Ensures the Company's risk profile is maintained at a manageable level aligning with the risk appetite framework.

Risk Management and Internal Control

- Ensures prompt management action is taken to control high risk exposures to a manageable level and monitors the effectiveness of the action taken.



The Board of Directors with the support of Integrated Risk Management Committee and Board Audit Committee bears the responsibility for the Risk Management Framework of PMF. The CEO co-ordinates between the Risk owners and the Board and held responsible for continuously monitoring the risks generating from business activities. Risk owners are responsible for identifying, evaluating and reporting the risk to the Board through the Integrated Risk Management Committee and CEO.

The Integrated Risk Management Committee focuses on placing a framework to identify risk, reviewing and assessing the risk and advice the Board on placing framework strategies, policies, systems & processes.

The Audit Committee oversees the Risk Management by ensuring independent, efficient & effective external audit function, integrity of financial reporting framework & ensuring the effectiveness of internal controls.

Key Risks faced by the Company

Business and operational risk

Business and operational risk arises from the activities carried out within the Company due to structure, systems, processes, people and services. Business or operational risk include business interruption, errors or omissions by employees, failures of IT systems, frauds and loss of key employees. Operational risks arise as a result of inadequate or failures in internal control processes, peoples and system within the control of the Company as well as from exposures to unfavourable external environment which is beyond company's control.

Business and operational risks of PMF has been reduced by introducing a well-defined internal control system. The Company focuses on the existing customer base to enhance market share by providing excellent and efficient customer oriented services.

The Company has laid down procedures with regards to safe guarding of legal/security documents of lease, hire purchase and other loans and advance facilities. These are filed in the fire proof cabinets placed in security rooms with restricted access and recording of movements of in and out files.

PMF's operational risk management strategy includes assessment of changes in market on a monthly basis or more frequently if needed. The Assets and Liabilities Committee (ALCO) evaluates the Company assets, liabilities and set company borrowing and lending rates to be in line with the market rates. The credit committee monitors and evaluates the procedures when granting advances on a continuous basis. Corporate management participates and reports to the Board for decision making and follow up purposes.

Credit Risk

This risk arises due to borrowers not being able to settle loan obligations either capital or interest as per the terms agreed with the lender on scheduled dates. The Company identified this as a high risk area especially with the rapid growth in lending during the last financial year.

The Company has developed procedures which includes comprehensive credit appraisals for different risk levels, approvals by higher grade and assessment by the Managing Agent of high value loans, obtaining collateral where possible, setting exposure limits for borrowers and industry sectors, appraisals of clients falling in to overdue category and closely following them up, updating staff on new requirements and directions issued by Central Bank of Sri Lanka.

Liquidity Risk

This risk occurs when the Company is unable to meet its credit obligations in time without incurring unacceptable losses. Liquidity is managed by categorising assets and liabilities of the Company into various time bands of maturities and assessing any short falls, along with fund requirements as per forecast lending/investments. If there are any gaps, arrangements will be made with financial institutions to meet such requirements well

in advance. Also approved credit lines for short term use are established for utilisations in case of unforeseen requirements that may arise.

Financial Risk

The range of operational activities have increased in a significant manner following elevation of the Company to Central Bank approved, licensed Finance Company and this also has increased the financial risk to be faced by the Company. Accepting Fixed Deposits, opening up of Savings accounts, dealing in Foreign Exchange etc., widen the risk related to the financial operations of the Company. Credit risk, liquidity risk, currency risk, interest rate risk, cash flow risks are some of financial risks associated with such activities.

As a risk mitigation strategy, the Company follows a strategy of matching financial risks through different ways and methods such as fixed interest rates against floating interest rates, short term borrowing against long term borrowings, insurance policies, etc.

Interest Rate Risk

This can arise due to changes in the interest rates prevailing in the market. Adverse movements and volatile rate fluctuations can affect the Company's funding and such movements always affect the Company's lending, borrowing and investments.

PMF always uses natural hedging techniques to neutralise the worst effects and to maintain a balance in fixed and variable interest rates. The ALCO decides on borrowing /lending rates by taking market conditions in to account. Also due considerations is given to the maturity pattern of assets and liabilities to reduce period mismatches.

IT Risk

This encompasses the full spectrum of risks that may affect or result from IT operations, external natural disasters, internal processing and loss of intellectual property, supervisory of legal controls.

The Company has taken steps to manage possible IT risks such as information security risk, availability of system risk, performance risk and compliance risk. The information technology policy has been implanted.

Price change Risk

This refers to the risk of losses resulting from a decline in value of assets due to changes in the prices of assets, securities etc. Commodity price risk and equity price risks are the risk categories which mainly affect the business of PMF. Commodity price risk refers to the uncertainty of the expected value of profits raised from the purchase and sale of different commodities. This includes price risk which mainly due to price volatility and volume risk related to changes in demand and availability changes in demand and availability of resources. In PMF pawning business is mainly affected by this risk and to mitigate the adverse impacts, the Company has introduced a quick re-pricing cycle.

Equity price risk refers to the losses due to changes in the prices of equity securities on the public market of stock exchange indices. PMF is a listed entity in the Colombo Stock Exchange; hence any adverse movements of the share price directly affects the market capitalisation of the Company. PMF has set long term investment strategies to reduce its equity price risk.

Company Risk Assessment Matrix

	Impact/ Severity				
	Insignificant	Low	Average	High	Catastrophic
Very Frequent (>50%)	High	High	Extreme	Extreme	Extreme
Frequent (20%-50%)	Moderate	High	High	Extreme	Extreme
Moderate (5%-20%)	Low	Moderate	High	High	Extreme
Unlikely (1%-5%)	Low	Low	Moderate	High	High
Rare (<1%)	Low	Low	Low	Moderate	High

PMF's Risk Management is a continuous process that is followed by a set of procedures and principles which have been identified as the most viable to the predictable situations of the Company. Past experiences are documented and analysed and these are helpful in assessing risk for future business opportunities and better controls. In order to understand the risk, PMF assess and documents the risk. A step by step process is followed and in identifying them in the likelihood of occurrences and the impact it will have.

The Risk Management strategy of the Company rests on the commitment of the top management headed by the Board of Directors, followed by Board Audit Committee and ALCO. The risk culture encompassing all activities and operations of the Company is being created. All members of the staff have recognised the importance of the risk culture and the level of risk the Company is ready to accept. All key decisions are taken after analysing the risk factors and wherever possible decisions are taken collectively.





Financial Information

Presenting the Financial
Performance for 2017/18

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

Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance of the contents of the Annual Report as required by section 168 of the Companies Act No. 07 of 2007.

General

The Directors of People's Merchant Finance PLC ("the Company") has pleasure in presenting this report to the shareholders, together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31st March 2018 of the Company and the Group and the Auditors' Report on these financial statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and directions issued thereunder.

The Company was incorporated on 26th January 1983 under the Companies Act No. 17 of 1982 and subsequently re-registered as required under the provisions of the Companies Act No. 07 of 2007.

The Registered office of the Company and the principal place of business is situated at No.21, Nawam Mawatha, Colombo 02.

The Company's parent undertaking is People's Bank.

The ordinary shares were listed on the Main Board of the Colombo Stock Exchange (CSE) on 11th July 1994. (the Company was transferred from the Main Board to Diri Savi Board with effect from July 02,2018) and the Company obtained finance business license on 17th April 2012. (Refer Investor information section of this report for the details on ordinary shares) This report provides the information as required by the Companies Act No.07 of 2007, Finance Business Act No.42 of 2011 and Directions issued thereunder, the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and Listing Rules of the Colombo Stock Exchange. This report was approved by the Board of Directors on 25th June 2018.

Principal Business Activities

Company – The principal business activities of the Company comprise Finance Leases, Mortgage Loans, Margin Trading, Short Term Investments, Gold Loans & Pawning, Real Estate and Issuance of Debt Instruments and mobilization of Public Deposits.

Subsidiaries -The Company has a fully owned subsidiary company (PMB Services Limited).

The principal activity of PMB Services Limited was the operation of credit cards and the undertaking of all ancillary activities in connection there with. However, the subsidiary is not involved in any business operations at present.

The Company or its subsidiary have not engaged in any activities, which contravene any laws or regulations during the year under review.

Branch Network

Total branch network of the Company as at 31st March 2018 was ten and one pawning Centre.

Review of Operations and Future Developments

An overall assessment of the Company's financial position and performance during the year, with comments on financial results, special events that took place and future developments, is contained in the Chairman's Message on page 03. These reports form an integral part of the report of the Directors and together with Audited Financial Statements reflect the state of affairs of the Company and the Group. Segment wise contribution to Group revenue, results, assets and liabilities is disclosed in Notes to the Financial Statements on page 94 of this Annual Report.

Financial Statements of the Group and the Company

The Financial Statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka, and

comply with the requirements of Companies Act No.07 of 2007.

The Financial Statements of the Group and the Company, which are duly certified by the Manager - Finance and the Chief Executive Officer and approved by the Board of Directors and signed by the Chairman and the one Director, are provided on page 50 of this Annual Report.

Auditor's Report

The Company's Auditors, M/s.KPMG, Chartered Accountants performed the audit on the Consolidated Financial Statements for the year ended 31st March 2018 and the Auditor's Report issued thereon is given on pages 45 to 47 of this Annual Report.

Accounting Policies and changes during the year

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Group and the Company during the year under review. Significant Accounting Policies together with the Notes adopted in preparation of the Financial Statements of the Group and the Company are given on the pages 45 to 95 These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

Accounting Period

The financial accounting period reflects the information from 1st April 2017 to 31st March 2018.

Financial Results and Appropriations Financial Results

The Group and the Company recorded a net loss of Rs. 147.5 million and Rs. 148.3 million respectively for the financial year 2017/18 (Rs. 196.7 million and Rs. 199.4 million in 2016/17). Details of the Company's performance and appropriation are tabulated as follows.

Company	2017/18	2016/17
	Rs.'000	Rs.'000
Loss after taxation	(148,312)	(199,352)
Loss brought forward from previous year	(1,295,630)	(1,096,701)
Transfers from reserves	573,598	-
Profit available for appropriation	(870,344)	(1,296,053)
Appropriations		
Other comprehensive income	549	423
Total appropriation	549	423
Un-appropriated loss carried forward	(869,795)	(1,295,630)

Provision for Taxation

The income tax rate applicable on the profits earned during the year is 28%. Rate of VAT on financial services is 15%. Accordingly, the current year income tax reversal of the Company is Rs. 0.2 million and a more descriptive note on income tax charged and differed tax assets/liability of the Company and its subsidiaries are disclosed in notes 12 and 26 to the Financial Statements respectively.

Dividends on Ordinary Shares

The Directors have not recommended the declaration of dividend for the financial year ended 31st March 2018. (Nil as per share for FY 2016/17)

Preference Shares and Preference Dividend

Outstanding balance of the Preference shares as at 31st March 2018 amounted to Rs. 10 million. Company has provided for preference share dividend payable amounting to Rs. 4.8 million during the financial year.

Intangible Assets, Property, Plant and Equipment

The details of Property, Plant and Equipment are presented in note 19 (pages 74 to 75) to the Financial Statements.

The Directors confirm that there were no other significant changes in the Company's or its subsidiaries' fixed assets.

Information on Freehold Land and Building of the Company

The Details of Freehold Land and Buildings previously owned by the Company and the Group are given in Note 22 to these Financial Statements.

Investments

Details of investments held by the Company are disclosed in note 14 and 15 on pages 70 and 71 to the Financial Statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the Stated Capital of the Company. The Stated Capital is the total of all amounts received by the Company in respect of the Issued Share Capital. The Stated Capital of the Company and the Group as at 31st March 2018 amounted to Rs. 1,078.2 million (Rs. 1,078.2 million as at 31st March 2017).

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

Reserves

A summary of reserves of the Group and Company as at year ended 31st March 2018 as follows.

	Company		Group	
	2017/18 Rs.'000	2016/17 Rs.'000	2017/18 Rs.'000	2016/17 Rs.'000
Statutory reserve Fund	7,259	7,259	7,259	7,259
Revaluation Reserve	-	573,598	-	573,598
Accumulated Loss	(869,795)	(1,295,630)	(870,742)	(1,297,411)
Total	(862,536)	(714,773)	(863,483)	(716,554)

Share Information

Shareholder information and information on trading are provided under the title 'Investor Information' on pages 99 to 100 of this Annual Report and is presented to the shareholders.

Shareholdings

The list of top 20 shareholders, number of shares held by them, percentage of their respective holding and Public holding percentage are given under the title 'Investor Information' on page no 100.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material.

Board of Directors

The following were the directors of the Company during the Financial Year ended 31st March 2018 and subsequently;

Name of Director	Date of Appointment
Mr. Hemasiri Fernando	appointed on 30th June 2015 - Chairman
Mr. N. Vasantha Kumar	appointed on 30th June 2015
Mr. J. A. Fernando	appointed on 30th June 2015
Mr. M.P. Amirthanayagam	appointed on 30th June 2015
Mr. L. De Fonseka	appointed on 19th May 2015
Dr. D. W.S. S. R. N. J. Dandeniya	appointed on 19th May 2015
Mr. A.P. Weerasinghe	appointed on 01st January 2012
Mr. A.S. Ibrahim	appointed on 25th October 2017
Mrs. R.P.N. Premalal	appointed on 16th May 2018
Mr. D.P. Kumarage	appointed on 30th June 2015 (Ceased to be a Director w.e.f 19th July 2017 upon reaching the age of 70 Years)
Mr. U.N. Gunasekara	appointed on 30th June 2015 (Ceased to be Director with effect from November 17,2017 upon his appointment as Chief Executive Officer)

All the Directors including the Chairman are Non Executive Directors. One Director namely Mr. A. P. Weerasinghe is an Independent Director.

Interests Register

In compliance with the Companies Act No. 07 of 2007, the Company maintains an Interest's Register which is available for inspection.

Directors' Interest in Transactions

The Directors of the Company have made general declarations as provided in section 192 (2) of the Companies Act No. 07 of 2007 of their interests in transactions of the Company. Details of the transactions disclosed therein are given on pages 82 to 84 under related party transactions. Furthermore, the Chairman, the Board of Directors and the Chief Executive Officer of the Company have made general declarations that there is no financial, business, family or other material/relevant relationship (s) between themselves as required to be disclosed by the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

Directors' Remuneration

The details of Directors' fees and Directors' Emoluments paid during the year are stated below.

	Company		Group	
	2018	2017	2018	2017
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Directors' Fees & Emoluments	967	721	967	721

Directors' Interest in Shares

In compliance with section 200 of the Companies Act, the Directors have disclosed to the Board their shareholding in the Company and any acquisitions or disposals thereof.

The Directors' individual shareholdings in the Company as at 31st March 2018 and 31st March 2017 are given on page 100 of this Annual Report.

Chief Executive Officer's interest in Shares

The Chief Executive Officer's individual shareholdings in the company as at 31st March 2018 and 31st March 2017 are given on page 100 of this annual report.

Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on page 29 of this Annual Report.

Board Sub Committees

All the Board Sub-Committees details are presented in the 'Corporate Governance' section on pages 29 to 30.

Board Audit Committee

All members of the Audit Committee are Non-Executive Directors. The Board Audit Committee Report is given on page 44 of this Annual Report.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group, which reflect a true and fair view of the state of its affairs. The Directors are of the view that the Income Statement, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes In Equity, Cash Flow Statement, Significant Accounting Policies and Notes for the year ended 31st March 2018 and Statement of Financial Position as at that date 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 Regulations made under Finance Business Act. No. 42 of 2011.

The "Statement of Director's Responsibility for Financial Reporting" is provided on Page 43 forms an integral part of this report.

Donations

During the year, the Company haven't made donations (2017 – Nil). The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168(1) (g) of the Companies Act No. 07 of 2007.

Related Party Transactions

There are no related party transactions which exceed 10 percent of the Equity or 5 percent of the total assets whichever is lower, other than the transaction disclosed under the note 22 on page 77 and the Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions. However, the Directors have disclosed the transactions that could be classified as Related Party Transactions which are adopted in the presentation of the Financial Statements and accordingly given in note 32 on pages 82 to 84 of this Annual Report.

System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations and compliance controls required to carry its operation in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board Audit Committee Report forms an integral part of the Annual Report of the Board of Directors and is given on page 44 of the Annual Report.

Corporate Governance

The Board of Directors is committed to develop the Corporate Governance Principles of the Company and furthermore has adopted a Corporate Governance Charter including therein the procedures and processes governing the different participants in the organisation – such as the

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

Board, Managers, Shareholders and other Stakeholders to ensure that the highest principles of Corporate Governance is maintained across the Board.

In adopting the aforesaid Corporate Governance Charter, the Board has ensured that the Company is compliant with the recommendations and proposals of 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, the Listing Rules of Colombo Stock Exchange (CSE) and the Finance Companies (Corporate Governance) Direction No.03 of 2008, No.04 of 2008 and No. 06 of 2013. The Board is continuing to introduce better systems and procedures for the internal controls, risk management of the Company, and thereby improve accountability and transparency in the Company. The Corporate Governance report of the Company is given in pages 10 to 30.

Human Resources

Number of Employees as at 31st March 2018 was 124 (31st March 2017 – 118)

Environmental Protection

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

Compliance with Laws and Regulations

The Company has not engaged in any activity contravening any laws and regulations.

Statutory Payments

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the government, other regulatory institutions and in relation to the employees have been made except for certain income tax assessments against which appeals have been lodged.

Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on note 31 to the Financial Statements on page 81.

Events after the Reporting Date

Details of events after the reporting date are reflected in note 37 Page 95 to the Financial Statements.

Going Concern

After considering the Financial Position, the Company's corporate/ business plans, operating conditions, regulatory and other factors and such matters required to be addressed in 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, the Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Auditors

Messrs. KPMG has expressed their willingness to continue in Office as Auditors for the Company. Accordingly, a resolution to re-appoint them as Auditors until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board and to audit the Financial Statements of the Company for the accounting period ending 31 March 2019 will be proposed at the Annual General Meeting.

Auditors, Messrs. KPMG were paid Rs. 2.4 million as audit fee and expenses by the Company. Further they were paid Rs. 0.99 million as non-audit services during the year under review.

Based on the written representation made by the Auditors to the Board, the Directors are satisfied that the Auditors did not have any relationship with or any interest in the Company.

Notice of Meeting

Notice of the meeting relating to the Annual General Meeting is provided on page 102 of this Annual Report.



M.P. Amirthanayagam
Director



Hemasiri Fernando
Chairman



Lakmini Kottegoda
Company Secretary

25th June 2018

Colombo

Directors' Responsibility for Financial Reporting

The Companies Act No.7 of 2007 requires that the Board of Directors of a Company shall prepare Financial Statements which shall give a true and fair view of the state of affairs of the Company as at Statement of Financial Position date and the profit or loss or income and expenditure as the case may be of the company for the accounting period ending on that statement of financial position date. In preparing the above financial statements appropriate accounting policies and standards have been selected and applied consistently. Where necessary reasonable and prudent judgments and estimates have been made in line with Accounting Standards.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy the financial position of the company. They are also responsible for taking reasonable measures to safeguard the assets of the Company and in that context, to have proper regard to the establishment of appropriate systems of internal control with a view of preventing and detecting fraud or other irregularities. The Directors are of the opinion that the Company has adequate resources to continue in operation to adopt the going concern basis in preparing the accounts.

The Company's external auditors KPMG have examined the Financial Statements made available by the Board of Directors together with all financial records, related data, minutes of shareholders and Directors meetings and express their opinion in the Auditor's Report on pages 45 to 47 of the Annual Report.

By order of the Board

People's Merchant Finance PLC



Lakmini Kottegoda
Company Secretary

Colombo, Sri Lanka

Report of the Audit Committee

The Composition of the Board Audit Committee

The Board Audit Committee (“the Committee”), appointed by the Board of Directors of People’s Merchant Finance PLC comprises four Non-Executive Directors with one Independent Director. As of 31st March 2018, the Board Audit Committee comprised the following Directors:

Mr. Johnson A. Fernando - Chairman (In the Interim), Non-Independent, Non- Executive Director

Mr. A.S. Ibrahim Non-Independent, Non-Executive Director

Mr. A. P. Weerasinghe - Independent, Non-Executive Director

Mr. U.N. Gunasekara was the Chairman of the Audit Committee until he was appointed the CEO of the Company with effect from 17th November 2018 and Mr. Johnson Fernando was appointed as the Chairman of the Audit Committee in the interim, until a non-executive Director who possesses qualification and experience in accountancy and/or audit is appointed to the post. Mrs. R.P.N. Premalal a Non-Executive Director, who is a member of The Institute of Chartered Accountants of Sri Lanka and is a Fellow of Chartered Management Accountants was appointed as the Chairman of the Audit Committee with effect from 16th May 2018.

The profiles of the members are given on pages 5 to 7.

Board Audit Committee Meetings

The Committee held six (6) meetings during the financial year under review. The Chief Executive Officer and the Manger - Finance attended meetings by invitation. Company Secretary acts as the Secretary to Board Audit Committee. On the invitation of the Committee, any officer of the Company, External Auditor and any outsider may attend all or part of any meeting. The proceedings of the Audit Committee meetings are recorded with adequate details and reported to the Board of Directors.

Role of the Committee

The main objectives of the Audit Committee are to assist the Board of Directors in fulfilling its responsibilities of overseeing the financial reporting process, the system of internal controls and risk management, the independence and the audit process of the external auditors and the process for monitoring compliance with laws and regulations.

Activities during the Year

The Committee reviewed the Annual Report containing the financial statements for the year ended March 31, 2018. The Committee also reviewed all the interim financial statements starting from the quarter ended June 30, 2017 to March 31, 2018 prior to release, to ensure compliance with statutory and regulatory requirements including LKAS/SLFRS, Companies Act No. 07 of 2007, continued listing rules Requirement of Colombo Stock Exchange, Finance Business Act. 42 of 2011 and other relevant financial reporting related regulations and requirements.

Internal Audit

During the year under review, the outsourced Internal Audit mainly focused on initiating and improving policies and procedures of the business processes, while reviewing and reporting the accuracy and integrity of the Financial Statements, efficiency of the internal control systems and compliance with statutory and other regulations and the accounting and operational policies.

External Audit

The Audit Committee has recommended to the Board of Directors that Messrs. KPMG to be appointed as Auditors for the Financial Year ending 31st March 2019 subject to the approval of the shareholders at the Annual General Meeting.

Conclusion

Finally, I would like to thank all the members who served on the Audit Committee during the year for their valuable contribution to the deliberations for the Committee.



J. A. Fernando
Chairman

Audit Committee

Independent Auditor's Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
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To the Shareholders of People's Merchant Finance PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2018, and the Income Statement, 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 to the Financial Statements, including a summary of Significant Accounting Policies and other explanatory information set out in pages 48 to 95 of the Annual Report.

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, 2018, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 37 of the financial statements which describe the details of the Directions issued by the Central Bank of Sri Lanka (CBSL) to either infuse capital to the Company or merge the operations of the Company with Peoples Leasing & Finance PLC. In

addition we draw attention to Note 33.3 of the financial statements which describe the non-compliance with Directions issued by the CBSL relating to capital adequacy. These factors raise significant doubt about the Company's ability to continue as a going concern. No adjustments has been made in the financial statements as the Board of Directors are confident that the Company will continue as a going concern. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company financial statements and the 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. In addition to the matter described in the *Material Uncertainty Related to Going Concern section*, we have determined the matters described below to be the key audit matters to be communicated in our report.

Recoverability of loans and advances

Impairment allowances represent management's best estimate of the losses incurred within receivables and loan portfolios at the year end. They are calculated for specific assets and on a collective basis for portfolios of loans of a similar nature. The calculation of impairment allowances is inherently judgemental for any institution.

Collective impairment allowances are calculated using statistical models concurrent with the past settlement pattern which approximate the impact of current economic and credit conditions on large portfolios of loans. The inputs to these models are subject to management judgment and model overlays are often required.

The audit focused on impairment due to the materiality of the balances and the subjective nature of the calculation.

Refer note 3.3.9 for the accounting policies and note 16 for notes to the accounts.

Independent Auditor's Report



Our audit procedures included;

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in respect of the loans and advances which includes credit control procedures.
- On a sample basis, reviewing credit files for control and substantive purposes and challenging the valuation of underlying collateral and other possible sources of repayment.
- Evaluating the model methodology, key assumptions and management model validation. We substantively tested the completeness and accuracy of key inputs into models and assessed the appropriateness of other assumptions.
- Validating the accuracy of the collective and individual impairment models by re-performing the calculations.
- Assessing the adequacy of the related financial statements disclosures.

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. 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 the 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 consolidated 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.

Further, as disclosed in Note 33.3 to the financial statements, the Company and Group's capital funds do not fulfill the requirements of the directions issued by the Central Bank of Sri Lanka to the finance companies for the capital funds (Direction no 01 of 2003), minimum core capital (Direction no 01 of 2011), the risk weighted capital adequacy ratio (Direction no 02 of 2006) and single borrower limit (Direction no 04 of 2006) as at the reporting date. In addition to that, it should be noted that the Company's net assets are less than half of the Stated Capital resulting in a serious loss of capital situation in terms of Section 220 of the same Act.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1224.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

25th June 2018

Income Statement

For the Year Ended 31st March	Note	Company		Group	
		2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Gross Income	4	467,004	375,535	467,180	375,538
Interest income	5.1	431,790	365,433	431,790	365,433
Less : Interest expense	5.2	339,682	342,347	339,682	342,347
Net interest income	5	92,108	23,086	92,108	23,086
Fee and commission income	6	6,562	5,893	6,562	5,893
Net gains / (losses) from financial assets	7	18	(12,266)	18	(12,266)
Other operating income	8	28,634	16,475	28,810	16,478
Total operating income		127,322	33,188	127,498	33,191
Less: Impairment charges for loans and receivables and other losses	9	94,900	40,428	94,900	40,428
Net operating income / (loss)		32,422	(7,240)	32,598	(7,237)
Less:					
Personnel expenses	10	96,543	92,499	96,543	92,499
Depreciation of property, plant and equipment		2,319	12,712	2,319	9,114
Amortisation of intangible assets		2,721	2,394	2,721	2,394
Other operating expenses	11	79,364	88,189	78,706	89,180
Loss before tax		(148,525)	(203,034)	(147,691)	(200,424)
Less: Net tax expense	12	(213)	(3,682)	(213)	(3,682)
Loss for the year		(148,312)	(199,352)	(147,478)	(196,742)
Basic Loss per ordinary share (Rs.)	13	(2.20)	(2.95)	(2.18)	(2.91)

The notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st March	Note	Company		Group	
		2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Loss for the year		(148,312)	(199,352)	(147,478)	(196,742)
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Net change in fair value of Available For Sales reserve		-	273	-	273
Fair value gains / (losses) realised to the Income Statement on disposal	7	-	12,288	-	12,288
Related taxes		-	(3,517)	-	(3,517)
Items that will not be reclassified to profit or loss					
Actuarial gain on employee benefit obligation	27.1	762	588	762	588
Deferred tax effect on actuarial gains		(213)	(165)	(213)	(165)
Other comprehensive income for the year, net of tax		549	9,467	549	9,467
Total comprehensive loss for the year		(147,763)	(189,885)	(146,929)	(187,275)

The notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st March	Note	Company		Group	
		2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Assets					
Cash and cash equivalents	14	289,945	313,065	290,214	313,419
Balances with banks and financial institutions		46,048	3,771	46,048	3,771
Financial assets - Held for trading	15	2,580	2,562	2,580	2,562
Loans and receivables	16	2,488,467	2,005,094	2,488,467	2,005,094
Financial assets – Available for sale	17	23	23	23	23
Investments in subsidiaries	18	-	-	-	-
Property, plant and equipment	19	11,303	9,380	11,303	9,380
Intangible assets	20	6,371	8,435	6,371	8,435
Other assets	21	83,202	78,931	83,202	78,931
		2,927,939	2,421,261	2,928,208	2,421,615
Assets classified as held for sale	22	-	1,041,251	-	1,040,828
Total Assets		2,927,939	3,462,512	2,928,208	3,462,443
Liabilities					
Due to banks	23	96,556	562,459	96,556	562,459
Due to customers	24	2,455,586	2,396,177	2,455,586	2,396,177
Debt securities issued	25	14,800	14,200	14,800	14,200
Deferred tax liabilities	26	-	-	-	-
Other liabilities	27	145,306	126,222	146,522	127,934
Total Liabilities		2,712,248	3,099,058	2,713,464	3,100,770
Equity					
Stated capital	28	1,078,227	1,078,227	1,078,227	1,078,227
Statutory reserve fund	29	7,259	7,259	7,259	7,259
Revaluation reserve		-	573,598	-	573,598
Accumulated loss	30	(869,795)	(1,295,630)	(870,742)	(1,297,411)
Total Equity		215,691	363,454	214,744	361,673
Total Liabilities and Equity		2,927,939	3,462,512	2,928,208	3,462,443
Contingent liabilities and commitments	31	64,820	55,541	64,820	55,541
Net assets value per share (Rs.)		3.20	5.38	3.18	5.36

We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.



Aloka Hewawasam
Manager Finance

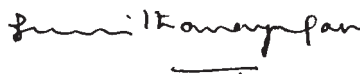


Nishantha Gunasekara
CEO

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 by;



Hemasiri Fernando
Chairman



M.P. Amirthanayagam
Director

25th June 2018
Colombo, Sri Lanka

The notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Changes in Equity - Company

	Stated Capital Rs.'000	Reserve Fund Rs.'000	Revaluation Reserve Rs.'000	Available For Sale Reserve Rs.'000	Accumulated loss Rs.'000	Total Equity Rs.'000
Balance as at 01st April 2016	1,078,227	7,259	573,598	(9,044)	(1,096,701)	553,339
Comprehensive income for the year						
Loss for the year	-	-	-	-	(199,352)	(199,352)
Other comprehensive income/ (loss) for the year (net of tax)	-	-	-	9,044	423	9,467
Total comprehensive income/ (loss) for the year	-	-	-	9,044	(198,929)	(189,885)
Balance as at 31st March 2017	1,078,227	7,259	573,598	-	(1,295,630)	363,454
Balance as at 01st April 2017	1,078,227	7,259	573,598	-	(1,295,630)	363,454
Comprehensive income for the year						
Loss for the year	-	-	-	-	(148,312)	(148,312)
Other comprehensive income/ (loss) for the year (net of tax)	-	-	-	-	549	549
Transfer Revaluation Reserve on disposal	-	-	(573,598)	-	573,598	-
Total comprehensive income/ (loss) for the year	-	-	(573,598)	-	425,835	(147,763)
Balance as at 31st March 2018	1,078,227	7,259	-	-	(869,795)	215,691

Figures in brackets indicate deductions.

The notes to the Financial Statement form an integral part of these Financial Statements.

Statement of Changes in Equity - Group

	Stated Capital Rs.'000	Reserve Fund Rs.'000	Revaluation Reserve Rs.'000	Available For Sale Reserve Rs.'000	Accumulated loss Rs.'000	Total Equity Rs.'000
Balance as at 01st April 2016	1,078,227	7,259	573,598	(9,044)	(1,101,092)	548,948
Comprehensive income for the year						
Loss for the year	-	-	-	-	(196,742)	(196,742)
Other comprehensive income / (loss) for the year (net of tax)	-	-	-	9,044	423	9,467
Total comprehensive income / (loss) for the year	-	-	-	9,044	(196,319)	(187,275)
Balance as at 31st March 2017	1,078,227	7,259	573,598	-	(1,297,411)	361,673
Balance as at 01st April 2017	1,078,227	7,259	573,598	-	(1,297,411)	361,673
Comprehensive income for the year						
Loss for the year	-	-	-	-	(147,478)	(147,478)
Other comprehensive income / (loss) for the year (net of tax)	-	-	-	-	549	549
Transfer Revaluation Reserve on disposal	-	-	(573,598)	-	573,598	-
Total comprehensive income / (loss) for the year	-	-	(573,598)	-	426,669	(146,929)
Balance as at 31st March 2018	1,078,227	7,259	-	-	(870,742)	214,744

Figures in brackets indicate deductions.

The notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Cash Flows

For the Year Ended 31st March	Note	Company		Group	
		2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Cash Flows from Operating Activities					
Loss before taxation		(148,525)	(203,034)	(147,691)	(200,424)
Adjustment for:					
Non-cash items included in loss before tax					
Reversal of interest from investing activities	5.1	(67,948)	(35,516)	(67,948)	(35,516)
Reversal of fair value change on shares	7	(18)	(22)	(18)	(22)
Reversal of fair value loss from AFS Reserve	7	-	12,288	-	12,288
Dividend income from investments		(307)	(229)	(307)	(229)
Depreciation of property, plant & equipment		2,319	12,712	2,319	9,113
Amortization of intangible assets		2,721	2,394	2,721	2,394
Provision for the retirement benefit obligation	27.1	3,134	2,836	3,134	2,836
Gain on disposal of property, plant and equipment	8	(1,460)	(549)	(1,460)	(549)
Impairment on Loans and receivables and other losses	9	94,900	40,428	94,900	40,428
Changes in					
Loans and advances to customers		(578,273)	(353,020)	(578,273)	(353,020)
Other assets		(4,271)	9,320	(4,271)	9,320
Operating liabilities		17,768	(19,612)	16,849	(18,632)
Due to customers		59,410	(444,927)	59,410	(444,927)
		(620,550)	(976,931)	(620,635)	(976,939)
Retiring gratuity paid	27.1	(456)	(803)	(456)	(803)
Income tax paid		-	-	-	-
Net cash used in operating activities		(621,006)	(977,734)	(621,091)	(977,742)
Cash Flows from Investing Activities					
Interest income on short term investment	5.1	67,948	35,516	67,948	35,516
Net investment in Available For Sale Securities		-	52,392	-	52,392
Net Investment in Fixed Deposits		(42,277)	216,607	(42,277)	216,607
Purchase of property, plant & equipment		(4,242)	(5,241)	(4,242)	(5,241)
Purchase of intangible assets		(657)	(9,841)	(657)	(9,841)
Proceeds from disposal of Assets held for sale		1,040,000	-	1,040,000	-
Proceeds from the sale of property, plant & equipment		2,710	700	2,710	700
Dividends received from investments	8	307	229	307	229
Net cash from investing activities		1,063,789	290,362	1,063,789	290,362
Cash Flows from Financing Activities					
Net Borrowings		(354,465)	354,465	(354,465)	354,465
Net cash from / (used in) financing activities		(354,465)	354,465	(354,465)	354,465
Net increase / (decrease) in cash & cash equivalents					
		88,318	(332,907)	88,233	(332,915)
Cash and cash equivalents at beginning of the year		105,071	437,978	105,425	438,340
Cash and cash equivalents at the end of the year		193,389	105,071	193,658	105,425
Cash and cash equivalents at the end of the year					
Cash & cash equivalents	14	289,945	313,065	290,214	313,419
Bank overdraft	23	(96,556)	(207,994)	(96,556)	(207,994)
		193,389	105,071	193,658	105,425

The notes to the financial statements are an integral part of these financial statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION

1.1. Corporate Information

People's Merchant Finance PLC ("the Company"), regulated under the Finance Business Act No. 42 of 2011, is a Public Limited Liability Company incorporated on 26th January 1983 and domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007. The Company has a primary listing on the Colombo Stock Exchange on 11th July 1994.

The registered office and the principal place of the business is at No.21, Nawam Mawatha, Colombo 02.

Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31st March 2018 include People's Merchant Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

Parent Entity & Ultimate Parent Entity

The Company's parent entity is People's Bank which is a Government owned entity.

Number of Employees

The staff strength of the Group as at 31st March 2018 is 124 (118 as at 31st March 2017).

1.2. Group Information

Principal Activities and Nature of Operations

1.2.1. Company

People's Merchant Finance PLC

The principal business activities of the Company are providing finance leases, hire purchase assets financing, gold loans, term loans, real estate developments, margin trading, short-term investments and mobilisation of public deposits.

1.2.2. Subsidiary

The Company's only subsidiary is PMB Services Limited (Limited liability company incorporated and domiciled in Sri Lanka under the Companies Act No. 7 of 2007).

PMB Services Limited

The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection there with. However, the subsidiary is not involved in any business operations at present.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The consolidated Financial Statements of the Group and separate Financial Statements of the Company comprising the Statement of Financial Position, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows together with Notes ("the Financial Statements"), as at 31st March 2018 and for the year then ended are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) & Sri Lanka Accounting Standards (LKASs) (hereafter "SLFRS/LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL). The presentation of the Financial Statements is also in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 (except for as disclosed in note 33.3 to these Financial Statements.) and the listing rules of the Colombo Stock Exchange.

The Financial Statements were authorised for issue by the Management on 25th June 2018.

2.2. Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with new Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Board of Directors acknowledges their responsibility as set out in the "Annual Report of the Board of Directors on the affairs of the Company", "Directors' Responsibility for Financial Reporting" and in the certification on the Statement of Financial Position on pages 38 to 42 and 50 respectively.

2.2.1 Approval of the Financial Statements by the Management

The Financial Statements of the Company and the Group for the year ended 31st March 2018 (including comparatives) were approved and authorised for issue by the Management on 25th June 2018.

2.3. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position;

Item	Basis of measurement	Note	Page No.
Financial Assets - Fair Value Held for trading		15	70
Financial Assets - Fair Value Available-for-sale		17	73
Defined Benefit Obligations	Projected unit credit method of the defined benefit obligations	27.1	80
Assets Held for Sale	Measured at the lower of the carrying amount and fair value, less costs to sell	22	77

2.4. Presentation of Financial Statements

The assets and liabilities of the Company and the Group 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. Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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 consolidated Statement of Profit or Loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5. Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional currency. All financial information presented in Rupees has been rounded to the nearest thousand unless indicated otherwise. The functional currency is the currency of the primary economic environment in which the Group operates.

2.6. Materiality and Aggregation

In complying with Sri Lanka Accounting Standard - LKAS 01 on "Presentation of Financial Statements" each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.7. Rounding

The amounts in the Financial Statements have been rounded – off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 01 on 'Presentation of Financial Statements'.

2.8. Statement of Cash Flows

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Whereby operating activities, investing activities and financing activities are separately recognized. 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 as referred to in the Statement of Cash Flows are comprised of those items as explained in Note 14 and Note 24.

2.9. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Fair Value of Financial Instruments	Note 2.9.1
Impairment Losses on Loans and Advances	Note 3.3.9
Defined Benefit Obligation	Note 3.5.3.2
Revaluation of land	Note 3.4.1.4
Deferred Tax	Note 3.8

2.9.1. Measurement of Fair Value

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group regularly

Notes to the Financial Statements

reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, the Company assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group's Audit Committee. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- I. **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- II. **Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- III. **Level 3:** Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policies

Accounting policies are set out below have been consistently applied to all period presented in these Financial Statements.

3.1 Basis of Consolidation

The Consolidated Financial Statements include the Financial Statements of the Company and its Subsidiary over which it has control in terms of SLFRS 10 Consolidated Financial Statements.

3.1.1. Subsidiaries

Subsidiaries are investees controlled by the Group. The Group 'Controls' an investee if it is exposed to, 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. The group reassesses whether it has control

if there are changes to one or more of the elements of the control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

An investment in Subsidiary is treated as long-term investments and is valued at cost less any impairment losses.

The financial statements of the Subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

These consolidated financial statements are prepared to a common financial year end of 31 March. The accounting policy of Subsidiary has been changed when necessary to align them with the policies adopted by the Group. All the assets and liabilities of the Group and the Subsidiary are included in the consolidated statement of financial position.

3.1.2. Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date of control is lost. Subsequently it is accounted for as an equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.1.3. Transactions Eliminated On Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

3.2. Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupees at the foreign exchange rate ruling as at the Statement of Financial Position date. Foreign exchange differences arising on the settlement or reporting of the Group's monetary items at rates different from those which were initially recorded are dealt with in the Statement of Comprehensive Income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost at the Statement of Financial Position date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at the date of initial transaction.

Non-monetary assets and liabilities that are stated at fair value, denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate ruling at the dates that the value were determined.

Foreign exchange differences arising on translation are recognized in the Statement of Comprehensive Income.

3.3. Financial Instruments

Initial Recognition, Classification and Subsequent Measurement

3.3.1. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

Financial assets and liabilities are initially measured at their fair value plus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

3.3.2. Classification and Subsequent Measurement of Financial Assets

At inception financial assets are classified into one of the following categories:

- At Fair value through profit or loss
 - Held for trading ; or
 - Designated at fair value through profit or loss.

- Loans and receivables.
- Held-to-maturity.
- Available for Sale.

The subsequent measurement of the financial assets depends on their classification.

3.3.2.1. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below.

3.3.2.1.1. Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss.

The Group evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial Assets Held for Trading comprises investment in shares.

3.3.2.1.2. Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or

Notes to the Financial Statements

- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the Effective Interest Rate (EIR), while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.3.2.2. Loans and Receivables

'Loans and receivables' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available for sale
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration

'Loans and receivables' include Cash and Cash Equivalents, investment in fixed deposits, Loans and advances to customers and Other assets.

3.3.2.3. Held to Maturity Financial Investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are

recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

The Group has not designated any financial assets as held to maturity.

3.3.2.4. Available for Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as Available-for-Sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Income Statement in 'Other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding Available-for-Sale financial investments is reported as 'Interest Income' using the EIR.

Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Income Statement as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the 'Available for Sale reserve'.

3.3.3. Cash & Cash Equivalents

Cash and cash equivalents comprise of cash in hand and cash at bank and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.3.4. Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss.
- At Amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.3.4.1. Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Gains or losses on liabilities held for trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.3.4.2. Financial Liabilities at Amortised Cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities, where the substance of the contractual arrangement results in the Group 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 asset for a fixed number of own equity shares.

Financial liabilities at amortised cost include Due to bank, Deposits from customers, Debt securities issued and Other liabilities.

3.3.5. Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method

of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.3.6. Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances:

- To the available for sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or
- to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loans and receivables at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loans and receivables category where they would have met the definition of a loans and receivables at the date of reclassification and to held to maturity when the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

3.3.7. Derecognition

The group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards

Notes to the Financial Statements

of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. 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 transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3.3.8. Offsetting

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statement of Financial Position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under LKASs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity

3.3.9. Identification, Measurement and Assessment of Impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses of historical trends of the probability of default, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

3.4. Non Financial Assets and Basis of Measurement

3.4.1. Property, Plant & Equipment

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period.

3.4.1.1. Basis of Recognition

Property, plant and equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

3.4.1.2. 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, or service it. 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.

3.4.1.3. Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.4.1.4. Revaluation Model

The Group applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the group is revalued on a rollover basis to ensure that carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement of Income. In this circumstance, 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 Statement of Income or debited in 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 capital 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.

3.4.1.5. Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are charged to the income statement as incurred.

3.4.1.6. Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in income statement when the item is derecognized.

When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost is derecognized.

3.4.1.7. Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

The Group provides depreciation from the date the assets are available for use up to the date of disposal. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation is provided at the following rates for each category.

Notes to the Financial Statements

Category	Rate (per annum)
Buildings	10%
Motor vehicles	20%
Computers	25%
Office equipment, furniture, fittings	15%

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Depreciation of an asset begins 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. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal Group that is classified as held for sale) and the date that the asset is derecognized.

3.4.2. Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rent to others or for administrative purposes.

3.4.2.1. Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost.

3.4.2.2. Software

All computer software costs incurred, licensed for use by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.4.2.3. Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.4.2.4. Amortization

Intangible assets, except for goodwill, are amortised on a straight line basis over four years in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group.

3.4.2.5. Derecognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

3.4.3. Inventory – Real Estate

Real Estate inventories are stated at cost or market values whichever is lower. These costs include cost of purchase of the land and expenses on development that are capitalized.

3.4.4. Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial Assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related Cash-Generating unit (CGU) exceeds its estimated recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3.4.5. Non-Current Assets - Held for Sale

The Group intends to recover the value of Non-Current Assets and disposal groups classified as held-for-sale as at the Reporting date principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available-for sale in its present condition, Management has committed to the sale and the sale is expected to have been completed within one year from the date of classification.

As per the Sri Lanka Accounting Standard – SLFRS 5 on ‘Non-current Assets Held-for-Sale and Discontinued Operations’, these assets are measured at the lower of the carrying amount and fair value, less costs to sell. Thereafter, the Group assesses at each Reporting date or more frequently if events or changes in circumstances indicate that the investment or a group of investment is impaired. The Group recognises an impairment loss for any initial or subsequent write down of the assets to fair value less costs to sell and also recognises a gain for any subsequent increase in fair value less costs to sell of an asset, only to the extent of the cumulative impairment losses that have been recognised previously. Impairment loss is first allocated to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the Group’s other accounting policies. As a result, once classified, the Group neither amortises nor depreciates the assets classified as held-for-sale. In the Income Statement of the Reporting period and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes. The resulting profit or loss (after taxes) is reported separately in the Income Statement

3.5. Non-Financial Liabilities and Provisions

3.5.1. Deposits from Customers

Deposits include saving deposits, term deposits and deposits payable at call. They are stated in the Statement of Financial Position at amount payable. Interest paid / payable on these deposits based on effective interest rate is charged to the Income Statement.

3.5.2. Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in

accordance with LKAS 37 - ‘Provisions, 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 obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.5.3. Employee Benefits

3.5.3.1. Defined Contribution Plan Employees’ Provident Fund and Employees’ Trust Fund

A Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Defined Contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.5.3.1.1. Employees’ Provident Fund (EPF)

The Group and employees contribute 12% and 8% respectively on the salary of each employee to the Employees Provident Fund.

3.5.3.1.2. Employees’ Trust Fund (ETF)

The Group contributes 3% of the salary of each employee to the Employees’ Trust Fund.

3.5.3.2. Defined Benefit Plan – Retirement Benefit Obligations

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Company and the Group are liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983. Provision has been made for retirement gratuities using “Project Unit Credit” (PUC) method as recommended by LKAS 19 “Employee Benefits”. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows based on the actuarial valuation carried out by an independent qualified actuary. The actuarial gains and losses are charged or credited to the other comprehensive income in the period in which they arise. The assumptions based on which the results of actuarial valuation was determined are included in Notes to the Financial Statements. The liability is not externally funded.

Notes to the Financial Statements

However, according to the payment of Gratuity Act No. 12 of 1983, the liabilities for the gratuity payment to an employee arise only on the completion of 5 years of continued service with the Group.

3.5.4. 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.

3.6. Income Statement

3.6.1 Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the Income Statement include:

- ♦ interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- ♦ the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period that the hedged cash flows affect interest income/expense;
- ♦ the ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and
- ♦ fair value change in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in the Statement of Comprehensive Income.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.6.2. Fee and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received. Fee and commission expenses are recognised on an accrual basis.

3.6.3. Profit on Real Estate Sales

Profit on real estate sales are recognized as follows:

- The non-refundable deposits are recognized as a liability in the year of receipt.
- The Company recognize the profit on sale of land and sale of houses constructed, when the Company has transferred the significant risk and rewards of ownership of the goods to the buyer upon settlement of the total value of the land.

3.6.4. Other Income

3.6.4.1. Dividend Income

Dividend income is recognized in profit or loss on the date that the Group's right to receive payments is established.

3.6.4.2. Profit on disposal of property, plant & equipment

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment are accounted for in the Income Statement, after deducting from the proceeds

on disposal, the carrying amount of such assets and the related selling expenses.

All other income is recognized on accrual basis.

3.6.4.3. Default Interest Income

Interests from overdue rentals have been accounted for on a cash received basis.

3.6.5. Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

For the purpose of presentation of income statement, the Directors are of the opinion that function of expense method present fairly the elements of the enterprise's performance, hence such presentation method is adopted. Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and renewals are charged to the income statement in the year in which the expenditure is incurred. The profit earned by the Group is before income tax expense and after making provision for all known liabilities and for the depreciation of property, plant & equipment

3.6.6. Income Tax Expense

Income tax expense comprise of current and deferred tax. Income tax expense recognized in profit or loss except to the extent that it relates to items recognized directly in equity in which case it is recognized in equity.

3.7. Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. Notes to Financial Statements include the major components

of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

3.8. Deferred Taxation

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.9. Value Added Tax on Financial Services

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003. The base for the computation of Value Added Tax on Financial Services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

3.10. Basic Earnings Per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group 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.

3.11. Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Notes to the Financial Statements

For each of the strategic divisions, the Group's management monitors the operating results 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 a Group basis and are not allocated to operating segments. (Refer note 35)

3.12. Statement of Cash Flow

The Statement of Cash Flow has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the LKAS 07 - "Cash Flow Statements". Cash and cash equivalents comprise 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. The cash and cash equivalent include cash in hand and favourable balances with banks.

3.13. Comparative Figures

Where ever necessary amounts shown for the previous year have been reclassified to facilitate comparison with the current year's presentation.

3.14. Regulatory Provisions

3.14.1. Deposit Insurance Scheme

These Directions shall be cited as the Finance Companies (Insurance of Deposit Liabilities) Direction No. 2 of 2010.

Under Section 27 of the Finance Companies Act, the Central Bank of Sri Lanka may establish, maintain, manage and control a scheme for the insurance of deposits held by finance companies registered under the Act or require such companies to insure such deposits under any scheme established by any institution as is specified by the Monetary Board.

As such, all Registered Finance Companies shall 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 01 October, 2010.

3.14.2. Reserve Fund

The Company is maintaining a reserve fund and transfer reserves out of the net profits of each year, after due provision

has been made for Taxation and Bad and Doubtful Debts on following basis,

So long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;

So long as the capital funds are less than twenty five (25) per cent of total deposit liabilities, but not less than ten (10) per cent thereof, a sum equal to not less than twenty (20) per cent of the net profits; and

So long as the capital funds are less than ten (10) per cent of the total deposit liabilities, a sum equal to not less than fifty (50) per cent of the net profits.

3.15. New Accounting Standards Not Effective at The Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

SLFRS 9 – 'Financial Instruments'

SLFRS 9, issued in 2014 which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of SLFRS 9. SLFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

For the Company SLFRS 09 is applicable from 01 April 2018 and it plans to adopt the new standard on the required effective date and will not restate comparative Information. During the period, the Company has performed a high level impact assessment of all three aspects of SLFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company will adopt SLFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of SLFRS 9.

Classification and measurement

The Company does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of SLFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value

Loans and Investments in debt instruments are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company has reviewed the arrangements and the objectives of assets portfolios to evaluate whether any of the condition triggers change in the classifications. However, the Company has not identified any significant changes to the measurement rules based on impact analysis performed. Therefore, reclassification for these instruments is not required.

For The equity investment securities that are classified as available for sale under LKAS 39, the Company will apply the option to present fair value changes in OCI, and, therefore, the application of SLFRS 9 will not have a significant impact.

Since the Company does not have liabilities designated at fair value, SLFRS 9 does not change the measurement rules of financial liabilities.

Impairment

SLFRS 9 brings out the concept of expected loss against the incurred loss principle used in LKAS 39. Accordingly, SLFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and receivables, either on a 12-month or lifetime basis. Further, if loans credit risk has increased significantly from the grant date, life time expected loss should be recognized.

The most significant impact on the Company's financial statements from the implementation of SLFRS 9 is expected to result from the new impairment requirements. Impairment losses will increase and become more volatile for financial instruments within the scope of SLFRS 9.

The Company has employed statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposure and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationship between changes in default rates and changes in key macro-economic factors as well as analysis of the impact of certain other factors on the risk of default.

The Company has estimated LGD parameters based on the history of recovery rates of claims against defaulted counter-parties. EAD for lending commitments and financial guarantees, include the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which has been estimated based on historical observations and forward looking forecasts.

Under SLFRS 9, the Company has incorporated forward looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The Company has completed the initial high level assessment of the potential impact on its Financial Statements for the year ended 31st March 2018 resulting from the application of SLFRS 9 with the assistance of an external consultant.

Hedge accounting

Hedge accounting guidelines prescribed by SLFRS 9 do not have any impact to the company as hedge accounting is not applied currently.

SLFRS 15 - 'Revenue from Contracts with Customers'

SLFRS 15, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on "Revenue", and LKAS 11 on "Construction Contracts". SLFRS 15 is effective for annual reporting periods beginning on or after 01st January 2018. The Company's is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15.

SLFRS 16 - 'Leases'

SLFRS 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use (ROU) assets representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items. Lessor accounting remains similar to the current standard. The standard is effective for annual periods beginning on or after 01st January 2019. The Company's is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

Notes to the Financial Statements

For the Year Ended 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
4. Gross Income				
Interest Income (Note 5.1)	431,790	365,433	431,790	365,433
Fee and commission income (Note 6)	6,562	5,893	6,562	5,893
Net gains / (losses) from financial assets (Note 7)	18	(12,266)	18	(12,266)
Other operating income (Note 8)	28,634	16,475	28,810	16,478
	467,004	375,535	467,180	375,538
5. Net Interest Income				
5.1 Interest income- loans and receivables				
Loans and receivables (Note 5.1.1)	363,842	329,917	363,842	329,917
Cash and cash equivalents	23,191	28,492	23,191	28,492
Balances with banks and financial institutions	44,757	7,024	44,757	7,024
Total interest income	431,790	365,433	431,790	365,433
5.1.1 Interest income				
Finance lease and hire - purchase	222,205	207,162	222,205	207,162
Term loans and other advances	116,572	100,046	116,572	100,046
Interest on overdue rentals	25,065	22,709	25,065	22,709
	363,842	329,917	363,842	329,917
5.2 Interest expense				
Interest on overdrafts and charges	5,183	18,528	5,183	18,528
Interest on borrowings	7,105	19,933	7,105	19,933
Interest on fixed and savings deposits	326,794	259,645	326,794	259,645
Interest on commercial papers	-	43,641	-	43,641
Interest on preference shares	600	600	600	600
Total interest expenses	339,682	342,347	339,682	342,347
Net interest income	92,108	23,086	92,108	23,086
6. Fee and Commission Income				
Fee and commission income	6,562	5,893	6,562	5,893
Comprising				
Guarantee fees	49	69	49	69
Insurance commission	2,778	2,812	2,778	2,812
Service charges	3,735	3,012	3,735	3,012
Fee and commission income	6,562	5,893	6,562	5,893
7. Gain/(loss) from Financial Assets				
Realized loss from financial assets - Available for sale	-	(12,288)	-	(12,288)
Financial assets - Held for trading	18	22	18	22
Gain/(loss) from financial assets	18	(12,266)	18	(12,266)

For the Year Ended 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
8. Other Operating Income				
Dividend income from - Financial Assets - held for trading	307	229	307	229
Staff loan income	1,304	1,113	1,304	1,113
Bad debt recovered	14,512	7,501	14,512	7,504
Gain on disposal of property, plant and equipment	1,460	549	1,460	549
Foreign exchange gain	44	91	44	91
Profit on real estate sales	7,405	3,140	7,405	3,140
Other income	3,602	3,851	3,777	3,851
Other operating income	28,634	16,475	28,810	16,478
9. Impairment Charges for loans and receivables and other losses				
Impairment / (Reversal of Impairment) on Loans and receivables				
Individual impairment	(393,275)	7,726	(393,275)	7,726
Collective impairment	(36,983)	(83,972)	(36,983)	(83,972)
Write off during the year	511,331	-	511,331	-
Losses on disposal of collaterals	13,827	116,674	13,827	116,674
Net impairment charges on financial assets	94,900	40,428	94,900	40,428
10. Personnel Expenses				
Remuneration	83,977	80,598	83,977	80,598
Employee benefit - Retirement benefit obligation (Gratuity) (Note 27.1)	3,134	2,836	3,134	2,836
Employee benefit - Defined contribution plans (EPF/ETF)	8,128	7,952	8,128	7,952
Amortisation of prepaid staff loans	1,304	1,113	1,304	1,113
Total Personnel Expenses	96,543	92,499	96,543	92,499
11. Other Operating Expenses				
Directors' fees and emoluments	967	721	967	721
Auditors' remunerations				
Audit fee and expenses	1,900	1,435	1,900	1,600
Audit related services and expenses	500	400	500	400
Non audit services and expenses	988	1,115	988	1,196
Professional and legal fees	2,531	5,282	2,531	5,282
Reversal of provision for litigation	(25,544)	-	(25,544)	-
Charge/ (Reversal) of Impairment of Real Estate	(1,400)	84	(1,400)	84
Office administration and establishment expenses	99,422	79,152	98,764	79,897
Total Other Operating Expenses	79,364	88,189	78,706	89,180
12. Net Tax Expenses				
Current income tax expense (Note 12.1)	-	-	-	-
Deferred tax (reversal)/charge for the year (Note 12.2)	(213)	(3,682)	(213)	(3,682)
Total tax expenses	(213)	(3,682)	(213)	(3,682)
12.1 Current tax expense				
Deferred tax asset originated during the year (Note 26.1)	(7,229)	1,397	(7,229)	1,397
Deferred tax liability originated during the year (Note 26.2)	7,229	(1,397)	7,229	(1,397)
	-	-	-	-
12.2 Deferred tax expense				
Deferred tax recognised in the other comprehensive income	213	3,682	213	3,682
Deferred tax Recognised in Income Statement	(213)	(3,682)	(213)	(3,682)
	-	-	-	-

Notes to the Financial Statements

12. Income Tax Expenses - Continued

For the Year Ended 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
a. Reconciliation of tax expenses				
Loss before tax	(148,525)	(203,034)	(147,691)	(200,423)
Tax at domestic rate of 28%	(41,587)	(56,850)	(41,353)	(56,118)
Tax effect on exempted income	(91)	(68)	(91)	(68)
Tax effect on disallowable expenses	(57,769)	3,469	(57,769)	20,049
Tax effect on capital allowances	(121,727)	(102,816)	(121,727)	(102,816)
Tax effect on leasing activities	85,052	72,878	85,052	72,878
Tax effect on SLFRS adoption	-	-	-	-
Effect of taxable losses	136,121	83,386	135,888	82,655
Tax Expenses	-	-	-	-
Effective tax rate	0%	0%	0%	0%

13. Basic Earnings / (Loss) Per Share

Basic Earnings / (loss) per ordinary share has been calculated based on the profit / (loss) attributable to the ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive ordinary shares outstanding at any time during the year, hence diluted earnings / (loss) per share is equal to the basic earnings / (loss) per share.

For the Year Ended 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Net loss attributable to ordinary shareholders (Rs.000)	(148,312)	(199,352)	(147,478)	(196,741)
Weighted average number of shares ('000)	67,500	67,500	67,500	67,500
Basic loss per ordinary share (Rs.)	(2.20)	(2.95)	(2.18)	(2.91)

14. Cash and Cash Equivalents

Cash in hand	10,633	8,010	10,902	8,364
Cash at Bank	40,616	30,018	40,616	30,018
Securities under reverse repurchase agreements	238,696	275,037	238,696	275,037
Total cash and cash equivalents	289,945	313,065	290,214	313,419

15. Financial Assets - Held for Trading

Equity securities				
Cost (Note 15.1)	3,386	3,386	3,386	3,386
Fair value changes (Note 15.2)	(806)	(824)	(806)	(824)
Total	2,580	2,562	2,580	2,562

15.1 Quoted Equity Securities held by the - Company/ Group

Sector	2018			2017		
	No of Shares	Total Cost Rs.000	Market Value Rs.000	No of Shares	Total Cost Rs.000	Market Value Rs.000
Bank, Finance & Insurance						
Nations Trust Bank PLC	3,077	214	249	3,000	214	222
Vanik Incorporation PLC	61	3	-	61	3	-
People's Leasing & Finance PLC	69,000	1,242	1,090	69,000	1,242	1,076
Sampath Bank PLC	24	6	7	23	6	6
			1,346			1,304
Sector Percentage			52%			51%
Hotel & Travels						
Keels Hotels PLC	7,085	150	66	7,085	150	71
Hotel Services Ceylon PLC	43,500	1,320	783	43,500	1,320	675
			849			746
Sector Percentage			33%			29%
Manufacturing						
ACL Cabels PLC	9,400	451	385	9,400	451	512
			385			512
Sector Percentage			15%			20%
Total		3,386	2,580		3,386	2,562

15.2 Movements in fair value changes

For the Year Ended 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Opening balance	(824)	(846)	(824)	(846)
Gain / (Reversal) during the year	18	22	18	22
Closing balance	(806)	(824)	(806)	(824)

Notes to the Financial Statements

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

16. Loans and Receivables

Gross loans and receivables	3,164,914	2,600,468	3,164,914	2,600,468
Write off during the year	(511,331)	-	(511,331)	-
Net loans and receivables (Note 16.1)	2,653,583	2,600,468	2,653,583	2,600,468
Allowances for Individual impairment charges (Note 16.2)	(108,316)	(501,591)	(108,316)	(501,591)
Allowances for Collective impairment charges (Note 16.2)	(56,800)	(93,783)	(56,800)	(93,783)
Net loans and advances	2,488,467	2,005,094	2,488,467	2,005,094

16.1 Analysis by product

Pawning	46,658	44,194	46,658	44,194
Leasing	1,653,343	1,393,570	1,653,343	1,393,570
Hire Purchase	20,263	205,770	20,263	205,770
Margin trading receivable	304,243	257,181	304,243	257,181
Staff leases/ Loans	19,208	17,268	19,208	17,268
Bills of Exchange	170	170	170	170
Term loans	537,225	648,417	537,225	648,417
Loans against fixed deposits	72,473	33,898	72,473	33,898
Gross total	2,653,583	2,600,468	2,653,583	2,600,468

Analysis by currency

Sri Lankan Rupee	2,653,583	2,600,468	2,653,583	2,600,468
Gross total	2,653,583	2,600,468	2,653,583	2,600,468

16.2 Movements in Individual and Collective Impairment during the Year

Company/Group	Lease Rs '000	Hire Purchase Rs '000	Loans Rs '000	Margin Trading Rs '000	Pawning & other Rs '000	Total Rs '000
As at 1st April 2016	221,805	123,195	284,711	82	41,827	671,620
Impairment Charge/(Reversal) for the year	(104,455)	(18,285)	42,548	43,150	(39,204)	(76,246)
As at 31st March 2017	117,350	104,910	327,259	43,232	2,623	595,374
Individual impairment	72,455	90,397	292,884	43,232	2,623	501,591
Collective impairment	44,895	14,513	34,375	-	-	93,783
	117,350	104,910	327,259	43,232	2,623	595,374
As at 1st April 2017	117,350	104,910	327,259	43,232	2,623	595,374
Impairment Charge/(Reversal) for the year	(61,592)	(101,291)	(290,162)	24,435	(1,649)	(430,258)
As at 31st March 2018	55,758	3,619	37,097	67,667	974	165,116
Individual impairment	21,526	-	18,148	67,667	974	108,316
Collective impairment	34,232	3,619	18,949	-	-	56,800
	55,758	3,619	37,097	67,667	974	165,116

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

17. Financial assets – Available for sale

Equity securities	23	23	23	23
Debt securities	48	48	48	48
Less: Impairment charges on debt securities (Note a)	(48)	(48)	(48)	(48)
Net Available-for-Sale Investments	23	23	23	23

a. Movements in Impairment Charges during the Year

Opening balance	48	48	48	48
Charge/(Write back) to income statement	-	-	-	-
Closing balance	48	48	48	48

18. Investments in Subsidiaries

Unquoted equity share (Note 18.1)	175,000	175,000	-	-
Less: Impairment charges	(175,000)	(175,000)	-	-
Net total	-	-	-	-

18.1 Unquoted equity shares

	2018		2017	
	Rs.'000	Holding %	Rs.'000	Holding %
PMB Services Ltd.	175,000	100	175,000	100
Closing balance	175,000	100	175,000	100

The investment on equity shares of PMB Services Ltd. was fully impaired due to the continuous losses incurred by the Subsidiary and it did not engage in any operation at present. PMB Services Ltd has incurred profit Rs. 832,978 on Financial year 2017/18. (2016/17 - incurred loss Rs. 987,635).

Notes to the Financial Statements

19. Property, Plant and Equipment

Property, Plant and Equipment - Company

Rs. '000	Motor Vehicle	Furniture & fittings	Computer	Office Equipment	Total 2018	Total 2017
Cost						
Opening balance	31,695	18,081	31,128	21,477	102,381	99,007
Additions	-	1,556	1,111	1,575	4,242	5,241
Disposals	(2,917)	-	-	(110)	(3,027)	(1,867)
Closing balance	28,778	19,637	32,239	22,942	103,596	102,381
(Less): Accumulated depreciation						
Opening balance	31,695	15,722	27,134	18,450	93,001	82,004
Charge for the year	-	454	1,071	793	2,319	12,712
Disposals	(2,917)	-	-	(110)	(3,027)	(1,715)
Closing balance	28,778	16,176	28,205	19,133	92,293	93,001
Net book value as at 31st March 2018	-	3,461	4,035	3,809	11,303	-
Net book value as at 31st March 2017	-	2,359	3,994	3,027	-	9,380

Property, Plant and Equipment - Group

Rs. '000	Motor Vehicle	Furniture & fittings	Computer	Office Equipment	Total 2018	Total 2017
Cost/fair value						
Opening balance	28,315	20,347	36,944	26,537	112,144	108,769
Additions	-	1,556	1,111	1,575	4,242	5,241
Disposals	(2,917)	-	-	(110)	(3,027)	(1,867)
Closing balance	25,398	21,903	38,055	28,002	113,359	112,143
(Less): Accumulated depreciation						
Opening balance	28,315	17,988	32,950	23,511	102,764	95,364
Charge for the year	-	454	1,071	793	2,319	9,114
Disposals	(2,917)	-	-	(110)	(3,027)	(1,715)
Closing balance	25,398	18,442	34,021	24,194	102,056	102,763
Net book value as at 31st March 2018	-	3,461	4,035	3,809	11,303	-
Net book value as at 31st March 2017	-	2,359	3,994	3,026	-	9,380

Title restriction on Property, plant and equipment

There were no restriction existed in the title of the Property, plant and equipment of the Group as at reporting date.

19.1 Fully depreciated Property, plant and equipment

The Initial cost of fully depreciated property plant and equipment, which are still in use as at reporting date is as follows.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Motor Vehicle	28,778	31,695	25,861	28,098
Computers	25,971	25,938	25,971	31,971
Furniture & Fitting	15,690	15,690	15,690	17,956
Office Equipment	16,845	16,955	16,845	22,015
Total	87,284	90,278	84,367	100,040

20. Intangible Assets

The group's intangible assets include the value of computer software.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Cost				
Opening balance	28,426	18,585	29,065	19,224
Additions	657	9,841	657	9,841
Closing balance	29,083	28,426	29,722	29,065
Accumulated amortization				
Opening balance	19,991	17,597	20,630	18,236
Charge for the year	2,721	2,394	2,721	2,394
Closing balance	22,712	19,991	23,351	20,630
Net Book Value at the year end	6,371	8,435	6,371	8,435

Intangible assets include fully amortised software which are still in use as at the reporting date as follows.

20.1 Fully depreciated Intangible assets

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Computer software	17,957	17,957	17,957	17,957

Notes to the Financial Statements

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
21. Other Assets				
Security Deposits	6,608	5,697	6,608	5,697
Advance Payments	5,132	5,117	5,132	5,117
Real estate inventories (Note 21.1)	36,390	43,311	36,390	43,311
Prepaid staff cost	5,469	4,165	5,469	4,165
Stationary stock	1,091	1,035	1,091	1,035
Vehicle stock (Note 21.2)	-	-	-	-
ESC receivable	7,376	5,299	7,376	5,299
Recoverable from director (Note 21.3)	-	-	-	-
VAT recoverable (Note 21.4)	-	-	-	-
Other receivables	21,136	14,307	21,136	14,307
Suspense Account (Note 21.5)	-	-	-	-
Total	83,202	78,931	83,202	78,931
21.1 Real Estate Inventories				
Opening Balance	44,728	51,881	44,728	51,881
Disposals during the year	(8,321)	(7,153)	(8,321)	(7,153)
Closing balance	36,407	44,728	36,407	44,728
Impairment provision	(17)	(1,417)	(17)	(1,417)
Closing balance	36,390	43,311	36,390	43,311
21.2 Vehicle stock				
Vehicle stock	14,076	14,076	14,076	14,076
Impairment provision / Disposal	(14,076)	(14,076)	(14,076)	(14,076)
Closing balance	-	-	-	-
21.3 Recoverable from former director				
Recoverable from former director	11,632	11,632	11,632	11,632
Impairment provision	(11,632)	(11,632)	(11,632)	(11,632)
Closing balance	-	-	-	-
21.4 VAT recoverable				
VAT recoverable balance	18,468	18,468	18,468	18,468
Impairment provision	(18,468)	(18,468)	(18,468)	(18,468)
Closing balance	-	-	-	-
21.5 Suspense Account Balance				

The Company had previously recognized a suspense account balance by identifying the cumulative difference between the sub ledger and general ledger as the general ledger did not agree with the sub ledgers which resulted in differences in relation to assets, liabilities, income and expenses in the Statement of Financial Position and Statement of Income, in the financial statements for the years ended 31st March 2013 and 2014. Any such un-reconciled differences were transferred to a suspense account to be investigated and reconciled by the Group. However the new management of the Group after reviewing the situation is of the view that these differences could be due to various errors in the financial reporting process and accordingly had resolved to make full provision for the suspense account balance during the year ended 31st March 2015.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Suspense Account Balance	138,552	138,552	138,552	138,552
Impairment Provision	(138,552)	(138,552)	(138,552)	(138,552)
Closing balance	-	-	-	-

22. Assets Held For Sale

As one of the measures to improve company's core capital status, the board as at 31st March 2017 decided to sell the Land and Building of the Company. Accordingly these assets were classified as "Asset Held for Sale". Subsequently the Company sold its land and building to People's Bank (Parent Company) for Rs. 1,040 Million on 19th May 2017. The transaction was subject only to the normal terms and conditions relevant to an outright transfer of property. The value of this related party transaction as a percentage of Equity and as a percentage of Assets was 483% and 36% respectively.

Location	Extent	Company		Group	
		Revalued amount Land & building Rs.000	Carrying Value Rs. '000	Revalued amount Land & building Rs.000	Carrying Value Rs. '000
No. 21, Nawam Mawatha, Colombo 02 -Land	108.4 (Perches)	1,192,000	1,029,500	108.40 (Perches)	1,029,500
No. 21, Nawam Mawatha, Colombo 02 -Building	16000 (Sq.ft)	Economically obsolescence 1,192,000	11,751 1,041,251	16000 (Sq.ft) Economically obsolescence 1,192,000	11,328 1,040,828

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Bank borrowings - short term loans (Note 23.1)	-	354,465	-	354,465
Bank overdraft	96,556	207,994	96,556	207,994
Total	96,556	562,459	96,556	562,459

23. Due to Banks

Bank borrowings - short term loans (Note 23.1)	-	354,465	-	354,465
Bank overdraft	96,556	207,994	96,556	207,994
Total	96,556	562,459	96,556	562,459

23.1 Short term loans

Rs.350 million loan was obtained from People's Bank on 13th January 2017 mortgaging the company's property at No.21, Nawam Mw, Colombo 02. (at the rate of AWPLR + 3.5%). This loan was settled upon the sale of property on 19th May 2017.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Bank borrowings - capital	-	350,000	-	350,000
Interest payable	-	4,465	-	4,465
Total	-	354,465	-	354,465

Notes to the Financial Statements

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

24. Due to customers

Fixed deposit	2,431,825	2,377,041	2,431,825	2,377,041
Savings deposits	23,761	19,136	23,761	19,136
Total	2,455,586	2,396,177	2,455,586	2,396,177

24.1 Analysis by currency

Sri Lankan Rupee	2,455,586	2,396,177	2,455,586	2,396,177
Total	2,455,586	2,396,177	2,455,586	2,396,177

25. Debt Securities Issued - Company / Group

As at 31st March	2018 Rs '000	2017 Rs '000
Cumulative Preference shares (Note 25.1)	14,800	14,200
Total	14,800	14,200
Due within 1 year	-	-
Due after 1 year	14,800	14,200
Total	14,800	14,200

25.1 Details of Debt Securities Issued - Company / Group

Type	Face Value Rs '000	As at 31st March	
		2018 Rs '000	2017 Rs '000
Issued by the Company			
6% cumulative non redeemable preference shares	10,000	10,000	10,000
Interest Payable	-	4,800	4,200
Total	10,000	14,800	14,200

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

26. Deferred taxation

Tax assets (Note 26.1)	(110,550)	(117,779)	(110,550)	(117,779)
Tax liabilities (Note 26.2)	110,550	117,779	110,550	117,779
Net deferred tax liabilities	-	-	-	-

26.1 Deferred Tax Assets

Balance as at 1st April	117,779	116,382	117,779	116,382
Originated/(reversal) during the year	(7,229)	1,397	(7,229)	1,397
Closing balance	110,550	117,779	110,550	117,779

Deferred tax on gratuity	3,829	3,292	3,829	3,292
Deferred tax on tax losses	106,721	114,487	106,721	114,487
Deferred tax on AFS reserve	-	-	-	-
Closing balance	110,550	117,779	110,550	117,779

26.2 Deferred Tax Liabilities

Balance as at 1st April	117,779	116,382	117,779	116,203
Originated/(reversal) during the year	(7,229)	1,397	(7,229)	1,576
Closing balance	110,550	117,779	110,550	117,779

Deferred tax on property plant & equipment	11	30	11	30
Deferred tax on intangible assets	1,784	2,362	1,784	2,362
Deferred tax on lease assets	108,755	115,387	108,755	115,387
Closing balance	110,550	117,779	110,550	117,779

As at 31st March 2018, the group has incurred a carried forward tax losses amounted to Rs.1,248.0 Mn (2017 - Rs. 762.1Mn). The group has utilized such tax losses to recognize a deferred tax asset only up to the extent of the deferred tax liability arising from taxable temporary differences. Deferred tax asset amounting Rs. 241.6 Mn in the group has not been recognized on carried forward tax losses as it is not probable that the future taxable profits will be available to utilize carried forward tax losses in the foreseeable future.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

27. Other Liabilities

Employee benefit obligation (Note 27.1)	13,674	11,758	13,674	11,758
Real Estate Advance	-	1,500	-	1,500
Other payables	42,490	90,621	42,740	92,333
Financial liabilities (Note 27.2)	89,142	22,343	90,108	22,343
Total	145,306	126,222	146,522	127,934

Notes to the Financial Statements

27. Other Liabilities - Continued

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Balance at the beginning of the year	11,758	10,313	11,758	10,313
Amount recognized in the Income Statement				
Interest cost	1,665	1,238	1,665	1,238
Current service cost	1,469	1,598	1,469	1,598
	3,134	2,836	3,134	2,836
Amount recognized in the other comprehensive income				
Actuarial Gain	(762)	(588)	(762)	(588)
Payment made during the year	(456)	(803)	(456)	(803)
Balance at the end of the year	13,674	11,758	13,674	11,758

The Company carried out an actuarial valuation of the gratuity liability as at 31st March 2018 by Mr. Pushpakumar Gunasekera (Actuary/ Associate of the Institute of Actuaries of Australia (AIAA)), for and on behalf of Messrs Smiles Global (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method", the method recommended by the LKAS 19.

Company/Group	2018	2017
Actuarial assumption		
Discount rate as at 31st March	10.40%	12.50%
Future salary increment rate	10.00%	10.00%
Mortality rate	A67/70 Ult tables	A67/70 Ult tables
Disability	3.00%	10.00%
Retirement age	55 Years	55 Years

27.1.1 Sensitivity Analysis

Reasonable possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation (Rs'000)
1% point Increase	10.0%	12,780
1% point Decrease	10.0%	14,698
10.4%	1% point Increase	14,709
10.4%	1% point Decrease	12,754

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000

27.2 Financial liabilities

Amounts payable to suppliers	87,393	21,336	88,359	21,336
Insurance Payables	1,749	1,007	1,749	1,007
Total	89,142	22,343	90,108	22,343

28. Stated Capital

	No of shares '000	2018	2017	2018	2017
		Rs '000	Rs '000	Rs '000	Rs '000
Issued and fully - paid Ordinary Shares	67,500	1,078,227	1,078,227	1,078,227	1,078,227
Total	67,500	1,078,227	1,078,227	1,078,227	1,078,227

29. Statutory Reserve Fund

This represent a reserve fund created in FY 2005/06, as per the directions issued by the Department of Non Banking Financial institution of Central Bank of Sri Lanka, under the direction No. 06 of 2005 of Finance Leasing Act No. 56 of 2000.

After registering the Company under the Finance Business Act No 42 of 2011 in April 2012, this reserve fund is utilized for building up the reserve fund required under CBSL direction No 01 of 2003 Finance Companies (Capital Fund).

However, due to reporting losses for the year ended 31st March 2018, no transfer were made to the reserve fund.

As at 31st March	Company		Group	
	2018 Rs '000	2017 Rs '000	2018 Rs '000	2017 Rs '000
Balance as at 1st April	7,259	7,259	7,259	7,259
Transfer during the year	-	-	-	-
Balance as at 31st March	7,259	7,259	7,259	7,259

30. Retained Earnings

Balance as at 1st April	(1,295,630)	(1,096,701)	(1,297,410)	(1,101,092)
Loss for the year	(148,312)	(199,352)	(147,478)	(196,742)
Comprehensive income	574,147	423	574,147	423
Transfers from Investment Fund Account	-	-	-	-
Balance as at 31st March	(869,795)	(1,295,630)	(870,742)	(1,297,411)

31. Contingent Liabilities and Commitments

Guarantees	64,820	55,541	64,820	55,541
Total	64,820	55,541	64,820	55,541

Contingent Liabilities

- Guarantees	1,998	3,498	1,998	3,498
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Commitments

- Un-utilized facilities (Margin Trading)	62,822	52,043	62,822	52,043
	64,820	55,541	64,820	55,541

Notes to the Financial Statements

32. Related Party Disclosures

32.1 Parent and Ultimate Controlling Party

The Company's immediate parent and ultimate controlling party is People's Bank which is a Government owned entity.

On 28th October 2015, People's Bank and People's Leasing & Finance PLC (Subsidiary of People's Bank) jointly acquired up to 87.21% of its ordinary shares. Accordingly company's parent and ultimate controlling party is Peoples Bank.

Further, according to the CBSL directions People's Leasing & Finance PLC became the managing agent of the company with effect from 14th July 2015.

32.2 Transactions with Key Management Personnel & their Close Family Members

As per the Sri Lanka Accounting Standard (LKAS -24) - "Related Party Disclosures", the Key Management Personnel (KMP) and their Family Members include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, the parent Company-People's Bank and the Management Agent of the Company-People's Leasing & Finance PLC have been classified as KMPs of the Company.

The company carried out transactions in the ordinary course of its business with KMPs and their close family members on the arms length basis at commercial rates.

For the year ended 31st March	Company		Group	
	2018	2017	2018	2017
	Rs. '000	Rs. '000	Rs. '000	Rs. '000

32.2.1 Remuneration to Board of Directors

Short-term Employee Benefits	967	721	967	721
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32.2.2 Share Transactions with KMP

No. of Ordinary Shares held;				
The Parent Company (People's Bank)	33,856	33,856	33,856	33,856
The Management Agent (People's Leasing & Finance PLC)	25,014	25,014	25,014	25,014
Board of Directors	1,000	1,000	1,000	1,000

32.2.3 Transactions, Arrangements & Agreements with Board of Directors

(a) Items in Statement of Profit or Loss

Interest Income	-	-	-	-
Interest Expense	-	-	-	-

(b) Items in Statement of Financial Position

Assests - Loans and Receivables	-	-	-	-
Liabilities - Due to Customers	-	-	-	-

32.3 Net Accommodation as a Percentage of Capital Funds [Related Entities]

	2018	2017
People's Bank	-	-
PMB Services Ltd	-	-
People's Leasing & Finance PLC	-	-
Subsidiaries of People's Bank and People's Leasing and Finance PLC [Other Related Entities]	-	-
Board of Directors	-	-

32.4 Transactions with Related Entities**Transactions with Government of Sri Lanka and Government Related Entities**

The immediate parent of the Company is People's Bank which is Government owned entity. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individual significant transactions with the Government of Sri Lanka and Government related entities during the year, other than on normal day-to-day business operations.

Further, transactions as detailed below, relating to the ordinary course of business, are entered into with the Government of Sri Lanka and its related entities.

- Investments in treasury bills, treasury bonds.
- Payments of statutory rates, taxes and other regulatory fees.
- Payments for utilities mainly comprising of telephone, electricity and water.
- Payments for employment defined benefit plan - EPF / ETF.
- Payment of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

32.4.1 Company

The Company had the under mentioned financial dealings during the financial year with the following related entities.

	Immediate Parent		Subsidiary		Fellow Subsidiaries	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
(a) Items in Statement of Profit or Loss						
Interest income	12,984	1,601	-	-	-	-
Interest expense	4,808	33,436	-	-	-	-
Fee & commission income	-	-	-	-	873	415
Other Operating expenses	14,143	-	-	-	682	1,265
(b) Items in Statement of Financial Position						
Assets						
Cash and cash equivalents	41,148	29,981	-	-	-	-
Investments in FD / Repo's	30,300	3,771	-	-	-	-
Assets Held For Sale (Refer Note 22)	1,040,000	-	-	-	-	-
Investments in subsidiaries / affiliates	-	-	175,000	175,000	-	-
Other assets	-	-	18,906	18,823	-	-
Provisions made	-	-	(193,906)	(193,823)	-	-
Liabilities						
Due to banks	-	557,994	-	-	-	-
Due to customers	-	-	-	-	-	-
Debt securities issued	10,000	10,000	-	-	-	-
Preference shares dividend payable	4,800	4,200	-	-	-	-
(c) Transactions						
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC	-	-	-	-	10,863	4,753
Margin Trading application software purchasing from People's Leasing & Finance PLC	-	-	-	-	-	5,000
Fleet vehicle hiring charges	-	-	-	-	990	1,080
(d) Off- Balance Sheet Items						
Guarantees	-	-	-	-	-	-

Notes to the Financial Statements

32. Related Party Disclosures - Continued

32.4 Transactions with Related Entities - Continued

32.4.2 Group

	Immediate Parent		Fellow Subsidiaries	
	2018 Rs. '000	2017 Rs. '000	2018 Rs. '000	2017 Rs. '000
(a) Items in Statement of Profit or Loss				
Interest income	12,984	1,601	-	-
Interest expense	4,808	33,436	-	-
Fee & commission income	-	-	873	415
Other operating expenses	14,143	-	682	1,265
(b) Items in Statement of Financial Position				
Assets				
Cash and cash equivalents	41,148	29,981	-	-
Investments in FD / Repo's	30,300	3,771	-	-
Assets Held For Sale (Refer Note 22)	1,040,000	-	-	-
Investments in subsidiaries / affiliates	-	-	-	-
Other assets	-	-	-	-
Provision	-	-	-	-
Liabilities				
Due to banks	-	557,994	-	-
Due to customers	-	-	-	-
Debt securities issued	10,000	10,000	-	-
Preference shares dividend payable	4,800	4,200	-	-
(c) Transactions				
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC	-	-	10,863	4,753
Margin Trading application software purchasing from People's Leasing & Finance PLC	-	-	-	5,000
Fleet vehicle hiring charges	-	-	990	1,080
(d) Off- Balance Sheet Items				
Guarantees	-	-	-	-

Notes to the Financial Statements

33. Financial Instrument - Fair Value & Risk Management - Continued

33.1 Fair Values of Financial Instruments - Continued

	31st March 2017							
	Carrying Amount		Fair Value					
	Rs' 000		Rs' 000					
	Company	Group	Company			Group		
Financial Instruments in Assets			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Investments - Held for Trading (Note a)	2,562	2,562	2,562	-	-	2,562	-	-
Financial investments - Available for sale (Note b)	23	23	-	-	23	-	-	23
Loans and advances to customers - Loans and Receivables (Note c)	2,005,094	2,005,094	-	-	-	-	-	-
Cash & Cash Equivalents (Note d)	313,065	313,419	-	-	-	-	-	-
Investment in Fixed Deposits - Loans and Receivables (Note e)	3,771	3,771	-	-	-	-	-	-
Security Deposits (Note f)	5,697	5,697	-	-	-	-	-	-
	2,330,212	2,330,566	2,562	-	23	2,562	-	23
Financial Liabilities carried at amortised cost								
Due to banks (Note g)	562,459	562,459	-	-	-	-	-	-
Deposits from customers (Note h)	2,396,177	2,396,177	-	-	-	-	-	-
Preference Shares (Note i)	14,200	14,200	-	-	-	-	-	-
Financial Liabilities (Note j)	22,343	22,343	-	-	-	-	-	-
	2,995,179	2,995,179	-	-	-	-	-	-

The methodologies and assumptions used to estimate the fair values of the financial instruments, which are not carried at fair value are as follows:

- Financial Investments- Held for Trading – The carrying amount of these investments reflect last traded price at stock exchange.
- Financial investments– Available for sale – The carrying amount of these shows investments in Government Securities and Credit Information Bureau of Sri Lanka. Investment in government securities are reflect last trades prices. As CRIB is a Private Company unable to find market values. It is assumed that the carrying amounts approximate their fair values.
- Loans and advances to customers – The carrying amount reflects amortised value of loan and advances. Thus its carrying amount approximates to the fair value.
- Cash and cash equivalents – The carrying amount of cash and cash equivalents approximate its fair value due to the relatively short maturity of the financial instruments.
- Investment in Fixed Deposits – The carrying amount of investment in fixed deposits approximate its fair value due to the relatively short maturity of the financial instruments.
- Security deposits - The carrying value is approximately its fair value of the financial instrument
- Due to banks - Fair value of these financial instruments with remaining maturity of less than 1 year approximate their carrying amounts due to the relatively short maturity of such instruments.
- Deposits from customers – The carrying amount reflecting amortised cost of Deposits from customers. Thus its carrying amount approximates to the fair value.
- Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% interest rate.
- Financial liabilities - The carrying value is approximately its fair value of the financial instrument

33.2 Risk Management

Introduction and Overview

The forecasting and evaluation of financial risk together with the identification of procedures to eliminate or minimize the business impact to the company is the key objective of the Financial Risk Management Framework of the Group.

Structure of the Risk Management framework

The Board of Directors

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors hold the risk retentiveness for the establishment and guardianship for the company's frame work and manage the risk through Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC). The main role of the Board of Directors in Risk Management is,

- Increasing scrutiny over risk.
- Identification of potential loss areas.
- Finding the balance between taking and managing risk.
- Development of policies, procedures and awareness.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC)

The IRMC has the overall responsibility for developing and monitoring the risk management strategy and implementing principal frame work, policies and limits, managing risk related decisions and monitoring risk levels and report to the Board of Directors with the support of Assets and Liability Committee (ALCO).

Assets and Liability Committee (ALCO)

ALCO is chaired by the Chief Executive Officer and consists of Deputy General Managers (Legal & HR, Business Development and Assets & Credit Finance) with the Heads of Finance, Fixed Deposits, Treasury and Pawning divisions. The committee will meet at least quarterly to manage the Assets and Liabilities of the company and to keep the liquidity levels under satisfying requirements. The Company has exposure to following risk from financial instruments.

- A. Credit Risk
- B. Liquidity Risk.
- C. Market Risk.
- D. Operational Risk

Notes to the Financial Statements

33. Financial Instrument - Fair Value & Risk Management - Continued

33.2 Risk Management - Continued

A. Credit Risk

The credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from default on a debt that may arise from a borrower failing to make required payments, in the first resort; the risk is that of the lender and includes cost principals and interest, disruption to cash flows and increased collection flows. Company Credit Management process with,

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Reviewing and assessing credit risk including business feasibility, verifying CRIB status of clients.
- Establishing the authorisation structure for the approval and renewal of credit facilities by Deputy General Managers, Company CEO and The Board of Directors depending on the quantum of the financial facilities.
- Reviewing and setting up individual customer and credit exposure levels. (Adherence to the Single Borrower Limits)

Exposure and Credit Quality by Class of Financial Assets

Credit quality of the company based on the class of financial assets is analysed below.

	Neither past due not individually impaired Rs.000	Individually impaired Rs.000	Total Rs.000
Company			
Cash and Cash Equivalents	289,945	-	289,945
Investment in Fixed Deposits	46,048	-	46,048
Financial Investments - Held for Trading	2,580	-	2,580
Loans and advances to customers	2,545,267	108,316	2,653,583
Less : Impairment	(56,800)	(108,316)	(165,116)
Financial Investments - Available for Sale	23	-	23
Security Deposits	6,608	-	6,608
	2,833,671	-	2,833,671
Group			
Cash and Cash Equivalents	290,214	-	290,214
Investment in Fixed Deposits	46,048	-	46,048
Financial Investments - Held for Trading	2,580	-	2,580
Loans and advances to customers	2,545,267	108,316	2,653,583
Less : Impairment	(56,800)	(108,316)	(165,116)
Financial Investments - Available for Sale	23	-	23
Security Deposits	6,608	-	6,608
	2,833,940	-	2,833,940

B. Liquidity risk

Liquidity risk is the risk, that for a certain period of time, a given financial asset, security or commodity cannot be traded quickly enough in the market without impacting the market price thereby the company will encounter difficulties in meeting obligations associated with its financial liabilities, which are settled by delivering cash or other financial assets.

The board of directors sets the strategy for managing liquidity risk and delegates responsibility for oversight of the implementation to ALCO. Group ensures that sufficient liquidity to meet its liabilities when due, under normal and stressed conditions and maintains company reputation. The treasury division manages the liquidity of the company by obtaining information from other divisions with regard to their liquidity situation of the financial operations on regular basis and with estimated cash flows from business activities based on the recommendation of the ALCO. Company liquidity strategy as follows,

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate).
- Carrying a portfolio of highly liquid assets diversified by maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Company's financial assets and liabilities.

C. Market risk

Market risk is the risk of losses in positions arising from movements in market prices. There is no unique classification as each classification may refer to different aspects of market risk. Interest rate, Exchange rate, equity prices will affect the Company's income or the value of the holdings of financial instruments.

- **Interest rate risk**, the risk that interest rates or their implied volatility will fluctuate will resulting in adverse impact to the future cash flows or the fair values of financial instruments of the Company. The Company holds interest bearing assets and Liabilities such as Investments in Fixed Deposits, loans and advances to customers, financial instruments – held for sale, due to banks, deposits from customers and debt security issued. The Company's exposure to interest rate risk with instruments which have variable interest rates and repricing of interest rates of liabilities which have shorter maturities. Interest risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO of the Company regularly reviews the current interest structure with the market rates, and responsible for setting the overall interest risk management strategy of the Company which is implemented by the treasury unit. The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations ranging from one month to five (05) years and bank borrowing bearing both fixed and variable interest rates.
- **Currency risk (Foreign Exchange Risk)**, the risk that foreign exchange rates or their implied volatility will change. Currency risk arises due to change in exchange rates of currencies, The Company mitigates the exposure to exchange risk by matching foreign currency liabilities with corresponding assets in the same currency.
- **Equity price risk**, is subject to regular monitoring by group market risk, but is not currently significant in relation to the Group's overall results and financial position.

D. Operational risk

Operational risk is the prospect of indirect or direct losses resulting from wide variety of causes associated with the Company's inadequate or failed procedures, systems or policies and also human errors, systems/technology failures, fraud or other criminal activity which includes any external event that disrupts business processes other than market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk in a cost effective manner for avoiding/ minimizing financial losses and damages to the group and without imposing restrictions on initiative and creativity. The Board of Directors delegates the responsibility to the of Corporate Management , heads of Operational divisions and branch management through Board sub Committees and CEO to development and implementation of control to address operational risk related to each division and branch.

Notes to the Financial Statements

33. Financial Instrument - Fair Value & Risk Management - Continued

33.2 Risk Management - Continued

This responsibility is supported by the continuous improvement of overall group standards for the management of operational risk including,

- Appropriate segregation of duties on requirements, including the independent authorization of transactions;
- Reconciliation and monitoring of transactions on requirements;
- Compliance with regulatory and other legal requirements and keeping up to date with changes;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Documentation of control and procedures;
- Requirements for the reporting of operational losses and proposed remedial action;
- Training and professional developments;
- Ethical and business standards;
- Risk mitigation, including insurance where this is cost effective.

Compliance with group stands is supported by a programmed of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

33.3 Capital Management

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka. The details of the computation of risk weighted assets, capital and the ratios of the Company are given below:

Capital Adequacy

Total Risk Weighted Assets Computation

As at 31st March	Balance		Risk Weight Factor %	Risk Weighted Balance	
	2018 Rs'000	2017 Rs'000		2018 Rs'000	2017 Rs'000
Assets					
Cash and Cash Equivalents	289,945	313,065	0%	-	-
Deposits with Banks	46,048	3,771	20%	9,210	754
Sri Lanka Govt/ Central Bank Securities	-	-	0%	-	-
Financial Investments - Held for Trading	2,360	2,342	100%	2,360	2,342
Loans and Advances to Customers	706,919	441,533	100%	706,919	441,533
Lease Rental and Hire Purchase Receivables	1,663,220	1,487,922	100%	1,663,220	1,487,922
Financial Investments - Available for Sale	23	23	0%	-	-
Loans and Advances against deposits with the Company	72,473	33,898	0%	-	-
Loans against Gold and gold jewellery	45,856	41,742	0%	-	-
Other Assets	83,202	78,931	100%	83,202	78,931
Property, Plant and Equipment	17,675	1,059,066	100%	17,675	1,059,066
Total Risk Weighted Assets	2,927,721	3,462,293		2,482,586	3,070,548

Total Capital Base Computation

As at 31st March	2018 Rs'000	2017 Rs'000
Tier I : Core Capital		
Stated Capital	1,078,227	1,078,227
Statutory Reserve Fund	7,259	7,259
Accumulated Loss	(869,795)	(1,295,630)
Available For Sales Reserve	-	-
Total Tier I Capital (Core Capital)	215,691	(210,144)
Tier II : Supplementary Capital		
Eligible Revaluation Reserves	-	-
General Provisions	-	-
Total Eligible Tier II Capital	-	-
Total Capital	215,691	(210,144)
Deductions		
Investments in capital of other banks	220	220
Capital Base	215,471	(210,364)

Computation of Capital Adequacy Ratios

Every finance company shall, subject to the provisions of the Finance Companies (Minimum Core Capital) Direction No. 1 of 2011, at all times, maintain its capital (adjusted for the items that may be specified by the Director) at a level not less than 10 per cent of its risk weighted assets with the core capital constituting not less than 5 per cent of its risk weighted assets, computed as per instructions issued by the Director.

Core Capital Ratio (Minimum Requirement 5%)	8.69%	-6.84%
Core Capital x 100		
Risk Weighted Assets		
Total Risk Weighted Capital Ratio (Minimum Requirement 10%)	8.68%	-6.85%
Capital Base x 100		
Risk Weighted Assets		

According to the finance business act direction No. 2 of 2017, registered finance company shall at all times maintain an unimpaired core capital not less than Rs. 400 million. Until 31st December 2017 and thereafter increased to Rs. 1.0 billion by 01st January 2018; to Rs. 1.5 billion by 01st January 2019; to Rs. 2.0 billion by 01st January 2020 and to Rs. 2.5 billion by 01st January 2021.

Every finance company shall maintain capital funds which shall not at any time be less than ten (10) per cent of its total deposit liabilities as per the direction No. 1 of 2003.

Notes to the Financial Statements

34. Maturity Profile of Assets and Liabilities

Allocation of Amounts

Amounts were allocated to respective maturity groupings based on instalments falling due as per contract. The amounts therefore represent total amount receivable or payable in each maturity grouping.

34.1 (a) Group

As at 31st March	2018			2017		
	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000
Interest bearing assets						
Cash & Cash Equivalent	290,214	-	290,214	313,419	-	313,419
Investment in Fixed Deposits	46,048	-	46,048	3,771	-	3,771
Financial Investments - Held for Trading	2,580	-	2,580	2,562	-	2,562
Financial investments – Available for sale	-	23	23	-	23	23
Loans and advances to customers	1,356,102	1,132,365	2,488,467	734,586	1,270,508	2,005,094
Total Interest bearing assets	1,694,944	1,132,388	2,827,332	1,054,338	1,270,531	2,324,869
Total Non - Interest bearing assets	55,497	45,379	100,876	1,120,606	16,968	1,137,574
Total assets	1,750,441	1,177,767	2,928,208	2,174,944	1,287,499	3,462,443
Percentage	59.78%	40.22%	100.00%	59.78%	37.18%	100.00%
Interest bearing liabilities						
Due to Banks	96,556	-	96,556	562,459	-	562,459
Due to customers	1,958,309	497,277	2,455,586	1,960,881	435,296	2,396,177
Debt securities issued	-	14,800	14,800	-	14,200	14,200
Total interest bearing liabilities	2,054,865	512,077	2,566,942	2,523,340	449,496	2,972,836
Total Non- Interest bearing Liabilities	127,115	19,408	146,523	102,680	25,254	127,934
Equity	-	214,744	214,744	-	361,673	361,673
Total liabilities & equity	2,181,980	746,229	2,928,209	2,626,020	836,423	3,462,443
Percentage	74.52%	25.48%	100.00%	75.84%	24.16%	100.00%

34.1 (b) Company

As at 31st March	2018			2017		
	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000
Interest bearing assets						
Cash & Cash Equivalent	289,945	-	289,945	313,065	-	313,065
Investment in Fixed Deposits	46,048	-	46,048	3,771	-	3,771
Financial Investments - Held for Trading	2,580	-	2,580	2,562	-	2,562
Financial investments – Available for sale	-	23	23	-	23	23
Loans and advances to customers	1,356,102	1,132,365	2,408,467	734,585	1,270,509	2,005,094
Total Interest bearing assets	1,694,675	1,132,388	2,827,063	1,053,983	1,270,532	2,324,515
Total Non - Interest bearing assets	55,498	45,378	100,876	1,120,184	17,813	1,137,997
Total assets	1,750,173	1,177,766	2,927,939	2,174,167	1,288,345	3,462,512
Percentage	59.77%	40.23%	100.00%	62.79%	37.21%	100.00%
Interest bearing liabilities						
Due to Banks	96,556	-	96,556	562,459	-	562,459
Deposits from customers	1,958,308	497,278	2,455,586	1,960,881	435,296	2,396,177
Debt securities issued	-	14,800	14,800	-	14,200	14,200
Total interest bearing liabilities	2,054,864	512,078	2,566,942	2,523,340	449,496	2,972,836
Total Non- Interest bearing Liabilities	125,898	19,408	145,306	102,679	23,543	126,222
Equity	-	215,691	215,691	-	363,454	363,454
Total liabilities & equity	2,180,762	747,177	2,927,939	2,626,019	836,493	3,462,512
Percentage	74.48%	25.52%	100.00%	75.84%	24.16%	100.00%

Notes to the Financial Statements

35. Segmental Analysis - Group

For the Year ended 31st March 2018					
	Leasing & hire purchases Rs'000	Trade Bills, loans and Pawning Rs'000	Margin trading Rs'000	Other Rs'000	Total Rs'000
Interest Income	244,708	77,467	41,667	67,948	431,790
Fee and commission income	6,513	-	-	49	6,562
Net gain/(loss) from financial assets - Held for trading	-	-	-	18	18
Other operating income	7,884	1,216	-	19,709	28,809
Gross revenue	259,105	78,683	41,667	87,724	467,179
Interest Expenses	190,772	77,026	34,680	37,203	339,682
Total operating income	68,333	1,657	6,987	50,521	127,497
Credit losses	(152,486)	204,234	43,151	-	94,900
Net operating income / (loss)	220,819	(202,577)	(36,164)	50,521	32,597
Depreciation & Amortisation	2,831	1,143	515	552	5,040
Staff and other expenses	98,423	39,739	17,892	19,194	175,248
Segment Results	119,565	(243,459)	(54,571)	30,775	(147,691)
Income tax expense					(213)
Loss for the year					(147,478)
As at 31st March					
Segment Assets	1,644,542	663,999	298,960	320,707	2,928,209
Segment liabilities	1,523,938	615,304	277,035	297,188	2,713,465

Segmental Analysis - Group

For the Year ended 31st March 2017					
	Leasing & hire purchases Rs'000	Trade Bills, loans and Pawning Rs'000	Margin trading Rs'000	Other Rs'000	Total Rs'000
Interest Income	227,179	66,717	36,022	35,516	365,433
Fee and commission income	5,824	-	-	69	5,893
Net trading income	-	-	-	3,231	3,231
Net gain/(loss) from financial assets - Held for trading	-	-	-	(12,266)	(12,266)
Other operating income	5,512	1,392	-	6,343	13,244
Gross revenue	238,515	68,109	36,022	32,894	375,538
Interest Expenses	185,083	86,093	29,762	41,408	342,347
Total operating income / (loss)	53,432	(17,984)	6,259	(8,514)	33,191
Credit losses	(71,836)	69,113	43,151	-	40,428
Net operating income / (loss)	125,267	(87,097)	(36,892)	(8,514)	(7,237)
Depreciation & Amortisation	6,221	2,894	1,000	1,392	11,508
Staff and other expenses	98,221	45,689	15,794	21,975	181,679
Segment Results	20,825	(135,679)	(53,686)	(31,881)	(200,424)
Income tax expense					(3,682)
Loss for the year					(196,742)
As at 31st March					
Segment Assets	1,871,904	870,733	301,010	418,796	3,462,443
Segment liabilities	1,676,372	779,779	269,568	375,051	3,100,770

36. Directors Responsibility Statement

The Board of Directors take the responsibility for the preparation and presentation of the Financial Statement.

37. Subsequent Events and Going Concern

The Company was directed to merge with People's Leasing & Finance PLC during the financial year 2016/17 in pursuance of a direction issued by the Monetary Board of Central Bank of Sri Lanka. Subsequently the Monetary Board of the Central Bank of Sri Lanka granted an extension of one (01) year until 31st March 2018 to effect the merger. Consequently to the request made by the Company, the Monetary Board of Central Bank granted approval to finalize capital infusion to the Company by 30th September 2018. Failing which, the Company was directed to complete the merge with People's Leasing & Finance PLC by 30th September 2018.

Until such time the parent entity and the Managing Agent, People's Bank and People's Leasing & Finance PLC respectively, was directed to take necessary steps for the Company to continue its principal activities, considering that the Company was not meeting capital adequacy requirements as specified by the Central Bank of Sri Lanka which is more fully described in note 33.3 to these financial statements.

No proposals have been submitted by the Company to the Monetary Board of Sri Lanka as at date of this Report. The Board of Directors is confident that the Company will continue as a going concern due to the discussions with potential investors on probable capital infusion into the Company and hence the Financial Statements of the Company have been prepared on a going concern basis.

38. Comparative Information

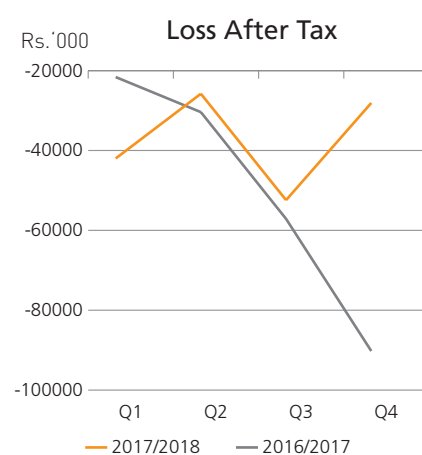
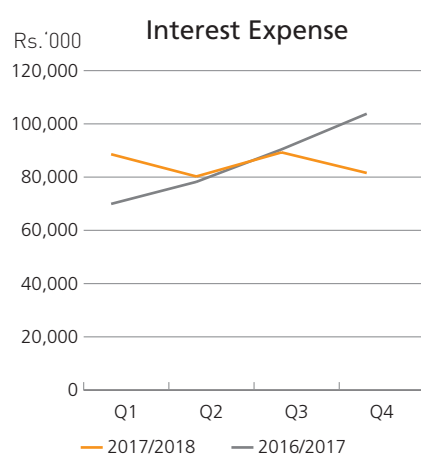
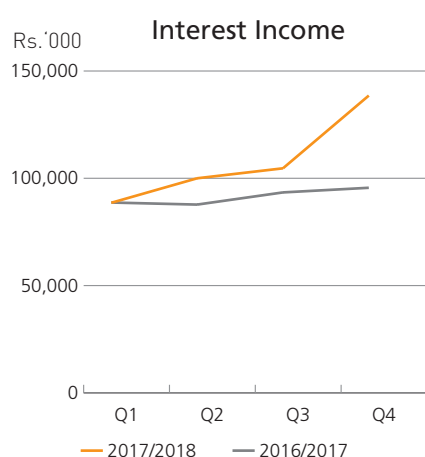
The presentation and classification of the following items in these Financial Statements are amended to ensure the comparability with the current year:

	Company			Group		
	As disclosed previously Rs '000	Current presentation Rs '000	Adjustment Rs '000	As disclosed previously Rs '000	Current presentation Rs '000	Adjustment Rs '000
Income Statement						
Net trading income	7,449	-	7,449	7,449	-	7,449
Other operating income	21,185	28,634	(7,449)	21,361	28,810	(7,449)

Quarterly Financial Performance

Rs. '000	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Apr - Jun		July - Sep		Oct - Dec		Jan - Mar		For the Year ended 31st March	
	2017	2016	2017	2016	2017	2016	2018	2017	2018	2017
Interest income	88,586	88,701	100,002	87,740	104,648	93,415	138,554	95,577	431,790	365,433
Less: Interest expense	88,589	69,935	80,246	78,215	89,291	90,405	81,556	103,792	339,682	342,347
Net interest income	(3)	18,766	19,756	9,525	15,357	3,010	56,998	(8,215)	92,108	23,086
Fee and commission income	331	413	487	870	970	1,473	4,856	5,224	6,562	2,881
Other operating income	6,618	3,626	6,940	(9,562)	3,030	2,489	12,065	4,439	28,652	7,221
Total operating income	6,946	22,805	27,183	833	19,357	6,972	73,919	1,448	127,322	33,188
Less: Net impairment charges/ (reversal) on financial assets	1,824	4,526	1,614	(17,373)	19,395	10,777	40,543	42,498	94,900	40,428
Net operating income	5,122	18,279	25,569	18,206	(38)	(3,805)	33,376	(41,050)	32,422	(7,240)
Less: Personal expense	21,901	18,500	24,367	22,350	23,332	25,465	26,942	26,184	96,543	92,499
Depreciation & Amortisation	1,244	3,212	1,292	3,823	1,353	3,101	1,151	4,872	5,040	15,107
Other expenses	23,973	18,181	25,702	22,427	27,704	24,755	27,316	22,922	79,364	88,189
Loss before tax	(41,996)	(21,614)	(25,792)	(30,394)	(52,427)	(57,126)	(22,033)	(95,028)	(148,525)	(203,034)
Less: Net tax expense	-	-	-	(3,517)	-	(20,166)	-	20,001	(213)	(3,682)
Loss for the period	(41,996)	(21,614)	(25,792)	(30,394)	(52,427)	(57,126)	(22,033)	(115,029)	(148,312)	(199,352)
Basic loss per ordinary share - (Rs)	(0.32)	(0.32)	(0.40)	(0.40)	(0.55)	(0.55)	(1.70)	(1.70)	(2.20)	(2.95)

Figures in brackets indicate deductions.



Decade at A Glance

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
FINANCIAL CAPITAL											
Operating results (Rs.'000)											
Interest income	431,790	365,433	377,193	659,707	750,661	640,259	492,823	550,215	501,796	497,933	351,071
Interest expenses	339,682	342,347	281,622	475,897	591,995	425,598	301,641	383,609	387,053	351,822	215,396
Net interest income	92,108	23,086	95,571	183,810	158,666	214,661	191,182	166,606	114,743	146,111	135,675
Impairment charges for loans and receivables and other losses	94,900	40,428	68,842	264,238	229,171	66,776	49,827	237,218	44,397	27,026	39,068
Other operating expenses	79,364	88,189	74,451	149,702	104,757	177,045	102,283	82,331	48,201	43,152	42,209
Profit/Loss before tax	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)	(89,740)	106,245	215,320	(14,286)	51,653	21,817
Profit/Loss for the year	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)	(90,894)	92,740	(202,500)	(20,409)	28,849	14,791
Return on assets (ROA)	-4.64%	-5.65%	-2.19%	-6.99%	-5.14%	-2.41%	2.80%	-5.97%	-0.71%	1.27%	0.84%
Cost to income ratio (%)	90%	115%	93%	94%	92%	91%	80%	79%	80%	73%	68%
Financial position (Rs.'000)											
Cash ,balance with banks & reverse repo	289,945	313,065	477,313	399,141	231,787	168,791	126,493	47,557	40,129	62,584	69,265
Loans and Receivables	2,488,467	2,005,094	1,692,502	2,105,619	3,433,408	3,041,401	2,097,810	2,670,028	2,295,773	2,165,223	1,572,000
Investments in subsidiaries	-	-	-	-	-	-	-	287,089	298,089	23,000	-
Total assets	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101	4,608,633	2,919,524	3,707,830	3,079,051	2,651,282	1,879,716
Borrowings	-	350,000	-	24,940	49,960	227,143	451,737	2,929,063	2,028,679	1,477,134	946,584
Deposits from customers	2,455,586	2,396,177	2,841,104	3,546,680	4,237,340	2,675,424	1,376,871	-	-	-	-
Total equity	215,691	363,454	553,339	642,894	880,008	1,268,155	893,551	470,553	673,653	460,291	442,042
Total liabilities and shareholder's funds	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101	4,608,633	2,919,524	3,705,730	3,079,051	2,651,282	1,876,716
Financial cash flows (Rs.'000)											
Cash flows from operating activities	(621,006)	(977,734)	(386,341)	289,680	899,854	161,375	(336,701)	(609,696)	(431,295)	(657,670)	(185,605)
Cash flows from investing activities	1,063,789	290,362	457,008	(96,929)	(317,793)	(8,235)	403,148	(4,198)	(163,652)	(7,029)	(6,269)
Cash flows from financing activities	(354,465)	354,465	(24,940)	(25,020)	(177,183)	(224,594)	(79,286)	709,656	589,577	517,830	338,301
Total net cash inflows/ (outflows)	88,318	(332,907)	45,726	167,730	404,878	(71,453)	(12,839)	95,762	(5,370)	(146,869)	146,427
Statutory ratio											
Capital adequacy ratio											
Core capital ratio (required min -5%)(%)	8.69%	-6.84%	-0.73%	2.26%	9.54%	19.31%	32.11%	N/A	N/A	N/A	N/A
Total risk weighted capital ratio(required min -10%)(%)	8.68%	-6.85%	-0.74%	2.25%	9.53%	31.67%	33.36%	N/A	N/A	N/A	N/A
HUMAN CAPITAL											
Number of employees	124	118	110	96	117	155	124	123	74	64	51
Profit before tax per employee (Rs.'000)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)	(579)	857	1,751	(193)	807	428
Employees' salaries & benefits (Rs.'000)	96,543	92,499	79,487	79,135	88,926	117,442	91,590	39,602	37,448	22,789	19,802

Decade at A Glance

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
RELATIONSHIP CAPITAL											
Number of branches	10	10	10	10	10	10	10	10	8	10	7
Number of shareholders	10,133	10,182	10,345	10,530	11,335	11,824	12,465	11,207	11,036	10,316	10,528
Number of ordinary shares (Rs.'000)	67,500	67,500	67,500	67,500	67,500	67,500	67,500	37,500	37,500	25,000	25,000
Earnings per share -Company (Rs.)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)	(1.35)	1.88	(5.42)	(0.66)	0.95	0.57
Net assets value per share (Rs.)	3.20	5.38	8.22	9.52	13.03	18.79	13.24	12.28	17.7	18.01	17.28
Market price per share (Rs.)											
Highest	20.50	24.0	30	29.3	17.1	17.9	42	35.9	61.75	59	93.5
Lowest	11.00	9.4	11.4	16	10.4	11.6	12	19.9	23.5	23.75	18.5
Closing	11.00	13.9	12	23.9	16.9	13.5	12.9	23.5	23.5	29.25	56.5
Market capitalisation (Rs.'000)	742,500	938,250	810,000	1,613,250	1,140,750	911,250	870,750	881,250	881,250	743,750	1,412,500
Price earning ratio (PE) (Times)	-	-	-	-	-	-	6.86	-	-	31.30	-
Dividend per share (DPS) (Rs.'000)	-	-	-	-	-	-	-	-	-	0.40	0.40
Dividend paid (Rs.'000)	-	-	-	-	-	-	-	-	10,395	10,600	31,850
Gross ordinary dividend (Rs.'000)	-	-	-	-	-	-	-	-	-	10,000	10,000
Dividend yield (%)	-	-	-	-	-	-	-	-	-	1.37%	0.71%
Dividend cover (Times)	-	-	-	-	-	-	-	-	-	2.38	1.43
Dividend payout (%)	-	-	-	-	-	-	-	-	1.91%	1.96%	8.47%
Debt equity (Times)	12.57	8.53	5.50	5.77	5.03	2.63	2.27	6.88	3.57	4.76	3.25
Return on equity (ROE) (%)	-51.22%	-43.49%	-14.52%	-44.32%	-23.73%	-8.41%	13.60%	-35.40%	-3.60%	6.39%	3.28%
Total liabilities	2,712,248	3,099,058	3,042,548	3,709,547	4,430,093	3,340,478	2,025,973	3,237,277	2,405,398	2,190,991	1,437,674

Investor Information

	Residents			Non-Residents			Total		
	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding
1 - 1,000	9,361	1,405,001	2.08	9	1,760	0.00	9,370	1,406,761	2.08
1,001 - 10,000	659	2,118,508	3.14	6	21,500	0.03	665	2,140,008	3.17
10,001 - 100,000	87	2,461,402	3.65	2	116,500	0.17	89	2,577,902	3.82
100,001 - 1,000,000	8	2,171,628	3.22	2	333,453	0.49	10	2,505,081	3.71
1,000,001 & Above	2	58,870,248	87.22	0	0	0.00	2	58,870,248	87.22
	10,117	67,026,787	99.31	19	473,213	0.69	10,136	67,500,000	100.00

Categories of Shareholdings - Individuals/Institutions

	31.03.2018			31.03.2017		
	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding
Individual	9,990	7,311,962	10.83	10,031	7,219,672	10.70
Institutions	146	60,188,038	89.17	151	60,280,328	89.30
Total	10,136	67,500,000	100.00	10,182	67,500,000	100.00

Categories of Shareholdings - Resident/Non-Resident

	31.03.2018			31.03.2017		
	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding
Resident	10,117	67,026,787	99.30	10,163	67,154,140	99.49
Non-Resident	19	473,213	0.70	19	345,860	0.51
Total	10,136	67,500,000	100.00	10,182	67,500,000	100.00

Share Information

Financial Year ended	31.03.2018	31.03.2017	31.03.2016	31.03.2015	31.03.2014
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Market value of shares

Highest price during the year (Rs.)	20.50	24.00	30.00	29.30	17.10
Lowest price during the year (Rs.)	11.00	9.40	11.40	16.00	10.40
Closing price (Rs.)	11.00	13.90	12.00	23.90	16.90

Investor Ratios

Price Earnings Ratio	-	-	-	-	-
Net Asset Value per share (Rs.)	3.20	5.38	8.20	9.52	15.57

Share Trading

Number of transactions	1,947	1,645	2,863	3,054	2,434
Number of shares traded	3,536,579	1,659,566	10,376,995	13,235,837	4,349,773
Value of shares traded (Rs.'000)	75,158	32,798	241,262	317,620	63,075
Market Capitalisation (Rs.'000)	742,500	938,250	810,000	1,613,250	1,140,750

Investor Information

Twenty Largest Ordinary Shareholders

Twenty largest ordinary shareholders of the Company as at 31st March were as follows;

Name of the Shareholder	No of Shares 31.03.2018	%	No of Shares 31.03.2017	%
People's Bank	33,856,246	50.16	33,856,246	50.16
People's Leasing & Finance PLC	25,014,002	37.06	25,014,002	37.06
Mr. L. De Fonseka	1,000,000	1.48	1,000,000	1.48
Mr. H.V. Pakianathan	338,591	0.50	278,033	0.41
People's Leasing & Finance PLC/Dr. H.S.D. Soysa & Mrs. G. Soysa	211,608	0.31	-	-
HSBC International Nominees Ltd-SSBT-Deutsche Bank AG Singapore	206,000	0.31	206,000	0.31
Mr. Z.G. Carimjee	196,158	0.29	196,158	0.29
Sandwave Limited	127,453	0.19	-	-
Mr. H. Beruwalage	116,200	0.17	116,200	0.17
Mr. C. Thalangahawatte	105,984	0.16	105,984	0.16
Mr. B.W. Kundanmal	102,100	0.15	102,100	0.15
Mrs. R.D. Jayawardana / Mr. S. Munaweera	100,987	0.15	100,987	0.15
Mr. P.K. Biswas	100,000	0.15	100,000	0.15
Asha Financial Services Limited/Mr. C.N. Pakianathan	92,975	0.14	92,975	0.14
Mr. A.H. Munasinghe	84,084	0.12	84,084	0.12
Mrs. R.D. Jayawardana	77,667	0.12	77,667	0.12
Mr. S. Munaweera/Mrs. R.D. Jayawardana	77,667	0.12	77,667	0.12
Mr. M.D.W.J. Gunathilaka	77,021	0.11	77,021	0.11
Mr. S. Munaweera	70,900	0.11	70,900	0.11
Dr. G.R. Constantine	70,315	0.10	70,315	0.10
	62,025,958	91.90	61,626,339	91.30

Directors'/CEO's Holding in Shares as at 31st March	Position	No of Shares 31.03.2018	No of Shares 31.03.2017
Mr. H. Fernando	Chairman	Nil	Nil
Mr. N.V. Kumar	Director	Nil	Nil
Mr. J.A. Fernando	Director	Nil	Nil
Mr. M.P. Amirthanayagam	Director	Nil	Nil
Mr. A.P. Weerasinghe	Director	Nil	Nil
Dr. D.W.S.S.R.N.J. Dandeniya	Director	Nil	Nil
Mr. L. De Fonseka	Director	1,000,000	1,000,000
Mr. A.S. Ibrahim	Director	Nil	Nil
Mr.U.N.Gunasekara	CEO	Nil	Nil
		1,000,000	1,000,000

Public Holding

The percentage of ordinary share held by the public as at 31st March 2018 was 11.30% and number of shareholders representing the public holding was 10,133. The float adjusted market capitalization as at 31st March 2018 was Rs: 83,902,500/-

Our Services

Deposit Division

Fixed Deposit and Savings
SFIDA (PFCA) - FD in Local Currency

Asset Finance Division

Short/Medium – Term Loans
Personal Loans
Bank Guarantees
Leasing of Vehicle and Equipment
Margin Trading

Pawning

Gold Loans

Real Estate

Sale of Property Development
Owner Behalf sale

Branch Network

Anuradhapura

304, Maithripala Senanayake Mw, Town Hall
Place, Anuradhapura
Tel: 025 7389090-3 Fax: 025 7389094

Avissawella

75, Yatiyantota Road, Avissawella
Tel: 036 7389091-5 Fax: 036 2233520

Elpitiya

10/5, Pituwala Road, Elpitiya
Tel: 091 7214505-8 Fax: 091 2290499

Gampaha

64, Quenns Mary's Road, Gampaha
Tel: 033 7213414/16 Fax: 033 2233633

Kandy

145, Kotugodella Street, Kandy
Tel: 081 7389090-3 Fax: 081 2200798

Kurunegala

183c, 02nd Floor, Colombo Road, Kurunegala
Tel: 037 7389090-3 Fax: 037 2220911

Matara

68, Anagarika Dharmapala Mw, Matara
Tel: 041 7389091-3 Fax: 041 2220700

Matugama

74B, Neboda Road, Matugama
Tel: 034 7212933 Fax: 034 2243869

Negombo

51A, Thammita Road, Negombo
Tel: 031 7389090-3 Fax: 031 2228577

Trincomalee

118, N.C Road, Trincomalee
Tel: 026 7389090-3 Fax: 026 7389094

Wellawatte Pawning Center

118D, Galle Road, Wellawatte
Tel: 011 7500580-3 Fax: 011 7500584

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty Fourth (34th) Annual General Meeting of PEOPLE'S MERCHANT FINANCE PLC will be held at the PMF Group Office complex at No. 21, Nawam Mawatha, Colombo 02 on 27th September 2018 at 3.30 p.m for the following purposes.

1. To Receive and consider the Annual report of the Board of Directors on the Affairs of the Company and the Financial Statements for the year ended 31st March 2018 together with report of the Auditors thereon.
2. To reappoint Messrs KPMG, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31st March 2019.
3. To approve the donation and contributions made by the Directors during the year under review and to authorize the Board to determine donations and contributions for the ensuing year.

By order of the Board



Lakmini Kottegoda

Company Secretary

PEOPLE'S MERCHANT FINANCE PLC

Colombo, on this 22nd day of August 2018

Note

A Shareholder entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her seat and a form of proxy is sent herewith for this purpose. A proxy need not be a shareholder of the company.

The completed form of proxy must be deposited at the Head office of the Registrars to the Company, SSP Corporate Services (Private) Limited at No: 101, Inner Flower Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.

Proxy Form

I/We of

..... being a shareholder/shareholders of People’s Merchant Finance PLC, hereby appoint Mr/Mrs/Miss (holder of

N.IC.No..... of or failing him/her

1. Mr. Hemasiri Fernando or failing him
2. Mr. N. Vasantha Kumar or failing him
3. Dr. D. W.S. S. R. N. J. Dandeniya or failing him
4. Mr. J. A. Fernando or failing him
5. Mr. M.P. Amirthanayagam or failing him
6. Mr. A.S. Ibrahim or failing him
7. Mr. A.P. Weerasinghe or failing him
8. Mr. L. De Fonseka or failing him

as my/our proxy to attend and vote/speak at the Thirty Forth Annual General Meeting of the Company to be held on the 27th day of September 2018 at 3.30 p.m. at the PMF Group Office complex at No. 21, Nawam Mawatha, Colombo 02 and at any adjournment thereof and at every poll which may be taken in consequence thereof to vote.

	For	Against
(1) To Receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Financial Statements for the year ended 31st March 2018 together with report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To reappoint Messrs KPMG, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31st March 2019	<input type="checkbox"/>	<input type="checkbox"/>
(3) To approve the donations and contributions made by the Directors during the year under review and to authorize the Board to determine donations and contributions for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2018

.....
Signature

.....
Shareholder’s N.I.C./P.P/Co.Reg.No.

Notes:

1. Proxy need not be a member of the Company
2. Instruction as to completion of this Form of Proxy are given overleaf

INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 17(5) of the Articles of Association of the Company the instrument appointing the proxy should be in writing.
2. The full name and the address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall –
 - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
 - (c) In the case of joint-holders, be signed by the joint-holder whose name appears first in the Register of Members.
4. The completed Form of Proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the office of the Registrars to the Company, SSP Corporate Services (Private) Limited at No.101, Inner Flower Road, Colombo 03 not less than forty eight (48) hours before the time appointed for the holding of the meeting
5. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder signing the Proxy.

Corporate Information

Name of Company

People's Merchant Finance PLC
(Subsidiary of People's Bank)

Legal Form

Public Limited Liability Company
(Incorporated and domiciled in Sri Lanka)

Date of Incorporation

26th January 1983

Company Registration Number

PQ 200

Stock Exchange Listing

The ordinary shares of the Company were quoted on the Colombo Stock Exchange (CSE) on 11th July 1994.

Ordinary Shares listed 67,500,000

Accounting Year-End

March -31

Registered Office & Principle Place of Business

No. 21, Nawam Mawatha, Colombo 02, Sri Lanka
Telephone +94112300191 / +94117666333
Fax +94112300190
Email; info@pmb.lk
Web; www.peoplesmerchant.lk

Company Secretary

Ms. Lakmini Kottegoda

Registrars

SSP Corporate Services (Pvt) Ltd
No. 101, Inner Flower Road, Colombo 03, Sri Lanka
Telephone; +94112573894, +94112576871
Fax; +94112573609
Email; sspsec@sltnet.lk

Auditors

M/s. KPMG
Chartered Accountants
32A, Sir Mohamed Macan Maker Mawatha, Colombo 03.

Bankers

People's Bank
Pan Asia Banking Corporation PLC

Branch Offices

Anuradhapura
Kurunegala
Negombo
Trincomalee
Kandy
Matara
Awissawella
Matugama
Elpitiya
Gampaha
Wellawatta Pawning Center

Board of Directors and Board Sub-Committees

Board of Directors

Mr. Hemasiri Fernando - Chairman
Mr. N.Vasantha Kumar
Mr. M.P. Amirthanayagam
Mr. A.S. Ibrahim
Dr. D.W.S.S.R.N.J. Dandeniya
Mr. A.P. Weerasinghe
Mr. J.A. Fernando
Mr. L. De Fonseka

Integrated Risk Management Committee

Mr. J.A. Fernando
Mr. L. De Fonseka
Dr. D.W.S.S.R.N.J. Dandeniya
Mr. U.N. Gunasekara - CEO

Board Audit Committee

Mr. J.A. Fernando
Mr. A.P. Weerasinghe
Mr. A.S. Ibrahim

Related Party Transactions Review Committee

Mr. M.P. Amirthanayagam
Mr. L. De Fonseka
Mr. A.P. Weerasinghe

Board Remuneration Committee

Mr. M.P. Amirthanayagam
Mr. N. Vasantha Kumar
Mr. A.P. Weerasinghe

Corporate Management

Mr. U.N. Gunasekara - CEO
Mr. Charith Gunarathne - DGM - Credit & Asset Finance
Mr. Yasas Ariyaratne -DGM - Business Promotions
Mrs. Muditha Jayawickrema - DGM - Legal & HR

Subsidiary Company

PMB Services Limited

Vehicle Yard

No. 21, Nawam Mawatha, Colombo 02, Sri Lanka

Tax Payer Identity Number (TIN)

134000228

VAT Registration Number

134000228 7000

Central Bank Registration Number

LFC/043 (Under the Finance Business Act No. 42 of 2011)

Credit Agency Status

An approved Credit Agency under the Mortgage Act No.6 of 1949 and the Trust Receipt Ordinance No.12 of 1947 by the department of Commerce



www.peoplesmerchant.lk