



DEVELOPING POSSIBILITIES



DEVELOPING POSSIBILITIES

Backed by the strength of over three decades of industry experience we are rejuvenated with the new ownership. Striving forward with a new strategic mandate and a new business model we are well-positioned to move towards a journey of growth.

Geared to explore the myriad of opportunities; we are excited with the new prospects of growth available for us. Keeping abreast with new IT developments and the dynamic trends of the market we are calibrating our business model to fully exploit the emergent business possibilities.

ABOUT US

WELCOME TO PEOPLE'S MERCHANT FINANCE PLC

WITH OVER 35 YEARS OF EXPERIENCE, PEOPLE'S MERCHANT FINANCE PLC CAN PROVIDE YOU WITH SOLUTIONS THAT ADD VALUE TO YOUR BUSINESS FOR CONTINUOUS GROWTH IN WEALTH.

BE THE MOST SOUGHT AFTER FINANCIAL SERVICES PROVIDER FOR THE TAILOR MADE, QUALITY MERCHANT FINANCING SOLUTIONS, WITH A HUMAN TOUCH AND BUSINESS ACUMEN.

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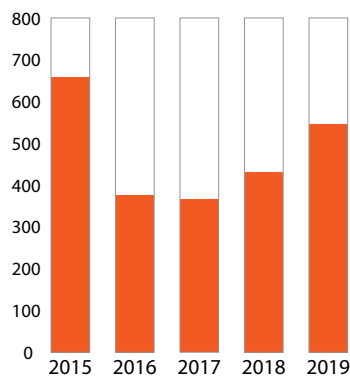
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FINANCIAL HIGHLIGHTS

For the year ended 31st March	Company			Group		
	2019	2018	Change (%)	2019	2018	Change (%)
In thousands of Rupees						
Interest income	546,759	431,790	26.63	546,759	431,790	26.63
Loss before tax	(91,942)	(148,525)	(38.10)	(91,017)	(147,691)	(38.37)
Loss for the year	(93,684)	(148,312)	(36.83)	(92,759)	(147,478)	(37.10)
Loss per share (Rs.)	(1.38)	(2.20)	(37.27)	(1.37)	(2.18)	(37.16)
Return on assets (%)	(3.22)	(4.64)	(30.66)	(3.19)	(4.62)	(31.00)
Return on equity (%)	(52.24)	(51.22)	1.99	(51.87)	(51.49)	0.73
As at 31st March						
Total Assets	2,893,383	2,927,939	(1.18)	2,893,639	2,928,208	(1.18)
Equity	142,958	215,691	(33.72)	142,936	214,744	(33.44)

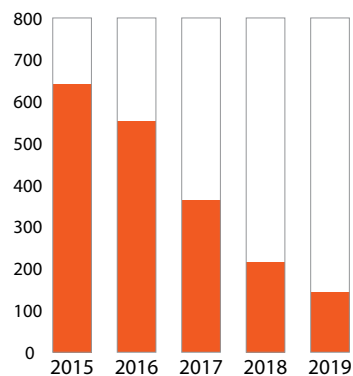
Income

Rs. Mn



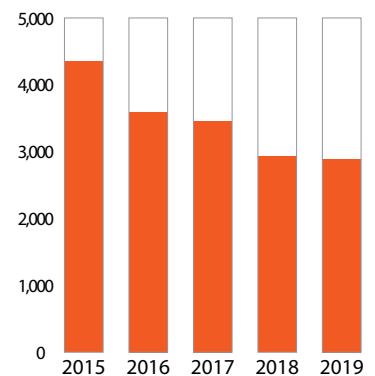
Equity

Rs. Mn



Total Assets

Rs. Mn





OUR LEADERSHIP



CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present to you the Annual Report of People's Merchant Finance PLC (PMF) for the financial year ended 2018/19. The year under review marks a significant milestone in PMF's corporate journey with the advent of its new major shareholder, Sterling Capital Investments (Private) Limited (SCIL). Thus, the focus during the year was to restructure the Company to drive future growth by leveraging on the strengths of Sterling Capital Investments (Private) Limited.

This strategic investment introduces a myriad of opportunities which will enable the Company to evolve and grow to the next phase of growth. During the year the Company did not aggressively pursue business growth but focused on developing its new strategic path which we will follow in the ensuing years to drive business growth. Despite these negative impacts, the Company was able to reduce its losses by 37% to Rs. 93.6 million due in main to focus on servicing existing clients without pursuing business growth.

Furthermore, the challenging business environment during the year under review also had a negative impact on the profitability levels of the Company. The Sri Lankan economy grew at a modest pace of 3.2% in 2018. The economic performance was further affected by political upheaval, uncertain policy decisions, high interest rates, and the tightening liquidity condition of the domestic foreign exchange market. The Sri Lankan Rupee depreciated sharply by 16.4% against the US dollar.

Developing Possibilities for Future Growth

The Company's new ownership creates a new strategic mandate to pursue new avenues for sustainable growth and development. Accordingly, the year was dedicated to internally developing new possibilities for growth with a focus on identifying and seeing the big picture by understanding the goals and milestones the Company needs to achieve in its journey of growth. The Company undertook a strategic review to identify its unique selling proposition and critical success factors.

By ensuring our employees have a clear understanding of the business and existing opportunities for growth, PMF can compete with, and make progress amidst larger competitors despite being a small player in the Non-Banking Finance Industry (NBFI) sector of Sri Lanka. Therefore, it is imperative that the management focus on creating awareness of the Company's strategic direction with its employees to provide a clear direction for goal achievement and realisation of strategic initiatives.

Having been in the industry for 36 years and having weathered many changes, PMF has still managed to achieve year-on-year growth for the most part. During this time, the Company has built a unique selling proposition and differentiating factors. We believe that this uniqueness must be clearly articulated to gain a better perspective, create value to stakeholders and enhance the PMF brand positioning across the country.

CONVERTING
OPPORTUNITIES, CHALLENGES
AND POSSIBILITIES TO
POSITIVE BUSINESS
STRATEGIES HAS BEEN THE
KEY FOCUS IN DURING THE
FINANCIAL YEAR 2018/19"

Skilful planning for action is all about understanding the business and being able to calculate the risks and opportunities which exist in the external environment. Developing skills of employees to enable them to assess external challenges and capitalise on emerging opportunities is another area where we focused our business resources during the year under review.

Pursuing a New Business Model

Today, the NBF1 sector is characterised by a series of dynamic changes spurred by technology with an increase of tech-savvy customers with sophisticated financial needs. We believe that these changes need to be addressed to keep abreast with the industry development not only from the global perspective but also in a local context. As such emerging possibilities are a cornerstone of future success for PMF. Accordingly, to navigate such a dynamic and volatile industry we need to build on long term collaborations and partnerships. This has resulted in the Company reviewing our business model to be in line with future market changes.

During the year under review, PMF put in place the requisite foundation to be built in the forthcoming year. By maximising the expertise and relationships of our new parent, The Sterling Group, PMF will pursue growth through both retail and wholesale customer partnerships. By extending and enhancing our car dealer network, we plan to offer a range of new financial products to the small and medium sized entrepreneurs (SME's) across the island.

Furthermore, as technology has now become a feature for retaining a strategic competitive advantage, PMF will use modern technology to increase customer convenience and deliver high levels of customer service. Growing our product portfolio to catering to the needs of our target market was accelerated during the year with innovative products being evaluated for release to the market in the next financial year.

Future Direction

While the Company concentrated on short-term priorities during the year under review, the successful achievement of initiatives propelled PMF to develop mid-term strategies which will be operationalised in the coming year. The restructuring of our business model will require new organisational expertise and up-skilling of employee skill levels. As we progress, we will concentrate on developing these skills internally, while we will introduce in new expertise to successfully execute our strategic plans.

We have no doubt that we will continue to be affected by the highly competitive and evolving business externalities as we pursue the possibilities open to PMF. However, we remain confident and optimistic of the future path which will enable us to create value for all our stakeholders. While we will ensure that we progress in our journey of growth, we are also well-aware that some progress will only be achieved in an incremental manner inch by inch, step by step and mile by mile as we navigate our new strategic path.

Acknowledgements

I take this opportunity to express my pleasure of being a part of the exciting future of PMF. I am very happy to be at the helm of this journey and direct the Company to achieve its full potential. I welcome aboard Sterling Capital Investments (Private) Limited and the new Board of Directors of PMF, while thanking the outgoing Board of Directors for bringing PMF to this level of success. I look forward to building stronger relations with the management and employees of the Company as we work as one team to take forward the Company to greater heights. A special thank you to our shareholders, investors, business partners and customers for continuing to believe in PMF and remaining with us despite instances of uncertainty and concern while we streamline our business to pursue our new strategic path.



Chandula Abeywickrema
Chairman

22nd August 2019



CHIEF EXECUTIVE OFFICER'S MESSAGE

I welcome you to read the annual report 2018/19 of People's Merchant Finance PLC (PMF). The financial year 2018/19 was quite challenging for PMF with diversions in strategic direction, restructuring of the organisation and changing the focus of the future path of the Company. As such, the Company concentrated on internally deploying resources aimed at getting our business processes, procedures and people ready to take forward the plans being developed for future progress. Business growth also took a backstage in this context and PMF did not pursue new business during 2018/19, instead concentrating on sustaining existing clients and giving them the best possible service. As a result, key financial indicators of PMF show a downward trend during the year under review, which has now reversed with the Company moving to a profit-making situation by June 2019 as a result of the recapitalisation of the Company.

As a finance company operating in a dynamically changing industry environment, PMF has always concentrated on adhering and improving compliance to regulations and simultaneously focusing on increasing operational excellence. Operating within the financial services sector, these two elements play critical roles in ensuring the Company's growth and success. While PMF has over time realised much progress in these two focus areas, the changing consumer requirements coupled with the impact of technological advancements in the financial services sector, makes it imperative that PMF continues to focus on these factors indefinitely. Focused efforts in managing and enhancing compliance and operational excellence has also resulted in the Company developing essential knowledge and know-how which has today become a key foundation which drives business growth and success.

Key Developments in 2018/19

Progress on Compliances and Operating Excellence

As part of the Company's focused efforts to improve compliance requirements and meet the directives of both the Central Bank and the continuing listing rules of the Colombo Stock Exchange, PMF focused on finding and securing new investors to help propel the Company's future growth. Much progress was made during the year, and the Company successfully secured a strategic capital investment from Sterling Capital Investments (Private) Limited (SCIL) through a private placement in March 2019 and a rights issue in the first quarter of 2019/20. Simultaneously, PMF continued to improve internal operational efficiencies to assist with reducing management expenses. As such, resources were directed at internally optimising business processes and procedures, while setting the stage to improve the prospects of PMF in the future; and align strategic direction to meet the expectations of the new investor.

Another development during the year under review, was the introduction of SLFRS 9 for reporting Financial Instruments. As PMF mainly caters to the needs of small and medium sized (SME) customers, the application of SLFRS 9 caused an adverse impact to carried forward losses and to the current year profit and loss statement of the Company. While some challenges will continue in the forthcoming year, the Company expects this situation to improve in future years, especially as we complete the restructure of the Company and move forward with our planned strategic imperatives.

"THE FUTURE IS EXPECTED TO BRING IN NEW SUCCESSES WHILE ENABLING ACHIEVEMENT OF SUSTAINABLE GROWTH."

Managing Human Resources

Operating in the financial services sector, employees remain an important strategic asset of the Company. Therefore, sustainable business growth and success is highly dependent on the proper management and engagement of human resources. During the year under review, PMF deployed resources and made strategic investments for the training and development of employees. This focus of the Company will not only enable PMF to move forward and achieve unprecedented success aligned to the new strategic business plan, but also ensure employee development and growth.

Furthermore, emphasis was also given to developing and executing employee engagement and motivational programmes during the year under review. Some unique programmes aimed at women's empowerment and building leadership qualities were executed by the Company to much success; in addition to general motivational and engagement campaigns. One of these programmes, the Special Task Force (STF), aimed at developing leadership qualities of assistant managers and below, provided an opportunity for participants to interact with senior management personnel, and the CEO. Another interesting programme launched for employees in December 2018 was the MCCE campaign (Managing Collections, Cost and Efficiency) which was aimed at encouraging employees to share their innovative ideas related to areas such as operational excellence, recoveries management and cost management which are three key considerations for successfully managing business growth in the future. This programme also enabled cross-functional teams to work together and build new relationships, while also bringing to the fore the hidden talents of employees while building internal competencies.

Customer Relationship Management

As part of the newly designed strategic imperatives enabling the Company to become future ready and move forward with the new strategic goals, PMF embarked on improving the customer service profile to move towards the concept of customer relationship

management. The first step was successfully implemented during the year under review, where existing customers were segregated and profiled, thus enabling the Company to cross-sell products and services while developing long-term relationships. As a part of this process, the Company also provided relevant training to key customer facing employees and put in place systems and processes to assist employees to offer higher service levels to our clients.

Focus on Sustainability

An aspect which has been gaining much attention by organisations globally is 'sustainability'. For PMF this is an area which requires more attention and resources. The Company plans take a wholistic approach to sustainability and integrate it within business processes and operations. While, the ultimate aim is to encourage lending to those businesses pursuing sustainable business operations, realistically, PMF will start on this process by reducing resources used internally in conducting our day-to-day business operations. There is much scope and opportunity to become a truly sustainable business organisations, and PMF will pursue this path in the coming years.

As the PMF moves forward with these strategic plans in the next few years, the Company will go through a transition and learning period in the medium-term. However, the future is expected to bring in new successes while enabling achievement of sustainable growth.

Appreciations

I take this opportunity to welcome our new Chairman, Mr. Chandula Abeywickrema who took over this post upon completion of the strategic investment. I also welcome our new Board of Directors to the PMF. I look forward to working with you in the years ahead and help drive business success and growth. I thank Mr. Hemasiri Fernando, our past Chairman and the previous Board of Directors for all the guidance and support given to me during the last financial year. I also wish to thank the management and employees of PMF for your generous support streamlining business processes and procedures to meet future strategies. Last, but not least, I thank all our stakeholders for your patience and the confidence placed in me and the Company to devise a plan for the future success of PMF.



Nishantha Gunasekara
Chief Executive Officer

22nd August 2019

PROFILES OF DIRECTORS



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Mr. Chandula Abeywickrema*Chairman**Non-Executive, Independent Director***Current Positions:**

- **Chairman**, Lanka Impact Investing Network (<https://www.liin.lk/>)
- **Co-Founder**, 'Ath Pavura' TV Reality Show (<http://athpavura.com/>)
- **Chairman**, Lanka Financial Services for underserved Settlements (www.lfsus.org)
- **Chairman**, CSR Sri Lanka (<http://www.csrsrilanka.lk/>)
- **Chairman**, Banking With the Poor Network (BWTP) (<http://bwtp.org/>)
- **Director**, World Vision Lanka
- **Advisor**, Asian Bankers Association (ABA) (<https://www.aba.org.tw/>)

Mr. Abeywickrema was appointed as a Non-Executive, Independent Director with effect from June 26, 2019 to People's Merchant Finance PLC and he is the Chairman of the Company. Mr. Abeywickrema is the Co-Founder of 'Ath pavura' the first ever TV reality show for Social Entrepreneurs and Impact Investors in Sri Lanka currently telecasting on the largest national TV network. He is also the Founder and Chairman of Lanka Impact Investing Network (Private) Ltd (LIIN) which is the first of its kind agency in impact investing private equity funds and serves as a network of impact investors, with the purpose of investing in existing and emerging social enterprises, promoting entrepreneurship across Sri Lanka.

An accomplished and respected senior commercial banker with lead expertise and experience in retail and development banking, Mr. Abeywickrema has a proven track record of over 30 years and is recognized in Asia as an expert in Financial Inclusion. Mr. Abeywickrema spearheaded the retail and development banking strategy as the Deputy General Manager of Hatton National Bank (HNB). He has provided management and strategic direction of HNB's SME portfolio and Microfinance portfolio for which he was responsible. During his tenure at HNB, and for 7 consecutive years, he won the best retail bank award from Asia Money until 2013 when retired from the bank after serving the bank for 25 years. He has served as the Managing Director /CEO of CCC Solutions, the project management arm of Ceylon Chamber of Commerce from 2014 to 2015 and as the Consultant Strategy and Marketing for National Savings Bank (NSB) from 2016 to 2017.

Mr. Abeywickrema has participated in numerous international engagements as an expert in the area of financial inclusion and is the current Chairman of the Banking with The Poor Network (BWTP), Asia's Largest Micro Finance Network. He was also appointed recently by the Asian Bankers Association (ABA) as the Advisor on Financial Inclusion to ABA. He serves on a number of Boards of both local and international financial institutions. He is the Chairman of CSR Sri Lanka the national Apex body for Corporate Social Responsibility, representing the largest number of private sector companies, Chairman of Lanka Financial Services for Underserved Settlement a credit guarantee fund for low income housing finance a public and private sector collaborated initiative and serves as the Member of the Board Directors of World Vision Lanka.

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Mr. Duleep Daluwatte*Non-Executive, Non Independent Director*

Mr. Daluwatte was appointed as a Non-Executive, Non Independent Director with effect from April 03, 2019 to People's Merchant Finance PLC and he has over 30 years of Senior Corporate Management/Board Level experience in diversified business operations covering Banking, Finance, Manufacturing, Trading and Service Industries. Bulk of his experience of over 20 years has been gained in Banking & Non-Bank Financial Services Industry. The Key positions Held include Chief Operating Officer of Merchant Bank of Sri Lanka & Finance PLC, Chief Executive Officer of MCSL Financial Services, Group Joint Managing Director of George Steuart & Company Limited, Group CFO/ Group Finance Director of George Steuart & Company Limited, Deputy General Manager – Corporate Finance of Hatton National Bank PLC. Further, he has served as Vice Chairman of Finance House Association of Sri Lanka (FHA), and represented the FHA in the Ceylon Chamber of Commerce Committee. He is a Past President of Round Table Sri Lanka and has served on the Asia Pacific Board.

He is a Fellow Member of Institute of Chartered Accountants of Sri Lanka, Fellow Member of Chartered Institute of Management Accountants, UK and is a Chartered Global Management Accountant, Member of the Chartered Institute of IT UK (MBCS). He is a life Member of Association of Professional Bankers of Sri Lanka, Member of Sri Lanka Institute of Directors and has attended Executive Development programs at Canfield University Business School U.K.

He is currently a Non-Executive Director of Industrial Asphalt (Ceylon) PLC.

PROFILES OF DIRECTORS

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Mr. K. R. P. Madusanka

Non-Executive, Non Independent Director

Mr. K. R. P. Madusanka was appointed as a Non-Executive, Non Independent Director with effect from June 26, 2019 to People's Merchant Finance PLC and he is the Chief Financial Officer of Sterling Automobiles Lanka (Pvt) Ltd. He is an Associate member of Institute of Chartered Accountant of Sri Lanka, Management Consultant and Lecturer with a proven track record in corporate world, holding senior leadership positions in leading local and overseas entities.

He possesses a wealth of experience working in many organisations in locally and overseas. Mr. Madusanka starts his career by joining with Ernst & Young as an Audit trainee and left the firm as Assistant Manager in Audit & Assurance sector. Then he joined with BDO Partners as Manager – Audit & Assurance and left the firm as Senior Manager of the firm.

Mr. Madusanka has over 08 years of experience in the fields of Audit & Assurance, Business Valuations, Due Diligence, Forensic Audits, Internal Audits, Project Proposal, Business Process Outsourcing and Financial Advisory Services. His expertise is widespread covering range of industries from banks, finance, insurance, micro finance, plantation, manufacturing, general trading, apparel, not for profit organisation and service providing organisations to name a few.

He counts over 10 years of experience as a corporate level and strategic level manager and holds senior positions of Group Accountant and Senior Accountant positions in Durdans Hospital and Asiri Surgical Hospital respectively. Further he strengthens his senior management skills by joining with Arabian Sugar Company B.S.C. in Bahrain as the Finance Manager of the ASC Group. Arabian Sugar Company is the only sugar refinery situated in Kingdom of Bahrain and one of the biggest sugar suppliers to the Gulf region.

Mr. Madusanka is an Associate member of Institute of Chartered Accountants of Sri Lanka. He holds a MBA from Cardiff Metropolitan University of United Kingdom. He is an Associate member of Institute of Professional Finance Managers of United Kingdom, an Associate member of Association of Accounting Technicians of Sri Lanka.

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Mr. Channa Manoharan

Non-Executive, Independent Director

Appointed: June 2019

Skills & Experience:

Counts over 25 years of extensive experience in public accounting practice and in management consulting.

A Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Institute of Certified Management Accountants of Sri Lanka

Other Current Appointments:

Advisory & Consulting Leader / Chief Operating Officer – PricewaterhouseCoopers Sri Lanka & Maldives
Vice Chairman / Director – Sri Lanka Association of Software & Service Companies (SLASSCOM)

Previous Appointments:

General Council Member – Sri Lanka Association of Software & Service Companies (SLASSCOM)
Member of Council – The Institute of Chartered Accountants of Sri Lanka
Honorary Treasurer – Organisation of Professional Associations of Sri Lanka
Committee Member – Taxation Steering Committee of the Ceylon Chamber of Commerce.

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Mr. Rasitha Gunawardana

Non-Executive, Non Independent Director

Mr. Gunawardana was appointed as a Non-Executive, Non Independent Director with effect from June 26, 2019 to People's Merchant Finance PLC and he is an Associate Member of the Chartered Institute of Management Accountants, UK.

Mr. Gunawardana previously held Leading positions at People's Bank in the areas of Finance, Performance Management, Corporate and Commercial Credit, Treasury Operations, Credit Control and Risk Management as the Deputy General Manager - Risk Management, Senior Deputy General Manager - Business Banking. Prior to joining People's Bank, he had gained experience in both private and public sectors in industries covering Travel and Hotels, Plantation Management and Construction.

Currently Mr. Gunawardana function as CEO/GM of People's Bank, Director of People's Leasing & Finance PLC, People's Leasing Fleet Management Limited, Lankan Alliance Finance Limited, People's Travels (Pvt) Limited, Sri Lanka Banks' Association, Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka, Lanka Finance Services Bureau Limited and National Paper Council.

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Mrs. Gloria Kodagoda

Non-Executive, Non Independent Director

Mrs. Kodagoda was appointed as Non-Executive, Non Independent Director with effect July 19, 2019 and she has over forty years' experience in advising on a number of aspects of labour and financial law also possess a plethora of experiences working on range of companies such as Ceylon Ceramics Corp, Hatton National Bank, Orient Finance and attending to labour tribunals, recovery matters and Parate executions.

Mrs. Kodagoda, an Attorney-at-law of the Democratic Republic of Sri Lanka.

CORPORATE MANAGEMENT



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 25 years of experience in Banking & Finance sector and in the Corporate Sector with over 13 years of experience holding Corporate Management Level & above positions.

He holds a Master's degree in Business Administration from the Postgraduate Institute of Management of University of Sri Jayawardenepura, and a Diploma in Banking & Finance from Institute of Bankers of Sri Lanka (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). He is also a Fellow of the IBSL.

Mr. Gunasekara is a Past President of the Postgraduate Institute of Management Alumni Association and has served as the Cabinet Treasurer of Lions Club International District 306 B1 in the fiscal year 2018/19.



Mrs. Muditha Jayawickrema

Deputy General Manager - Legal & HR/ Compliance Officer

Mrs. Jayawickrema is an Attorney-At-Law and holds LL.B degree from the Open University of Sri Lanka. She holds a Master's degree (LL.M) in International Trade Law from the University of Wales, UK.

Mrs. Jayawickrema was appointed as DGM-Legal & HR in January 2014 and she was appointed as the Compliance Officer of the Company in August 2015. She has practiced under Civil and Criminal Counsels and had worked at G & R Associates as a junior Counsel and joined PMF in 1999. She has 26 years post qualifying experience and a breadth of practical experience in the Senior Management and Corporate management capacity in the financial, leasing, commercial law, corporate finance, compliance, and real estate sectors. She has served the Association of Corporate Lawyers of Sri Lanka as Secretary.



Mr. Yasas Ariyaratna

Deputy General Manager - Business Promotions

Mr. Ariyaratna joined PMF in October 2011 as DGM-Business Promotions. Before joining the company, he had been employed as a Regional Manager for 5 years and as a Promotions Manager for 7 years at AVIVA NDB Insurance PLC and he has 5 Years of experience at Bank of Ceylon. He has experience and exposure in marketing, banking and insurance and had been extensively trained locally and internationally.

Mr. Ariyaratna is a Certified Member of Sri Lanka Institute of Marketing (SLIM) and holds a Post Graduate Diploma in Insurance from University of Wayamba, Diploma in Journalism from University of Colombo and a Diploma in Development Psychology (INDETH-2003). He has completed AMTC Program conducted by LIMRA International USA.



Mr. Charith Guneratne

Deputy General Manager - Credit & Assets Finance

Mr. Guneratne possesses over 30 years wide and varied financial experiences mostly in senior positions having worked in leading financial institutions of the country such as L B Finance Ltd., Mercantile Leasing Ltd., Central Finance Co. Ltd. and Mercantile Credit Ltd. Mr. Guneratne joined PMF in 2001 and in 2009, he was appointed as DGM and re-designated as DGM-Credit & Asset Finance in April 2011.

He is an Associate member of the Institute of Credit Management and was a Council member of the institute of Credit Management during 2015/16 and he holds a Master of Business Administration from the Cardiff Metropolitan University UK.



CORPORATE
GOVERNANCE &
RISK MANAGEMENT

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.
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 pages 41 to 45.

Rule of Reference	Principle	Level of Compliance
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 Board's own governance practices are assessed by the Directors individually and collectively and discussed/reviewed by the Board on a periodic basis. Changes to policies are updated in the corporate governance charter.

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 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 making 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.	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 16 to Page 40 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.	Compliant. The performance and other significant matters of the Company which requires review by the Board are submitted to the Board for information and approval. 12 Board meetings were held during the year 2018/2019.
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 the promotion of business and the management of risk in the agenda for the regular meetings.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
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. At least 7 days notice is given to all directors with regard to regular board meetings. Reasonable notice is given to any other special Board meeting.
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.	Non-compliant Board meetings are usually held at regular intervals unless the holding of meetings of shorter intervals are required by the business exigencies. One of the directors was absent for more than one third of the meetings held during the year. Refer page No 39 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.

Rule of Reference	Principle	Level of Compliance
3(9)	<p>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:</p> <ul style="list-style-type: none"> a) a summary of data and information used by the Board in its deliberations; b) the matters considered by the Board; c) 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; 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; 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; f) decisions and Board resolutions. 	<p>Compliant.</p> <p>Detailed minutes are maintained by the Company Secretary covering the given criteria.</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 in respect of the Board of Directors has been published in Annual Report under "Profiles of Directors" (pages 10 to 12), "Related Party Transactions" (Page 109) and "Attendance of the Directors during the year" (Page 39)</p>
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CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
CBSL 4(1.)	The number of directors on the Board shall not be less than 5 and not more than 13.	Compliant The Board comprised of eight Directors as at March 31,2019. (Mr. M. Pradeep Amirthanayagam resigned from the Board with effect from 12th February 2019.)
CBSL 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	Compliant. The total period of service of all Non-Executive Directors is less than 9 years as at date.
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.	Compliant All Board members are Non-Executive Directors
4(4.) Code A.5.2	The number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors. 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'	Non-compliant. As the Board of Directors during the period relevant to this Report is an interim board appointed by the Monetary Board of the Central Bank of Sri Lanka, the number of Independent Non-Executive Directors thereon were one. With the strategic investment, the Board of Directors was re-constituted with effect from 27th June 2019 and the Company is compliant with this requirement.
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.	Not applicable as no alternate directors have been appointed to represent independent Non-Executive Directors during the year under review.
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.	Compliant. 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 10 to 12.

Rule of Reference	Principle	Level of Compliance
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.	Compliant. At all Board meetings held during the year 2018/2019, more than one half of the numbers of directors that constitute the quorum were Non-Executive Directors.
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.	Compliant. The Board consists of persons with graduate, post graduate and professional qualifications in Banking, Accounting and related financial matters. Please refer "Profiles of Directors" on pages 10 to 12 in this annual report.
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	Compliant. The existing Board collectively decides on new board appointments.
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.	Compliant Please refer pages 10 to 12 of the profile of directors.
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 procedures 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.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
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, 2019.
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 10 to 12.
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.

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 separated 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.	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, the Board has 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 page 38 of the corporate governance report for the particulars of Chairman and CEO
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.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
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 Non-Executive Director and does not engage in direct supervision in the key management or any other executive duties.
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 qualitative 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 Reports of the Audit Committee is given on page 54 of this Annual Report.

Rule of Reference	Principle	Level of Compliance
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 was a Non-Executive Director and possesses qualifications and related experience, which are disclosed in below, - Fellow member of ICASL - Associated member of IBSL - 16 years of experience in the banking industry.
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.
c.)	The committee shall make recommendations on matters in connection with: (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.	Compliant. In accordance with the Terms of Reference, the Committee has made the following recommendations: (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 and audit fee of the auditor complied with the requirement that the engagement of the audit partner does not exceed five years.
d.)	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.	Compliant. 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 accounts the regulations and guidelines.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
e.)	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.	Compliant. In 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.
f.)	The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including: <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. 	Compliant. The Committee has discussed and finalized the nature and the scope of the audit, with the External Auditor before the audit commences.

Rule of Reference	Principle	Level of Compliance
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 the 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 Committee 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.)	The committee shall take the following steps with regard to the internal audit function of the finance company:	Compliant. The Company's Internal Audit function has been outsourced and carried out by SJMS Associates.
	(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;	(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.
	(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.) Performance of SJMS Associates 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.
	(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;	

Rule of Reference	Principle	Level of Compliance
k.)	The committee shall consider the major findings of internal investigations and management's response thereto;	Compliant. 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
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 with the External Auditors and with Representatives of the Internal Auditors as required.
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 54 and page 39 of the corporate governance report.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
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.
q.)	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. 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.	Non-compliant. There was no specific policy with regard to arrangements by which the employees of the finance company may raise their concerns with regard to possible improprieties.
8 (3) Integrated Risk Management Committee		
a.)	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	Compliant. The Committee comprised of three Non-Executive Directors. The CEO and 2 key management personnel are there supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks, The heads of other departments attend meetings by invitation.
b.)	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	Compliant. 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.

Rule of Reference	Principle	Level of Compliance
c.)	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.	Non-compliant. Review on the management level committees were not conducted during the period.
d.)	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.	Compliant. All risk indicators are reviewed and discussed for action. The progress of the rectification of the position and the implementation of the recommendations are also being monitored closely by the Committee.
e.)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Non- Compliant. The Committee has not met in the 3rd Quarter only, during the year under reference and has met in all other 3 quarters.
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. Risk Assessment report has not been submitted to the Board during the financial year under consideration.
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.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
9. RELATED PARTY TRANSACTIONS		
9(2.)	<p>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.</p>	<p>Compliant.</p> <p>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 34 on "Related Party Disclosures" in the Financial Statements.</p>
9(3.)	<p>There shall be a process to identify and report the following 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 or confidential info that may give benefits to such related party.</p>	<p>Compliant.</p> <p>The board has set a process for the identification of the related party transactions and to report them on a timely basis.</p>

Rule of Reference	Principle	Level of Compliance
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 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.
10(2.) a.) Code D.1b.)	The Board shall ensure that at least the following disclosures are made in the Annual Report: 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 53 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 page 48 to 52.

CORPORATE GOVERNANCE

Rule of Reference	Principle	Level of Compliance
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. The Company has not obtained a certification from the External Auditors on the effectiveness of the internal control mechanism over financial reporting.
d.)	Details of directors, including names, transactions with the finance company.	Compliant Please refer pages 10 to 12 for details of Directors, pages 109 to 112 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 34 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 page 109 to 112 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 page 109 to 112 under "Related Party Disclosures".

Rule of Reference	Principle	Level of Compliance
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", page 16 to 40 and "Annual Report of the Board of Directors on the affairs of the Company", pages 48 to 52 satisfy this requirement.
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.	Compliant. The Company has obtained a certificate from the external auditors of the Company on the compliance with the Corporate Governance directions. Further, the Company is in the process of strengthening certain procedures based on the recommendations made by them.
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 53 of this annual report and the Auditors' Responsibilities have been explained in the Auditors' Report on page 55 to 58.
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Refer page 8 for the Management Discussion and Analysis.

CORPORATE GOVERNANCE

11. THE COMPANY HAS COMPLIED WITH THE TRANSITIONAL PROVISIONS CONTAINED IN THIS RULE.

The Board of Directors

The Board comprised nine (09) members, all members including the Chairman was Non-Executive Directors with a balance of skills and experience which was 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 page 50.

Subsequent to the reporting date, a new Board of directors were appointed. The names and details are disclosed in pages 10 to 12.

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 names and details of Chairman and CEO are given in pages 10 to 13 of the profiles of directors and corporate management reports.

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 the financial year 2018/19,

Board Meetings/ Committees attended during 2018/19

Name of Director	Board Meetings	Board Audit Committee Meeting	Integrated Risk Management Committee	Remuneration Committee	Related Party Transactions Review Committee
Mr. Hemasiri Fernando	12/12	N/A	N/A	N/A	N/A
Mr. M.P. Amirthanyagam*	10/10	N/A	N/A	N/M	1/1
Mr. A.P. Weerasinghe	7/12	3/5	N/A	N/A	1/1
Mr. Johnson A. Fernando*	11/11	1/1	2/2	N/A	N/A
Mr. A.S. Ibrahim	12/12	5/5	N/A	N/A	N/A
Dr. D.W. S. S. R. N. J. Dandeniya	12/12	N/A	3/3	N/M	N/A
Mr. L.D. Fonseka	9/12	N/A	3/3	N/M	1/1
Mr. N. Vasantha Kumar	8/12	N/A	N/A	N/A	N/A
Ms. R. P. Nilmini Premalal**	10/10	4/4	N/A	N/A	N/A

N/A - not a member of the Committee

NM - no meetings held during the year

*Has ceased to be a Director

**Appointed with effect from 16th May 2018

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 consisted of three Non-Executive Directors. One out of the three committee members was independent. The Chairman of BAC was 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 2018/19 were as follows;

Mr. Johnson A. Fernando (Chairman of the Committee)*

Mr. Anil Weerasinghe

Mr. A.S. Ibrahim

*Mrs. Nilmini Premalal, Non - Executive, Non Independent Director were appointed as Chairman of BAC with effect from 16th May 2018.

Board Remuneration Committee (BRC)

The Remuneration Committee consisted of three (03) Directors who are all Non-Executive Non-Independent Directors. However, no meetings were held during the financial year ended 31.03.2019.

The names of the BRC members during the Financial Year 2018/19 were as follows;

Mr. M.P. Amirthanyagam Chairman of the Committee

Mr. N. Vasantha Kumar

Dr. R. Dandeniya

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 34.

Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee (IRMC) consisted of three (03) Directors, the CEO and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risk. The Directors in the Committee were Non-Executives. The names of the IMRC members during the Financial Year 2018/19 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

Mr. Charith Gunaratna, DGM – Credit and Asset Finance

Mrs. Muditha Jayawickrema, DGM – Legal & HR, Compliance Officer

Related Party Transactions Review Committee (RPTRC)

The names of the RPTRC members during the Financial Year 2018/19 were as follows,

Mr. L. De Fonseka –Chairman of the Committee

Mr. M.P. Amirthanayagam

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 framework 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.

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 framework, 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 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.

- Credit Risk
- Liquidity Risk.
- Market Risk.
- 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 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).

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.

RISK MANAGEMENT AND INTERNAL CONTROL

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 is 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 result 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 Corporate Management, heads of Operational divisions and branch management for development and implementation of controls 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,

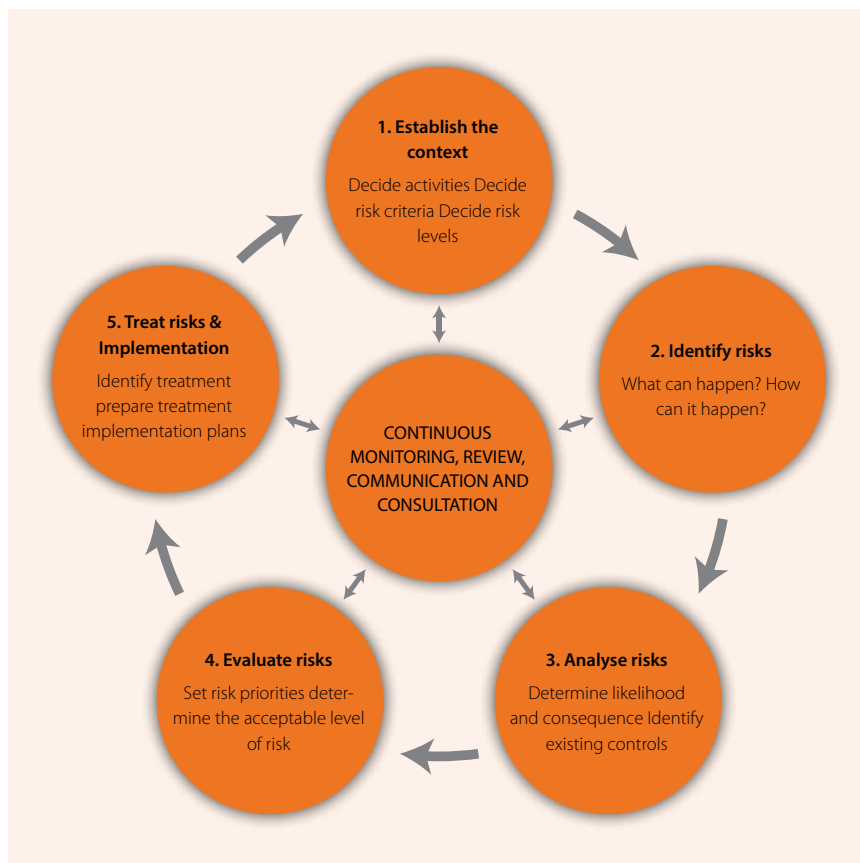
- Appropriate segregation of duties on requirements, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions on requirements;
- Compliance with regulatory and other legal requirements and keeping up to date with changes;
- Requirements 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 standards is supported by a programme 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 reduces the profitability of the Company.

The Risk Management policy of 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

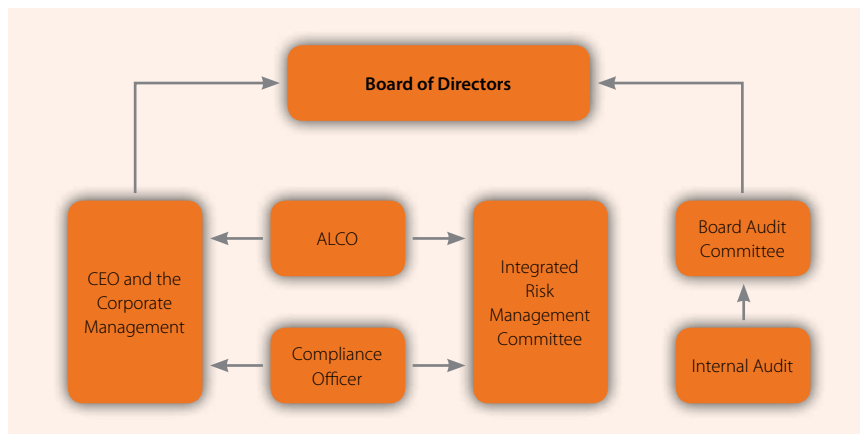
- Assesses and monitors the risk profile of the Company in line with the Company's risk appetite and the regulatory compliance requirements.
- Ensures the Company's risk profile is maintained at a manageable level aligning with the risk appetite framework.
- Ensures that prompt management action is taken to control high risk exposures to a manageable level and monitors the effectiveness of the action taken.

Risk Management Framework

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.

RISK MANAGEMENT AND INTERNAL CONTROL



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 includes 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, people 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 regard 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, 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 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. A disaster recovery site has been implemented to enable the online real time information replication.

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 moments of the share price directly affect 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
Likelihood	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 assesses 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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Annual Report of the Board of Directors on the affairs of People's Merchant Finance PLC ("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 the Company have 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 2019 of the Company and the Group and the Auditor's 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.

Principal Business Activities

Company

The Company's principal business activities comprise finance leases, mortgage loans, margin trading, short term investments, gold loans & pawning, real estate and issuance of debt instruments and mobilisation of public deposits.

Subsidiaries

The Company has a fully owned subsidiary company (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.

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

Changes to the Ownership Structure

The Company entered into a shareholder agreement in 03rd October 2018 with the new investor Sterling Capital Investment (Private) Limited (SCIL), whereby the new controlling shareholder infused fresh capital into the Company followed by a rights issue which increased the Company's core capital over the Central Bank's minimum requirement. Accordingly, the controlling shareholder infused Rs. 160,075,000/- in the Company through a private placement on March 28, 2019. Further, an amount of Rs. 1,200,648,494/- was infused as capital by SCIL through a rights issue on 08th May, 2019. Shareholder approval for both the private placement and the rights issue was obtained at the EGM held on 27th March, 2019. The controlling shareholder, Sterling Capital Investment (Private) Limited presently has a 67.9% interest in the Company. Accordingly, Company's parent and ultimate controlling party is Sterling Capital Investments (Private) Limited.

Branch Network

Total branch network of the Company as at 31st March 2019 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, are contained in the Chairman's message on page 06. 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 are disclosed in the

Notes to the financial statements on page 128 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 as approved by the Board of Directors and signed by the Chairman and one director, is reflected on page 61 of this Annual Report.

Auditor's Report

The Company's Auditors, Messrs. KPMG, Chartered Accountants performed the audit on the consolidated financial statements for the year ended 31st March 2019 and the Auditor's Report issued thereon is given on pages 55 to 58 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 except for changes in the accounting policies disclosed in note 03. 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 55 to 129. These financial statements comply with the requirements of Sri 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 2018 to 31st March 2019.

Financial Results and Appropriations

The Group and the Company recorded a net loss of Rs. 92.8 million and Rs. 93.7 million respectively for the financial year 2018/19 (Rs. 147.5 million and Rs. 148.3 million in 2017/18). Details of the Company's performance and appropriation are tabulated as follows.

In thousands of Rupees	Company	
	2018/19	2017/18
Loss after taxation	(93,684)	(148,312)
Loss brought forward from previous year	(869,795)	(1,295,630)
Transfers from reserves	-	573,598
Adjustment on initial application of SLFRS 9	(134,644)	-
Profit available for appropriation	(1,098,123)	(870,344)
Appropriations		
Other comprehensive income	(4,480)	549
Total appropriation	(4,480)	549
Un-appropriated loss carried forward	(1,102,603)	(869,795)

Provision for Taxation

The income tax rate applicable on the profits earned during the year is 28 percent. Rate of VAT on financial services is 15 percent. Accordingly, the current year income tax charge of the Company is Rs. 1.7 million and a more descriptive note on income tax charged and deferred tax assets/ liability of the Company and its subsidiaries are disclosed in notes 15 and 27 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 2019. (Nil as per share for FY 2017/18)

Preference Shares and Preference Dividend

Outstanding balance of the cumulative preference shares as at 31st March 2019 amounted to Rs. 10 million. The Company has an outstanding cumulative preference share dividend payable amounting to Rs. 5.4 million as at 31st March 2019, out of which Rs. 0.6 million was provided during 2018/19.

Intangible Assets, Property, Plant and Equipment

The details of property, plant and equipment are presented in note 21 (pages 100 to 101) to the financial statements. The Directors confirm that there were no other significant changes in the Company's or its subsidiaries' fixed assets.

Investments

Details of investments held by the Company are disclosed in note 17 and 19 on pages 95 and 98 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 2019 amounted to Rs. 1,238.3 million (Rs. 1,078.2 million as at 31st March 2018).

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 2019 as follows.

In thousands of Rupees	Company		Group	
	2018/19	2017/18	2018/19	2017/18
Statutory reserve Fund	7,259	7,259	7,259	7,259
Revaluation Reserve	-	-	-	-
Investment Fund	-	-	-	-
Available for Sale Reserve	-	-	-	-
Retained Earnings	(1,102,603)	(869,795)	(1,102,625)	(870,742)
Total	(1,095,344)	(862,536)	(1,095,366)	(863,483)

Share Information

Shareholder information and information on trading are provided under the title 'Investor Information' on pages 133 to 134 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. 134.

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 2019 and subsequently;

Name of Director	Date of Appointment
Mr. Chandula Abeywickrema	appointed on 26th June 2019 - Chairman
Mr. Duleep Daluwatte	appointed on 3rd April 2019
Mr. Channa Manoharan	appointed on 26th June 2019
Mr. K. Rangana Pubudu Madusanka	appointed on 26th June 2019
Mr. Rasitha Gunawardana	appointed on 26th June 2019
Mrs. Gloria Kodagoda	appointed on 19th July 2019
Mr. J. A. Fernando	resigned on 12th February 2019
Mr. M.P. Amirthanayagam	resigned on 12th February 2019
*Mr. L. De Fonseka	resigned on 24th June 2019
Mr. Hemasiri Fernando	resigned on 26th June 2019
Mr. N. Vasantha Kumar	resigned on 26th June 2019
Dr. D.W.S. S. R. N. J. Dandeniya	resigned on 26th June 2019
Mr. A.P. Weerasinghe	resigned on 26th June 2019
Mr. A.S. Ibrahim	resigned on 26th June 2019
Mrs. R.P.N. Premalal	resigned on 26th June 2019

*The Board of directors ratified his resignation dated 24th June 2019 at a meeting held on July 25, 2019, subject to approval of Central Bank of Sri Lanka.

All the Directors including the Chairman are Non-Executive Directors. Two Directors namely Mr. Chandula Abeywickrema and Mr. Channa Manoharan are Independent Directors.

Interests Register

In compliance with the Companies Act No. 07 of 2007, the Company maintains an interests 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 109 to 112 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.

In thousands of Rupees	Company		Group	
	2019	2018	2019	2018
Directors' fees & emoluments	2,357	967	2,357	967

Directors' Interest in Shares

In compliance with section 200 of the Companies Act No. 07 of 2007, 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 2019 and 31st March 2018 are given on page 134 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 2019 and 31st March 2018 are given on page 134 of this annual report.

Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on page 39 of this Annual Report.

Board Sub Committees

All the Board Sub-Committees details are presented in the 'Corporate Governance' section on pages 39 to 40.

Board Audit Committee

All members of the Audit Committee are Non-Executive Directors. The Board Audit Committee Report is given on page 54 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 reflects a true and fair view of the state of its affairs. The Directors are of the view that the statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows, significant accounting policies and notes for the year ended 31st March 2019 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" provided on Page 53 forms an integral part of this report.

Donations

During the year, the Company has not made any donations.

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 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 34 on pages 109 to 112 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 54 of the Annual Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Corporate Governance

The Board of Directors is committed to develop the corporate governance principles of the Company. Furthermore, the Board of Directors has adopted a Corporate Governance Charter including therein the procedures and the processes governing the different participants in the organisation – such as the Board, Management, Shareholders and other Stakeholders in order to ensure that the highest principles of Corporate Governance is maintained across the Company.

In adopting the aforesaid Corporate Governance Charter, the Board of Directors 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 and the Finance Companies (Corporate Governance) Direction No. 03 of 2008, No. 04 of 2008 and No. 06 of 2013. The Board of Directors is continuing to introduce better systems and procedures for the internal controls, risk management of the Company and to thereby improve accountability and transparency in the Company. The Corporate Governance report of the Company is given in pages 16 to 40.

Human Resources

The number of employees as at 31st March 2019 was 123 (31st March 2018 – 124).

Environmental Protection

To the best of knowledge of the Board of Directors, 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.

Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on note 32 to the Financial Statements on page 108.

Events after the Reporting Date

Details of events after the reporting date are reflected in note 41 Page 129 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 of 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

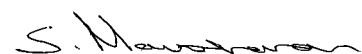
of Directors and to audit the financial statements of the Company for the accounting period ending 31st March 2020 will be proposed at the Annual General Meeting.

Messrs. KPMG Auditors were paid Rs. 2.0 million as audit fees & Rs. 0.8 million as non-audit services during the year under review.

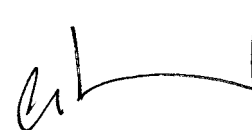
Based on the written representation made by the Auditors to the Board, the Directors are satisfied that the Auditors did not have any relationship with or any interest in the Company.

Notice of Meeting

Notice of the meeting relating to the Annual General Meeting is provided on page 136 of this Annual Report.



Channa Manoharan
Director



Chandula Abeywickrema
Chairman



Corporate Services (Private) Limited
Company Secretary

22nd August 2019
Colombo

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of People's Merchant Finance PLC (the "Company") are responsible for the preparation and presentation of the financial statements which shall give a true and fair view of the state of affairs of the Company to the shareholders in accordance with the relevant provisions of the Companies Act No.07 of 2007, Finance Business Act No.42 of 2011 and other statutes, which are applicable in the preparation of financial statements. The financial statements comprise of the statement of financial position as at 31st March 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended together with notes thereto. In preparing the above financial statements, appropriate accounting policies and standards have been adopted and applied consistently. The Directors further consider that in preparing the financial statements, they have adopted appropriate accounting policies on a consistent basis, supported by reasonable and prudent judgements and estimates.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. 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.

To the best of knowledge and belief of the Directors, the Company's external auditor M/s. KPMG, Chartered Accountants have examined the financial statements made available together with all other financial records, related data, minutes of Shareholders' and Directors' meetings and related information and have expressed their opinion which appears on pages 55 to 58 of the annual report. The Directors have provided the auditor with every opportunity to carry out any reviews and tests that they consider appropriate and necessary for the discharge of their responsibilities.

By Order of the Board



Corporates Services (Private) Limited
Secretaries

22nd August 2019
Colombo

REPORT OF THE BOARD AUDIT COMMITTEE

The Composition of the Board Audit Committee

As at 31 March 2019, the Board Audit Committee ("the Committee") comprised three Directors, two of whom were Non-Executive, Independent Directors. One Director of the Committee was a Non-Executive, Non-Independent Director. The members of the Audit Committee during the year under review were as follows:

Ms. Nilmini Premalal, Chairperson, Non-Executive Non-Independent Director

Mr. L D Fonseka, Non-Executive, Independent Director

Mr. Anil Weerasinghe, Non-Executive, Independent Director

Further to the reconstitution of the Board with effect from June 26, 2019, the Audit Committee comprised of two Non-Executive, Independent Directors and one Non-Executive, Non-Independent Director. Present Committee comprises the following members;

Mr. Channa Manoharan , Chairman, Non-Executive, Independent Director

Mr. Rangana Madusanka, Non-Executive, Non-Independent Director

Mr. L.D Fonseka, Non-Executive, Independent Director*

**The Board accepted on July 25, 2019 the resignation of Mr L.D. Fonseka, Non-Executive Independent Director and is awaiting confirmation from Central Bank of Sri Lanka (CBSL).*

Mrs. R.P.N. Premalal served as the Chairperson of the Audit Committee until June 26, 2019 and Mr. Channa Manoharan was appointed as the Chairman of the Audit Committee with the reconstitution of Board on June 26, 2019. Mr. Manoharan is a Non-Executive, Independent Director, who is a Fellow of the Institute of Chartered Accountants of Sri Lanka and Fellow of Institute of Certified Management Accountants of Sri Lanka.

The profiles of the members are given on pages 10 to 12.

Board Audit Committee Meetings

The Committee held five (5) meetings during the financial year under review. The Chief Executive Officer, DGM- Legal & HR and Manger-Finance attended meetings by invitation. The Company Secretary acts as the Secretary to the Board Audit Committee. External Auditors Messrs. KPMG, Chartered Accountants, were invited to participate at the meetings as and when required. The proceedings of the Audit Committee meetings are recorded with adequate details and reported to the Board of Directors.

Role of the Committee

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities, overseeing management's conduct of the Company's financial reporting process and systems of internal accounting and financial controls, monitoring the independence and performance of the Company's External Auditors and providing an avenue of communication among the External Auditors, the management and the Board of Directors.

The Committee is responsible for the oversight of the effectiveness of the system of internal controls, risk management, compliance with laws, regulations and Directions of the CBSL and the independence and performance of the external & internal auditors.

Activities during the Year

The Committee reviewed the Annual Report containing the financial statements for the year ended March 31, 2019. The Committee also reviewed all the interim financial statements starting from the quarter ended June 30, 2018 to December 31, 2018 prior to release, to ensure compliance with statutory and regulatory requirements including Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards, 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

The Internal Audit function is outsourced to Messrs. SJMS Associates, Chartered Accountants. The internal auditors are

responsible to review and report on the efficiency of the internal control system and compliance with statutory and other regulations and the Company's accounting and operational policies.

The Committee regularly reviews the scope of the internal audit function and reviews audit programs proposed. The internal audit findings are discussed and follow up reviews of audit findings are undertaken to ensure that audit recommendations are being implemented. Internal audit representatives are present at Audit Committee meetings during the discussion of their respective reports.

External Audit

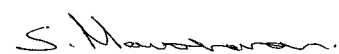
The Audit Committee reviewed and monitored the independence and objectivity of the external auditors Messrs. KPMG, Chartered Accountants. The Committee reviewed the non-audit services provided by the auditors to ensure that the provision of these services does not impair their independence.

The Audit Committee together with management reviewed and discussed the audit scope, approach and audit plan with Messrs. KPMG, Chartered Accountants, prior to the commencement of the audit for 2018/19.

The Audit Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be reappointed as the external auditors for the financial year ending 31st March 2020, subject to the approval of the shareholders at the next annual general meeting.

Conclusion

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



Channa Manoharan
Chairman

Audit Committee

22nd August 2019
Colombo

INDEPENDENT AUDITOR'S REPORT



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

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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 accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financials of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at March 31, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies set out on pages 59 to 129 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, 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the company and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the company financial statements and the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment allowance for loans and advances including the transition to SLFRS 9.

Risk description	Our response
As disclosed in Note 18 to the financial statements, the Group and the Company has recorded Rs. 2,504 Mn as loans and advances net of Rs. 394 Mn expected credit losses as at 31st March 2019. Further, as permitted by the transitional provision of SLFRS 9, the impact of initially adopting SLFRS 9 is considered as an adjustment to equity as at 1st April 2018, without restating the comparative information.	<p>Our audit procedures to assess impairment of loans and advances to customers included,</p> <ul style="list-style-type: none"> Assessment of the methodology inherent within the models against the requirements of SLFRS 9;

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel ACA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA
Principals - S.R.I. Perera FCMA(UK), LLB. Attorney-at-Law, H.S. Goonewardene ACA

INDEPENDENT AUDITOR'S REPORT


Impairment allowance for loans and advances including the transition to SLFRS 9.

Risk description	Our response
<p>SLFRS 9 "Financial Instruments" introduces an expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required.</p> <p>As at reporting date 86% of total assets of the Group consisted of loans and advances.</p> <p>We identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in ECL model including the transition adjusted and disclosed and the materiality of the reported amounts for loans and advances and impairment allowance.</p> <p>Refer to Note 5, Note 18 and Note 35 to the financial statements and the accounting policies in the Note 4.17.</p>	<ul style="list-style-type: none"> • Challenging the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates with the assistance of our own specialist; • Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios; • Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; • Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development; • Our audit procedures for transition to the SLFRS 9 included the following: <ul style="list-style-type: none"> • Assessing the design, implementation and operating effectiveness of key controls over the transition adjustments and new processes, data and controls that have not been subject to testing previously; • Evaluating management's process for identifying contracts to be assessed based on the selected transition approach and any practical expedients applied; • Evaluating the appropriateness of the accounting policies based on the requirements of the new accounting standards, our business understanding and industry practice; • Understanding the transition approach and practical expedients applied and assessing whether transition gives rise to any specific fraud risks; • Challenging the key assumptions and evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments; • Assessing the completeness, accuracy and relevance of data used in preparing the transition adjustments; • Assessing the adequacy of the disclosures made in the Consolidated Financial Statements as required by the prevailing accounting standards.



Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in

accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

Further, as described in Notes 36 and 41 to the financial statements, the Company does not comply with the requirements of the directions issued by the Central Bank of Sri Lanka to Licensed Finance Companies for the Capital Adequacy Requirements (Direction No 03 of 2018), Minimum Core Capital Requirement (Direction No. 02 of 2017), and Single Borrower Limit (Direction No. 04 of 2006) as at the reporting date.

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

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

June 28, 2019

STATEMENT OF PROFIT OR LOSS

For the year ended 31st March	Note	Company		Group	
		2019	2018	2019	2018
In thousands of Rupees					
Gross Income	7	616,670	467,004	616,670	467,180
Interest income	8.1	546,759	431,790	546,759	431,790
Interest expense	8.2	(357,067)	(339,682)	(357,067)	(339,682)
Net interest income	8	189,692	92,108	189,692	92,108
Fee and commission income	9	7,260	6,562	7,260	6,562
Net fair value gains/ (losses) from financial assets at FVTPL	10	(461)	18	(461)	18
Other operating income	11	63,112	28,634	63,112	28,810
Total operating income		259,603	127,322	259,603	127,498
Impairment charges for loans and receivables and other losses	12	(85,389)	(94,900)	(85,389)	(94,900)
Net operating income		174,214	32,422	174,214	32,598
Personnel expenses	13	(127,248)	(96,543)	(127,248)	(96,543)
Depreciation of property, plant and equipment		(3,703)	(2,319)	(3,703)	(2,319)
Amortisation of intangible assets		(3,083)	(2,721)	(3,083)	(2,721)
Other operating expenses	14	(122,794)	(79,364)	(121,869)	(78,706)
Operating loss before taxes on financial services		(82,614)	(148,525)	(81,689)	(147,691)
Taxes on financial services		(9,328)	-	(9,328)	-
Operating loss after taxes on financial services		(91,942)	(148,525)	(91,017)	(147,691)
Net tax expense	15	(1,742)	213	(1,742)	213
Loss for the year		(93,684)	(148,312)	(92,759)	(147,478)
Basic loss per share (Rs.)	16	(1.38)	(2.20)	(1.37)	(2.18)
Diluted loss per share (Rs.)	16	(1.38)	(2.20)	(1.37)	(2.18)

Figures in brackets indicate deductions.

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	
		2019	2018	2019	2018
In thousands of Rupees					
Loss for the year		(93,684)	(148,312)	(92,759)	(147,478)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gains/(loss) on retirement benefit obligation	28.1	(6,222)	762	(6,222)	762
Deferred tax effect on actuarial gain/ (loss)		1,742	(213)	1,742	(213)
Other comprehensive income for the year, net of tax		(4,480)	549	(4,480)	549
Total comprehensive loss for the year		(98,164)	(147,763)	(97,239)	(146,929)

Figures in brackets indicate deductions.

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	
		2019	2018	2019	2018
In thousands of Rupees					
Assets					
Cash and cash equivalents	17	226,281	289,945	226,537	290,214
Balances with banks and financial institutions		56,747	46,048	56,747	46,048
Financial assets measured at amortised cost - Loans and advances	18	2,504,264	2,488,467	2,504,264	2,488,467
Investments in securities	19	2,142	2,603	2,142	2,603
Investments in subsidiaries	20	-	-	-	-
Property, plant and equipment	21	13,569	11,303	13,569	11,303
Intangible assets	22	5,125	6,371	5,125	6,371
Other assets	23	85,255	83,202	85,255	83,202
Total assets		2,893,383	2,927,939	2,893,639	2,928,208
Liabilities					
Due to banks	24	219,144	96,556	219,144	96,556
Financial liabilities at amortised cost - due to depositors	25	2,434,733	2,455,586	2,434,733	2,455,586
Debt securities issued	26	15,400	14,800	15,400	14,800
Deferred tax liabilities	27	-	-	-	-
Other liabilities	28	81,148	145,306	81,426	146,522
Total liabilities		2,750,425	2,712,248	2,750,703	2,713,464
Equity					
Stated capital	29	1,238,302	1,078,227	1,238,302	1,078,227
Statutory reserve fund	30	7,259	7,259	7,259	7,259
Accumulated losses	31	(1,102,603)	(869,795)	(1,102,625)	(870,742)
Total equity		142,958	215,691	142,936	214,744
Total liabilities and equity		2,893,383	2,927,939	2,893,639	2,928,208
Contingent liabilities and commitments	32	47,431	64,820	47,431	64,820
Net assets value per share (Rs.)		1.69	3.20	1.69	3.18

Figures in brackets indicate deductions.

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

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 Gunasekera
Chief Executive Officer

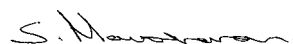
The Board of Directors is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Board by;



Chandula Abeywickrema
Chairman

28th June 2019
Colombo, Sri Lanka



Channa Manoharan
Director

STATEMENT OF CHANGES IN EQUITY - COMPANY

In thousands of Rupees	Stated capital	Reserve fund	Revaluation reserve	Retained earnings	Total equity
Balance at 1st 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					
Remeasurement of defined benefit liability	-	-	-	762	762
Tax on other comprehensive income	-	-	-	(213)	(213)
Total other comprehensive income	-	-	-	549	549
Total comprehensive income	-	-	-	(147,763)	(147,763)
Revaluation transfer to retained earnings on disposal	-	-	(573,598)	573,598	-
Balance at 31st March 2018	1,078,227	7,259	-	(869,795)	215,691
Balance at 31st March 2018	1,078,227	7,259	-	(869,795)	215,691
Adjustment on initial application of SLFRS 9	-	-	-	(134,644)	(134,644)
Restated balance at 1st April 2018	1,078,227	7,259	-	(1,004,439)	81,047
Comprehensive income					
Loss for the year	-	-	-	(93,684)	(93,684)
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	(6,222)	(6,222)
Tax on other comprehensive income	-	-	-	1,742	1,742
Total other comprehensive income	-	-	-	(4,480)	(4,480)
Total comprehensive income	-	-	-	(98,164)	(98,164)
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through private placement	160,075	-	-	-	160,075
Total contribution and distribution	160,075	-	-	-	160,075
Total transactions with owners of the Company	160,075	-	-	-	160,075
Balance at 31st March 2019	1,238,302	7,259	-	(1,102,603)	142,958

Figures in brackets indicate deductions.

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

STATEMENT OF CHANGES IN EQUITY - GROUP

In thousands of Rupees	Stated capital	Reserve fund	Revaluation reserve	Retained earnings	Total equity
Balance at 1st 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					
Remeasurement of defined benefit liability	-	-	-	762	762
Tax on other comprehensive income	-	-	-	(213)	(213)
Total other comprehensive income	-	-	-	549	549
Total comprehensive income	-	-	-	(146,929)	(146,929)
Revaluation transfer to retained earnings on disposal	-	-	(573,598)	573,598	-
Balance at 31st March 2018	1,078,227	7,259	-	(870,742)	214,744
Balance at 31st March 2018	1,078,227	7,259	-	(870,742)	214,744
Adjustment on initial application of SLFRS 9	-	-	-	(134,644)	(134,644)
Restated balance at 1st April 2018	1,078,227	7,259	-	(1,005,386)	80,100
Comprehensive income					
Loss for the year	-	-	-	(92,759)	(92,759)
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	(6,222)	(6,222)
Tax on other comprehensive income	-	-	-	1,742	1,742
Total other comprehensive income	-	-	-	(4,480)	(4,480)
Total comprehensive income	-	-	-	(97,239)	(97,239)
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through private placement	160,075	-	-	-	160,075
Total contribution and distribution	160,075	-	-	-	160,075
Total transactions with owners of the Company	160,075	-	-	-	160,075
Balance at 31st March 2019	1,238,302	7,259	-	(1,102,625)	142,936

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	
		2019	2018	2019	2018
In thousands of Rupees					
Cash flows from operating activities					
Loss before tax		(91,942)	(148,525)	(91,017)	(147,691)
Adjustment for:					
Depreciation and amortisation		6,786	5,040	6,786	5,040
Net gain on investment securities at FVPTL		461	(18)	461	(18)
Net impairment loss on loans and advances		94,414	94,900	94,414	94,900
Interest expense on preference shares		600	-	600	-
Dividend on equity securities at FVPTL (2018- held-for-trading)		(298)	(307)	(298)	(307)
Interest income		(22,625)	(67,948)	(22,625)	(67,948)
Provision for retirement benefit obligation		3,755	3,134	3,755	3,134
Gain on disposal of property, plant and equipment		(277)	(1,460)	(277)	(1,460)
		(9,126)	(115,184)	(8,201)	(114,350)
Changes in					
Financial assets measured at amortised cost - Loans and advances		(244,855)	(578,273)	(244,855)	(578,273)
Other assets		(2,052)	(4,271)	(2,052)	(4,271)
Due to customers		(20,853)	59,410	(20,853)	59,410
Other liabilities		(72,491)	17,768	(73,428)	16,849
		(349,377)	(620,550)	(349,390)	(620,635)
Retiring gratuity paid	28.1	(1,646)	(456)	(1,646)	(456)
Income tax paid		-	-	-	-
Net cash from/ (used in) operating activities		(351,023)	(621,006)	(351,036)	(621,091)
Cash flows from investing activities					
Interest income on short term investment	8.1	22,625	67,948	22,625	67,948
Investments in fixed deposits		(10,698)	(42,277)	(10,698)	(42,277)
Acquisition of property, plant and equipment		(5,969)	(4,242)	(5,969)	(4,242)
Purchase of intangible assets		(1,837)	(657)	(1,837)	(657)
Proceeds from disposal of assets held for sale		-	1,040,000	-	1,040,000
Proceeds from the sale of property, plant and equipment		277	2,710	277	2,710
Dividends received from investments	11	298	307	298	307
Net cash from investing activities		4,696	1,063,789	4,696	1,063,789

For the year ended 31st March	Note	Company		Group	
		2019	2018	2019	2018
In thousands of Rupees					
Cash flows from financing activities					
Proceeds from issue of new shares		160,075	-	160,075	-
Net proceeds from loans and borrowings		-	(354,465)	-	(354,465)
Net cash from / (used in) financing activities		160,075	(354,465)	160,075	(354,465)
Net increase / (decrease) in cash and cash equivalents					
		(186,252)	88,318	(186,265)	88,233
Cash and cash equivalents at beginning of the year		193,389	105,071	193,658	105,425
Cash and cash equivalents at the end of the year		7,137	193,389	7,393	193,658
Cash and cash equivalents at the end of the year					
Cash and cash equivalents	17	226,281	289,945	226,537	290,214
Bank overdrafts	17	(219,144)	(96,556)	(219,144)	(96,556)
		7,137	193,389	7,393	193,658

Figures in brackets indicate deductions.

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

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 company has obtained a credit rating of [SL]B; rating put on watch with developing implications by ICRA Lanka Limited.

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 2019 include People's Merchant Finance PLC (Parent Company) and its Subsidiary (together referred to as the "Group" and individually as "Group entities").

Parent Entity and Ultimate Parent Entity

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

Number of Employees

The staff strength of the Group as at 31st March 2019 was 123 (124 as at 31st March 2018).

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 2019 and for the year then ended are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) and 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 35 to these Financial Statements.) and the listing rules of the Colombo Stock Exchange.

This is the first set of the Group's annual financial statements in which SLFRS 09 Financial Instruments and SLFRS 15 Revenue from Contract with Customers have been applied. Changes to significant accounting policies are described in Note 3.

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.

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 2019 (including comparatives) were approved and authorised for issue by the Management on 28th June 2019.

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 instruments at FVPTL	Fair value	19	98 & 99
Financial assets at FVOCI (applicable from 1st April 2018)	Fair value	19	98 & 99
Available-for-sale financial assets (applicable before 1st April 2018)	Fair value	19	98 & 99
Defined benefit obligations	Projected unit credit method of the defined benefit obligations	28.1	106

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 17 and Note 24.

2.9 Significant Accounting Judgements, 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 prospectively. The most significant areas of estimation, uncertainty and critical judgements 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 4.17.6
Impairment Losses on Loans and Advances	Note 3.1.2
Defined Benefit Obligation	Note 4.5.3
Deferred Tax	Note 4.1.1.2

NOTES TO THE FINANCIAL STATEMENTS

2.9.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes.

Applicable to 2018/19 only:

- Note 5.2: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 4.17: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Applicable to 2018/19 and 2017/18:

- Note 4.1: determination of control over investees.

2.9.2 Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31st March 2019 is included in the following notes.

Applicable to 2018/19 only:

Note 4.17: impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

Applicable to 2018/19 and 2017/18:

- Determination of the fair value of financial instruments with significant unobservable inputs.
- Measurement of defined benefit obligations: key actuarial assumptions.
- Recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.
- Impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts.

- Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

2.10 Going Concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

3 CHANGES IN ACCOUNTING POLICIES

The Group has initially adopted SLFRS 9 (see 3.1) and SLFRS 15 (see 3.2) from 1st April 2018.

A number of other new standards are also effective from 1st April 2018 but they do not have a material effect on the Group's financial statements.

Due to the transition method chosen by the Group in applying SLFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 5);
- additional disclosures related to SLFRS 9 (see Note 5); and
- additional disclosures related to SLFRS 15.

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 4 to all periods presented in these consolidated financial statements.

3.1 SLFRS 9 Financial Instruments

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and Measurement. The requirements of SLFRS 9 represent a significant change from LKAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of SLFRS 9, the Group has adopted consequential amendments to LKAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to SLFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018/19, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of SLFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 5.

3.1.1 Classification of Financial Assets and Financial Liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under SLFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Group classifies financial assets under SLFRS 9, see Note 4.17.2.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under SLFRS 9, see note 4.17.2.

3.1.2 Impairment of Financial Assets

SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under SLFRS 9, credit losses are recognised earlier than under LKAS 39. For an explanation of how the Group applies the impairment requirements of SLFRS 9, see Note 4.17.7.

3.1.3 Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below.

- Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1st April 2018. Accordingly, the information presented for 2017/18 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018/19 under SLFRS 9.

The Group used the exemption not to restate comparative periods.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

- If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of SLFRS 9, see Note 5.

3.2 SLFRS 15 - Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations.

The Group initially applied SLFRS 15 on 1st April 2018 retrospectively in accordance with LKAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of SLFRS 15.

4 SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

4.1 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.

4.1.1 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 31st 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.

4.1.2 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.

4.1.3 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.

4.2 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 spot exchange rate at the reporting 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 generally recognized in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity instruments (before 1st April 2018) or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1st April 2018);
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedge is effective.

4.3 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.

4.4 Non-Financial Assets

4.4.1 Property, Plant and 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.

4.4.1.1 Recognition and measurement

Property, plant and equipment are recognised 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.

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.

After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property, plant or equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

4.4.1.2 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group, ongoing repairs and maintenance are expensed as incurred.

4.4.1.3 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised 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 profit or loss when the item is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost is derecognised.

Any gain or loss on disposal of an item of property, plant and equipment is recognised within other income in profit or loss.

4.4.1.4 Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

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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 estimated useful lives of significant items of property, plant and equipment are as follows:

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 and adjusted if appropriate.

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 the 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 derecognised.

4.4.2 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.

4.4.2.1 Recognition and Measurement

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.

4.4.2.2 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.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is four years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.4.2.3 Derecognition

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

4.4.3 Inventory – Real Estate

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realizable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

Completed properties held for sale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which

the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories is recognised as an increase in inventories and recognised as an income in the period in which the reversal occurs.

4.5 Non-Financial Liabilities

4.5.1 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and 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.

4.5.2 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.

4.5.3 Employee Benefits

4.5.3.1 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.

4.5.3.1.1 Employees' Provident Fund (EPF)

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

4.5.3.1.2 Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

4.4.3.2 Defined Benefit Plan – Retirement Benefit Obligations

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

The Company 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 were determined are included in Notes to the Financial Statements. The liability is not externally funded.

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.

4.6 Interest

4.6.1 Policy applicable from 1st April 2018

Effective Interest Rate

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 estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial

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instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received 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 financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1st April 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of

the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 35.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- 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 as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- 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 as the hedged cash flows affect interest income/expense.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

4.6.2 Policy applicable before 1st April 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future

cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

4.7 Fee and Commission

Fee 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.

Other fees and commission income including account servicing fees, investment management fees, sales commission, placement fees and syndication fees is recognised as the related services are performed. 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.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of SLFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

4.8 Profit on Real Estate Sales

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the

property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities.

4.9 Other Income

4.9.1 Dividend Income

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

From 1st April 2018, dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

4.9.2 Default Interest Income

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

4.10 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 statement of profit or loss, 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 statement of profit or loss 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

4.11 Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under LKAS 37 Provisions, Contingent

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Liabilities and Contingent Assets" and has recognised the related expenses in 'other expenses'.

4.11.1 Current Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

4.11.2 Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Group. 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; such

reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4.12 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.

4.13 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.

4.14 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 regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that can be allocated on reasonable basis.

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.

4.15 Comparative Figures

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

4.16 Regulatory Provisions

4.16.1 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 01st October, 2010.

4.16.2 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.

4.17 Financial Assets and Liabilities

4.17.1 Recognition and Measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments including regular-way purchases and sales of financial assets, are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

4.17.2 Classification

4.17.2.1 Financial assets - Policy applicable from 1st April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales, in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion, The Group typically considers the following information when making this judgment:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Contractually linked instruments

The Group has some investments in securitisations that are considered contractually linked instruments. Contractually linked instruments each have a specified subordination ranking that determines the order in which any cash flows generated by the pool of underlying investments are allocated to the instruments. Such an instrument meets the SPPI criterion only if all of the following conditions are met:

- the contractual terms of the instrument itself give rise to cash flows that are SPPI without looking through to the underlying pool of financial instruments;
- the underlying pool of financial instruments (i) contains one or more instruments that give rise to cash flows that are SPPI; and (ii) may also contain instruments, such as derivatives, that reduce the cash flow variability of the instruments under (i) and the combined cash flows (of the instruments under (i) and (ii)) give rise to cash flows that are SPPI; or align the cash flows of the contractually linked instruments with the cash flows of the pool of underlying instruments under (i) arising as a result of differences in whether interest rates are fixed or floating or the currency or timing of cash flows; and the exposure to credit risk inherent in the contractually linked instruments is equal to or less than the exposure to credit risk of the underlying pool of financial instruments.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

4.17.2.2 Financial assets - Policy applicable before 1st April 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as:
 - held-for-trading; or
 - designated as at FVTPL

Financial Liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

4.17.3 Derecognition

4.17.3.1 Financial Assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1st April 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. 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.

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The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the Group transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, or other residual interests (retained interests). Retained interests are recognised as investment securities and measured as explained. Before 1st April 2018, retained interests were primarily classified as available-for-sale investment securities and measured at fair value.

4.17.3.2 Financial Liabilities

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

4.17.4 Modifications of Financial Assets and Financial Liabilities

4.17.4.1 Policy applicable from 1st April 2018

Financial Assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial Liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.17.4.2 Policy applicable before 1st April 2018

Financial Assets

If the terms of a financial asset were modified, then the Group evaluated whether the cash flows of the modified asset were substantially different. If the cash flows were substantially different, then the contractual rights to cash flows from the original financial asset were deemed to have expired. In this case, the original financial asset was derecognised (see (iii)) and a new financial asset was recognised at fair value.

If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the premodification interest rate.

Financial Liabilities

The Group derecognised a financial liability when its terms were modified and the cash flows of the modified liability were substantially different. In this case, a new financial liability based on the modified terms was recognised at fair value. The difference between the carrying amounts of the financial liability extinguished and consideration paid was recognised in profit or loss. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability was not accounted for as derecognition, then any costs and fees incurred were recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.17.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them 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 IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

4.17.6 Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the

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factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price .

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments (e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure) are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

4.17.7 Impairment

4.17.7.1 Policy applicable from 1st April 2018

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

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- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Non-integral financial guarantee contracts

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instrument; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure neither is credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised in 'other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'impairment losses on financial instruments'.

The key inputs used for measurement of ECL is likely to be the term structures of the following variables:

Probability of Default (PD)

PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Group forecast PD by incorporating forward looking economic variables (Unemployment, GDP growth, inflation, interest rate and using lag effect of these variables).

Loss Given Default (LGD)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

Exposure at default (EAD)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

Group has used these parameters from internally-developed statistical models using historical data. All inputs were adjusted to reflect forward-looking information and future economic scenarios.

4.17.7.2 Policy applicable before 1st April 2018

Objective evidence of impairment

At each reporting date, the Group assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the assets and that the loss event had an impact on the future cash flows of the assets that could be estimated reliably.

In addition, a retail loan that was overdue for 180 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

- significant financial difficulty of a borrower or issuer;
- default or delinquency by a borrower;

- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- indications that a borrower or issuer would enter bankruptcy;
- the disappearance of an active market for a security; or
- 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 correlated with defaults in the group.

A loan that was renegotiated due to a deterioration in the borrower's condition was usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Group considers a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

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

In making an assessment of whether an investment in sovereign debt was impaired, the Group considered the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

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- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This included an assessment of the depth of those mechanisms and, irrespective of the political intent whether there was the capacity to fulfil the required criteria.

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the credit risk function.

The collective allowance for groups of homogeneous loans was established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience. The roll rate methodology used statistical analysis of historical data on delinquency to estimate the amount of loss. Management applied judgement to ensure that the estimate of loss arrived at on the basis of historical information was appropriately adjusted to reflect the economic conditions and product mix at the reporting date. Roll rates and loss rates were regularly benchmarked against actual loss experience.

The IBNR allowance covered credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective IBNR provision were not considered impaired.

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.
- For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was 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 attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Group write off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when Group credit determined that there was no realistic prospect of recovery.

Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

4.17.8 Designation at Fair Value through Profit or Loss

4.17.8.1 Financial Assets

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Before 1st April 2018, the Group also designated certain financial assets as at FVTPL because the assets were managed, evaluated and reported internally on a fair value basis.

4.17.8.2 Financial Liabilities

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

5 TRANSITION TO SLFRS 9 FINANCIAL INSTRUMENTS

5.1 Impact on Adoption of SLFRS 9 "Financial Instruments" to the Financial Statements

In thousands of Rupees	Company Accumulated Losses	Group Accumulated Losses
Balance as per LKAS 39 as at 31st March 2018	(869,795)	(870,742)
Impact on recognition of expected credit losses		
Expected credit losses under SLFRS 9 for loans and receivables	(134,644)	(134,644)
Deferred tax impact on expected credit loss	-	-
Adjustment on initial application of SLFRS 9, net of tax	(134,644)	(134,644)
Restated balance as at 01st April 2018	(1,004,439)	(1,004,439)

The following table reconciles to the closing impairment allowance for financial assets under SLFRS 09 to the opening ECL allowance determined under SLFRS 09 as at 01st April 2018.

In thousands of Rupees	
Closing impairment provision as at 31st March 2018 based on LKAS 39	165,116
Recognition of expected credit loss under SLFRS 09 for financial assets at amortised cost	134,644
Opening impairment provision under SLFRS 09 as at 01st April 2019	299,760

For the purpose of calculating Capital Adequacy Ratio, Company has considered the day 1 impact arising from the adoption of SLFRS 9 at the transition date, 1st April 2018. Accordingly, the Tier 1 Capital Adequacy Ratios as at 31st March 2019 of the Company and Group have decreased.

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5.2 Classification of Financial Assets and Financial Liabilities on the Date of Initial Application of SLFRS 09

The following table shows the original measurement categories in accordance with LKAS 39 and the new measurement categories under SLFRS 9 for the Group's financial assets and financial liabilities as at 1st April 2018.

In thousands of Rupees	Original classification under LKAS 39	New classification under SLFRS 9	Original carrying amount under LKAS 39	New carrying amount under SLFRS 9
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	290,214	290,214
Balances with banks and financial institutions	Loans and receivables	Amortised cost	46,048	46,048
Investment securities – equity (quoted)	Held for trading	FVTPL	2,580	2,580
Loans and advances to customers	Loans and receivables	Amortised cost	2,488,467	2,353,823
Investment securities – equity (unquoted)	Available-for-sale	FVOCI	23	23
Investment securities – debt	Available-for-sale	FVOCI	-	-
Total financial assets			2,827,332	2,692,688
Financial liabilities				
Due to banks	Amortised cost	Amortised cost	96,556	96,566
Due to customers	Amortised cost	Amortised cost	2,455,586	2,455,586
Debt securities issued	Amortised cost	Amortised cost	14,800	14,800
Other financial liabilities	Amortised cost	Amortised cost	90,108	90,108
Total financial liabilities			2,657,050	2,657,060

Financial Instrument	SLFRS 9	
	Business Model	Measurement
Quoted equity- trading	Held for trading	FVTPL
Quoted equity	Not for trading (Other)	FVOCI
Investment in debt securities	Held to collect contractual cash flows and sell	FVOCI
Cash and cash equivalent	Held to collect contractual cash flows	Amortised cost
Hire purchases	Held to collect contractual cash flows	Amortised cost
Finance lease receivables	Held to collect contractual cash flows	Amortised cost
Term loans	Held to collect contractual cash flows	Amortised cost
Margin trading receivables	Held to collect contractual cash flows	Amortised cost
Pawning	Held to collect contractual cash flows	Amortised cost
Staff loan	Held to collect contractual cash flows	Amortised cost
Bill of exchange	Held to collect contractual cash flows	Amortised cost
Loans against fixed deposits	Held to collect contractual cash flows	Amortised cost

5.3 Hedge Accounting

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

5.4 Impact of Adopting SLFRS 9 – Financial Instruments

The following table reconciles the carrying amounts under LKAS 39 to the carrying amounts under SLFRS 9 on transition to SLFRS 9 on 1st April 2018.

In thousands of Rupees	LKAS 39 carrying amount as at 31st March 2018	Reclassifications	Remeasurements	SLFRS 9 carrying amount as at 01st April 2018
Financial assets				
Amortised cost				
Cash and cash equivalents				
Opening balance	290,214			
Closing balance				290,214
Balances with banks and financial institutions				
Opening balance	46,048			
Closing balance				46,048
Investment securities - equity (quoted)				
Opening balance	2,580			
Closing balance				2,580
Loans and advances to customers				
Hire purchase				
Opening balance	16,644		-	
Remeasurement			1,191	
Closing balance				17,835
Finance lease				
Opening balance	1,597,584			
Remeasurement			(91,565)	
Closing balance				1,506,019
Term loan				
Opening balance	591,979			
Remeasurement			(44,270)	
Closing balance				547,709
Pawning				
Opening balance	45,684			
Closing balance				45,684
Margin trading				
Opening balance	236,576			
Closing balance				236,576
Available for sale				
Opening balance	23			
To FVOCI – equity			(23)	
To FVOCI – debt			-	
Closing balance				-

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In thousands of Rupees	LKAS 39 carrying amount as at 31st March 2018	Reclassifications	Remeasurements	SLFRS 9 carrying amount as at 01st April 2018
FVOCI - equity				
Investment securities - equity (unquoted)				
Opening balance	-			
From available for sale		23		
Closing balance				23
FVOCI - debt				
Investment securities - debt				
Opening balance	-			
From available for sale		-		
Closing balance				-
Financial liabilities				
Due to banks				
Opening balance	96,556			
Closing balance				96,556
Due to customers				
Opening balance	2,455,586			
Closing balance				2,455,586
Debt securities issued				
Opening balance	14,800			
Closing balance				14,800
Other financial liabilities				
Opening balance	90,108			
Closing balance				90,108

The following table summarises the impact, of transition to SLFRS 9 – “Financial Instruments” on reserves and retained earnings as at 1st April 2018.

In thousands of Rupees	Accumulated Losses
Closing balance as per LKAS 39 (31st March 2018)	(869,795)
Impact on reclassification and remeasurements	-
Impact on recognition of expected credit losses	
Expected credit losses under SLFRS 9 for Loans and receivable	(134,644)
Opening balance as per SLFRS 9 (1st April 2018)	(1,004,439)

6 NEW ACCOUNTING STANDARDS NOT EFFECTIVE AT THE REPORTING DATE

A number of new standards and amendments to standards are effective for annual periods beginning after 1st January 2019 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements, with the exception of the amendment to SLFRS 9 affecting prepayment features with negative compensation issued in October 2017.

Of those standards that are not yet effective, SLFRS 16 is expected to have a significant impact on the Group's consolidated financial statements in the period of initial application.

6.1 SLFRS - 16 Leases

The Group is required to adopt SLFRS 16 - Leases from 1st January 2019. The Group is assessing the impact that the initial application of SLFRS 16 will have on its financial statements.

SLFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance, including LKAS 17 - Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Transition

The Group plans to apply SLFRS 16 initially on 1st April 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting SLFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1st April 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply SLFRS 16 to all contracts entered into before 1st April 2019 and identified as leases in accordance with LKAS 17 and IFRIC 4.

6.2 Other Standards

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Long-term Interests in Associates and Joint Ventures (Amendments to LKAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to LKAS 19)
- IFRIC 23 - Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in SLFRS Standards
- SLFRS 17 - Insurance Contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March In thousands of Rupees	Company		Group	
	2019	2018	2019	2018
7	Gross income			
Interest income (Note 8.1)	546,759	431,790	546,759	431,790
Fee and commission income (Note 9)	7,260	6,562	7,260	6,562
Net fair value gains/(losses) from financial assets at FVTPL (Note 10)	(461)	18	(461)	18
Other operating income (Note 11)	63,112	28,634	63,112	28,810
	616,670	467,004	616,670	467,180
8	Net interest income			
8.1	Interest income			
Term loans and other advances	144,844	116,572	144,844	116,572
Cash and cash equivalents	17,498	23,191	17,498	23,191
Balances with banks and financial institutions	5,127	44,757	5,127	44,757
Finance lease and hire - purchase	343,354	222,205	343,354	222,205
Interest on overdue rentals	35,936	25,065	35,936	25,065
Total interest income	546,759	431,790	546,759	431,790
8.2	Interest expense			
Interest on overdrafts and charges	60,117	5,183	60,117	5,183
Interest on borrowings	1,494	7,105	1,494	7,105
Interest on fixed and savings deposits	294,856	326,794	294,856	326,794
Interest on preference shares	600	600	600	600
Total interest expenses	357,067	339,682	357,067	339,682
Net interest income	189,692	92,108	189,692	92,108

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

	2019	2018	2019	2018
Financial assets measured at amortised cost	167,469	184,520	167,469	184,520
Financial liabilities measured at amortised cost	357,067	339,682	357,067	339,682

9 Fee and commission income

In the following table, fee and commission income from contract with customers in the scope of SLFRS 15 is disaggregated by major types of services .

For the year ended 31st March In thousands of Rupees	Company		Group	
	2019	2018	2019	2018
Fee and commission income	7,260	6,562	7,260	6,562
Comprising				
Guarantee fees	23	49	23	49
Insurance commission	4,304	2,778	4,304	2,778
Service charges	2,933	3,735	2,933	3,735
Total fee and commission income from contract with customers	7,260	6,562	7,260	6,562

10 Net fair value gains /(losses) from financial assets at FVTPL

Fair value gain (loss) on financial assets at FVTPL (Note 19.1.1)	(461)	18	(461)	18
Net fair value gains /(losses) from financial assets at FVTPL	(461)	18	(461)	18

11 Other operating income

Dividend on held-for-trading equity securities	-	307	-	307
Dividend on equity securities measured at FVTPL	298	-	298	-
Net gain from foreign exchange	103	44	103	44
Profit on real estate sales	-	7,405	-	7,405
Staff loan income	523	1,304	523	1,304
Bad debt recovered	57,453	14,512	57,453	14,512
Gain on disposal of property, plant and equipment	277	1,460	277	1,460
Other	4,458	3,602	4,458	3,778
Total other operating income	63,112	28,634	63,112	28,810

12 Impairment charges for loans and receivables and other losses

Lease receivables	18,499	29,510	18,499	29,510
Loans and advances	60,359	9,531	60,359	9,531
Hire purchase receivables	(1,255)	19,246	(1,255)	19,246
Margin trading	(3,842)	24,435	(3,842)	24,435
Pawning & other	(558)	(1,649)	(558)	(1,649)
Losses on disposal of collaterals	12,186	13,827	12,186	13,827
Net impairment charges on loans and receivables	85,389	94,900	85,389	94,900

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March In thousands of Rupees	Company		Group	
	2019	2018	2019	2018
13 Personnel expenses				
Remuneration	111,495	83,977	111,495	83,977
Employee benefit - Retirement benefit obligation (Gratuity) (Note 28.1)	3,755	3,134	3,755	3,134
Employee benefit - Defined contribution plans (EPF/ETF)	11,475	8,128	11,475	8,128
Amortisation of prepaid staff loans	523	1,304	523	1,304
Total personnel expenses	127,248	96,543	127,248	96,543
14 Other operating expenses				
Directors' fees and emoluments	2,357	967	2,357	967
Auditor's remunerations				
Audit fees	1,100	1,900	1,100	1,900
Audit related services and expenses	928	500	928	500
Non audit services and expenses	1,402	988	1,402	988
Professional and legal fees	4,542	2,531	4,542	2,531
Reversal for provision for litigation	-	(25,544)	-	(25,544)
Reversal of impairment of real estate	(17)	(1,400)	(17)	(1,400)
Office administration and establishment expenses	112,482	99,422	111,557	98,764
Total other operating expenses	122,794	79,364	121,869	78,706
15 Net tax expense				
Current income tax expense (Note 15.1)	-	-	-	-
Deferred tax charge/(reversal) for the year (Note 15.2)	1,742	(213)	1,742	(213)
Total tax expenses	1,742	(213)	1,742	(213)
15.1 Current tax expense				
Deferred tax asset originated during the year (Note 27.1)	(15,024)	(6,091)	(15,024)	(6,091)
Deferred tax liability originated during the year (Note 27.1)	15,024	6,091	15,024	6,091
	-	-	-	-
15.2 Deferred tax expense				
Deferred tax recognised in other comprehensive income	1,742	(213)	1,742	(213)
Deferred tax recognised in profit or loss	(1,742)	213	(1,742)	213
	-	-	-	-
15.3 Reconciliation of tax expenses				
Loss before tax	(91,942)	(148,525)	(91,017)	(147,691)
Tax at domestic rate of 28%	(25,744)	(41,587)	(25,485)	(41,353)
Tax effect on exempted income	(88)	(91)	(88)	(91)
Tax effect on disallowable expenses	18,450	(57,769)	18,191	(57,769)
Tax effect on capital allowances	(92,915)	(121,726)	(92,915)	(121,727)
Tax effect on leasing activities	125,425	85,052	125,425	85,052
Effect of taxable losses	(25,128)	136,121	(25,128)	135,888
Tax expenses	-	-	-	-
Effective tax rate	0%	0%	0%	0%

As at 31st March	Company	
	2019	2018
In thousands of Rupees		

15.4 Analysis of tax losses

Balance at 1st April	1,248,259	762,113
Adjustments	(64,745)	-
Loss incurred during the year	211,767	486,146
Loss claimed during the year	(301,511)	-
Closing tax loss	1,093,770	1,248,259

16 Loss per share

Loss per ordinary share has been calculated based on the loss attributable to the ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

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

	Company		Group	
	2019	2018	2019	2018
Loss for the year attributable to ordinary shareholders (Rs.000)	(93,684)	(148,312)	(92,759)	(147,478)
Weighted average number of shares at 31st March ('000) (Note 16.1)	67,731	67,500	67,731	67,500
Loss per ordinary share (Rs.)	(1.38)	(2.20)	(1.37)	(2.18)

16.1 Weighted average number of shares

Brought forward number of shares	67,500	67,500	67,500	67,500
Effect of shares issued during the year	231	-	231	-
Weighted average number of shares	67,731	67,500	67,731	67,500

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

17 Cash and cash equivalents

Cash in hand	10,520	10,633	10,776	10,902
Cash and cash equivalents with other financial institutions	29,951	40,616	29,951	40,616
Securities under reverse repurchase agreements	185,810	238,696	185,810	238,696
Cash and cash equivalents in the statement of financial position	226,281	289,945	226,537	290,214
Bank overdrafts repayable on demand and used for cash management purposes (note 24)	(219,144)	(96,556)	(219,144)	(96,556)
Cash and cash equivalents in the statement of cash flows	7,137	193,389	7,393	193,658

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
18	Financial assets measured at amortised cost - Loans and advances			
Loans	1,016,694	1,420,469	1,016,694	1,420,469
Finance leases	1,881,744	1,744,445	1,881,744	1,744,445
Gross loans and receivables	2,898,438	3,164,914	2,898,438	3,164,914
Write off	-	(511,331)	-	(511,331)
	2,898,438	2,653,583	2,898,438	2,653,583
Less: Impairment loss allowance	(394,174)	(165,116)	(394,174)	(165,116)
Net loans and advances	2,504,264	2,488,467	2,504,264	2,488,467

18.1 Analysis by product

Pawning	86,442	46,658	86,442	46,658
Hire purchase	7,461	20,263	7,461	20,263
Margin trading receivable	238,264	304,243	238,264	304,243
Staff leases/ loans	18,481	19,208	18,481	19,208
Bills of exchange	170	170	170	170
Term loans	489,410	537,225	489,410	537,225
Ikman draft	76,423	-	76,423	-
Group sale	6,517	-	6,517	-
Loans against fixed deposits	93,526	72,473	93,526	72,473
Loans	1,016,694	1,000,240	1,016,694	1,000,240
Leases	1,881,744	1,653,343	1,881,744	1,653,343
Gross total	2,898,438	2,653,583	2,898,438	2,653,583

Analysis by currency

Sri Lankan Rupee	2,898,438	2,653,583	2,898,438	2,653,583
Gross total	2,898,438	2,653,583	2,898,438	2,653,583

18.2 Impairment loss allowance

		2019			2018		
		Gross carrying amount	ECL allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Hire purchase	18.2.1	7,461	1,037	6,424	20,263	3,619	16,644
Loans	18.2.2	684,357	149,854	534,503	628,906	37,097	591,809
Margin trading	18.2.3	238,264	80,378	157,886	304,243	67,667	236,576
Pawning and other receivables	18.2.4	86,612	171	86,441	46,828	974	45,854
Leases	18.2.5	1,881,744	162,734	1,719,010	1,653,343	55,759	1,597,584
		2,898,438	394,174	2,504,264	2,653,583	165,116	2,488,467

18.2.1 Hire purchase

As at 31st March	2019	2018
In thousands of Rupees		
<i>Gross investment in hire purchase</i>		
Less than one year	3,168	19,259
Between one and five years	5,600	2,046
More than five years	-	-
	8,768	21,305
Unearned income	(1,307)	(1,042)
	7,461	20,263
Impairment allowance for hire purchase - individual	(65)	-
Impairment allowance for hire purchase - collective	(972)	(3,619)
<i>Net investment in hire purchase</i>	6,424	16,644

18.2.2 Loans

As at 31st March	2019	2018
In thousands of Rupees		
<i>Gross investment in loan receivables</i>		
Less than one year	360,578	347,471
Between one and five years	419,495	344,626
More than five years	26,060	72,859
	806,133	764,956
Unearned income	(121,776)	(136,050)
	684,357	628,906
Impairment allowance for loan receivables - individual	(106,106)	(18,148)
Impairment allowance for loan receivables - collective	(43,748)	(18,949)
<i>Net investment in loan receivables</i>	534,503	591,809

18.2.3 Margin trading

As at 31st March	2019	2018
In thousands of Rupees		
<i>Gross investment in margin trading receivables</i>		
Less than one year	238,264	304,243
Between one and five years	-	-
More than five years	-	-
	238,264	304,243
Unearned income	-	-
	238,264	304,243
Impairment allowance for margin trading receivables - individual	(80,378)	(67,667)
Impairment allowance for margin trading receivables - collective	-	-
<i>Net investment in margin trading receivables</i>	157,886	236,576

NOTES TO THE FINANCIAL STATEMENTS

18.2.4 Pawning and other receivables

As at 31st March	2019	2018
In thousands of Rupees		
Gross investment in pawning and other receivables		
Less than one year	86,612	46,828
Between one and five years	-	-
More than five years	-	-
	86,612	46,828
Unearned income	-	-
	86,612	46,828
Impairment allowance for pawning and other receivables - individual	(171)	(974)
Impairment allowance for pawning and other receivables - collective	-	-
Net investment in pawning and other receivables	86,441	45,854

18.2.5 Leases

The following table provides an analysis of finance lease receivables for leases of certain property, plant and equipment in which the Company is the lessor.

As at 31st March	2019	2018
In thousands of Rupees		
Gross investment in finance lease receivables		
Less than one year	157,662	134,354
Between one and five years	2,296,161	2,028,053
More than five years	5,862	890
	2,459,685	2,163,297
Unearned finance income	(577,942)	(509,955)
	1,881,743	1,653,342
Impairment allowance for finance lease receivables - individual	(85,390)	(21,527)
Impairment allowance for finance lease receivables - collective	(77,343)	(34,231)
Net investment in finance lease receivables	1,719,010	1,597,584

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

19

Investments in securities					
Investment securities measured at FVTPL	19.1	2,119	2,580	2,119	2,580
Investment securities measured at FVOCI - Debt instruments		48	-	48	-
Investment securities measured at FVOCI - Equity instruments		23	-	23	-
Available for sale investment securities		-	71	-	71
		2,190	2,651	2,190	2,651
Less: Impairment charges on debt securities	19.2	(48)	(48)	(48)	(48)
Net investments in securities		2,142	2,603	2,142	2,603

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

19.1 Investment securities measured at FVTPL

Investment in equity securities cost (Note 19.1.2)	3,386	3,386	3,386	3,386
Fair value changes (Note 19.1.1)	(1,267)	(806)	(1,267)	(806)
Total	2,119	2,580	2,119	2,580

19.1.1 Movements in fair value changes

Balance as at 1st April	(806)	(824)	(806)	(824)
Gain / (Reversal) during the year	(461)	18	(461)	18
Balance as at 31st March	(1,267)	(806)	(1,267)	(806)

19.1.2 Quoted equity securities held by the - Company/ Group

Sector	2019			2018		
	No of Shares	Total cost	Market value	No of shares	Total cost	Market value
In thousands of Rupees						
Bank, finance and insurance						
Nations Trust Bank PLC	3,077	214	277	3,077	214	249
Vanik Incorporation PLC	61	3	-	61	3	-
People's Leasing & Finance PLC	69,000	1,242	924	69,000	1,242	1,090
Sampath Bank PLC	24	6	4	24	6	7
		1,465	1,205		1,465	1,346
Sector Percentage			57%			52%
Hotel and travels						
Keels Hotels PLC	7,085	150	53	7,085	150	66
Hotel Services Ceylon PLC	43,500	1,320	557	43,500	1,320	783
		1,470	610		1,470	849
Sector Percentage			29%			33%
Manufacturing						
ACL Cables PLC	9,400	451	304	9,400	451	385
		451	304		451	385
Sector Percentage			14%			15%
Total		3,386	2,119		3,386	2,580

NOTES TO THE FINANCIAL STATEMENTS

	Company		Group	
	2019	2018	2019	2018
As at 31st March				
In thousands of Rupees				
19.2 Movements in impairment charges during the year				
Balance as at 1st April 2018	48	48	48	48
Charge/(Write back) to statement of profit or loss	-	-	-	-
Balance as at 31st March 2019	48	48	48	48
20 Investments in subsidiaries				
Unquoted equity share (Note 20.1)	175,000	175,000	-	-
Less: Impairment charges	(175,000)	(175,000)	-	-
Net total	-	-	-	-

20.1 Unquoted equity shares

	2019		2018	
		Holding %		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. The subsidiary does not have any operations currently. PMB Services Ltd has incurred loss Rs. 98,387/- on financial year 2018/19. (2017/18 - Rs. 832,978)

21 Property, plant and equipment**21.1 Reconciliation of carrying amounts****Property, plant and equipment - Company**

In thousands of Rupees	Motor	Furniture	Computer	Office	Total
	vehicle	and fittings		equipment	
Cost					
Balance as at 1st April 2017	31,695	18,081	31,128	21,477	102,381
Additions	-	1,556	1,111	1,575	4,242
Disposals	(2,917)	-	-	(110)	(3,027)
Balance as at 31st March 2018	28,778	19,637	32,239	22,942	103,596
Balance as at 1st April 2018	28,778	19,637	32,239	22,942	103,596
Additions	-	174	4,265	1,530	5,969
Disposals	(968)	-	-	-	(968)
Balance as at 31st March 2019	27,810	19,811	36,504	24,472	108,597

In thousands of Rupees	Motor vehicle	Furniture and fittings	Computer	Office equipment	Total
Accumulated depreciation and impairment losses					
Balance as at 1st April 2017	31,695	15,722	27,134	18,450	93,001
Depreciation for the year	-	454	1,072	793	2,319
Disposals	(2,917)	-	-	(110)	(3,027)
Balance as at 31st March 2018	28,778	16,176	28,206	19,133	92,293
Balance as at 1st April 2018	28,778	16,176	28,206	19,133	92,293
Depreciation for the year	-	605	2,024	1,074	3,703
Disposals	(968)	-	-	-	(968)
Balance as at 31st March 2019	27,810	16,781	30,230	20,207	95,028
Carrying amount					
Balance as at 1st April 2017	-	2,359	3,994	3,027	9,380
Balance as at 31st March 2018	-	3,461	4,033	3,809	11,303
Balance as at 31st March 2019	-	3,030	6,274	4,265	13,569

Property, plant and equipment - Group

In thousands of Rupees	Motor vehicle	Furniture and fittings	Computer	Office equipment	Total
Cost					
Balance as at 1st April 2017	31,695	20,347	36,944	26,537	115,523
Additions	-	1,556	1,111	1,575	4,242
Disposals	(2,917)	-	-	(110)	(3,027)
Balance as at 31st March 2018	28,778	21,903	38,055	28,002	116,738
Balance as at 1st April 2018	28,778	21,903	38,055	28,002	116,738
Additions	-	174	4,265	1,530	5,969
Disposals	(968)	-	-	-	(968)
Balance as at 31st March 2019	27,810	22,077	42,320	29,532	121,739
Accumulated depreciation and impairment losses					
Balance as at 1st April 2017	31,695	17,988	32,950	23,510	106,143
Depreciation for the year	-	454	1,072	793	2,319
Disposals	(2,917)	-	-	(110)	(3,027)
Balance as at 31st March 2018	28,778	18,442	34,022	24,193	105,435
Balance as at 1st April 2018	28,778	18,442	34,022	24,193	105,435
Depreciation for the year	-	605	2,024	1,074	3,703
Disposals	(968)	-	-	-	(968)
Balance as at 31st March 2019	27,810	19,047	36,046	25,267	108,170
Carrying amount					
Balance as at 1st April 2017	-	2,359	3,994	3,027	9,380
Balance as at 31st March 2018	-	3,461	4,033	3,809	11,303
Balance as at 31st March 2019	-	3,030	6,274	4,265	13,569

NOTES TO THE FINANCIAL STATEMENTS

21.2 There were no capitalised borrowing costs related to the acquisition of equipment during the year 31st March 2019 (31st March 2018: nil).

21.3 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.

21.4 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	
	2019	2018	2019	2018
In thousands of Rupees				
Motor vehicle	27,810	28,778	27,810	25,861
Computers	26,038	25,971	31,978	25,971
Furniture and fitting	15,690	15,690	17,956	15,690
Office equipment	16,845	16,845	21,905	16,845
Total	86,383	87,284	99,649	84,367

22 Intangible assets

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

22.1 Reconciliation of carrying amount

	Company	Group
In thousands of Rupees		
Cost		
Balance as at 1st April 2017	28,426	29,065
Additions	657	657
Balance at 31st March 2018	29,083	29,722
Balance as at 1st April 2018	29,083	29,722
Additions	1,837	1,837
Balance as at 31st March 2019	30,920	31,559
Accumulated amortization		
Balance as at 1st April 2017	19,991	20,630
Amortisation	2,721	2,721
Balance as at 31st March 2018	22,712	23,351
Balance as at 1st April 2018	22,712	23,351
Amortisation	3,083	3,083
Balance as at 31st March 2019	25,795	26,434
Carrying amount		
Balance as at 1st April 2017	8,435	8,435
Balance as at 31st March 2018	6,371	6,371
Balance as at 31st March 2019	5,125	5,125

22.2 Fully depreciated intangible assets

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

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
Computer software	17,957	17,957	17,957	17,957
23 Other assets				
Security deposits	6,821	6,608	6,821	6,608
Advance payments	4,987	5,132	4,987	5,132
Real estate inventories (Note 23.1)	36,407	36,390	36,407	36,390
Prepaid staff cost	4,946	5,469	4,946	5,469
Stationary stock	1,288	1,091	1,288	1,091
ESC receivable	6,395	7,376	6,395	7,376
Recoverable from former director (Note 23.2)	-	-	-	-
VAT recoverable (Note 23.3)	-	-	-	-
Other receivables	24,411	21,136	24,411	21,136
Suspense account (Note 23.4)	-	-	-	-
Total	85,255	83,202	85,255	83,202
23.1 Real estate inventories				
Balance as at 1st April	36,390	44,728	36,390	44,728
Disposals during the year	-	(8,321)	-	(8,321)
Balance as at 31st March	36,390	36,407	36,390	36,407
Impairment reversal/ (provision)	17	(17)	17	(17)
Closing balance	36,407	36,390	36,407	36,390
23.2 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)
Balance as at 31st March	-	-	-	-
23.3 VAT recoverable				
VAT recoverable balance	18,468	18,468	18,468	18,468
Impairment provision	(18,468)	(18,468)	(18,468)	(18,468)
Balance as at 31st March	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

23.4 Suspense account balance

The Company had previously recognised 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 profit or loss and other comprehensive 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 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	
	2019	2018	2019	2018
In thousands of Rupees				
Suspense account balance	138,552	138,552	138,552	138,552
Impairment provision	(138,552)	(138,552)	(138,552)	(138,552)
Balance as at 31st March	-	-	-	-

24 Due to banks

Bank overdrafts	219,144	96,556	219,144	96,556
Total	219,144	96,556	219,144	96,556

25 Financial liabilities at amortised cost - due to depositors

Fixed deposits	2,404,582	2,431,825	2,404,582	2,431,825
Savings deposits	30,151	23,761	30,151	23,761
Total	2,434,733	2,455,586	2,434,733	2,455,586

25.1 Analysis by currency

Sri Lankan Rupees	2,434,733	2,455,586	2,434,733	2,455,586
Total	2,434,733	2,455,586	2,434,733	2,455,586

26 Debt securities issued - Company / Group

As at 31st March	2019	2018
In thousands of Rupees		
Cumulative preference shares (Note 26.1)	15,400	14,800
Total	15,400	14,800
Due within 1 year	-	-
Due after 1 year	15,400	14,800
Total	15,400	14,800

26.1 Details of debt securities issued - Company / Group

As at 31st March		2019	2018
In thousands of Rupees			

Type	Face value		
<i>Issued by the Company</i>			
6% cumulative non redeemable preference shares	10,000	10,000	10,000
Interest payable	-	5,400	4,800
Total	10,000	15,400	14,800

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

27 Deferred taxation

Deferred tax assets (Note 27.1)	(96,664)	(111,688)	(96,664)	(111,688)
Deferred tax liabilities (Note 27.2)	96,664	111,688	96,664	111,688
<i>Closing balance</i>	-	-	-	-

27.1 Deferred tax assets

Balance as at 1st April	111,688	117,779	111,688	117,779
Originated/(reversal) during the year	(15,024)	(6,091)	(15,024)	(6,091)
<i>Closing balance</i>	96,664	111,688	96,664	111,688

Retiring gratuity	6,162	3,829	6,162	3,829
Impairment on loans and advances	32,541	-	32,541	-
Tax losses	57,961	107,859	57,961	107,859
<i>Closing balance</i>	96,664	111,688	96,664	111,688

27.2 Deferred tax liabilities

Balance as at 1st April	111,688	117,779	111,688	117,779
(Reversal) / Originated during the year	(15,024)	(6,091)	(15,024)	(6,091)
<i>Balance as at 31st March</i>	96,664	111,688	96,664	111,688

Property plant and equipment	1,068	1,149	1,068	1,149
Intangible assets	1,435	1,784	1,435	1,784
Lease assets	94,161	108,755	94,161	108,755
<i>Balance as at 31st March</i>	96,664	111,688	96,664	111,688

The Group has utilized such tax losses to recognise a deferred tax asset only up to the extent of the deferred tax liability arising from taxable temporary differences.

NOTES TO THE FINANCIAL STATEMENTS

27.3 Unrecognised deferred tax assets

Deferred tax asset on tax losses has been recognized to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilized. The total unrecognised deferred tax asset relating to tax losses as at 31st March 2019 of the Company amounted to Rs. 248Mn.

As at 31st March In thousands of Rupees	2019		2018	
	Gross amount	Tax effect	Gross amount	Tax effect
Tax losses	886,763	248,294	863,048	241,653

As at 31st March In thousands of Rupees	Company		Group	
	2019	2018	2019	2018

28 Other liabilities

Employee benefit obligation (Note 28.1)	22,006	13,674	22,006	13,674
Real estate advance	1,000	-	1,000	-
Other payables	48,352	42,490	48,630	42,740
Financial liabilities (Note 28.2)	9,790	89,142	9,790	90,108
Total other liabilities	81,148	145,306	81,426	146,522

28.1 Employee benefit obligation

Movement in the present value of defined benefit obligation

Balance at the beginning of the year	13,674	11,758	13,674	11,758
Amount recognised in profit or loss				
Interest cost	1,422	1665	1,422	1665
Current service cost	2,333	1469	2,333	1469
Total amount recognised in profit or loss	3,755	3,134	3,755	3,134

Amount recognized in the other comprehensive income

Actuarial gain	6,223	(762)	6,223	(762)
Payment made during the year	(1,646)	(456)	(1,646)	(456)
Balance at the end of the year	22,006	13,674	22,006	13,674

The Company carried out an actuarial valuation of the gratuity liability as at 31st March 2019 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	2019	2018
Actuarial assumption		
Discount rate	10.50%	10.40%
Future salary increment rate	10.00%	10.00%
Retirement age	55 Years	55 Years

The Group/Company continue in business as going concern. Assumptions regarding future mortality are based on published statistic and mortality tables.

Demographic assumptions

In addition to the above, demographic assumptions as mortality withdrawal and disability and retirement age were considered for the actuarial valuations.

28.1.2 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 (In thousands of Rupees)
1% point increase	10.0%	21,438
1% point decrease	10.0%	22,610
10.5%	1% point increase	22,654
10.5%	1% point decrease	21,387

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

28.2 Financial liabilities

Amounts payable to suppliers	7,042	87,393	7,042	88,359
Insurance payables	2,748	1,749	2,748	1,750
Total financial liabilities	9,790	89,142	9,790	90,108

29 Stated capital

As at 31st March	Number of shares (thousands)	Company		Group	
		2019	2018	2019	2018
In thousands of Rupees					
Issued and fully paid ordinary shares	67,500	1,078,227	1,078,227	1,078,227	1,078,227
Private placement - shares	16,850	160,075	-	160,075	-
Total	84,350	1,238,302	1,078,227	1,238,302	1,078,227

Ordinary shares

Holder of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the company's residual assets.

Issue of ordinary shares

In 27th March 2019, the extra ordinary general meeting of shareholders approved the issue of 16,850,000 ordinary shares at an exercise price of Rs. 9.50/- per share (2018: nil) as a private placement.

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30 Reserves

30.1 Statutory reserve fund

This represents a reserve fund created in the financial year of 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 2019, no transfer were made to the reserve fund.

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
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

30.2 Revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
31 Accumulated losses				
Balance as at 1st April	(869,795)	(1,295,630)	(870,742)	(1,297,411)
Adjustment on initial application of SLFRS 9	(134,644)	-	(134,644)	-
Adjusted balance as at 1st April	(1,004,439)	(1,295,630)	(1,005,386)	(1,297,411)
Loss for the year	(93,684)	(148,312)	(92,759)	(147,478)
Other comprehensive income	(4,480)	549	(4,480)	549
Equity transfers	-	573,598	-	573,598
Balance as at 31st March	(1,102,603)	(869,795)	(1,102,625)	(870,742)

32 Contingent liabilities and commitments

Contingent liabilities and commitments	47,431	64,820	47,431	64,820
Total	47,431	64,820	47,431	64,820
Contingent liabilities				
- Guarantees	900	1,998	900	1,998
Commitments				
- Un-utilized facilities (margin trading)	46,531	62,822	46,531	62,822
	47,431	64,820	47,431	64,820

33 Operating leases

Leases as lessee

The Company leases a number of office spaces under operating leases. The leases typically run for 5 years, with an option to renew the lease after that date. Lease prices are renegotiated at the renewal of the agreement to reflect market rentals. The rent paid to the landlord is adjusted to market rentals at regular intervals, and the Group does not have an interest in the residual value of the land and buildings. As a result, it was determined that substantially all of the risks and rewards of the land and buildings are with the landlord.

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
Less than a year	33,189	29,815	33,189	29,815
Between one to five years	17,024	31,699	17,024	31,699
	50,213	61,514	50,213	61,514

34 Related party disclosures

34.1 Parent and ultimate controlling party

The Company's immediate parent and ultimate controlling party was 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 the Company's parent and ultimate controlling party was People's Bank.

Further, on 29th March 2019, Sterling Capital Investments (Private) Limited (SCIL) acquired a share ownership of 19.98% of the Company via a private placement, which ultimately reduced the People's Bank and People's Leasing & Finance PLC share ownership to 67.79% of company's ordinary shares as at 31st March 2019. Subsequent to the reporting date, SCIL further subscribed for 126,384,052 ordinary voting shares of the Company for a total consideration of Rs. 1,201 Mn on 08th of May 2019, resulting in the total stake of SCIL in PMF to increase up to 67.9%. Hence, the company's immediate and ultimate controlling entity is SCIL.

34.2 Transactions with key management personnel and 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 Group. Accordingly, the Board of Directors of the Group, the parent Company - People's Bank and the Management Agent of the Company - People's Leasing & Finance PLC have been identified as KMPs of the Group.

The Group 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.

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				

34.2.1 Remuneration to Board of Directors

Short-term Employee Benefits	2,357	967	2,357	967
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34.2.2 Share transactions with KMP

No. of Ordinary Shares held;				
The Parent Company (People's Bank)	33,856	33,856	33,856	33,856

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company		Group	
	2019	2018	2019	2018
In thousands of Rupees				
The Management Agent (People's Leasing & Finance PLC)	25,014	25,014	25,014	25,014
Sterling Capital Investments (Pvt) Ltd	16,850	-	16,850	-
Board of Directors	1,000	1,000	1,000	1,000
34.2.3 Transactions, arrangements and agreements with Board of Directors				
(a) Items in statement of profit or loss				
Interest Income	-	-	-	-
Interest Expense	-	-	-	-
(b) Items in statement of financial position				
Assets - Loans and receivables	-	-	-	-
Liabilities - Due to customers	-	-	-	-

34.3 Net accommodation as a percentage of capital funds [Related Entities]

	2019	2018
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	-	-

34.4 Transactions with related entities**Transactions with the Government of Sri Lanka and the 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
- Payments of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

34.4.1 Company

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

As at 31st March	Immediate Parent		Subsidiary		Fellow Subsidiaries	
	2019	2018	2019	2018	2019	2018
In thousands of Rupees						
(a) Items in statement of profit or loss						
Interest income	256	12,984	-	-	-	-
Interest expense	59,123	4,808	-	-	-	-
Fee and commission income	-	-	-	-	1,421	873
Other operating expenses	15,428	14,143	-	-	2,157	682
(b) Items in statement of financial position						
Assets						
Cash and cash equivalents	29,022	41,148	-	-	-	-
Investments in FD / Repo's	-	30,300	-	-	-	-
Investment securities measured at FVTPL	-	1,040,000	-	-	-	-
Investments in subsidiaries / affiliates	-	-	175,000	175,000	-	-
Other assets	-	-	19,140	18,906	-	-
Provisions made	-	-	(194,140)	(193,906)	-	-
Liabilities						
Due to banks	219,051	-	-	-	-	-
Due to customers	-	-	-	-	-	-
Debt securities issued	10,000	10,000	-	-	-	-
Preference shares dividend payable	5,400	4,800	-	-	-	-
(c) Transactions						
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC	-	-	-	-	1,497	10,863
Fleet vehicle hiring charges	-	-	-	-	660	990
(d) Off- Balance Sheet Items						
Guarantees	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

34.4.2 Group

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

As at 31st March	Immediate Parent		Fellow Subsidiaries	
	2019	2018	2019	2018
In thousands of Rupees				
(a) Items in statement of profit or loss				
Interest income	256	12,984	-	-
Interest expense	59,123	4,808	-	-
Fee and commission income	-	-	1,421	873
Other operating expenses	15,428	14,143	2,157	682
(b) Items in statement of financial position				
Assets				
Cash and cash equivalents	29,022	41,148	-	-
Investments in FD / Repo's	-	30,300	-	-
Investment securities measured at FVTPL	-	1,040,000	-	-
Investments in subsidiaries / affiliates	-	-	-	-
Other assets	-	-	-	-
Provision	-	-	-	-
Liabilities				
Due to banks	219,051	-	-	-
Due to customers	-	-	-	-
Debt securities issued	10,000	10,000	-	-
Preference shares dividend payable	5,400	4,800	-	-
(c) Transactions				
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC	-	-	1,497	10,863
Fleet vehicle hiring charges	-	-	660	990
(d) Off- Balance Sheet Items				
Guarantees	-	-	-	-

35 Financial instrument - Fair value and risk management

35.1 Fair values of financial instruments

The Group/ Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy :

As at 31st March 2019 In thousands of Rupees	Carrying amount		Fair value					
	Company	Group	Company			Group		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	2,119	2,119	2,119	-	-	2,119	-	-
Investment securities measured at FVOCI - equity instruments (Note b)	23	23	-	-	23	-	-	23
	2,142	2,142	2,119	-	23	2,119	-	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	2,504,264	2,504,264	-	-	-	-	-	-
Cash and cash equivalents (Note d)	226,281	226,537	-	-	-	-	-	-
Balances with banks and financial institutions (Note e)	56,747	56,747	-	-	-	-	-	-
Security deposits (Note f)	6,821	6,821	-	-	-	-	-	-
	2,794,113	2,794,369	-	-	-	-	-	-
	2,796,255	2,796,511	2,119	-	23	2,119	-	23
Financial liabilities not measured at fair value								
Due to banks (Note g)	219,144	219,144	-	-	-	-	-	-
Deposits from customers (Note h)	2,434,733	2,434,733	-	-	-	-	-	-
Debt securities issued (Note i)	15,400	14,200	-	-	-	-	-	-
Financial liabilities (Note j)	9,790	9,790	-	-	-	-	-	-
	2,679,067	2,677,867	-	-	-	-	-	-

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As at 31st March 2018	Carrying amount		Fair value						
	Company	Group	Company			Group			
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
In thousands of Rupees									
Financial assets measured at fair value									
Investment securities measured at FVTPL (Note a)	2,580	2,580	2,580	-	-	-	2,580	-	-
Available for sale investment securities (Note b)	23	23	-	-	23	-	-	-	23
	2,603	2,603	2,580	-	23	-	2,580	-	23
Financial assets not measured at fair value									
Loans and advances to customers (Note c)	2,488,467	2,488,467	-	-	-	-	-	-	-
Cash and cash equivalents (Note d)	289,945	290,214	-	-	-	-	-	-	-
Balances with banks and financial institutions (Note e)	46,048	46,048	-	-	-	-	-	-	-
Security deposits (Note f)	6,608	6,608	-	-	-	-	-	-	-
	2,831,068	2,831,337	-	-	-	-	-	-	-
	2,833,671	2,833,940	2,580	-	23	-	2,580	-	23
Financial liabilities not measured at fair value									
Due to banks (Note g)	96,556	96,556	-	-	-	-	-	-	-
Deposits from customers (Note h)	2,455,586	2,455,586	-	-	-	-	-	-	-
Debt securities issued (Note i)	14,800	14,800	-	-	-	-	-	-	-
Financial liabilities (Note j)	89,142	89,142	-	-	-	-	-	-	-
	2,656,084	2,656,084	-	-	-	-	-	-	-

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

- Investment securities measured at FVTPL – The carrying amount of these investments reflect last traded price at stock exchange.
- Investment securities measured at FVOCI - equity instruments/ available for sale investment securities– The carrying amount of these shows investments in Credit Information Bureau of Sri Lanka. 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.
- Balances with banks and financial institutions – 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.

- h) Deposits from customers – The carrying amount reflecting amortised cost of deposits from customers. Thus its carrying amount approximates to the fair value.
- i) Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% interest rate.
- j) Financial liabilities - The carrying value is approximately its fair value of the financial instrument.

35.2 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 Group'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 Group's framework 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 framework, 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 Group and to keep the liquidity levels under satisfying requirements. The Group has exposure to following risk from financial instruments.

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- 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 Company if a customer or counter party to a financial instrument fails to meet its contractual obligations and that 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).

With the adoption of SLFRS 9 – Financial Instruments, the Group manages credit quality using a three stage approach which is in-line with the new standard requirements as well. SLFRS 9 outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition.

Stage 1: A financial asset that is not originally credit-impaired on initial recognition is classified in Stage 1. Financial instruments in Stage 1 have their ECL measured at an amount equal to the proportion of lifetime expected credit losses (LTECL) that result from default events possible within next 12 months (12M ECL).

Stage 2: If significant increases in credit risk (SICR) since origination is identified, it is moved to Stage 2 and the Company records an allowance for LTECL.

Stage 3: If a financial asset is credit-impaired, it is moved to Stage 3 and the Company recognises an allowance for LTECL.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows :

	Company	
	As at 31/03/2019	As at 31/03/2018
In thousands of Rupees		
Cash and cash equivalents	226,281	289,945
Balances with banks and financial institutions	56,747	46,048
Investment securities measured at FVTPL	2,119	2,580
Loans and advances to customers	2,504,264	2,488,467
Investment securities measured at FVOCI/ available for sale investment securities	23	23
Security deposits	6,821	6,608
	2,796,254	2,832,881

Loans and advances to customers

With adoption of SLFRS 9 with effect from 1st April 2018, impairment of loans and advances are assessed based on Expected Credit Loss model. The approach adopted was to classify loans into individually significant exposures and other loans into homogeneous portfolios by segment / product for impairment assessment.

	As at 31/03/2019	As at 31/03/2018
In thousands of Rupees		
Carrying amount at amortised cost		
Individually significant portfolio	332,926	360,839
Individually non significant portfolio	2,171,338	2,127,628
	2,504,264	2,488,467

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experience and expert credit assessment and including forward-looking information.

Generating the term structure of PD

PD estimates are estimates at a certain date, which are calculated, based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties.

Determining whether credit risk has increased significantly

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements used in expected credit loss model prescribed in SLFRS 9 – Financial instruments. The criteria for determining whether credit risk has increased significantly vary by portfolio and include qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews.

Definition of default

The Company considers a financial asset to be in default when ;

the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or

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the assessment of the external rating agencies indicates a default grading of the borrower; or

In assessing whether a borrower is in default, the Company considers indicators that are:

qualitative – e.g. breaches of covenant;

quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Company for regulatory capital purposes & management decision.

Movement between the stages

Financial assets can be transferred between the different categories depending on their relative change in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment.

Incorporation of forward-looking information

The Company incorporates 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 using a variety of external actual and forecasted information. The Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by both local and international sources. The base case represents a most-likely outcome. The other scenarios represent more optimistic and more pessimistic outcomes.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables credit risk and credit losses. The economic variables used by the Company based on the statistical significance include the followings.

Unemployment Rate	}	Base case scenario along with two other scenarios has been used (Best Case and Worst Case)
Interest Rate		
GDP Growth Rate		
Inflation Rate		
Exchange Rate		

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD

Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD

The methodology of estimating PD is discussed above under the "Generating the term structure of PD". LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, type of product and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

The following table shows a reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for the year ended 31st March 2018 represent the allowance for credit losses and reflect the measurement basis under LKAS 39.

Financial assets at amortised cost – Loans to and receivables from customers

	2019 (Under SLFRS 9)				2018 (Under LKAS 39)		
	Stage 1	Stage 2	Stage 3	Total	Individual	Collective	Total
In thousands of Rupees							
Balance at beginning	28,867	67,306	203,589	299,762	108,316	56,800	165,116
Transfer to Stage 1	(8,368)	24,963	34,408	51,003	-	-	-
Transfer to Stage 2	(12,296)	(26,314)	15,262	(23,348)	-	-	-
Transfer to Stage 3	(655)	(4,429)	(9,381)	(14,465)	-	-	-
New financial assets originated	16,116	29,571	23,628	69,315	-	-	-
Margin trading	-	-	-	12,710	-	-	-
Pawning & other	-	-	-	(803)	-	-	-
Balance as at 31st March	23,664	91,097	267,506	394,174	108,316	56,800	165,116

Individually significant impairment

	As at	As at
	31/03/2019	31/03/2018
In thousands of Rupees		
Gross receivable	605,036	469,155
Less: Allowance for impairment	272,110	108,316
	332,926	360,839

Individually not significant portfolio include loans that are individually significant but not impaired. These loans are assessed for impairment collectively.

The Company holds collateral against loans and advances to customers in the form of mortgage interests over properties and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

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Collective impairment

In thousands of Rupees	As at	As at
	31/03/2019	31/03/2018
Gross receivable	2,293,401	2,184,428
Less: Allowance for impairment	122,063	56,799
	2,171,338	2,127,629

Write-off policy

The Company writes off a loan or an investment debt/equity security balance, and any related allowances for impairment losses, when it determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

Credit concentration risk

Company monitors credit concentration risk under product portfolio.

Product concentration

In thousands of Rupees	As at 31/03/2019		As at 31/03/2018	
		%		%
Leasing and hire purchase	1,725,434	69%	1,614,228	4%
Loans	534,503	22%	591,809	24%
Margin trading receivable	157,886	6%	236,576	10%
Pawning and others	86,441	3%	45,854	2%
	2,504,264	100%	2,488,467	100%

In thousands of Rupees	As at	As at
	31/03/2019	31/03/2018
Balances with bank and financial institutions	56,747	46,048
Investment in equity securities	2,119	2,580
Investment in FVOCI - equity securities	23	23
Security deposits	6,821	6,608
	65,710	55,259

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.

Financial investments In thousands of Rupees	As at	As at
	31/03/2019	31/03/2018
Net loans/ total assets	0.87	0.85
Gross Loans/ customer deposits	1.19	1.08

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 Group'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 value 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.

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Interest rate risk exposure on financial assets and liabilities

Company	Up to 3 Months	03-12 Months	01-05 Years	Total as at 31.03.2019
In thousands of Rupees				
Assets				
Cash and cash equivalents	41,368	-	184,913	226,281
Balances with banks and financial institutions	-	56,747	-	56,747
Financial assets measured at amortised cost - Loans and advances	546,034	543,360	1,414,870	2,504,264
Investment securities measured at FVTPL	-	-	2,119	2,119
Investment securities measured at FVOCI - equity instruments	-	-	23	23
	587,402	600,107	1,601,925	2,789,434
Liabilities				
Due to banks	219,144	-	-	219,144
Financial liabilities at amortised cost - due to depositors	508,108	1,233,235	693,390	2,434,733
Debt securities issued	-	-	15,400	15,400
	727,252	1,233,235	708,790	2,669,277
Group				
	Up to 3 Months	03-12 Months	01-05 Years	Total as at 31.03.2019
In thousands of Rupees				
Cash and cash equivalents	41,624	-	184,913	226,537
Balances with banks and financial institutions	-	56,747	-	56,747
Financial assets measured at amortised cost - Loans and advances	546,034	543,360	1,414,870	2,504,264
Investment securities measured at FVTPL	-	-	2,119	2,119
Investment securities measured at FVOCI - equity instruments	-	-	23	23
	587,658	600,107	1,601,925	2,789,690
Liabilities				
Due to banks	219,144	-	-	219,144
Due to customers	508,108	1,233,235	693,390	2,434,733
Debt securities issued	-	-	15,400	15,400
	727,252	1,233,235	708,790	2,669,277

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 Corporate Management , heads of operational divisions and branch management through Board sub committees and CEO to the

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;
- 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 standard is supported by a programme of periodic reviews undertaken by the 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.

36 Capital management

Capital consist of ordinary shares, capital funds and retained earnings of the Company. The Board of directors monitor the return on capital as well as the level of dividends to ordinary shareholders.

The Company's main objectives of managing capital are:

- to safeguarded the Company's ability to continue as going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

Further, the Board seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing and the advantages, and security afforded by the strong capital position of the Company.

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The Company's net debt to adjusted equity ratio at the reporting date as follows.

In thousands of Rupees	As at	As at
	31/03/2019	31/03/2018
Total liabilities	2,750,424	2,712,248
Less: Cash and cash equivalents	226,281	289,945
Net debt	2,524,143	2,422,303
Total equity	142,958	215,691
Net debt to adjusted equity ratio as at 31st March	18	11

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	2019			2018		
	Amount	Risk Weight Factor	Risk Weighted Balance	Amount	Risk Weight Factor	Risk Weighted Balance
In thousands of Rupees		%			%	
Claims on Government of Sri Lanka, Public Sector Entities and Central Bank of Sri Lanka						
Central Bank of Sri Lanka	185,834	0%	-	238,719	0%	-
Claims on financial institutions						
Financial institutions	56,747	50%	28,373	46,048	50%	23,024
Retail claims						
Retail claims in respect of motor vehicles and machinery	1,990,066	100%	1,990,066	1,746,531	100%	1,746,531
Claims Secured by Gold						
Outstanding claim portion up to 70% of the market value	75,548	0%	-	38,446	0%	-
Remaining outstanding claim portion over 70% of the market value	10,894	100%	10,894	8,213	100%	8,213
Retail claims secured by immovable property						
Retail claims that do not qualify for regulatory capital purposes	111,118	100%	111,118	135,852	100%	135,852
Other retail claims	228,963	125%	286,204	365,694	125%	457,117
Non-Performing Assets (NPAs)						
Specific provisions are equal or more than 20%	19,077	50%	9,539	30,085	50%	15,042
Other Non-Performing Assets						
Specific provisions are equal or more than 20%	75,574	100%	75,574	102,171	100%	102,171
Other claims (assets)						
Notes and coins	10,519	0%	-	10,633	0%	-
Cash items in the process of collection	29,951	20%	5,990	40,616	20%	8,123
Fixed assets	13,568	100%	13,568	11,304	100%	11,304
Other assets/exposures	87,374	100%	87,374	86,572	100%	86,572
Risk weighted amount for operational risk			210,248			134,195
Total risk weighted amount			2,828,948			2,728,144

Total capital base computation As at 31st March In thousands of Rupees	2019 Amount	2018 Amount
Tier I capital		
Stated capital	1,238,302	1,078,227
Reserve fund	7,259	7,259
Audited retained earnings/(losses)	(1,004,439)	(722,032)
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit/(losses)	(98,164)	(147,763)
Tier I capital	142,958	215,691
Adjustments to Tier I capital	(5,856)	(7,102)
Other intangible assets (net)	(5,125)	(6,371)
50% of investment in other banking and financial institutions	(731)	(731)
Tier I Capital (after adjustments)	137,102	208,589
Tier 2 Capital	-	-
Instruments qualified as Tier 2 capital	-	-
Revaluation gains (50% of eligible revaluation gains)	-	-
Eligible Tier 2 Capital	-	-
Total Adjustments to eligible Tier 2 Capital	(731)	(731)
Eligible Tier 2 Capital after adjustments	(731)	(731)
Total Capital	136,371	207,858
Core Capital Ratio (Minimum 6%)		
Core Capital Ratio	Core Capital X 100 Risk Weighted Assets	4.85%
		7.65%
Total Risk Weighted Capital Ratio (Minimum 10%)		
Total Risk Weighted Capital Ratio	Capital Base X 100 Risk Weighted Assets	4.82%
		7.62%

Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements for other risks such as market and operational risks. The new capital adequacy framework covers both credit risk and operational risk. Since the change in the basis and coverage of risks for capital adequacy impacted the tier 1 capital and total capital computation drastically, and for the purpose of disclosing the comparable correspondence figures, the below presentation is also noted.

As at 31st March	Based on Direction No. 03 of 2018 2019	2018	Based on Direction No. 02 of 2006 2018
Core Capital Ratio	4.85%	7.65%	8.69%
Total Capital Ratio	4.82%	7.62%	8.68%

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37 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.

37.1 (a) Group

As at 31st March

	2019			2018		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
In thousands of Rupees						
Interest bearing assets						
Cash & cash equivalent	226,537	-	226,537	290,214	-	290,214
Investment in fixed deposits	56,747	-	56,747	46,048	-	46,048
Financial Investments - held for trading	2,119	-	2,119	2,580	-	2,580
Financial investments – available for sale	-	23	23	-	23	23
Loans and advances to customers	1,089,394	1,414,870	2,504,264	1,356,102	1,132,365	2,488,467
Total Interest bearing assets	1,374,797	1,414,893	2,789,690	1,694,944	1,132,388	2,827,332
Total non - interest bearing assets	41,613	62,336	103,949	55,497	45,379	100,876
Total assets	1,416,410	1,477,229	2,893,639	1,750,441	1,177,767	2,928,208
Percentage	48.95%	51.05%	100.00%	59.78%	40.22%	100.00%
Interest bearing liabilities						
Due to banks	219,144	-	219,144	96,556	-	96,556
Due to customers	1,741,344	693,389	2,434,733	1,958,309	497,277	2,455,586
Debt securities issued	-	15,400	15,400	-	14,800	14,800
Total interest bearing liabilities	1,960,488	708,789	2,669,277	2,054,865	512,077	2,566,942
Total non- interest bearing liabilities	41,614	39,812	81,426	127,115	19,407	146,522
Equity	-	142,936	142,936	-	214,744	214,744
Total liabilities & equity	2,002,102	891,537	2,893,639	2,181,980	746,228	2,928,208
Percentage	69.19%	30.81%	100.00%	74.52%	25.48%	100.00%

37.1 (b) Company

As at 31st March

	2019			2018		
	Less than 1 Year	More than 1 Year	Total	Less than 1 Year	More than 1 Year	Total
In thousands of Rupees						
Interest bearing assets						
Cash & cash equivalent	226,281	-	226,281	289,945	-	289,945
Investment in fixed deposits	56,747	-	56,747	46,048	-	46,048
Financial investments - held for trading	2,119	-	2,119	2,580	-	2,580
Financial investments – available for sale	-	23	23	-	23	23
Loans and advances to customers	1,089,394	1,414,870	2,504,264	1,356,102	1,132,365	2,488,467
Total interest bearing assets	1,374,541	1,414,893	2,789,434	1,694,675	1,132,388	2,827,063
Total non - interest bearing assets	41,613	62,336	103,949	55,498	45,378	100,876
Total assets	1,416,154	1,477,229	2,893,383	1,750,173	1,177,766	2,927,939
Percentage	48.94%	51.06%	100.00%	59.77%	40.23%	100.00%
Interest bearing liabilities						
Due to banks	219,144	-	219,144	96,556	-	96,556
Deposits from customers	1,741,344	693,389	2,434,733	1,958,309	497,277	2,455,586
Debt securities issued	-	15,400	15,400	-	14,800	14,800
Total interest bearing liabilities	1,960,488	708,789	2,669,277	2,054,865	512,077	2,566,942
Total non- interest bearing liabilities	41,614	39,534	81,148	125,898	19,408	145,306
Equity	-	142,958	142,958	-	215,691	215,691
Total liabilities & equity	2,002,102	891,281	2,893,383	2,180,763	747,176	2,927,939
Percentage	69.20%	30.80%	100.00%	74.48%	25.52%	100.00%

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38 Segmental analysis - Group

For the year ended 31st March 2019

	Leasing & hire purchases	Trade Bills, loans and pawning	Margin trading	Other	Total
In thousands of Rupees					
Interest income	373,851	125,050	25,233	22,625	546,759
Fee and commission income	7,238	-	-	23	7,260
Net income from other financial instruments at FVTPL	-	-	-	(461)	(461)
Other operating income	24,160	1,459	-	37,493	63,112
Gross revenue	405,248	126,509	25,233	59,680	616,670
Interest expenses	(213,396)	(87,085)	(26,913)	(29,673)	(357,067)
Total operating income	191,852	39,424	(1,680)	30,007	259,603
Impairment charges for loans, advances and other receivables	(27,763)	(61,569)	3,943	-	(85,389)
Net operating income	164,089	(22,145)	2,263	30,007	174,214
Depreciation and amortisation	(4,055)	(1,655)	(511)	(564)	(6,786)
Staff and other expenses	(148,881)	(60,757)	(18,777)	(20,702)	(249,117)
Segment results	11,152	(84,557)	(17,025)	8,741	(81,689)
Taxes on financial services					(9,328)
Net tax expense					(1,742)
Profit for the year					(92,759)
As at 31st March					
Segment assets	1,729,341	705,730	218,102	240,466	2,893,639
Segment liabilities	1,643,917	670,869	207,329	228,587	2,750,703

For the Year ended 31st March 2018

	Leasing & hire purchases	Trade bills, loans and pawning	Margin trading	Other	Total
In thousands of Rupees					
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	1,256	-	19,671	28,811
Gross revenue	259,105	78,723	41,667	87,686	467,181
Interest Expenses	(190,772)	(77,026)	(34,680)	(37,203)	(339,682)
Total operating income	68,333	1,697	6,987	50,483	127,500
Impairment charges for loans, advances and other receivables	152,485	(222,950)	(24,435)	-	(94,900)
Net operating income	220,818	(221,253)	(17,448)	50,483	32,600
Depreciation and Amortization	(2,831)	(1,143)	(515)	(552)	(5,040)
Staff and other expenses	(98,424)	(39,739)	(17,892)	(19,194)	(175,249)
Segment Results	119,564	(262,136)	(35,855)	30,736	(147,691)
Net tax expense					213
Profit for the year					(147,479)
As at 31st March					
Segment assets	1,644,542	663,999	298,960	320,707	2,928,209
Segment liabilities	1,523,937	615,304	277,035	297,188	2,713,464

39 Directors responsibility statement

The Board of Directors are responsible for the preparation and presentation of the financial statement.

40 Penalty & Cap imposed by the Central Bank

The Company failed to submit the 7th weekly return of 2019 on due date, which is a violation under the Finance Companies (Reporting Requirement) Direction No. 02 of 2011. The Company was imposed with a penalty of Rs: 100,000/- for this violation by CBSL and the Company has paid the same.

The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total deposit and borrowing liabilities (with accrued interest) at Rs 2,500 Mn and Rs 39 Mn respectively, with immediate effect until such time the company meets the required minimum core capital as per the Finance Business Act Direction No 2 of 2017 – Minimum Core Capital.

41 Subsequent events and going concern

People's Merchant Finance PLC (PMF), entered into an investment agreement with People's Bank, People's Leasing & Finance PLC and Sterling Capital Investments (Private) Limited (SCIL) on the 03rd of October 2018. Based on the provisions of the agreement, SCIL subscribed and fully paid for 16,850,000 Ordinary voting shares representing 19.98% of the stake in the Company by way of a private placement on the 29th of March 2019.

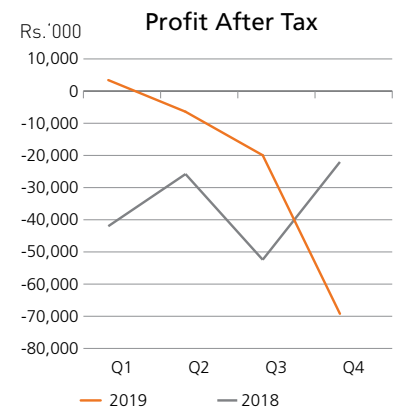
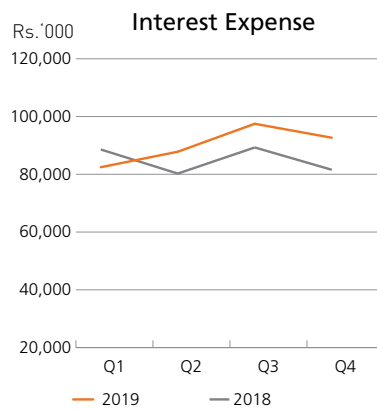
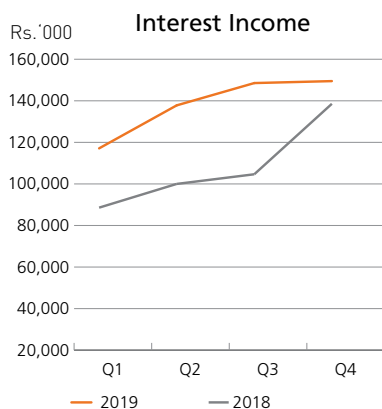
Subsequent to the reporting date, SCIL further subscribed for 126,384,052 ordinary voting shares of the Company for a total consideration of Rs. 1,201 Mn on 08th of May 2019, resulting in the total stake of SCIL in PMF to increase upto 67.9%.

The reconstituted Board is exploring options to increase the capital during the financial year 2019/20 in order to meet the minimum core capital requirements of Rs. 2 Billion by 1st January 2020 in compliance with the Finance Business Act (Minimum Core Capital) Direction No 02 of 2017.

In consideration of the above, the Board of Directors is confident that the Company has the ability to continue as a going concern.

QUARTERLY FINANCIAL PERFORMANCE

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		For the Year ended	
	Apr - Jun		July - Sep		Oct - Dec		Jan - Mar		31st March	
	2018	2017	2018	2017	2018	2017	2019	2018	2019	2018
In thousands of Rupees										
Interest income	117,115	88,586	137,807	100,002	148,539	104,648	149,481	138,554	546,759	431,790
Less: Interest expense	82,451	88,589	87,811	80,246	97,487	89,291	92,660	81,556	357,067	339,682
Net interest income	34,664	(3)	49,996	19,756	51,052	15,357	56,821	56,998	189,692	92,108
Fee and commission income	1,757	331	2,472	487	2,594	970	1,328	4,856	7,260	6,562
Other operating income	20,738	6,618	20,124	6,940	10,536	3,030	9,832	12,065	62,651	28,652
Total operating income	57,159	6,946	72,592	27,183	64,182	19,357	67,981	73,919	259,603	127,322
Less: Net impairment charges/ (reversal) on financial assets	(3,870)	1,824	8,670	1,614	17,157	19,395	62,188	40,543	85,389	94,900
Net operating income	61,029	5,122	63,922	25,569	47,025	(38)	5,793	33,376	174,215	32,422
Less: Personal expenses	27,948	21,901	32,230	24,367	33,935	23,332	34,367	26,942	127,248	96,543
Depreciation & amortisation	1,544	1,244	1,652	1,292	1,726	1,353	1,864	1,151	6,786	5,040
Other expenses	28,115	23,973	28,533	25,702	28,766	27,704	36,865	27,316	122,794	79,364
Operating profit / (loss) before taxes on financial services	3,422	(41,996)	1,507	(25,792)	(17,402)	(52,427)	(67,303)	(22,033)	(82,614)	(148,525)
Less: Taxes on financial services	-	-	7,922	-	2,547	-	176	-	9,328	-
Operating profit/ (loss) after taxes on financial services	3,422	(41,996)	(6,415)	(25,792)	(19,949)	(52,427)	(67,479)	(22,033)	(91,942)	(148,525)
Less: Net tax expense	-	-	-	-	-	-	1,742	-	1,742	(213)
Profit / (loss) for the period	3,422	(41,996)	(6,415)	(25,792)	(19,949)	(52,427)	(69,221)	(22,033)	(93,684)	(148,312)
Basic profit / (loss) per ordinary share - (Rs)	0.05	(0.62)	(0.10)	(0.38)	(0.30)	(0.78)	(1.03)	(0.33)	(1.38)	(2.20)



DECADE AT A GLANCE

Year ended 31st March

In thousands of Rupees

FINANCIAL CAPITAL

Operating results

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Interest income	546,759	431,790	365,433	377,193	659,707	750,661	640,259	492,823	550,215	501,796
Interest expenses	357,067	339,682	342,347	281,622	475,897	591,995	425,598	301,641	383,609	387,053
Net interest income	189,692	92,108	23,086	95,571	183,810	158,666	214,661	191,182	166,606	114,743
Impairment charges for loans and receivables and other losses	85,389	94,900	40,428	68,842	264,238	229,171	66,776	49,827	237,218	44,397
Other operating expenses	122,794	79,364	88,189	74,451	149,702	104,757	177,045	102,283	82,331	48,201
Profit/Loss before tax	(91,942)	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)	(89,740)	106,245	(215,320)	(14,286)
Profit/Loss for the year	(93,684)	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)	(90,894)	92,740	(202,500)	(20,409)
Return on assets (ROA)	-3.22%	-4.64%	-5.65%	-2.19%	-6.99%	-5.14%	-2.41%	2.80%	-5.97%	-0.71%
Cost to income ratio (%)	100%	111%	143%	118%	108%	106%	111%	106%	92%	92%

Financial position

Cash, balance with banks & reverse repo	226,281	289,945	313,065	477,313	399,141	231,787	168,791	126,493	47,557	40,129
Loans and Receivables	2,504,264	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
Investments in subsidiaries	-	-	-	-	-	-	-	-	287,089	298,089
Total assets	2,893,383	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
Borrowings	-	-	350,000	-	24,940	49,960	227,143	451,737	2,929,063	2,028,679
Deposits from customers	2,434,733	2,455,586	2,396,177	2,841,104	3,546,680	4,237,340	2,675,424	1,376,871	-	-
Total equity	142,959	215,691	363,454	553,339	642,894	880,008	1,268,155	893,551	470,553	673,653
Total liabilities and shareholder's funds	2,893,383	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

Financial cash flows

Cash flows from operating activities	(351,023)	(621,006)	(977,734)	(386,341)	289,680	899,854	161,375	(336,701)	(609,696)	(431,295)
Cash flows from investing activities	4,697	1,063,789	290,362	457,008	(96,929)	(317,793)	(8,235)	403,148	(4,198)	(163,652)
Cash flows from financing activities	160,075	(354,465)	354,465	(24,940)	(25,020)	(177,183)	(224,594)	(79,286)	709,656	589,577
Total net cash inflows/outflows	(186,252)	88,318	(332,907)	45,726	167,730	404,878	(71,453)	(12,839)	95,762	(5,370)

Statutory ratio

Capital adequacy ratio

Core capital ratio (required min - 6%) (%)	4.85%	8.69%	-6.84%	-0.73%	2.26%	9.54%	19.31%	32.11%	N/A	N/A
Total risk weighted capital ratio (required min -10%) (%)	4.82%	8.68%	-6.85%	-0.74%	2.25%	9.53%	31.67%	33.36%	N/A	N/A

HUMAN CAPITAL

Number of employees	123	124	118	110	96	117	155	124	123	74
Profit before tax per employee	(747.50)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)	(579)	857	(1,751)	(193)
Employees' salaries & benefits	127,248	96,543	92,499	79,487	79,135	88,926	117,442	91,590	39,602	37,448

DECADE AT A GLANCE

Year ended 31st March	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
In thousands of Rupees										
RELATIONSHIP CAPITAL										
Number of branches	10	10	10	10	10	10	10	10	10	8
Number of shareholders	10,089	10,133	10,182	10,345	10,530	11,335	11,824	12,465	11,207	11,036
Number of ordinary shares	84,350	67,500	67,500	67,500	67,500	67,500	67,500	67,500	37,500	37,500
Earnings per share -Company (Rs.)	(1.38)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)	(1.35)	1.88	(5.42)	(0.66)
Net assets value per share (Rs.)	1.69	3.20	5.38	8.22	9.52	13.03	18.79	13.24	12.28	17.7
Market price per share (Rs.)										
Highest	13.50	21.00	24.0	30	29.3	17.1	17.9	42	35.9	61.75
Lowest	8.20	11.00	9.4	11.4	16	10.4	11.6	12	19.9	23.5
Closing	9.20	11.00	13.9	12	23.9	16.9	13.5	12.9	23.5	23.5
Market capitalisation	776,020	742,500	938,250	810,000	1,613,250	1,140,750	911,250	870,750	881,250	881,250
Price earning ratio (PE) (Times)	-	-	-	-	-	-	-	6.86	-	-
Dividend per share (DPS)	-	-	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	10,395
Gross ordinary dividend	-	-	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-
Dividend cover (Times)	-	-	-	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-	-	-	-	-	1.91%
Debt equity (Times)	19.24	12.57	8.53	5.50	5.77	5.03	2.63	2.27	6.88	3.57
Return on equity (ROE) (%)	-52.24%	-51.22%	-43.49%	-14.52%	-44.32%	-23.73%	-8.41%	13.60%	-35.40%	-3.60%
Total liabilities	2,750,424	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

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	9,339	1,390,091	1.66	9	1,760	0.00	9,348	1,391,851	1.66
1,001 - 10,000	631	1,984,680	2.35	6	17,500	0.02	637	2,002,180	2.37
10,001 - 100,000	88	2,464,444	2.92	3	188,588	0.22	91	2,653,032	3.14
100,001 - 1,000,000	9	2,376,689	2.82	1	206,000	0.24	10	2,582,689	3.06
1,000,001 & Above	3	75,720,248	89.77	0	0	0.00	3	75,720,248	89.77
	10,070	83,936,152	99.52	19	413,848	0.48	10,089	84,350,000	100.00

Categories of shareholdings - Individuals/Institutions

Year ended 31st March	2019			2018		
	No. of shareholders	No. of shares	(%) of shareholding	No. of shareholders	No. of shares	(%) of shareholding
Individual	9,951	7,256,294	8.60	9,990	7,311,962	10.83
Institutions	138	77,093,706	91.40	146	60,188,038	89.17
Total	10,089	84,350,000	100.00	10,136	67,500,000	100.00

Categories of shareholdings - Resident/Non-Resident

Year ended 31st March	2019			2018		
	No. of shareholders	No. of shares	(%) of shareholding	No. of shareholders	No. of shares	(%) of shareholding
Resident	10,070	83,936,152	99.51	10,117	67,026,787	99.30
Non-resident	19	413,848	0.49	19	473,213	0.70
Total	10,089	84,350,000	100.00	10,136	67,500,000	100.00

Share Information

Year ended 31st March	2019	2018	2017	2016	2015
Market value of shares					
Highest price during the year (Rs.)	13.50	21.00	24.00	30.00	29.30
Lowest price during the year (Rs.)	8.20	11.00	9.40	11.40	16.00
Closing price (Rs.)	9.20	11.00	13.90	12.00	23.90
Investor ratios					
Price earnings ratio	-	-	-	-	-
Net asset value per share (Rs.)	1.69	3.20	5.38	8.20	9.52
Share trading					
Number of transactions	1,105	1,411	1,645	2,863	3,054
Number of shares traded	658,569	1,136,896	1,659,566	10,376,995	13,235,837
Value of shares traded (Rs.'000)	7,108	18,254	32,798	241,262	317,620
Market capitalisation (Rs.'000)	776,020	742,500	938,250	810,000	1,613,250

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		No of shares	
	2019	%	2018	%
People's Bank	33,856,246	40.14%	33,856,246	50.16%
People's Leasing & Finance PLC	25,014,002	29.66%	25,014,002	37.06%
Sterling Capital Investments (Pvt) Ltd	16,850,000	19.98%	-	0.00%
Mr. L. De Fonseka	1,000,000	1.19%	1,000,000	1.48%
Mr. H.V. Pakianathan	340,993	0.40%	338,591	0.50%
People's Leasing & Finance PLC/ Dr. H.S.D. Soysa & Mrs. G. Soysa	309,377	0.37%	211,608	0.31%
HSBC International Nominees Ltd-SSBT-Deutsche Bank AG Singapore	206,000	0.24%	206,000	0.31%
Mr. Z.G. Carimjee	196,158	0.23%	196,158	0.29%
Mr. H. Beruwalage	116,200	0.14%	116,200	0.17%
Richard Pieris Financial Services (Pvt) Ltd/ Mr. C. Thalagahawatte	105,984	0.13%	105,984	0.16%
Mr. H.P.G.N Pathirana	104,890	0.12%	-	0.00%
Mr. B.W. Kundanmal	102,100	0.12%	102,100	0.15%
Mrs. R.D. Jayawardana / Mr. S.Munaweera	100,987	0.12%	100,987	0.15%
Mr. P.K. Biswas	100,000	0.12%	100,000	0.15%
Asha Financial Services Limited/ Mr. C.N. Pakianathan	92,975	0.11%	92,975	0.14%
Mr. A.H. Munasinghe	84,084	0.10%	84,084	0.12%
Mrs. R.D. Jayawardana	77,667	0.09%	77,667	0.12%
Mr. S. Munaweera / Mrs. R.D. Jayawardana	77,667	0.09%	77,667	0.12%
Mr. M.D.W.J.A Gunathilake	77,021	0.09%	77,021	0.11%
People's Leasing & Finance PLC/ L.P. Hapangama	76,335	0.09%	-	0.00%
	78,888,686	93.53%	61,757,290	91.50%

Directors'/CEO's Holding in Shares as at 31st March	Position	No of Shares	
		2019	2018
Mr. Hemasiri Fernando	Chairman	Nil	Nil
Mr. N.V. Kumar	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
Mrs. R.P.N. Premalal	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 2019 was 29.02% (11.30% as at 31st March 2018) and number of shareholders representing the public holding was 10,086 (10,133 as at 31st March 2018). The float adjusted market capitalization as at 31st March 2019 was Rs: 225,201,004/- (Rs: 83,902,500/- as at 31st March 2018)

OUR SERVICES

Deposit Division

Fixed Deposit and Savings

SFIDA – Savings & FD in Local Currency

Asset Finance Division

Short/Medium – Term Loans

Personal Loans

Consumer Loans

Bank Guarantees

Leasing of Vehicle and Equipment

Margin Trading

Pawning

Gold Loans

Real Estate

Sale of Property Development

Owner Behalf sale

Branch Network

Kurunegala

183C, 02nd Floor, Colombo Road, Kurunegala

Tel: 037 7389090-3 Fax: 037 2220911

Matara

68, Anagarika Dharmapala Mawatha, Matara

Tel: 041 7389091-3 Fax: 041 2220700

Negombo

51A, Thammita Road, Negombo

Tel: 031 7389090-3 Fax: 031 2228577

Avissawella

75, Yatiyantota Road, Avissawella

Tel: 0367389091-5 Fax: 036 2233520

Matugama

74B, Neboda Road, Matugama

Tel: 034 7212933 Fax: 034 2243869

Elpitiya

10/5, Pituwala Road, Elpitiya

Tel: 091 7214505-8 Fax: 091 2290499

Kandy

145, Kotugodella Street, Kandy

Tel: 081 7389090-3 Fax: 081 2200798

Trincomalee

118, N.C Road, Trincomalee

Tel: 026 7389090-3 Fax: 026 7389094

Anuradhapura

304, Maithripala Senanayake Mw, Town Hall Place, Anuradhapura

Tel: 025 7389090-3 Fax: 025 7389094

Gampaha

64, Quenns Mary's Road, Gampaha

Tel: 033 7213414/16 Fax: 033 2233633

Wellawatte Pawning Center

118D, Galle Road, Wellawatte

Tel: 011 7500580-3 Fax: 011 7500584

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Thirty Fifth (35th) 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 26th September 2019 at 9.00 a.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 2019 together with report of the Auditors thereon.
2. To reappoint Messrs KPMG Ford Rhodes, Thornton & Company, Chartered Accounts, 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 2020.
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



Corporate Services (Private) Limited

Company Secretary
PEOPLE'S MERCHANT FINANCE PLC

Colombo, on this 22nd day of August 2019

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 Company, No:21 Nawam Mawatha, Colombo 2, not later than 48 hours prior to the time appointed for the holding of the meeting.

Colombo, on this 22nd day of August 2019

PROXY FORM

Form of Proxy

I/Weof
being *a shareholder/shareholders of People's Merchant Finance PLC, hereby appoint *Mr/Mrs/Miss (holder of
 N.I.C. No.....of
or failing *him/her

- | | |
|-------------------------------------|----------------|
| (1) Mr. Chandula Abeywickrema | or failing him |
| (2) Mr. Duleep Daluwatte | or failing him |
| (3) Mr. Channa Manoharan | or failing her |
| (4) Mr. K. Rangana Pubudu Madusanka | or failing him |
| (5) Mr. Rasitha Gunawardana | or failing him |
| (6) Mrs. Gloria Kodagoda | or failing him |

as *my/our proxy to attend and vote/speak for *me/ us on *my/our behalf at the Thirty Fifth Annual General Meeting of the Company to be held on the 26th day of September 2019 at 9.00 a.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 2019 together with report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To reappoint Messrs KPMG, Chartered Accounts, 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 2020.	<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 2019

.....
 Signature of shareholder

.....
 Shareholder's N.I.C./PP/Co.Reg.No.

- Note:**
1. Proxy need not be a member of the Company.
 2. Instruction as to completion of this Form of Proxy are given overleaf.
 3. *Please delete inappropriate words.

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

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 has been transferred to Diri Savi Board with effect from July 02, 2018

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 Address: www.peoplesmerchant.lk

Company Secretary

Corporate Services (Pvt) Limited
216, de Saram Place,
Colombo 10
Telephone: +94114605100
Fax: +94114718220

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.

Branch Offices

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

Board of Directors & Board Sub-Committees

Board of Directors

Mr. C.P. Abeywickrema - Chairman
Mr. D.N. Daluwatte
Mr. C.S. Manoharan
Mr. K.R.P. Madusanka
Mr. G.B.R.P. Gunawardana
Mrs. Gloria Kodagoda

Integrated Risk Management Committee

Mr. C.P. Abeywickrema - Chairman
Mr. C.S. Manoharan
Mr. D.N. Daluwatte
Mr. U.N. Gunasekara - CEO
Ms. Muditha Jayawickrema, DGM-Legal & HR
Mr. Charith Guneratne, DGM- Credit & Asset Finance

Board Audit Committee

Mr. C.S. Manoharan - Chairman
Mr. K.R.P. Madusanka

Related Party Transactions Review Committee

Mr. C.S. Manoharan - Chairman
Mr. K.R.P. Madusanka

Remuneration & Nomination Committee

Mr. C.P. Abeywickrema - Chairman
Mr. C.S. Manoharan
Mr. K.R.P. Madusanka

Corporate Management

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

Bankers

People's Bank
Pan Asia Bank

Subsidiary Company

PMB Services Limited

Vehicle Yards

No. 21, Nawam Mawatha, Colombo 02,
Sri Lanka.
Avinro Motors, Hiripitiya Road, Wellawa,
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.

Credit Rating

[SL]B; rating put on watch with developing implications by ICRA Lanka Limited

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