



**Annual Report 2019/20**

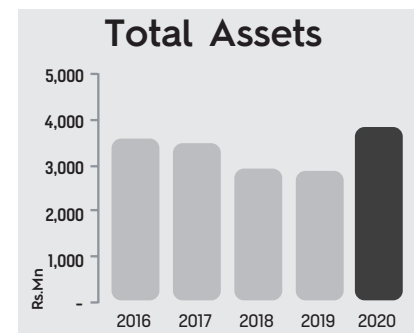
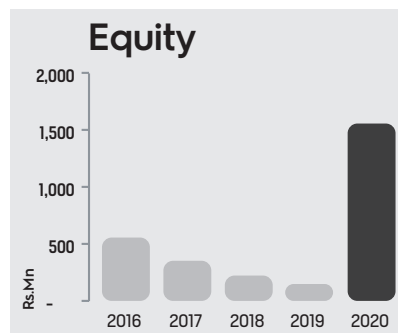
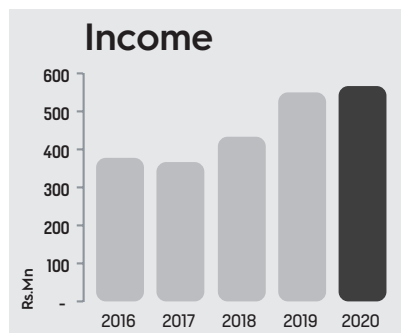


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## FINANCIAL HIGHLIGHTS

In thousands of rupees For the year ended 31st March	Company			Group		
	2020	2019	Change (%)	2020	2019	Change (%)
Income	563,581	546,759	3.08	563,581	546,759	3.08
Loss before tax	(79,954)	(91,942)	14.99	(80,041)	(91,017)	13.71
Loss for the year	(80,086)	(93,684)	16.98	(80,173)	(92,759)	15.70
Loss per share (Rs)	(0.41)	(1.38)	236.59	(0.41)	(1.37)	234.15
Return on assets (%)	(2.39)	(3.22)	0.83	(2.39)	(3.19)	0.80
Return on equity (%)	(9.45)	(52.24)	42.80	(9.46)	(51.87)	42.41
<b>As at 31st March</b>						
Total Assets	3,814,942	2,893,383	31.85	3,815,192	2,893,639	31.85
Equity	1,552,501	142,958	985.98	1,552,392	142,936	986.07



## **Vision**

"Service Excellence in Financial Services whenever  
wherever"

## **Mission**

"Enrich the lives of more people in more places through  
inspired people"

## **Values**

### **Integrity**

We will always be adhered to utmost ethical standards, and by honoring our commitments. We are dedicated to the practice of choosing to be forthright and honest; this is who we are.

### **Relationships**

We seek to establish mutually beneficial, caring relationships with all our stakeholders based on trust and the desire for mutual gains.

### **Respect**

We consistently seek to treat others as we want to be treated.

### **Community**

We embed ourselves in Sri Lankan communities and we take their practices very seriously. We recognize our responsibility to respect all good practices of local communities.

### **Pursue Excellence**

We will cultivate excellence by challenging ourselves with courage and confidence. We will strive to deliver an outstanding experience through our unrivaled service.

## CHAIRMAN'S STATEMENT



With the entry of the Sterling Group, PMF advanced with our planned organisational restructuring. One of the key strategies for PMF was to do away with redundant legacies and modernise the Company' business processes to become a financial Company able to compete in the modern era.

### 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 2019/20. The preceding year has been one of changes and challenges. PMF began the financial year on a high note which marked the advent of our new major shareholder, Sterling Capital Investments (Private) Limited (SCIL) into the PMF fold. However, not even one month into the new financial year and the country was devastated by the Easter Sunday attacks. Despite such destruction, we emerged stronger as one people working together for a better tomorrow, while honouring those who had lost their lives and loved ones. In the same vein, PMF also continued pursuing our strategic plans bringing together our internal team and external stakeholders to move forward and prosper.

### Putting in place new foundations

With the entry of the Sterling Group, PMF advanced with our planned organisational restructuring. One of the key strategies for PMF was to do away with redundant legacies and modernise the Company' business processes to become a financial Company able to compete in the modern era.

Thus, we completed the evaluations of our business processes, policies, and people and developed cohesive strategies to develop the potential of PMF. As the key resource who would lead the future strategies of PMF, our first focus area was on restructuring our human resource function. We looked for new talent and brought in highly experienced industry experts for key positions within the Company. This new leadership team are now well-immersed in the Company's business mandate and are ready to drive tomorrow's success. We also reviewed HR processes and systems and have started upgrading these to suit our new strategic plans.

Simultaneously, we reviewed and evaluated our product portfolio to identify its effectiveness and efficiency in earning revenue, being profitable, and meeting customer needs. This analysis has enabled us to identify bottlenecks and plan enhancements to existing products, while also finding new possibilities for future innovative product introductions. Plans also include leveraging on digital technology to offer services which are contactless and digitally efficient for the tech-savvy customer.

### Towards a new business model

In the previous financial year, PMF embarked on the path to integrate digital technologies to meet the needs to the changing the Non-Bank Financial Institutions (NBFI) sector landscape and remain competitive in the marketplace. As such, during the year under review the Company made strides in traversing this path by focusing on technological advancements to strengthen internal efficiencies and derive long term cost benefits. Currently, PMF is in the final stages of implementing a new Core Banking System aligned with this aim while bringing all internal processes under one platform, thereby enabling a more effective business model.

Long term collaborations and partnerships is another focus of PMF's new business model. To achieve a unification between advanced technologies and strategic business growth within the pressured sector operating environment, the Company commenced evaluating strong partnership prospects for long term sustainability. However, the emergence of the COVID-19 pandemic slowed down this process. However, PMF foresees such partnerships becoming more critical for the industry

as the uncertainties due to the pervasiveness of the COVID-19 pandemic continues to impact business growth in the near term.

## Surviving the challenging times

Over the years, PMF has faced many challenges, and continued to remain stable serving our customers in an ethical and transparent manner. However, the financial year under review brought with it several challenges at a time when the Sri Lankan economy was on a downward growth trend. While the Easter Sunday attacks had a negative impact on the Company's achievement of business objectives in the first half of the year, the recovery towards the end of 2019, which resulted in positive business sentiment, was brought to a sudden halt from the emergence of the COVID-19 pandemic globally. While the relatively small size of PMF enabled us to put in place control measures to manage this crisis while the country was in lockdown there was an overall negative impact on cashflows due to delayed repayments which continued forward to the financial year 2020/21. Furthermore, following the government directive, PMF also offered financial relief to our customers which further worsened the earning potential for the year under review. Yet, PMF was able to weather these unexpected developments in an acceptable manner, mainly due to our strong liquidity position and the added financial backing from SCIL.

PMF also face a negative business impact from the government mandated ban on import of more vehicles in 2020. As a leasing Company with a large vehicle portfolio, the restrictions imposed on vehicle imports is expected to have a long-term impact on PMF's bottom-line. While we shall

endeavour to manage this business segment with the assistance and experience leveraged from SCIL, there is need for finding new avenues of growth while re-aligning our product portfolio towards a balanced-risk portfolio in the future.

## A way forward

Considering the prevailing global and local economic situation, the forthcoming financial year is expected to bring new challenges as well as opportunities. While prediction remain for restricted global business growth due to moderated consumption and increasing unemployment as corporates enact survival strategies in the short to medium terms, we have seen dynamic changes in many industrial spheres. With social distancing and limited access to traditional methods of shopping, consumer lifestyles have undergone drastic changes. While digital technology adoption has been on the rise in recent years, since March 2020, there has been an unprecedented increase in digital users and digital consumers. These changes have resulted in an increase in small and start-up business offering products and services to cater to the novel and customised needs of consumers during this pandemic period. In Sri Lanka too there has been a surge of such business opportunities with digital platforms and customised services gaining popularity over the last few months. For PMF, which is currently in an evolving business growth phase, there is opportunity to re-define our business model and venture forth to support these new small business entrepreneurs.

The NBFi sector will also continue to face many challenges with the prolonged restrictions on vehicle imports drastically impacting many leading leasing companies in the near term. Furthermore, the

prevailing financing relief measures for consumers, coupled with subdued economic conditions will cause added pressure on industry revenue and profitability. To curtail further deterioration of industry expansion and manage key indicators, expectations are high for the regulator and key industry players to work together to fulfill the financial expectation of customers and obligation to business sustainability and stakeholders in a mutually beneficial manner. This will not only help sector sustainability but also assist in the future economic growth of the nation.

## Appreciations

I take this opportunity to record my appreciation for the support and guidance given to me by the Board of Directors. I welcome aboard PMF's new CEO, Mr. Nalin Wijekoon, and the new key management team and wish them every success in the coming years. It has been my pleasure to remain at the helm of PMF, and guide and direct the Company's future journey. I also take this opportunity to thank all employees, customers, shareholders, investors, industry regulators, and business partners for continuing to believe in PMF and supporting us in these unpredictable times.



**Chandula Abeywickrema**

Chairman

27th August 2020

## CHIEF EXECUTIVE OFFICER'S MESSAGE



The strategic synergies of the Sterling Group enabled the Company to focus on internal restructuring which has progressed according to plans with the recruitment of new senior level management and the review of internal systems and processes to lead the Company's future growth.

The year 2019/20 was a year of new beginnings and new challenges for People's Merchant Finance PLC (PMF). The Company began the financial year by successfully entering a partnership with Sterling Capital Investments (Pvt) Limited with a strategic mandate to pursue new opportunities and provide innovative solutions to our customers. To prepare for the next level of growth, the first step was for PMF to launch an extensive organisational restructuring drive to align the business to meet the future strategic mandate. We began these plans on a positive note, but the shock of the Easter Sunday attacks and its reverberating impact on consumer and business sentiment and resultantly, the Sri Lankan economy caused PMF to slow our planned strategic implementations in the first half of the year.

The recovering economic climate towards the latter part of the financial year, was viewed positively, with expectation for a robust business climate in the forthcoming financial year. However, the discovery of the coronavirus and the sudden halt to all economic activity in March 2020, which then continued well into the new financial year, has caused much upheaval and postponement of many of the Company's plans in the short term. Still, PMF endeavoured to move forward with our restructuring efforts while concentrating on

maintaining business operations in an unpredictable operating climate with a view to meeting the Company's long-term strategic mandate.

### Macroeconomic Overview

The year 2019 proved to be another slow growth year for the Sri Lankan economy. The combined impact of the Easter Sunday attacks, political uncertainty, targeted policy measures and adverse weather conditions resulted in subdued consumer demand and business confidence for most of 2019. Thus, economic growth in 2019 was only 2.3% compared to the 3.3% growth achieved in 2018, continuing the downward growth spiral seen over the last few years. However, the muted demand conditions had a positive impact on inflation levels which, although higher than rates of 2018, were still maintained between 4% to 6% during 2019. The policy measures implemented by the Central Bank of Sri Lanka (CBSL) to reduce the pressure on the balance of payments (BOP) and to curb the depreciation of the Sri Lankan rupee while further subduing economic activity yielded positive results. As such, the Sri Lankan rupee was more stable in 2019 and recorded a 0.6% appreciation against the US dollar compared to the double-digit depreciation recorded in 2018. However, post the presidential election in November 2019, Sri Lanka began to recover economically, and expectations remained for better 2020, until

the emergence of the COVID-19 pandemic on a global scale in March 2020 resulting in mass scale lockdowns globally to curb the spread of the virus and maintain global economic stability.

### Industry Outlook

The slowdown in economic activity had a negative impact on Sri Lanka's Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) sector. The sector's growth, credit quality, and profitability rates declined while the Non-Performing Loans (NPL) ratio increased significantly during the year. Despite the slower growth, LFCs and SLCs managed to maintain the asset base which realised a marginal growth. The sector's capital and liquidity buffers were also maintained at levels above the regulatory minimum level requirements. The sector also successfully contributed to Sri Lanka's economic growth through branch network expansions and by focusing on technology-based product offerings to customers. However, the prolonged business disruption due to the COVID-19 pandemic has put additional pressure on LFCs and SLCs further reducing margins and interest rates while muting loan growth and increasing loan impairment charges which will impact sector growth and performance in 2020.

### Business Performance

The strategic synergies of the Sterling Group enabled the Company to focus on internal



restructuring which has progressed according to plans with the recruitment of new senior level management and the review of internal systems and processes to lead the Company's future growth. The Company's small size and strong liquidity position enabled by the strategic decision to not mortgage assets and not obtain borrowings was an advantage in these turbulent times. As such, PMF was able to use the funding from the new investment to pursue our restructuring initiatives, increase Lending of vehicle Leases and Loans supplement operational costs, and maintain the financial stability of the Company. As at 31st March 2020, the Company's net assets stood at Rs. 1.5 billion, while the liquidity ratio was 68%. The Company also had no significant borrowing and Surplus fund invested in Time Deposits in Banks & Financial institutions and investment in securities.

While the business operating environment proved be challenging, PMF managed to sustain its business performance for the year under review. Our focused efforts ensured the maintenance of income levels and a reduction of losses while sustaining the business for future growth potential. Thus, the Company's revenue was Rs. 630 million for the year ended 31st March 2020, while net losses reduced by 17% compared to the financial year ended 2018/19.

The Company also focused on implementing methods to curb operational costs by 5.8 million. This concentrated strategy was a windfall as it enabled us to operate a lean organisation with limited resources as we approached the new financial year impacted by COVID-19.

### Putting in place a Strong Governance Framework

The corporate restructuring process also encompassed the need to review and upgrade the Company's governance and risk processes. The change in leadership together with the strong

governance processes inherited from the Sterling Group enabled PMF to put in place a Board-level sub-committee and upgrade the corporate governance framework to meet all regulatory requirements. The Company also benefited from the regulatory decision to reduce the sector's liquid assets deposit base, considering the smaller size of the Company and resultantly smaller deposit base compared to competitors. In addition, during the year under review, PMF began the process of evaluating the risk structures of the Company to analyse strengths and weaknesses and identify new risk appetites to enable us to compete more effectively in the marketplace.

### The Way Forward

While the strategic focus for the year under review revolved around organisational restructuring and maintaining financial stability, the new leadership team used this period to put in place a 5-year long range plan for PMF's sustainable growth by leveraging on the strengths of the Sterling Group. A key element of this plan is to leverage technology and provide digital-based services which is the current trend driving the financial sector. The implementation of this strategic plan will also result in enhancing business process efficiencies, developing an innovative product portfolio, and providing digital customer services to gain a greater competitive advantage in the marketplace.

The relief measures and assistance provided by the government and industry regulators considering the coronavirus pandemic will also be advantageous to PMF in the forthcoming year. The government proposed economic stimulus packages and policy measures directed at easing monetary pressures in the economy is expected to contribute to increased consumption. In addition, the support given by the Sri Lanka Deposit Insurance and Liquidity Support Scheme (SLDILSS) to LFCs with acceptable collaterals to facilitate urgent liquidity needs has

been received very positively by industry players. These measures are expected to stimulate industry growth and have a positive impact on sector NPLs. PMF will also benefit from these regulatory measures as it will impact our future business prospects. In the short term to medium term, PMF plans to focus on growing the gold loan portfolio aided by the stable gold prices. The Company views the gold loan portfolio playing a pivotal role in lending asset base growth in the future. Further plans are in place to grow the retail business by effectively using existing branches and embarking on an innovative channel strategy supported by digital platforms and technologies.

### Appreciations & Acknowledgments

I take this opportunity to thank our chairman Mr. Chandula Abeywickrema, the Sterling Group, the Board of Directors, and the management team for welcoming me and supporting me as I take on the mantle to lead PMF as the new CEO. I look forward to working with the management team as we embark on the exciting new path planned for PMF and await the celebration of our future achievements. Everything we plan would be impossible to successfully implement without all 117 of the Company's employees. I am pleased and honoured to work with such talented people who are the future of the Company. In closing, I would like to thank our regulators, customers, investors, and all other stakeholders for your continued support of the leadership team's decisions in the short term aimed at enhancing long term success.



**Nalin Wijekoon**  
Chief Executive Officer  
27th August 2020

## PROFILES OF DIRECTORS



### Mr. Chandula Abeywickrema

#### Chairman

Mr. Abeywickrema was appointed as a Non-Executive, Independent Director with effect from June 26, 2019 and is the Chairman of People's Merchant Finance PLC. He is the Co-Founder of 'Ath Pavura' the first ever TV reality show for Social Entrepreneurs and Impact Investors in Sri Lanka, telecasted on the largest national TV network and also the Founder and Chairman of Lanka Impact Investing Network (Private) Ltd (LIIN) , Sri Lanka's very first impact investing firm focused on channeling private equity funds with the purpose of investing and providing business development support to nurture a well-developed eco system of social entrepreneurs across the country.

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. As Deputy General Manager - Retail & Development Banking, he spearheaded the retail and development banking strategy which provided management and strategic direction in steering HNB's SME and Microfinance portfolios to greater heights. During his tenure, HNB was named the best retail bank in Sri Lanka by Asia Money for 7 consecutive years, until his retirement in 2013 after serving the bank for 25 years. Subsequently he 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 symposiums 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 an Advisor on Financial Inclusion to ABA and has served on a number of Boards of Financial Institutions, both local and international. 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 Undeserved Settlements, a public and private sector collaborated credit guarantee fund to support low income housing finance, and serves as a member of the Board Directors of World Vision Lanka.



### Mr. Duleep Daluwatte

Mr. Daluwatte was appointed as a Non-Executive, Non Independent Director with effect from April 03, 2019. 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 in Banking & Non-Bank Financial Services. Key positions held during his tenure of office 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 Stuart & Company Limited, Group CFO/ Group Finance Director of George Stuart & Company Limited and Deputy General Manager - Corporate Finance of Hatton National Bank PLC .

Further, Mr. Daluwatte has served as the Vice Chairman of the 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. A Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Chartered Institute of Management Accountants, UK, a Chartered Global Management Accountant (USA), and a member of the Chartered Institute of IT UK (MBCS), he has attended Executive Development programs at Cranfield University

Business School in UK. He is a life member of the Association of Professional Bankers of Sri Lanka, member of the Sri Lanka Institute of Directors and is currently a Non-Executive Director of Industrial Asphalt (Ceylon) PLC.



### **Mr. Rangana Madusanka**

Mr. K. R. P. Madusanka was appointed as a Non-Executive, Non Independent Director with effect from 26th June 2019. He is the Chief Executive Officer of Sterling Automobiles Lanka (Pvt) Ltd.

Having started his career at Ernst & Young as an Audit trainee he progressed over 08 years in the Audit & Assurance sector by becoming a Senior Manager of BDO Partners having gained valuable experience in Business Valuations, Due Diligence, Forensic Audits, Internal Audits, Project Proposal Formulation, Business Process Outsourcing and Financial Advisory Services. His expertise is widespread covering a range of industries from banking & finance, insurance, micro finance, plantations, manufacturing, general trading, apparel, not for profit organizations and service oriented organizations to name a few.

He has a proven track record of over 10 years in the corporate world having held leadership positions in both leading local and overseas entities at senior and strategic level. He was Group Accountant and Senior Accountant at Durdans Hospital and Asiri Surgical Hospital respectively. Further, he strengthened his senior management skills by joining Arabian Sugar Company B.S.C. in Bahrain, the only sugar refinery situated in the Kingdom of Bahrain and one of the biggest sugar suppliers to the Gulf region as the Group Finance Manager.

Mr. Madusanka is an Associate member of the Institute of Chartered Accountants of Sri Lanka and holds a MBA from Cardiff Metropolitan University of UK. He is also an Associate member of the Institute of Professional Finance Managers of UK and an Associate member of the Association of Accounting Technicians of Sri Lanka.



### **Mr. Channa Manoharan**

Mr. Manoharan was appointed as a Non-Executive, Independent Director with effect from 26th June 2019. He counts over 25 years of extensive experience in public accounting practice and management consulting and is at present the Advisory & Consulting Leader/Chief Operating Officer of PricewaterhouseCoopers Sri Lanka & Maldives.

A Fellow of the Institute of Chartered Accountants of Sri Lanka and the Institute of Certified Management Accountants of Sri Lanka, he is also the Chairman/Director of the Sri Lanka Association of Software & Service Companies (SLASSCOM).

Previous Appointments held by him include, Vice Chairman / General Council Member – Sri Lanka Association of Software & Service Companies (SLASSCOM), Member of Council – The Institute of Chartered Accountants of Sri Lanka, Honorary Treasurer – Organization of Professional Associations of Sri Lanka and Committee Member – Taxation Steering Committee of the Ceylon Chamber of Commerce.



### **Mr. Travis Waas**

Mr. Waas counts more than 3 decades of experience in the financial services sector having commenced his career at Lanka Orient Leasing Company Ltd in 1987.

An alumnus of the University of Colombo with a B.Sc and a MBA from the University of North Texas, USA, he has pioneered the setting up of the leasing operations at Hatton National Bank, Vanik Inc. Ltd and Assetline Leasing Co. Ltd, where he served in the capacity of Senior Manager Leasing, Senior Vice President and Managing Director respectively.

A one time Director of the Leasing Association of Sri Lanka, he has also served as an Executive Director of the financial services cluster of the David Pieris Group, Director/CEO of Orient Financial Services Corporation Ltd and as a Non Executive Director of Capital Alliance Finance Ltd, People's Merchant Bank and LB Finance Ltd and many other companies in varied sectors.

He was involved in the restructuring of People's Merchant Finance PLC and was appointed as a Non Independent Non Executive Director with effect from June 22, 2020.

## CORPORATE MANAGEMENT

### **Mr. Nalin Wijekoon**

*Chief Executive Officer*

Mr. Wijekoon functioned as the Chairman of the Finance Houses Association of Sri Lanka (FHA) for years 2013/14 and 2014/15. He also served as a Board Director at Credit Information Bureau from 2015 to 2017. He served as the CEO of Softlogic Finance PLC from February 2013 to March 01, 2020. Prior to him being appointed as the CEO, he served as the Deputy CEO of the Company. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Fellow Member of Chartered Institute of Management Accountants, UK, Fellow Member of Sri Lanka Institute of Credit Management and a Finalist of the Institute of Bankers (Sri Lanka). He commenced his career at Peoples Bank and functioned as a Finance Officer from 1978 to 1990 before joining KMPG Ford Rhodes Thornton & Co., the Branch Manager, in Kandy, in 1990.

He also functioned as a Project Officer at DFCC Bank in 1992. He joined Vanik Incorporation Ltd as the Asst. Vice President - Finance in 1994 and served in that capacity until 2003. He has undergone numerous training programmes in Sri Lanka and overseas, including training at Harvard University, Boston, USA. He counts more than 40 years of experience in the Financial Sector.

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### **Mr. Amila Katuwawala**

*Deputy General Manager - Credit & Operations*

Amila possesses a wealth of experience spanning 18 years, working in many organizations in the Banking & Finance Sector and being a specialist in Credit approval, Credit Administration and Recoveries, Credit Risk, New Product Development, Strategic Planning, Lending Operations and Training & Development. He started his career at DFCC Bank as Trainee Credit Officer and held leadership positions in Credit & Operations at Orient Finance PLC, ICICI Bank and Softlogic Finance PLC. Amila holds an MBA from the Cardiff Metropolitan University, UK and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka (IBSL).

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### **Mr. Yasas Ariyaratne**

*Deputy General Manager - Fixed Deposits & Gold Loans*

Yasas joined the company in 2011 as DGM-Business Promotions and currently accountable for Fixed Deposits and Gold Loan business products. Before joining the company, he was employed as Regional Manager and Promotions Manager at AVIVA NDB Insurance PLC and has 5 years of experience at Bank of Ceylon. He has over 24 years of experience and exposure in Marketing, Sales, Banking and Insurance and had been extensively trained locally and internationally. Yasas 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 from INDETH Institute. He has completed AMTC Program conducted by LIMRA International USA.

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### **Mr. Bharatha Manjula**

*Deputy General Manager - HR & Administration*

Bharatha has more than 20 years of experience in Leadership and Senior Management positions in local and international organizations displaying key capabilities in IT, Quality Management, Administration, Human Resources and Dispute Resolution. He is an Associate Member of the Ceylon Hotel School Graduate Association (CHSGA), an Affiliate Member of the Institute of Personnel Management (IPM) and a Certified Internal Assessor of TATA Quality Management Services (TQMS), India. He started his hospitality career in 1992 with the Taj Group of Hotels and later joined the Lotus Hospitality Group in Dubai as Corporate HR Manager, overseeing 05 hotels. He has worked in Reed Lanka Holdings Pvt. Ltd, a highly diversified group which comprises of interest in Herbal Teas, Tea flavours, Para medical weight clinic, Diagnostic rapid test kits, Exports of Ceylon Tea, Freight, Shipping, Chemicals and Laboratory items/equipment, as Group Manager - HR & Compliance. He was the Senior Manager - HR & Administration at Bartleet Finance PLC and Head of Human Resources at Softlogic Finance PLC.

He had undergone various Training Programmes in HR, Learning & Development & Business Excellence (Quality Management) in locally & overseas. He is the First Sri Lankan qualified as an Internal Assessor of TATA Quality Management Services (TQMS), India

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### **Mr. Anuranga Indrajith Handaragama**

*Head of IT*

Anuranga is having 16 years of experience in Information Technology field in Banking & Finance Sector. He started his career from University of Colombo as an Instructor in mathematics in 1998. After serving 04 years for University of Colombo, he joined the Accounting & Finance Support Service as an Accounts Executive and later worked in the capacity of Assistant Project Manager at OpenArc System Management. Prior joining People's Merchant Finance PLC, he has worked at Virtusa as an Engineer - Technology.

He is holding a Master of Information Technology (MIT) and BSc Special Degree in Mathematics from University of Colombo and has undergone several IT courses from reputed institutions in Sri Lanka.

Further, he is a member of Chartered Institute for IT UK (MBCS), the Computer Society of Sri Lanka (MCS) and the Institute of Chartered Professional Managers of Sri Lanka (MCPM).

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### **Mr. Namal Cooray**

*Chief Manager - Business Development*

Namal has more than 14 years of experience in sales & marketing in Finance Sector. Namal holds an MBA from the Cardiff Metropolitan University, UK. He started his career from Sri Lankan Airlines as Cargo Agent and has worked in different leadership positions in Senkadagala Finance and Multi Finance. He was the Senior Manager - Marketing at Orient Finance PLC.

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### **Mr. Athula Bandaranayake**

*Chief Manager - Risk & MIS*

Athula possesses a wealth of experience in many organizations for last 16 years and being experienced in Finance, Strategic Planning & MIS. He started his career at Sun Match Company as an Accounts Clerk and held different key positions at Earl's Court Group of Companies, Assetline Leasing and Orient Finance PLC.

He holds an MBA from the University of Southern Queensland, Australia and has completed the Post Graduate Dip. In Business & Finance, Executive Dip. In Business & Accounting, Diploma in Credit Management, Certificate course in Leasing & Hire Purchase and Certificate Level of Chartered Tax Advisor. He is a member of CMA, Australia.

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### **Ms. Shyamali Pamarathna**

*Compliance Officer*

Shyamali has more than 5 years' experience in Risk & Compliance field and has started her career from Kreston MNS & Co as an Audit Trainee. Later she joined with Swarnamahar Financial services PLC as a Management Trainee and was the Risk & Compliance Officer at the time of leaving the organization. She has worked in Orient Finance PLC as Assistant Manager - Risk & Compliance prior to joining with PMF. She has completed the B.Com. Special Degree from University of Sri Jayewardenepura, Diploma in Bank Integrated Risk Management at IBSL and ICASL - Finalist.

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**Mr. Prabath Jayakody***Head of Internal Audit*

Prabath possesses more than 13 years of experience in Internal Audit. He joined the PWC as a Trainee Accountant and later, he has held different key positions in Orient Garments, PWC, MAS Holdings, Mercury Institute of Management, Asiri Hospital and he was a Consultant at People's Merchant Finance PLC. He is an Associate Member of CMA-UK.

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**Mr. Sahan Rodrigo***Chief Manager - Recovery*

Sahan is having wealth of experience in the field of Collections & Recovery in Banking and Finance Sector. He started his career at Seylan Merchant Leasing Ltd as a Banking Assistant. He has worked in Central Finance PLC as Recovery Officer and held different positions in Softlogic Finance PLC over the last 12 years. Sahan holds an MBA from the Cardiff Metropolitan University, UK, Diploma in Credit Management from the Institute of Credit Management and NCC International Diploma from University of Cambridge.

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**Mr. Uditha Nadeeshan***Accountant*

Uditha started his career from Amerasekera & Co as an Audit trainee. He has more than 10 years experience in finance and he held the Accounts Executive position in David Peiris Information Technologies Ltd, Asiri Hospital Holdings PLC and was the Accountant at Carekleen (Pvt) Ltd prior to joining with PMF. He serves the People's Merchant Finance PLC as an Accountant from Year 2015 to date.

He holds the B.Sc. Business Administration Degree from the University of Sri Jayewardenepura and finalist in ICASL.

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**Mr. Charith Dias***Chief Manager - Trade Finance*

Charith is having 16 years of experience in Banking & Finance Sector. He joined the Bank of Ceylon in 2004 as System Operator (IBCS) and later he has joined the Orient Finance PLC as Junior Executive - Accounts and was the Senior Executive - Treasury & Operations at the time leaving from the organization. He has worked in Frintex Finance Ltd as a Relationship Manager - Trade Finance prior to joining with PMF.

He has completed the Diploma in Credit Management from Institute of Bankers of Sri Lanka (IBSL) and following the CBF - Foundation Level from Institute of Bankers of Sri Lanka (IBSL).

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## MANAGEMENT DISCUSSION AND ANALYSIS

### Non-banking financial institutions (NBFI) sector

The slow performing economy in the first half of the year and the political instability, particularly in the period following Easter attacks, observed a moderate performance of the financial sector. In this setup, the Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) sector also displayed a weak performance with falling profits and increase in non-performing loans.

The performance of this sector was also challenged by the policy measures to reduce motor vehicle imports that had an impact on the vehicle financing segment, and spillover effects of the Debt Relief program launched by the Ministry of Finance in August 2018.

Key prudential indicators of the sector, including capital and liquidity levels, remained positive and above the minimum requirement, except for a few distressed/high-risk LFCs. While the Central Bank continued to monitor key prudential measures with the consideration of reviving the companies with weak financial positions, necessary actions were taken to cease or limit finance business operations of high-risk LFCs. The objective was to protect the interest of depositors and other creditors thereby ensuring the long-term stability of the financial sector.

### Performance Highlights of NBFI sector

Performance Indicators	2019	2018	2017	2016
Interest Income (Rs. Bn)	2598	241.5	231.5	188.9
Net Interest Income (Rs. Bn)	117.4	108.8	102.7	92.1
Profit After Tax (Rs. Bn)	14.5	21.4	25.8	31.5
Total Asset Base (Rs. Bn)	1,432.7	1,431.3	1,355.0	1,211.9
Total Net Advances (Rs. Bn)	1,102.7	1,137.0	1,057.1	962.7
Total Deposits (Rs. Bn)	756.7	716.8	686.7	530.7
Total Borrowings (Rs. Bn)	405.6	463.8	396.0	438.7
Capital Elements (Rs. Bn)	203.2	183.7	169.7	146.1
Net Interest Margin (%)	7.5	7.4	7.7	7.9
Return on Assets (%)	2.2	2.7	3.2	4.0
Return on Equity (%)	7.7	12.1	16.1	23.1
Gross NPA Ratio (%)	10.6	7.7	5.9	5.3
Provision Coverage Ratio (%)	56.6	57.0	64.0	65.7
Total Advances to Total Assets (%)	77.0	79.4	78.0	79.4
Core Capital Adequacy Ratio - Tier I (% of Risk Weighted Assets)	11.1	9.8	12.4	11.3
Capital Adequacy Ratio - Tier II (% of Risk Weighted Assets)	12.5	11.1	13.1	11.7

Source: Annual Report 2019, Central Bank of Sri Lanka

The Total Assets of the sector experienced a slowdown in its growth during the year. The Total Assets base stood at Rs. 1.4 Tn and grew only by 0.1%. This is compared to the 5.6% growth that was registered in 2018. When analyzing the composition of this asset base, loans and advances laid claim to 77% of the total assets. In the context of the loans and advances, finance leases represented 52.9% of the total loans and advances composition, whilst other secured loans accounted for 37% of all loans and advances.

In line with the mandatory increase of the regulatory capital requirements, the capital position of the sector also witnessed comparative growth. Fuelled by the actions taken by LFCs to increase their minimum core capital positions to be in compliance with the Rs. 2.0 Bn requirement by 01st January 2020, the equity capital of the sector increased by 10.6% and was at Rs. 203.2 Bn by the end of 2019. Further, as a result of this action, the sector's core capital stood at 11% and the total RWCAR stood at 12.5% by the end of 2019. This is in comparison to the respective corresponding levels of 9.8% and 11.1% registered by the end of 2018.

The gross non-performing ratio (NPA) increased to 10.6% by the end of 2019, in comparison to the 7.7% position registered at the end of 2018. This deteriorating position was mainly due to the slowdown in economic and lending activities that resulted from the Easter Sunday attacks and the indirect effects of the Debt Relief Program.

The net interest income of the sector during 2019 was Rs. 117.4 Bn and this represented an increase of 7.9%. Even though there was a 7.4% increase in interest expenses, the fact that interest income increased by 7.6%, ensured this net interest income growth. The net interest margin of the sector also witnessed an increase to 7.7% in 2019 from its position of 7.4% in 2018, primarily as

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a result of this net interest income increase of 7.9%. When looking at non-interest income, there was an increase of 3.4%, primarily as a result of increases in default charges and other service charges. A point to note is that non-interest expenses like administration expenses and personnel expenses experienced an increase of 15.5% in 2019, thus significantly impact into the profitability of the sector. Further, stemming from the deterioration in asset quality, the loan loss provisions made against NPAs stood at Rs.30.2 Bn, which represented a 16.2 % increase compared to its 2018 position. In the context of the bottom line of the sector, the cumulative profit after tax of Rs. 14.5 Bn represented a decline of 31.9% compared to the previous year and this was predominantly due to the increases in non-interest expenses and loan loss provisions. When compared to their positions in 2018, both the ROA and the ROE saw comparative declines to 2.2% and 7.5% respectively, signifying the downward pressure on sector profitability.

During the year, there was a reduction of the maximum interest rate caps on deposits and debt instruments imposed on LFCs. As a result of this, the sector experienced a drop in the cost of funds and also a marginal reduction in lending rates with regard to the new loans granted.

Source: Central Bank of Sri Lanka

## Sri Lanka Economy

The year under review posed unprecedented challenges for many industries in Sri Lanka. The Sri Lankan tourism industry, which recorded YoY declines in tourist arrivals throughout the year. Arrivals declined sharply in the immediate impact of the April Easter terror attack, although a gradual recovery was witnessed towards the latter part of 2019. The year under review witnessed a lower rate of economic growth when compared against the recent past, which is estimated at

2.7%. Following the impact of the Easter Sunday attacks on tourism and related activities, the growth of the service sector decelerated significantly to 2.3% in 2019 compared with 4.6% in 2018.

The finance sector felt the multiple effects that followed, as businesses went through a difficult period whilst the country tried its best to get back to restoring normalcy. Various regulatory measures were undertaken in a bid to support industries that underwent the resulting financial stress and revive economic activity in the short to midterm. While such measures will go a long way in assisting businesses in the future, the finance sector however recorded a reduced level of profitability in 2019 due to a low growth rate in credit expansion and weakening asset quality.

Sri Lanka's GDP growth decelerated to 2.3% in 2019, compared with 3.3% in 2018. The agriculture sector recorded a marginal growth of just 0.6% in 2019 compared to extreme weather conditions which caused tea and rubber cultivation, marine fishing during the year.

In contrast to the previous year, Sri Lanka's inflation was on an increasing trend during 2019. Accordingly, the inflation as measured by the National Consumer Price Index at year end stood at 6.2%. Inflationary pressure mainly came from significant increases in food prices, especially towards the latter part of the year due to supply shortages caused by adverse weather conditions. However, the reduction of the VAT rate and telecommunication levy, and removal of NBT in December 2019 had a favourable impact on the general price level.

Source: Central Bank of Sri Lanka

## CORPORATE GOVERNANCE REPORT

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 regulation.

### GOVERNANCE FRAMEWORK

People's Merchant Finance PLC's Corporate Governance framework has been designed based on the provisions of;

- Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka
- Listing Rules of the Colombo Stock Exchange.
- Code of Best Practice on Corporate Governance 2017 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (Voluntary basis)

### DEGREE OF CONFORMITY WITH CORPORATE GOVERNANCE REGULATIONS

The level of compliance with the regulations on Corporate Governance is presented under the two sections given below.

#### Section One

The level of compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008, subsequent amendments thereto issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance 2017, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Section Reference	Corporate Governance Principle	Status of Compliance	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	People's Merchant Finance PLC is headed by a well-experienced and eminent Board of Directors who provides direction and leadership to the Company and guides its activities.
<b>Responsibilities of the Board</b>			
Code A.1.2, CBSL 2.1 (a), (b)	The Board should be responsible for ensuring the formulation and implementation of a sound business strategy, values and risk management procedures and communicating same throughout the organization.	Compliant	A sound business strategy & corporate values have been put in place by the Board which guides the Company to success in all its endeavors. Integrated Risk Management Committee oversees the Risk Management aspect of the company.
Code A 1.2 CBSL 2.1 (c), (e)	Identify risks and ensure implementation of appropriate systems by the Board of Directors, review adequacy of the internal control systems and the management information system.	Compliant	An Integrated Risk Management Committee and Audit Committee have been established to ensure risk management and integrity of information systems and internal controls. Effective internal controls have been implemented by the Company. Further, effectiveness of such systems is monitored by the Board through the IRMC, internal and external auditors and improvements are implemented accordingly.
CBSL 2.1 (d)	Approving a policy of communication with the stakeholders.	Compliant	The Board has adopted and approved the policy on communication to ensure effective internal and external communication of corporate information with all stakeholders. The Company maintains a website and periodically issues press releases. Communications from stakeholders are promptly attended to.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
Code A 1.2 CBSL 2.1 (f), (g), (h)	Proper delegation of authority to the Key Management Personnel (KMP).	Compliant	The Board has identified and designated Key Management Personnel who are in a position to carry out the Company's operations and risk management processes. The KMP's job roles and areas of authority have been defined in order to enable effective oversight of the affairs of the Company within the strategic objectives of the Company.
CBSL 2.1(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 interest; 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 periodic basis changes to the policies are updated in the Corporate Governance charter. The effectiveness of the internal control framework is assessed through the internal audit and risk functions and changes made where necessary.
CBSL 2.1 (j)	ensuring that the finance Company has an appropriate succession plan for Key Management Personnel;	Not-Compliant	We have designated employees who can significantly influence policies, direct activities and exercise control over business operations and Risk Management as Key Management Personnel (KMP). A list of KMPs approved by the Board of Directors is available and Succession Plan for Key Management Personnel is being developed.
CBSL 2.1 (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives	Compliant	The Board interacts regularly with the management in order to execute and review policies and to ensure corporate objectives are met.
CBSL 2.1 (l), (m)	Understanding the regulatory environment and exercise due diligence in the hiring and oversight of External Auditors.	Compliant	The Board of Directors and the staff are continuously kept updated on regulatory developments and changes to regulations and implications. The Board Audit Committee exercises due diligence in hiring and oversight of External Auditors.
CBSL 2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this direction.	Compliant	The Board of Directors has appointed the Chairman and the CEO to People's Merchant Finance PLC to provide direction and leadership to the Company.
CBSL 2.3 Code A.1.3	There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance Company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance Company.	Compliant	The Board Corporate Governance Charter includes an appropriate procedure to enable the Board of Directors to seek independent professional advice. Board members are allowed to obtain independent professional advice as and when necessary at the expense of the Company.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 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 Director or his related parties has an interest.
CBSL 2.5	The Board shall have a formal schedule of matters specially reserved to it for decision to ensure that the direction and the control of finance company is firmly under its authority.	Compliant	The Board has a formal schedule of matters specially 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.
CBSL 2.6	The Board shall, if it considered that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of supervision of Non-Bank Financial Institution of the situation of the finance company prior to taking any decision or action.	Not applicable	No such situation has arisen during the year under review
CBSL 2.7 CBSL 10.2 (j)	The Board shall include an annual corporate governance report in the annual report and external auditors' certification should be obtained.	Compliant	The Company has included the Corporate Governance Report as required and External Auditor's certification has been obtained on the same.
CBSL 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 assessment.	Compliant	Self-assessment of each Director is performed annually and maintains records on the same.
<b>Meetings of the Board Meetings</b>			
Code A.11 CBSL 3.1	The Board shall meet twelve times a financial year at approximately monthly intervals.	Compliant	Board meetings were held at monthly intervals. The Board met 12 times during the year under review. However, due to the situation prevailed in the country as a result of Covid-19 outbreak, the Board was unable to meet on the scheduled date in March 2020 and such meeting was held on 1st April 2020.
CBSL 3.2	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.	Compliant	Schedule of items and matters to be discussed in the Board meeting are included in the agenda. Additionally, the Chairman frequently consults Directors with a view to ascertain their requirements with regard to matters for discussion.
Code A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Compliant	Directors devote adequate time for Board meetings as well as Board Sub-Committee meetings to ensure that their duties and responsibilities are satisfactorily discharged.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 3.3 Code A.6.2	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	Sufficient notice has been given to the Board Members, to ensure all Directors have an opportunity to attend. The annual calendar of meetings is adopted at the first meeting of the calendar year and any changes are agreed upon with adequate notice.
CBSL 3.4	A Director, who has not attended at least two-thirds of the meetings in the period of twelve month immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall, however, be acceptable as attendance.	Compliant	Directors have regularly attended Board Meetings. Attendance of each Director at the Board meetings has been disclosed at the end of this report.
CBSL 3.5	The Board shall appoint a Company Secretary to carry out secretarial services to the Board and shareholders meetings and other functions specified in the regulations.	Compliant	Corporate Services (Pvt) Ltd has been appointed as the Company Secretary in line with the stipulated requirements.
CBSL 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.
CBSL 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 rules and regulations are followed.	Compliant	The Directors constantly work with the Company Secretaries to ensure that Board procedures and all applicable rules and regulations are duly complied.
CBSL 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 Board Minutes are available for inspection by any Director as and when required.
CBSL 3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board Meetings.	Compliant	Board Minutes are maintained in sufficient detail with data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.
<b>Composition of the Board</b>			
Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect of Directors.	Compliant	Required information on Board of Directors has been published in the Annual Report under "Profiles of Directors" pages 008 to 010.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 4.1	Subject to the transitional provisions contained herein, Number of Directors should not be less than 05 and not more than 13.	Compliant	The Board comprised of 13 Directors during the financial year under review.  However, 06 Directors were resigned and 01 Director was removed from the company during the year and as at 31st March 2020, the Board comprised of 06 Directors which was within the given limit.
CBSL 4.2	Subject to the transitional provisions contained herein and subject to paragraph 5(l) of this Direction the total period of service of a Director other than a Director who holds the position of Chief Executive Officer or Executive Director shall not exceed nine years. The total period in office of a Non-Executive Director shall be inclusive of the total period of service served by such Director up to the date of this direction.	Compliant	There are no Directors on the Board who has been a Director of the Company for more than 09 years.
CBSL 4.3 Code A.5	Subject to the transitional provisions contained herein, number of Executive Directors shall not exceed one-half of the number of Directors of the Board.	Compliant	Mr. Rangana Koralage who was a Non-Executive Non-Independent Director appointed as the Acting CEO of the Company w.e.f 20th January 2020 until 17th April 2020. During this period he served as an Executive Director to the Board. He was only Executive Director during the period under review.
CBSL 4.4 Code A.5.2	Number of Independent Non-Executive Directors of the Board shall be at least one fourth of the total number of Directors.	Compliant	02 out of 06 Directors are Independent Non-Executive Directors. The composition of the Board is set out in page 052 in this Annual Report.
Code A.5.4	Each Independent Director shall submit a declaration of his/her independence against the specified criteria	Compliant	Each Independent Director submits an annual declaration which is filed with the Company Secretary.
Code A 5.5	The Board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the Board and shall set out in the annual report the names of directors determined to be independent	Compliant	The Board makes a decision as to the independence of each Director based on the declaration submitted. The details of Independent Directors are included in page 052 of this report.
CBSL 4.5 Code A.5.6	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	No alternate Directors have been appointed to represent Independent Non-Executive Directors during the year under review.
CBSL 4.6	Non-Executive Directors shall have necessary skills, qualifications and experience to bring an objective judgment to bear on issues of strategy, performance and resources	Compliant	All Non-Executive Directors are professionally qualified and possess adequate skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources. The profiles of the Directors are given in pages 008 to 010 of this report.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 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 more than one half of the number of Directors present at such meeting are Non-Executive Directors.	Compliant	At all Board meetings held during the year 2019/2020, 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 members with necessary financial acumen and professional qualifications and experience in Banking, Accounting and related disciplines. Please refer "Profiles of Directors" on pages 008 to 010 in this Annual Report, for the Directors' profiles
CBSL 4.8	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.	Compliant	The details of the Directors by category are included in page 052 of this Annual Report.
CBSL 4.9 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 Directors collectively decide on new members and Board approved Corporate Governance Charter includes a procedure for the appointment of new Directors to the Board.
CBSL 4.10	All directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after the appointment	Not Applicable.	No Directors have been appointed to fill a casual vacancy during the year under review.
CBSL 4.11	The Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institution if the Central Bank of Sri Lanka, regarding the resignation or removal of Directors with the reasons and the relevant Director's disagreement with the Board.	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.
<b>Criteria to assess the fitness and propriety of directors</b>			
CBSL 5.1	Subject to the transitional provisions contained herein, age of a person who serves as Director shall not exceed 70 years.	Compliant	No Director has reached the age of 70 years.
CBSL 5.2	A Director shall not hold office as a Director of more than 20 companies/ societies/body corporate inclusive of subsidiaries or associate companies of the finance company.	Compliant	No Director holds directorships of more than 20 companies/ societies/bodies/institutions.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
<b>Delegation of Functions</b>			
CBSL 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	All delegations are made in a manner that would not hinder/reduce the Board's ability to discharge its functions. The exercise of delegated authority is clearly monitored.
CBSL 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 periodically reviewed.
<b>Chairman and Chief Executive Officer</b>			
CBSL 7.1 Code A.2	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Compliant	The positions of the Chairman and the CEO are separated and performed by different individuals to ensure the balance of power and responsibility. The Chairman is a Non-Executive Director while the CEO serves as an employee of the Company.
CBSL 7.2	The Chairman should 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 Annual Report.	Compliant	Chairman is a Non-Executive Independent Director.
CBSL 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	The name of the Chairman and the CEO are disclosed in page 008 & 011 of this report respectively. There is no Financial, Business, Family or other relationship between the Chairman and the CEO. No other Financial, Business or Family relationships exist between any other members of the Board.
CBSL 7.4 Code A.3	The Chairman shall: <ul style="list-style-type: none"> <li>- provide leadership to the Board;</li> <li>- ensure that the board works effectively and discharges its responsibilities; and</li> <li>- Ensure that all key issues are discussed in a timely manner.</li> </ul>	Compliant	The Chairman is a Non-Executive Director. He frequently discusses relevant matters with the other Directors and the CEO. Matters requiring discussion by the Directors are placed on the agenda of the Board meetings as required.
CBSL 7.5	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate this to the Company Secretary.	Compliant	The agenda for the meetings are prepared in consultation with the Chairman and circulated to the Board in advance.



Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 7.6 Code A.6	The Chairman shall ensure that all directors are properly informed on issues arising at Board Meetings and also ensure that Directors receive adequate information in a timely manner.	Compliant	Board Papers are circulated with sufficient details 7 days prior to the meetings in order for Directors to request any other information, if necessary. Minutes of Board meetings are circulated in a timely manner.
CBSL 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 interest of the finance company.	Compliant	All Directors are encouraged to actively participate at the Board meetings and the ensuing discussions.
CBSL 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 Chairman ensures that the relationship among the Directors provides an opportunity to all Directors to actively participate in the Board's affairs.
CBSL 7.9	Subject to the transitional provisions contained herein, The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Compliant	The Chairman is an Independent Non-Executive Director and is not involved in executive functions or in direct supervision of any staff.
CBSL 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	Effective communication with shareholders is maintained through the Annual General Meeting and Extra Ordinary General Meetings. Moreover, Annual Reports are delivered to shareholders 15 working days prior to the AGM in order to communicate their views effectively. The Chairman briefs the Board and the CEO regarding any issues or concerns of the shareholders.
CBSL 7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Company's operations and business.	Compliant	The Chief Executive Officer functions as the executive-in-charge of the day-to-day management of the Company's operations and business.
Code A.11	The Board should be required, at least annually to assess the performance of the CEO.	Not - Compliant	Acting CEO's Performance for last three months of the financial year 2019/20 was assessed by the Board. However, First nine months performance of the former CEO was not assessed as he has been removed with effect from 12th December 2019.
<b>Board Appointed Committees</b>			
CBSL 8.1	Every Finance Company shall have at least two Board committees as set out in paragraphs 8(2) and 8(3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Compliant	The Board has established an Audit Committee and an Integrated Risk Management Committee. Each Committee reports to the Board and has a designated secretary. This Annual Report contains reports regarding the functions of such Committees.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
<b>Audit Committee</b>			
CBSL 8.2 (a)	The Chairman of the Committee shall be Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Compliant	The Chairman of the Audit Committee is a Non-Executive Director and his qualifications and experience are disclosed in page 009 of the Annual Report.
CBSL 8.2 (b)	Board members appointed to the Committee shall be Non-Executive Directors.	Compliant	All members of the Committee are Non-Executive Directors.
CBSL 8.2 (c)	The Committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> <li>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to auditors from time to time;</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(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.</li> </ul>	Compliant	The Audit Committee makes recommendations on the stated matters. A summary of the functions has been disclosed in the Audit Committee report in page 040 of the Annual Report.
CBSL 8.2 (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 Committee has obtained representations from the external auditors on their independence, and that the audit is carried out in accordance with Sri Lanka Auditing Standards and best practices.
CBSL 8.2 (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.	Compliant	A policy on engagement of non-audit services for the External Auditors has developed and approved by the board.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 8.2 (f)	<p>The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> <li>(i) an assessment of the Company's compliance with the relevant Directions-the management's internal controls over financial reporting;</li> <li>(ii) the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and the co-ordination between firms where more than one auditor is involved.</li> </ul>	Compliant	The nature and scope of the audit was discussed with the External Auditors in accordance with the stated matters and the Sri Lanka Auditing Standards.
CBSL 8.2 (g)	<p>The Committee shall review the financial information of the Company, in order to monitor the integrity of the Financial Statements of the Company, its Annual Report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Company's annual report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> <li>(i) major judgmental areas;</li> <li>(ii) any changes in accounting policies and practices;</li> <li>(iii) significant adjustments arising from the audit;</li> <li>(iv) the going concern assumption; and the compliance with relevant Accounting Standards and other legal requirements.</li> </ul>	Compliant	The Annual and Quarterly Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and other legal requirements on going concern basis and presented to the Committee. Annual and Quarterly Financial Statements are approved by the Audit Committee, before submission to the Board. The statements are in conformity with the stated requirements.
CBSL 8.2 (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>	Compliant	The Committee reviewed the financial information of the Company as appropriate.
CBSL 8.2 (i)	<p>The Committee shall review the External Auditor's Management Letter and the management's response thereto.</p>	Compliant	The Committee has reviewed the External Auditor's Management Letter and the management responses thereto.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 8.2 (j)	<p>The Committee shall take the following steps with regard to the internal audit function of the Company.</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department</li> <li>(iv) Recommend any appointment or termination of the head, senior staff member and outsourced service providers to the internal audit function.</li> <li>(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;</li> <li>(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.</li> </ul>	Compliant	<ul style="list-style-type: none"> <li>(i.) The Internal Audit plan is reviewed and approved by the Audit Committee at the beginning of each financial year.</li> <li>(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.</li> <li>(iii.) Performance of SJMS Associates as Internal Auditors is reviewed by the Audit Committee.</li> <li>(iv), (v) &amp; (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.</li> </ul>
CBSL 8.2 (k)	The committee shall have considered 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.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 8.2 (l)	The Chief Financial 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 Committee met with the External Auditors twice during the year 2019/20 at the Board Audit Committee meetings without Executive Directors being present.
CBSL 8.2 (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	The terms of reference of the Board Audit Committee includes the scope and responsibilities of the Committee.  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 matters within its terms of reference.
CBSL 8.2 (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 Committee has met 5 times during the financial year. Minutes of such meetings have been recorded accordingly. Please refer Audit Committee Report on page 040 of the Annual Report.
CBSL 8.2 (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	Details of the work of the Audit Committee are disclosed in page 040 of this Annual Report. Attendance has been disclosed at the end of this report Page 035.
CBSL 8.2 (p)	The Secretary of 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	Company Secretary as the Secretary to the Committee, maintained detailed minutes of the Committee meetings.
CBSL 8.2 (q)	The Committee shall review arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting, internal controls or other matters. 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.	Not-compliant	Board approved Complaint Handling Policy is in place enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and any other matters. Whistle-blowing Policy is being developed and will be made available by 31st October 2020.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
<b>Integrated Risk Management Committee</b>			
CBSL 8.3 (a)	The Committee shall consist of at least one Non-Executive Director, Chief Executive Officer 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 very 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, Chief Executive Officer, and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee executes their duties in line with its terms of reference and work closely with the key Management Personnel with regard to identified risks.
CBSL 8.3 (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.	Compliant	The Committee 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.
CBSL 8.3 (c)	The Committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and asset-liability committee to address specific risks and to manage those risk within quantitative and qualitative risk limits as specified by the committee.	Compliant	Minutes of management level committees are submitted to the Committee to review the adequacy and effectiveness of the respective committees.
CBSL 8.3 (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 level decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Compliant	All risk indicators that exceed the specified quantitative and qualitative risk limits are reviewed and discussed for action.
CBSL 8.3 (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Compliant	As per Terms of reference of the committee, the Committee shall meet in quarterly basis to assess all aspects of risk management including updated business continuity plans. However, due to the situation prevailed in the country as a result of Covid-19 outbreak, the committee was unable to meet on the scheduled date in March 2020 and such meeting was held in May 2020.
CBSL 8.3 (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 Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Compliant	The Committee recommended and initiated action as appropriate in relation to such findings. Process improvements were recommended by the Committee in instances where such issues were observed.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
CBSL 8.3 (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.	Not - Compliant	Risk assessment report has been submitted to the Board within a week only on last meeting held on 22nd May 2020 for their feedback.
CBSL 8.3 (h)	The Committee shall establish 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. 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. Compliance Officer carries out the compliance function and reports to the Committee periodically.
Related Party Transactions			
CBSL 9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of finance company with any person who shall be considered as "related party" for the purpose of this direction.	Compliant	The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties. The Related Party Transaction Review Committee is in place in line with the Code of Best Practice on Related Party Transactions. Further, transactions carried out with related parties in the normal course of business are disclosed in page 102 on "Related Party Disclosures" in the Financial Statements.
CBSL 9.3	Transactions with related parties in relation to accommodation, deposits, borrowings and investments, providing financial or non-financial services to or from the finance company, creating or maintaining reporting lines and information flows between the finance company and any related party are to be identified as transaction with related party	Compliant	All such related-party transactions are reviewed by the Board Related Party Transactions Review Committee.
CBSL 9.4	The Board shall ensure that the finance company does not engage in transactions with related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents.	Compliant	The Company treats all Related Parties on the same basis as they would treat unrelated counterparties for all transactions.

Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance
<b>Disclosures</b>			
CBSL 10.1	The Board shall ensure that: (i) Annual Audited Financial Statements and Quarterly Financial Statements are prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that (ii) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Compliant	Relevant Financial Statements are prepared and published at the specified frequencies in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English languages.
CBSL 10.2	The Board shall ensure following minimum disclosures are made in the annual report.		
CBSL 10.2.(a) Code D.1	A statement to the effect that the annual audited Financial Statements has been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Compliant	Relevant disclosures are included in page 055 of the Annual Report under "Directors' Responsibility for Financial Reporting".
CBSL 10.2.(b)	A report by the Board on the Company's internal control mechanism that confirms that the Financial Reporting System has been designed to provide 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	Relevant disclosures are included in page 046 of the Annual Report under "Directors' Statement on Internal Controls over Financial Reporting".
CBSL 10.2.(c)	The external auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above, in respect of any statements prepared or published after 31st March 2010.	Compliant	A certification from the external auditors on the effectiveness of the Internal Control mechanism has published in the page 048 of the Annual report.
CBSL 10.2.(d)	Details of directors including names, transactions with the finance company.	Compliant	Relevant disclosures are made and included in the Annual Report page 103 under "Related Party Disclosures".
CBSL 10.2.(e) Code B.3	Fees, remuneration paid by the finance company to the directors in aggregate.	Compliant	Relevant disclosures are made in the Annual Report page 103 under "Related Party Disclosures"



Section Reference	Corporate Governance Principle	Status of Compliance	Level of Compliance																								
CBSL 10.2(f)	Total net accommodation granted to each category of Related Parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance companies capital funds.	Compliant	<table border="1"> <thead> <tr> <th colspan="3">2019/20</th> </tr> <tr> <th>Related Party</th> <th>(Rs.)</th> <th>% of the Capital Fund</th> </tr> </thead> <tbody> <tr> <td>People's Bank</td> <td>-</td> <td>0%</td> </tr> <tr> <td>PMB Services LTD</td> <td>-</td> <td>0%</td> </tr> <tr> <td>People's Leasing &amp; Finance PLC</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Subsidiaries of People's Bank and People's Leasing and Finance PLC [Other Related Entities]</td> <td>-</td> <td>0%</td> </tr> <tr> <td>Board of Directors &amp; close family members</td> <td>-</td> <td>0%</td> </tr> <tr> <td>KMPs &amp; close family members</td> <td>-</td> <td>0%</td> </tr> </tbody> </table>	2019/20			Related Party	(Rs.)	% of the Capital Fund	People's Bank	-	0%	PMB Services LTD	-	0%	People's Leasing & Finance PLC	-	0%	Subsidiaries of People's Bank and People's Leasing and Finance PLC [Other Related Entities]	-	0%	Board of Directors & close family members	-	0%	KMPs & close family members	-	0%
2019/20																											
Related Party	(Rs.)	% of the Capital Fund																									
People's Bank	-	0%																									
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KMPs & close family members	-	0%																									
CBSL 10.2(g)	The aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Company.	Compliant	Remuneration Paid - Rs. 26,073,735/- Term Deposits / Savings Deposits - 221,775/- Total Accommodations Granted - Nil																								
CBSL 10.2(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliance.	Compliant	The "Corporate Governance Report" pages 016 to 034 and "Annual Report of the Board of Directors on the affairs of the Company" pages 050 to 054 Satisfy this requirement.																								
CBSL 10.2(i)	A statement of the regulatory and supervisory concerns on lapses in the finance Company's risk management, or non-compliance with these Directions that have been pointed out 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	There were no significant supervisory concerns on lapses in the Company's Risk Management or non-compliance with these Directions that had been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and requested by the Monetary Board to be disclosed to the public.																								
CBSL 10.2(j)	The External Auditors' certification of compliance with the corporate governance direction in the annual corporate governance report published.	Compliant	The Company has obtained a certification from the External Auditors of the Company on the compliance with the Corporate Governance directions.																								
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	Directors' Responsibility for Financial Reporting included in page 055 of this Annual Report contained the Directors' Responsibilities while the Auditors Responsibilities have been enumerated in the Auditors' Report in page 058.																								
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Compliant	Refer page 014 for the Management Discussion and Analysis.																								

## Section 2

The level of compliance with Corporate Governance for listed companies by the Colombo Stock Exchange

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>7.10 Corporate Governance</b>			
7.10	Statement confirming that as at the date of the annual report that the Company is in compliance with these rules	Not - Compliant	The Company is compliant with the corporate governance requirements of the Listing Rules of the Colombo Stock Exchange, except for the requirements relating to the Public Float.
<b>7.10.1 Non-Executive Directors</b>			
7.10.1	Two or one-third of the Directors, whichever is higher, should be Non-Executive Directors.	Compliant	All directors of the company are Non-Executive Directors but January 2020 to March 2020 Period, Five Directors are Non-Executive Directors out of six Directors.
<b>7.10.2 Independent Directors</b>			
7.10.2 (a)	Two or one-third of Non-Executive Directors, whichever is higher, should be independent.	Compliant	Two Directors out of Five Non-Executive Directors are Independent.
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence/ non-independence in the prescribed format	Compliant	All Non-Executive Directors have submitted annual declarations in respect of the year under review.
<b>7.10.3 Disclosure relating to Directors</b>			
7.10.3 (a)	The Board shall make determination of Independence/ Non-Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	Compliant	Please refer page 052 of the Annual Report.
7.10.3 (b)	In the event of a Director does not qualify as Independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report		Not Applicable
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise	Compliant	Please refer pages 008 to 010 in the Annual Report
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	Compliant	A brief resume of all new Directors appointed to the Board during the FY 2019/20 has provided to the Exchange for Dissemination to the public.
<b>7.10.4 Criteria for determination of Independence of Directors</b>			
7.10.4 (a-h)	Requirements of meeting criteria to be independent.	Compliant	All Independent Directors of the Company met the criteria for independency specified in this Rule.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
<b>7.10.5 Remuneration Committee</b>			
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher	Compliant	Board appointed Remuneration Committee is in place. Two Directors are Independent Non-Executive Directors out of Three Non-Executive Directors of the committee.
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Report of the Remuneration Committee on page 045 to the Annual Report.
7.10.5 (c)	The Annual Report shall set out; The names of the Directors that comprise the Remuneration Committee; A statement of remuneration policy; Aggregate remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer the page 045 of Remuneration Committee Report.
<b>7.10.6 Audit Committee</b>			
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.  One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.  The Chief Executive Officer and Chief Financial shall attend Audit Committee meetings.  Chairman or one member of the Committee should be a member of a recognize professional accounting body.	Compliant	Majority of the Audit Committee members are Independent Non-Executive Directors.  Mr. Channa Manoharan is the Chairman of the Committee who is an Independent Non-Executive Director and Ms. Premalal is the Chairman of audit committee on 1st Audit committee meeting who was a Non-Executive Non independent director.  Both Chief Executive Officer and Chief Financial Officer attend the meeting by invitation.  The Chairman of the Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules	Compliant	Please refer Audit Committee Report on page 040 of the Annual Report.

Section Reference	Corporate Governance Principle	Status of compliance	Extent of Compliance
7.10.6 (c)	Annual Report shall set out; The names of the Directors who comprise the Audit Committee. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the Listing Rules.	Compliant	Please refer the Audit Committee Report' on page 040 For the required disclosure.
<b>7.13 Minimum Public Holding requirement</b>			
7.13.1 (b)	Minimum Public Holding Requirement Disclosure in terms of rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ('CSE')	Not - Compliant	In accordance with the requirements of the above rule, we provide below the following details as at 31st March 2020:  The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 7.13.1 (b).
<b>9.2 Related Party Transaction Review Committee</b>			
9.2.2	The Committee should comprise a combination of Non-Executive Directors and Independent Non- Executive Directors. The composition of the committee may also include executive directors at the option of the listed entity. One independent Non- Executive Director shall be appointed as Chairman of the Committee	Compliant	One Director is an Independent Non-Executive Director out of three Non-Executive Directors of the committee. Such Independent Director is the Committee Chairman. For further details please refer the Committee Report on page 043.

## DIRECTORS' ATTENDANCE AT BOARD MEETINGS

Name of the Director	Status of Directorship		Date of appointment to the Board	Board meeting attendance
	Independent Non-Executive	Non-Independent Non-Executive		
1 Mr. C. P. Abeywickrema (Chairman)	√		26/06/2019	11/11
2 Mr. D. N. Daluwatte		√	03/04/2019	13/13
3 Mr. K. R. P. Madusanka		√	26/06/2019	11/11
4 Mr. C. S. Manoharan	√		26/06/2019	11/11
5 Mr. G. B. R. P. Gunawardana (1)		√	26/06/2019	09/11
6 Ms. Gloria Kodagoda (2)		√	19/07/2019	09/10
7 Mr. Hemasiri Fernando (3)		√	30/06/2015	2/2
8 Mr. A.P. Weerasinghe (3)	√		06/01/2012	2/2
9 Dr. R. Dandeniya (3)		√	19/05/2015	2/2
10 Mr. A.S. Ibrahim (3)		√	25/10/2017	2/2
11 Mr. L.D. Fonseka (4)	√		19/05/2015	2/2
12 Ms. R.P.N. Premalal (3)		√	16/05/2018	2/2
13 Mr. N.V. Kumar (3)		√	30/06/2015	1/2

1. Resigned w.e.f. 22.06.2020
2. Resigned w.e.f. 28.05.2020
3. Resigned w.e.f. 26.06.2019
4. Removed w.e.f. 24.06.2019

**DIRECTORS' ATTENDANCE AT BOARD SUB-COMMITTEE MEETINGS**

Name of the Director	Status of Directorship		Board Audit Committee	Integrated Risk Management Committee	Related Party Transaction review Committee	Remuneration Committee
	Independent Non-Executive	Non-Independent Non-Executive				
Total meetings held			5	4	4	3
1 Mr. C. P. Abeywickrema	√		2/2 (1)	4/4		3/3
2 Mr. D. N. Daluwatte		√		4/4	1/1 (7)	
3 Mr. K. R. P. Madusanka		√	3/3 (2)	1/1 (6)	3/3 (2)	2/2 (2)
4 Mr. C. S. Manoharan	√		4/4 (3)	4/4	3/4	3/3
5 Mr. A.P. Weerasinghe	√		1/1 (4)			
6 Mr. L.D. Fonseka	√		1/1 (5)			
7 Ms. R.P.N. Premalal		√	1/1 (4)			

1. Appointed w.e.f. 29.08.2019

2. Appointed w.e.f. 27.06.2019 & step down w.e.f. 20.01.2020 (since appointed as the Acting CEO)

3. Appointed w.e.f. 27.06.2019

4. Resigned w.e.f. 26.06.2019

5. Removed w.e.f. 24.06.2019

6. Appointed w.e.f. 30.04.2020

7. Appointed w.e.f. 30.01.2020

## RISK MANAGEMENT

Being in the financial services industry, risk management is a vital part of our operations. PMF's risk strategy aims to instill a discipline of calculated risk taking throughout the Organisation as we pursue our identified growth opportunities. Hence, we have adopted a company-wide risk management framework that helps identification, management and reporting of all the risks likely to impact our operations.

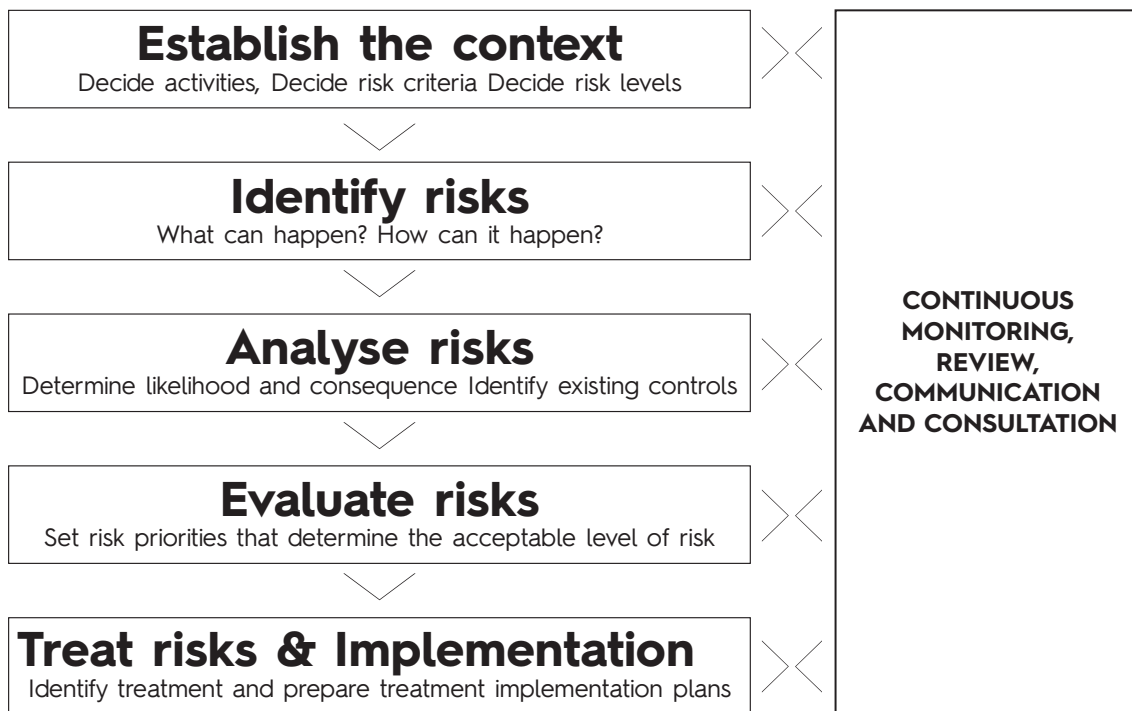
Robust and effective management of risk is an essential and integral part of corporate governance.

We seek to achieve an appropriate balance between risk and reward, and continue to build and enhance the risk management capabilities that assist in delivering our objectives in a controlled environment.

### RISK MANAGEMENT PROCESS

Risk is the probability of occurrence of an uncertain event which damages or lowers the effectiveness of business processes; ultimately reducing 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 of 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".

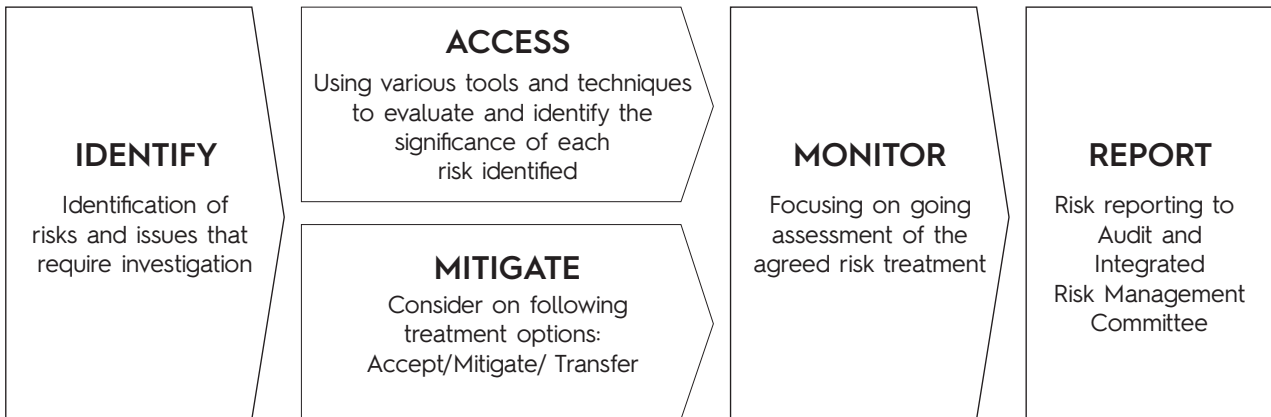
A "Policy statement for risk management" was introduced by the Integrated Risk Management Committee of PMF to ensure sound Risk Management practices within the company.

#### RISK MANAGEMENT FRAMEWORK FOR PMF

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

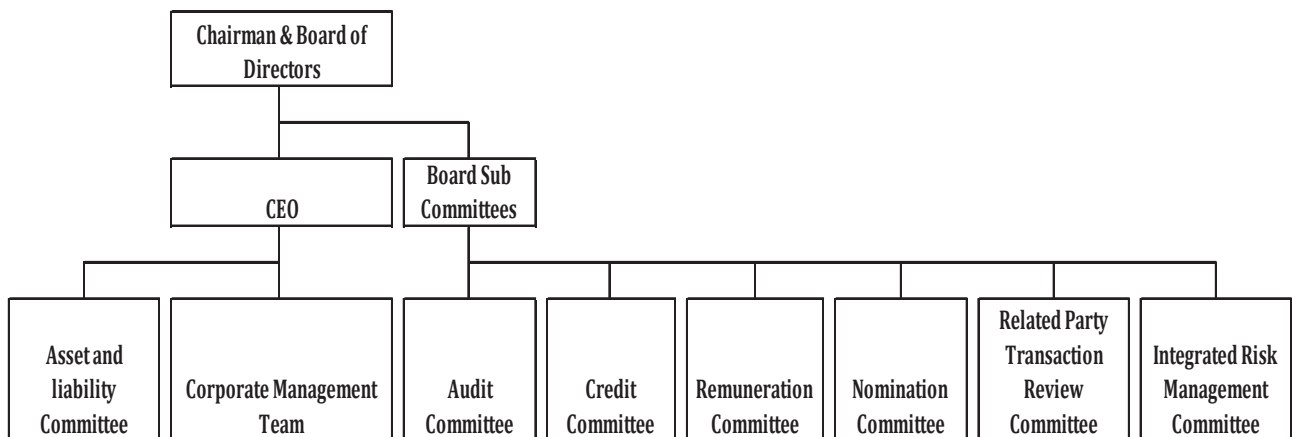
PMF has a risk management framework in place that effectively identifies, assesses, treats and monitors company-wide risks that could affect the business. Diagrammatically, our risk management framework can be depicted as follows;



**GOVERNANCE**

The responsibility for ensuring that risks are adequately identified, measured, managed and monitored and that good governance is maintained remains at the Board level. Policies and a framework are the avenues where, Board supported by Board Committees discharge their duty. The Corporate Management Team, together with a number of Sub-Committees, manages the business. This mechanism has helped to promote an awareness of risk and good governance in every area of the business and imparts a culture of compliance.

**GOVERNANCE FRAMEWORK**



**AN OVERVIEW OF KEY RISKS**

**Operational risk**

The management of operational risk is intrinsic in the day-to-day accomplishment of duties by management at PMF and it is a central component of the management process. Management is accountable for developing and maintaining control environments to mitigate the operational risks inherent in the business.

Lack of adequate awareness of operational risk indicators or insufficient internal controls may result in the organisation facing

various operational risks. With the aim of enhancing the internal control environment and to reduce losses within the accepted risk appetite of PMF, we consider risk assessment, data collection and the tracking of risk indicators to be the key to mitigate operational risk. Operational risk may be present due to losses stemming from inadequate or failed internal processes, people and systems or from external events.

Under the Operational risks of PMF, the requirement of introducing a well-defined internal control system is vital to PMF and necessary steps have been taken to mitigate the

risk. The company focuses on the existing customer base to enhance market share by providing excellent and efficient customer-oriented services.

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.

<b>Capital Adequacy</b>	<b>Regulatory Requirement Minimum %</b>	<b>PMF Current Position % (As at 31.03.2020)</b>
Capital Adequacy - Tier I	6.5	39.58
Capital Adequacy - Tier II	10.5	39.56

### Credit Risk

Credit risk arises due to an obligor being either unwilling to perform on an obligation or its ability to perform such obligation is being impaired resulting in economic loss to the financial institution.

Through the ALCO meeting, market developments and economic conditions were monitored on a monthly basis and amendments were done to credit policies as and when needed to attract a quality loan portfolio. An effective and efficient mechanism was applied, when granting advances via branches and head office to ensure we mitigate the default risk.

The company has developed procedures which include 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, monitoring of clients falling into overdue category with follow-up action and updating staff on new requirements and directions issued by Central Bank of Sri Lanka.

### Liquidity Risk

Liquidity risk refers to the risk that the company does not have enough financial resources to meet its obligations as they fall due, without incurring excessive cost. This risk occurs when the company is unable to meet its credit obligations in time without incurring unacceptable losses.

Management of mismatches in the timing of cash flows, effective management of liquidity is considered of utmost importance in order to ensure smooth functioning of Company's operations. Therefore, the Company monitors a number of liquidity risk indicators to assess the efficacy of the comfort provided by its liquid assets. Key focus is given to liquid asset ratio, maturity gap analysis and funding concentration.

Special attention is given to the liquidity of the Company as it provides critical defense against this and several other risks such as reputation, compliance, and financial risks. The Company also ensure that the liquidity ratios required to be maintained by the applicable Central Bank regulations are complied with.

ALCO is the responsible monitoring body that oversees our liquidity management policies. Liquidity risk is a standing agenda item at the Company's monthly ALCO meetings. The pricing of deposits is done in a way to control the maturity mismatches between our lending and borrowing portfolios.

PMF has maintained healthy liquidity positions as per the CBSL regulatory requirements.

Required minimum amount of liquid assets as at 31st March 2020	- LKR	0.212 Million
Available Amount of liquid assets as at 31st March 2020	- LKR	1,442 Million

### Interest Rate Risk

Fluctuations of interest rates in the market is one of the major risks which will have a high impact on business operations if we take an organisation like PMF which engages in deposit mobilisation and lending.

In order to mitigate negative impacts arising from risks associated with fluctuations in interest rates, we maintain information pertaining to Weighted Average Borrowing Rate and Weighted Average Lending Rate on a daily basis and Interest rate movements are given special emphasis at the ALCO meeting and forecasts are done based on movements in the interest rates. Also, due consideration is given to the maturity pattern of assets and liabilities to reduce period mismatches.

### Information Technology (IT) Risk

Risk emerges when a company is not in a situation to maintain its core functions as a result of inadequate IT infrastructure which plays a critical role in the conduct of business operation in a NBF. In order to have smooth functioning of IT infrastructure, we maintain effectual IT policies and internal control mechanisms.

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 and supervision of legal controls.

The company has taken steps to manage possible IT risks such as information security risk, system risk, performance risk and compliance risk. The information technology policy has been implemented.



### Commodity Price Risk

Risk emerges due to the falling of commodity prices which 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 stems from price volatility and volume risk related to changes in demand and supply based on the availability of resources. Collateral for gold loans is subject to the said risk since fluctuations in gold prices in the markets may impact the value of gold articles pledged. As a mitigation measure the company has introduced a quick re-pricing cycle.

### Equity price risk

Decreasing of fair value of equities because of changes in the levels of equity indices and the value of individual stocks can be stated as equity price risk.

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 and stock prices will be monitored on a regular basis by the Treasury/finance division and referred to management in the respective.

Further, the value of shares pledged for margin trading facilities too are subject to the risk. Client margins are closely monitored based on the daily re-pricing of the shares in the margin trading accounts in collaboration with the respective share broking firms.

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 the outcomes used in assessing risk of future business opportunities and to introduce 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 and the likelihood of occurrence, and the impact it will have on the business.

The Risk Management strategy of the company rests on the commitment of the top management headed by the Board of Directors, followed by Board sub Committees and ALCO. The risk culture encompassing all activities and operations of the company is being created and communicated. 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.

## BOARD AUDIT COMMITTEE REPORT

The Charter of the Board Audit Committee defines the terms of reference relating to the committee including its responsibilities and is reviewed annually. The Charter of the Committee was last reviewed and approved by the Board in August 2019.

The Finance Companies (Corporate Governance) Direction No. 3 of 2008 along with its subsequent amendments issued by the Central Bank of Sri Lanka, listing rules issued by the Colombo Stock Exchange on corporate governance and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka regulate the composition, functions and responsibilities of the Committee.

### Composition of the Board Audit Committee

The Audit Committee of the Company comprises the following members and the professional profiles of the Committee Chairman and the Committee members are provided on pages 008 to 009 of this Annual Report.

Mr. C.S. Manoharan	Committee Chairman/Independent Non-Executive Director
Mr. C.P. Abeywickrema	Independent Non-Executive Director
Mr. K. R.P. Madusanka*	Non-Independent Non-Executive Director

\*Appointed w.e.f. 27 June 2019 and stepped down from the Committee w.e.f. 20 January 2020 since appointed as the Acting CEO and reappointed to the Committee w.e.f. 30 April 2020.

The following members also served as committee members during the financial year prior to the reconstitution of the Committee with effect from 26 June 2019:

- Mr. A.P. Weerasinghe (Non-Executive Independent Director)
- Mr. L.D. Fonseka (Non-Executive Independent Director)
- Ms. R.P.N. Premalal (Non-Independent Non-Executive Director)

### Board Audit Committee Meetings

The Committee meets quarterly and additional meetings are held based on the requirements. The Committee held five meetings during the financial year ended 31 March 2020. The proceedings of the Audit Committee meetings are recorded with adequate details and reported to the Board of Directors. The details of the meeting attendance of the Committee members are given below:

Name of the Director	Attendance
Mr. C.S. Manoharan	4/4
Mr. C.P. Abeywickrema	2/2
Mr. K. R.P. Madusanka	3/3
Mr. A.P. Weerasinghe	1/1
Mr. L.D. Fonseka	1/1
Ms. R.P.N. Premalal	1/1

The Company Secretary acts as the Secretary to the Board Audit Committee.

Representatives of Messrs. SJMS Associates, the internal auditor of the Company, and Messrs. KPMG, the external auditor of the Company, were invited to participate at the meetings as and when required. Members of senior management including the CEO, Head of Finance, Head of Legal and Compliance, Head of IT participated in committee meetings by invitation. The Committee also invited the Company's external consultants, i.e. the consultant

- Recoveries, Operations and Credit and the Internal Audit Consultant to attend the meetings as and when required.

### 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, and 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 financial statements for the year ended 31 March 2020. The Committee also reviewed all the interim financial statements starting from the quarter ended June 30, 2019 to December 31, 2019 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 of the Company was outsourced to Messrs. SJMS Associates during

the financial year. 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. 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.

The Committee decided to establish an internal audit function internally. As part of this initiative, an external consultant developed a strategic internal audit plan during the financial year, which

was approved by the Committee subsequent to the financial year end. An inhouse internal audit function was established subsequent to the financial year end.

### **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 2019/20.

The Audit Committee recommended to the Board of Directors regarding the reappointment of the external auditors for the next financial year subject to the approval of the shareholders at the next Annual General Meeting.

### **Committee evaluation**

The Board evaluated the performance of the Committee during the financial year 2019/20.

### **Conclusion**

I would like to thank all the members who serviced on the Board Audit Committee during the year for their valuable contribution to the overall performance of the Committee and the Company.



**Channa Manoharan**

*Chairman - Board Audit Committee  
Colombo*

*27th August 2020*

## REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

Integrated Risk management Committee (IRMC) assists the Board of directors in fulfilling their oversight responsibilities with respect to deciding on the risk appetite and ensuring that significant risks are competently managed. It clearly sets out the membership, source of authority, duties and responsibilities.

### COMPOSITION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Board appointed Integrated Risk Management Committee (BIRMC) comprise of the following members:

**Mr. C. P. Abeywickrema**

Chairman -Independent Non-Executive Director  
(appointed w.e.f. 27.06.2019)

**Mr. D. N. Daluwatte**

Non-Independent Non-Executive Director  
(appointed w.e.f. 27.06.2019)

**Mr. C. S. Manoharan**

Independent Non-Executive Director  
(appointed w.e.f. 27.06.2019)

**Mr. K. R. P. Madusanka**

Non-Independent Non-Executive Director  
(appointed w.e.f. 30.04.2020)

### CHARTER OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The integrated Risk management Committee was established as a subcommittee of the Board in compliance with finance Companies (Corporate Governance) direction No. 03 of 2008 issued by the Central Bank of Sri Lanka.

### GOVERNANCE OF IRMC

The IRMC's governance structure comprises representatives from the Board, Chief Executive Officer and Key Management Personnel supervising broad risk categories.

### COMMITTEE MEETINGS AND METHODOLOGY

During the financial year under review, four meetings were held. Through a risk report, key risks such as credit, operational, market, liquidity and strategic risks were assessed. The risk reports together with the minutes of meetings were referred to the Board on a quarterly basis.

### ATTENDANCE

The committee held 04 meetings in relation to the Financial Year under review. The attendance of members is listed on page 035 of the Annual Report.

### COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

IRMC undertook the following activities:

- Reviewed the implementation of risk management and established a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal control and approved policies on all areas of business operations.
- Assessed all risks, i.e., credit, market, liquidity, operational, legal and reputational and strategic risks of the Organisation on a monthly basis through appropriate risk indicators and management information along with a detailed risk assessment on a quarterly basis.

- Took prompt corrective action to mitigate the effects of specific risks. In the event such risks were at levels beyond the threshold levels decided by the committee, the committee addressed such specific risks in order to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- Reviewed the adequacy of personnel, systems, procedures and other risk management issues.
- Reviewed and assessed the integrity and adequacy of the risk management function, including processes and organisation structure.
- Reviewed the adequacy and effectiveness of all management level committees including 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.
- Took appropriate action against the officers responsible for failure to identify specific risks and recommended prompt corrective actions as recommended by the committee, and/or as directed by the NBF of Central Bank of Sri Lanka.
- Reviewed the liquidity management strategies of the Company.
- Reviewed the effectiveness of the strategies in place to minimise the maturity mismatches.

In relation to the above activities, the Committee proposed certain modifications and better controls.

On behalf of the Board Integrated Risk Management Committee



**C. P. Abeywickrema**

Chairman  
Integrated Risk Management  
Committee  
Colombo  
27th August 2020

## RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

### PURPOSE OF THE COMMITTEE

Board Related Party Transaction Review Committee was established by the Board in accordance with the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (the 'SEC Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange. The purpose of the Committee is to review in advance all proposed related party transactions other than those transactions explicitly exempted in the SEC Code and CSE listing Rules. Accordingly, except for transactions mentioned under Rule 27 of the SEC Code and CSE Listing Rules, all other related party transactions are required to be reviewed by the Committee either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

### COMPOSITION OF THE COMMITTEE

The committee composition during the period ended 31st March 2020 is as follows.

Name of the Director	Directorship Status	Membership Status
Mr. C.S. Manoharan (appointed w.e.f.27.06.2019)	Non-Executive Independent Director	Chairman
Mr. K.R.Madusanka (appointed w.e.f.27.06.2019, step down from the Committee w.e.f.20.01.2020 since appointed as the Acting CEO and reappointed w.e.f.30.04.2020)	Non-Executive Non- Independent Director	Member
Mr. D.N Daluwatte (appointed w.e.f.30.01.2020)	Non-Executive Non- Independent Director	Member

### SCOPE OF THE COMMITTEE

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted in the Code under Rule 27 and section 9.5 of the CSE listing rules.
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company
- Establishing guidelines in respect of recurrent Related Party Transactions to be followed by the Corporate Management in respect of ongoing dealings with the relevant related party
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulation are made in a timely and detailed manner

### POLICIES AND PROCEDURES

The Company has in place a Related Party Transactions Policy (RPT) whereby the categories of persons/entities who shall be considered as "related parties" has been identified. The RPT Policy ensures that the Company does not engage in transactions with related parties in a manner that would grant related parties "more favorable" treatment.

In accordance of the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying parties related to them.

The Code of Business Conduct and Ethics of the Company, which sets out internal policies applicable to conflicts of interests, also plays a key role in managing Related Party Transactions.

### MEETINGS OF THE COMMITTEE

The Committee had four meetings during the year under review. Attendance of each Committee member at each of the said meetings is given in page 35 of the Annual Report. Members of the Corporate Management were invited to participate in the meeting of the Committee as required. The Finance Division submitted comprehensive reports on Related Party Transactions to the Committee.

### REPORTING TO THE BOARD OF DIRECTORS

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

### RELATED PARTY TRANSACTIONS FOR THE YEAR 2019/20

Details of all transactions with the related parties during the year 2019/20 were reviewed

by the Committee and have communicated comments, observations to the Board of Directors.

The details of the Recurrent & Non-recurrent transactions that exceeded the threshold during the financial year 2019/20 are disclosed under "Note 34 - Related Party Disclosure" of the Financial Statements

## DECLARATION

The declaration by the Board of Directors that the company is in compliance with Section 9 of the listing rules of the Colombo Stock Exchange and the SEC code pertaining to Related Party Transactions during the Financial Year ended 31st March 2020.

On behalf of the Board Related Party Transactions Review Committee



**Mr. C.S.Manoharan**

*Chairman*

*Related Party Transactions Review*

*Committee*

*Colombo*

*27th August 2020*

## REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee was formed by the Board in compliance with Rule 7.10.5 of the Listing Rules of the Colombo Stock Exchange and functions are in conformity with the provisions of the Listing Rules.

### 1. Mr. Chandula Abeywickrama

Non-Executive Independent Director (Chairman)

### 2. Mr. Channa Manoharan

Non-Executive, Independent Director

### 3. Mr. K. Rangana Madusanka

Non-Executive, Non Independent Director

### Meetings

The Committee had three (03) meetings during the year 2019/20 and the attendance of the Committee members at these meetings are given in the table on page 035 of the Annual Report

### Terms of Reference

- a. The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer.
- b. The Committee operates within Board approved terms of reference and assists the Board of Directors in ensuring that remuneration arrangements in the Company align reward with performance.

c. The Committee is empowered by its terms of reference to review the structure, size and composition of the Company and make recommendations to the Board with regard to any changes that needs to be introduced.

d. Terms of reference of the Committee preclude its members from participating in decisions relating to his/ her own appointment.

### Authority of the Committee

The Committee has the authority to discuss issues under its purview and report back to the Board with recommendations, enabling the Board to take a final decision on the matter. The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

### Remuneration Structure

The Company's reward strategies and remuneration structure is designed to attract, motivate and retain high caliber people at all levels of the organisation, in a highly competitive environment. Accordingly, the salaries and other benefits are reviewed periodically taking into account the performance of the individual,

comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The skills, experience of the individual and his/her level of responsibility are also taken into account in deciding on the remuneration.

The Company's remuneration strategy is:

- Remuneration is commensurate with each employee's expertise and contribution and is aligned with the business' performance and long-term shareholder returns.
- There is no discrimination against employees based on diversity or physical differences.
- Remuneration structures encourage a focus on achieving agreed deliverables and behaviours.
- Individual performance appraisals identify talent at all levels in the organisation, enabling fair and competitive remuneration.

### Directors Remuneration

The total amount paid as Directors' remuneration during the year under review is set out in Note 34.2.1 to the Financial Statements.

On behalf of the Remuneration Committee



**C. P. Abeywickrema**

Chairman

Remuneration Committee

Colombo

27th August 2020

## DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

### Responsibility

In accordance with the requirements of the Finance Companies (Corporate Governance) Direction No.03 of 2008 as amended by Direction No. 06 of 2013, the Board of Directors presents this Report on Internal Control.

The Board of Directors ("the Board") is responsible for the adequacy and effectiveness of the system of internal controls over financial reporting in place at People's Merchant Finance PLC ("the Company"). The system of internal controls has been designed to provide reasonable assurance regarding the reliability of financial reporting and that the financial statements are prepared in accordance with the relevant financial reporting framework and are free from material misstatement due to fraud or error.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes enhancing the system of internal controls in place to mitigate such assessed risks effectively. This risk management process is regularly reviewed by the Board and Board appointed sub committees including the Board Audit Committee and the Integrated Risk Management Committee for effectiveness.

An effective internal audit function strengthens the monitoring over internal control system, which is an integral part of an effective system of internal controls. An external professional accounting firm provided internal audit services to PMF up to the financial year ended 31 March 2020 covering its main operational processes and branch operations. The external professional accounting firm conducted the internal audits based on a risk-based internal audit plan and the areas covered in the internal audit reviews were selected on a rotational basis. The internal

audit reviews carried out during the financial year 2019/2020 excluded the reviews on the controls over financial reporting.

The Board continuously assessed the need for PMF to have its own internal audit function and, after considering multiple factors including associated costs and benefits, decided to establish its own internal audit function during the financial year 2020/21. Prior to establishing the internal audit function, an external consultant developed a strategic plan for the internal audit function. During the first quarter of the financial year 2020/21, the internal audit function was established and a new head of internal audit with extensive experience in the internal audit profession was recruited to lead the internal audit function along with the internal audit staff. The new internal audit department has been executing the risk-based internal audit plan covering all main processes of the Company and its branch operations. With a view to further strengthening the monitoring over the internal controls over financial reporting of the Company, as part of its internal audit plan, the internal audit department will conduct comprehensive periodic internal audit reviews on the controls over financial reporting during the financial year 2020/21.

During the financial year 2019/20, the finance department had an experienced team of finance professionals led by an experienced head of finance. There was an ongoing process for the review of the financial information including the financial statements. There is an ongoing process in the finance department for manual journal entries to be reviewed and approved and the front-end and back-end modules of the information system are reconciled on a monthly basis for consistency. Messrs KPMG performed the external audit of PMF and issued an unmodified audit opinion for the financial year ended 31 March 2020.

Additionally, there was a process in place to get the interim financial statements to be reviewed by the external auditor during the financial year.

The internal control deficiencies reported by the external auditor in their management letter and their recommendations therein in connection with the internal controls over financial reporting identified during the external audit were taken into consideration and appropriate actions have been initiated by the management to mitigate the identified risks during the ensuing financial year. The board audit committee reviews the management letter, discuss the same with external auditors and management and reviews the implementation of the recommendations made by the external auditor.

Apart from the matters reported in the external auditor's management letter, internal audit reports by the outsourced internal auditor and in the regulator's inspection reports, no other significant deficiencies in internal controls over financial reporting have been identified or reported in relation to this financial year.

The Board has considered the requirements of the Sri Lanka Accounting Standard, SLFRS 9 Financial Instruments, in the preparation of financial statements and implemented the calculation of impairment of financial instruments in compliance with the standard by developing a model with the assistance of an expert hired for the purpose.

The management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key elements of the processes that have been established within



the Company for monitoring and enhancing the adequacy and effectiveness of the system of internal controls over financial reporting include the following:

- the board has established various committees to assist the Board in ensuring the effectiveness of the Company's daily operations and that the Company's operations are conducted in accordance with the corporate mission and objectives, strategies and the approved policies of the Company.
- The Internal Audit function of the Company reviews compliance with the approved policies and procedures and the effectiveness of the internal control systems on an ongoing basis by way of conducting periodic internal audit reviews in accordance with the annual audit plan approved by the board audit committee and reporting significant findings, which include deficiencies in the design and operation of internal controls and non-compliance with the established policies and procedures. Internal audit reviews are conducted in accordance with the annual audit plan approved by the board audit committee covering all the significant business units and the branches of the Company with sufficient regularity reflecting the risk associated with the business unit or branch. The annual audit plan is reviewed and approved by the Board Audit Committee. The significant findings of the internal audit reports are reviewed by the Board Audit Committee at their periodic meetings.
- The Board Audit Committee of the Company reviews internal control deficiencies identified by the internal auditors, regulatory authorities and management and evaluates the adequacy and effectiveness of the internal control system of the Company including

financial reporting controls. The Committee also review the effectiveness and efficiency of internal audit function with particular emphasis on the independence of the function, resources and competencies, annual internal audit plan, scope of internal audits, internal audit methodology and the quality controls relating to internal audits. The Minutes of the Board Audit Committee meetings are tabled at the meetings of the Board of Directors of the Company. Further details of the activities undertaken by the Board Audit Committee of the Company are described in the 'Board Audit Committee Report' on pages 040 to 041.

- Documented standard operating procedures are an important element in the process of embedding the risk management and internal controls in the systems and operations of the Company. Therefore, the management have implemented a periodic process through designated officers to review and update the documented policies and procedures including the financial policies and procedures and the internal audit department reviews these procedures on a periodic basis to assess the suitability and design effectiveness of the internal controls embedded in the processes.

### Confirmation

Based on the above processes, the Board of Directors confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with the Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka. However, the internal audit reviews carried

out by the external professional accounting firm during the financial year 2019/2020 focused on operational processes and branch operations. The internal audit reviews on the controls over financial reporting commenced in the financial year 2020/2021 with the formation of the internal audit function within the Company.

### Review of the Statement by the External Auditors

The External Auditors of the Company, Messrs. KPMG, have reviewed the above Directors' Statement on Internal Controls included in this Annual Report of the Company for the year ended 31 March 2020 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Company. Their independent assurance report on the "Directors' Statement on Internal Controls over Financial Reporting" is given on page 048 of this Annual Report.



**Rangana Madusanka**  
Director



**C. P. Abeywickrema**  
Chairman  
Colombo  
27th August 2020



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(Chartered Accountants)  
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## AUDITOR'S REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING TO THE BOARD OF DIRECTORS OF PEOPLE'S MERCHANT FINANCE PLC

We were engaged by the Board of Directors of People's Merchant Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st March 2020.

Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements

engagement, performed an audit or review of the financial information.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License Finance Company / Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, by the Institute of Chartered Accountants of Sri Lanka.

### Our Independence and Quality Control

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

The firm applies Sri Lanka

### Practitioner's Responsibilities

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

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

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

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this

### Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Company.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- Enquired the Directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the Directors in the Annual Report.
- Reviewed the documentation prepared by the Management to support the Statement made.
- Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.
- Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.



- (e) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (f) Obtained written representations from Directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

in fact, remedy the problems.

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

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

### **Our Conclusion**

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

**CHARTERED ACCOUNTANTS**

*Colombo*

*27th August 2020*

## 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 2020 of the Company and the Group and the Auditors' Report on these financial statements, conforming to the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and directions issued thereunder.

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

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

### Principal Business Activities of the Company

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

**Subsidiaries-**The Company has a fully owned subsidiary company PMB Services Limited. The principal activity of PMB Services Limited was 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.

### Branch Network

Total branch network of the Company as at 31st March 2020 was 10 branches 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 004. 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, assets and liabilities are disclosed in the Notes to the financial statements on page 118 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 Accountant and the Chief Executive Officer as approved by the Board of Directors and signed by the Chairman and one director is reflected on page 062 of this Annual Report.

### Auditor's Report

The Company's Auditors, M/s. KPMG, Chartered Accountants performed the audit on the consolidated financial statements for the year ended 31st March 2020 and the Auditor's Report issued thereon is given on pages 056 to 059 of this Annual Report.

### Accounting Policies and Changes during the year

The significant changes to accounting policies adopted if any, in the preparation of the Financial Statements are given in Note 3 on pages 068 to 069 Accounting policies used by the Group and the Company during the year under review. Significant accounting policies together with the notes adopted in preparation of the financial statements of the Group and the Company are given on the pages 056 to 121 These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

### Accounting Period

The financial accounting period reflects the information from 1st April 2019 to 31st March 2020.

## Financial Results and Appropriations

### Financial Results

The Group and the Company recorded a net loss of Rs. 80.2 million and Rs. 80.1 million respectively for the financial year 2019/20 (Rs.92.8 million and Rs. 93.7 million in 2018/19). Details of the Company's performance and appropriations are tabulated as follows.

Company	2019/20 Rs.'000	2018/19 Rs.'000
Loss after taxation	(80,086)	(93,684)
Loss brought forward from previous year	(1,102,603)	(869,795)
Transfers from reserves	-	-
Adjustment on initial application of SLFRS 9	-	(134,644)
Profit available for appropriation	(1,182,689)	(1,098,123)
<b>Appropriations</b>		
Other comprehensive income	(338)	(4,480)
Transaction cost related to rights issue	(12,020)	-
Total appropriation	(12,358)	(4,480)
Un-appropriated loss carried forward	(1,195,047)	(1,102,603)

### 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. 0.1 million and a more descriptive note on income tax charged and differed tax assets/ liability of the Company and its subsidiaries are disclosed in notes 14 and 28 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 2020. (Nil as per share for FY 2018/19)

### Preference Shares and Preference Dividend

Outstanding balance of the Preference shares as at 31st March 2020 amounted to Rs. 10 million. The Company has provided for preference share dividend payable amounting to Rs. 6.0 million during the financial year.

### Intangible Assets, Property, Plant and Equipment

The details of property, plant and equipment are presented in note 21 and 22 pages 095 to 096 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 16 and 19 on pages 087 and 090 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 2020 amounted to Rs. 2,440,290 million (Rs. 1,238,302 million as at 31st March 2019).

### Reserves

A summary of reserves of the Group and Company as at year ended 31st March 2020 as follows.

	Company		Group	
	2019/20 Rs.'000	2018/19 Rs.'000	2019/20 Rs.'000	2018/19 Rs.'000
Statutory reserve Fund	7,259	7,259	7,259	7,259
Retained Earnings	(1,195,047)	(1,102,603)	(1,195,156)	(1,102,625)
Total	<b>(1,187,788)</b>	<b>(1,095,344)</b>	<b>(1,187,897)</b>	<b>(1,095,366)</b>

### Share Information

Shareholder information and information on trading are provided under the title 'Investor Information' on pages 124 to 125 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 125.

## 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 2020 and subsequently;

Name of Director	Status of Directorship	Date of Appointment
Mr. Chandula Abeywickrema	Chairman/Non-Executive Independent Director	Appointed on 26th June 2019
Mr. Duleep Daluwatte	Non-Executive Non-Independent Director	Appointed on 3rd April 2019
Mr. Channa Manoharan	Non-Executive Independent Director	Appointed on 26th June 2019
Mr. K. Rangana Madusanka	Non-Executive Non-Independent Director	Appointed on 26th June 2019
Mr. M. J. Travis Waas	Non-Executive Non-Independent Director	Appointed on 22nd June 2020
Mrs. Gloria Kodagoda	Non-Executive Non-Independent Director	Resigned on 28th May 2020
Mr. Rasitha Gunawardana	Non-Executive Non-Independent Director	Resigned on 22nd June 2020

Mr. K. Rangana Madusanka was Acting CEO and Executive Director for the period from 20th January 2020 to 17th April 2020 and he became a Non-Executive Non-Independent Director w.e.f. 24th April 2020.

## 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 102 to 103 under related party transactions. Furthermore, the Chairman, the Board of Directors and the Chief Executive Officer of the Company have made general declarations that there is no financial, business, family or other material/relevant relationship (s) between themselves as required to be disclosed by the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

## Directors' Remuneration

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

	Company		Group	
	2020 Rs. 000	2019 Rs. 000	2020 Rs. 000	2019 Rs. 000
Directors' Fees & Emoluments	7,453	2,357	7,453	2,357

## 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 2020 and 31st March 2019 are given on page 125 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 2020 and 31st March 2019 are given on page 125 of this Annual Report.

## Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on pages 034 to 035 of this Annual Report.

## Board Sub Committees

Board Audit Committee, Integrated Risk Management Committee, Remuneration Committee, Related Party Transactions Review Committee and the Board Nomination Committee function as board Sub Committees in compliance with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended), Listing Rules of the Colombo Stock Exchange and as per the recommended best practices on Corporate Governance.

All the board sub-committee details other than the Board Nomination Committee are presented on page 035.

## Nomination Committee

The committee composition during the period ended 31st March 2020 is as follows.

### Mr. C. P. Abeywickrema -

Independent, Non-Executive Director - Chairman

### Mr. C. Manoharan -

Independent, Non-Executive Director

### Mr. K. R. Madusanka -

Non-Independent, Non-Executive Director

The Board Nomination Committee was formed with effect from 27th June 2019 and no meeting was held during the financial year under review.

## 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 income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement, significant accounting policies and notes for the year ended 31st March 2020 and statement of financial position as at that date have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Regulations made under Finance Business Act. No. 42 of 2011.

The "Statement of Director's Responsibility for Financial Reporting" is provided on Page 055 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(l) (g) of the Companies Act No. 07 of 2007.

## Related Party Transactions

There are no related party transactions which exceed 10 percent of the Equity or 5 percent of the total assets whichever is lower, other than the transaction disclosed under the note 34 on page 099 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 102 to 104 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 040 of the Annual Report.

## 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 016 to 035.

## Human Resources

The number of employees as at 31st March 2020 was 117 (31st March 2019 - 123).

## 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 except for certain income tax assessments against which appeals have been lodged.

## Outstanding Litigation

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have 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 33 to the Financial Statements on page 102.

## Events after the Reporting Date

Details of events after the reporting date are reflected in note 41 Page 119 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 31 March 2021 will be proposed at the Annual General Meeting.

The Auditors were paid Rs. 1.7 million as audit fee and expenses by the Company. Further they were paid Rs. 0.5 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 132 of this Annual Report.



**M. J. Travis Waas**  
Director



**Chandula Abeywickrema**  
Chairman



**Corporate Services (Private) Limited**  
Secretaries  
27th August 2020  
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 2020, the Statement of Comprehensive Income, Statement of Changes in Equity and statement of Cash Flows for the year 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 judgments 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 056 to 059 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



**Corporate Services (Private) Limited**

*Secretaries*

*27th August 2020*

*Colombo, Sri Lanka*



KPMG  
(Chartered Accountants)  
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## INDEPENDENT AUDITOR'S REPORT

### 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, 2020, 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 060 to 121 of this 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, 2020, 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	
Risk description	Our response
<p>As disclosed in Note 18 to the financial statements, the Group and the Company has recorded Rs. 1,658Mn as loans and advances net of Rs. 477Mn expected credit losses as at March 31, 2020.</p> <p>SLFRS 9 "Financial Instruments" requires the application of the expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required.</p> <p>As at the reporting date 43% of total assets of the Group consisted of loans and advances. Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak.</p>	<p>Our audit procedures to assess impairment of loans and advances to customers included,</p> <p>Assessment of the methodology inherent within the models against the requirements of SLFRS 9 - Financial Instruments;</p> <p>Challenging the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates;</p> <p>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;</p> <p>Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD;</p>



<b>Impairment allowance for loans and advances</b>	
<b>Risk description</b>	<b>Our response</b>
<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 the ECL model and the materiality of the reported amounts for loans and advances and impairment allowance.</p> <p>Refer to Note 18 and Note 35 to the financial statements and Note 4.17 in the accounting policies.</p>	<p>Challenging how management had assessed the impact of Covid-19 within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date;</p> <p>Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development.</p>
<b>Management's assessment of the Group's ability to continue as a going concern</b>	
<b>Risk description</b>	<b>Our response</b>
<p>The financial statements of the Group have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company's 12-months cash flow projections prepared by management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, taking into consideration the impact of COVID-19 related events.</p> <p>Note 42 describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's, future prospects, performance and cash flows. The management has described how they plan to deal with these events and circumstances as the outbreak is still prevailing as at the date of this report.</p> <p>As described in Note 40 to the financial statements, the Monetary Board of the Central Bank of Sri Lanka has imposed a cap on the total deposits and borrowing liabilities of the Company until the Company meets the Minimum Core Capital as per Finance Business Act Direction No. 02 of 2017.</p> <p>We identified the assessment of going concern as a key audit matter because the assessment of going concern involves consideration of future events and complying with the regulatory requirements of the Central Bank of Sri Lanka. Impact arising from COVID-19 requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential bias.</p>	<p>Our audit procedures to assess the Group's ability to continue as a going concern included;</p> <ul style="list-style-type: none"> <li>● Obtaining the Company's cash flow projections covering a period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections;</li> <li>● Evaluating the sensitivity of the projected cash flows by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions;</li> <li>● Assessing correspondence with the Regulator in order to evaluate the potential impact and the agreed rectifications for the non-compliances with regulatory requirements, and evaluating classification of additional cash infused as advances against future issue of shares during the year with the relevant supporting documents;</li> <li>● Assessing disclosures in the financial statements.</li> </ul>

### **Other matter – Reissue of financial statements**

We draw attention to Note 36.2 to the financial statements, which discuss that the previously issued financial statements have been revised and reissued as a result of the error of considering advance against stated capital as part of the regulatory Core Capital. This audit report supersedes our audit report on the previously issued financial statements dated 30th June 2020.



## Other Information

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

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

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

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on Other Legal and Regulatory Requirements**

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

Further, as described in Notes 40 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 Minimum Core Capital Requirement (Direction No. 02 of 2017) as at the reporting date.

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

A handwritten signature in black ink, appearing to read 'KPMG', written over the printed logo.

**CHARTERED ACCOUNTANTS**

*Colombo, Sri Lanka*

*27th August 2020*

## STATEMENT OF PROFIT OR LOSS

In thousands of rupees	Note	Company		Group	
For the year ended 31 March		2020	2019	2020	2019
<b>Gross Income</b>	<b>6</b>	<b>629,527</b>	<b>616,669</b>	<b>629,527</b>	<b>616,670</b>
Interest income	7.1	563,581	546,759	563,581	546,759
Interest expense	7.2	(292,067)	(357,067)	(292,067)	(357,067)
<b>Net interest income</b>	<b>7</b>	<b>271,514</b>	<b>189,692</b>	<b>271,514</b>	<b>189,692</b>
Fee and commission income	8	5,177	7,260	5,177	7,260
Net fair value gain/ (loss) from financial assets at FVTPL	9	29,294	(461)	29,294	(461)
Other operating income	10	31,475	63,112	31,475	63,112
<b>Total operating income</b>		<b>337,460</b>	<b>259,603</b>	<b>337,460</b>	<b>259,603</b>
Impairment charges for loans, advances and other receivables	11	(122,535)	(85,389)	(122,535)	(85,389)
<b>Net operating income</b>		<b>214,926</b>	<b>174,214</b>	<b>214,926</b>	<b>174,214</b>
Personnel expenses	12	(129,607)	(127,248)	(129,607)	(127,248)
Depreciation of property, plant and equipment		(4,378)	(3,703)	(4,378)	(3,703)
Amortisation of intangible assets		(3,285)	(3,083)	(3,285)	(3,083)
Amortisation of right of use assets	23	(28,930)	-	(28,930)	-
Other operating expenses	13	(116,998)	(122,794)	(117,085)	(121,869)
<b>Operating loss before taxes on financial services</b>		<b>(68,273)</b>	<b>(82,614)</b>	<b>(68,360)</b>	<b>(81,689)</b>
Taxes on financial services		(11,681)	(9,328)	(11,681)	(9,328)
<b>Profit/(loss) before income tax</b>		<b>(79,954)</b>	<b>(91,942)</b>	<b>(80,041)</b>	<b>(91,017)</b>
Income tax expense/reversal	14	(132)	(1,742)	(132)	(1,742)
<b>Profit/(loss) attributable to the owners of the Company</b>		<b>(80,086)</b>	<b>(93,684)</b>	<b>(80,173)</b>	<b>(92,759)</b>
Basic loss per share (Rs.)	15	(0.41)	(1.38)	(0.41)	(1.37)
Diluted loss per share (Rs.)	15	(0.41)	(1.38)	(0.41)	(1.37)

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

In thousands of rupees	Note	Company		Group	
For the year ended 31 March		2020	2019	2020	2019
Loss for the year		(80,086)	(93,684)	(80,173)	(92,759)
<b>Other comprehensive income</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Actuarial gain/(loss) on retirement benefit obligation	29.1	(470)	(6,222)	(470)	(6,222)
Deferred tax effect on actuarial gain/ (loss)		132	1,742	132	1,742
<b>Other comprehensive income for the year, net of tax</b>		<b>(338)</b>	<b>(4,480)</b>	<b>(338)</b>	<b>(4,480)</b>
<b>Total comprehensive loss for the year attributable to the owners of the Company</b>		<b>(80,424)</b>	<b>(98,164)</b>	<b>(80,511)</b>	<b>(97,239)</b>

Figures in brackets indicate deductions.

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

## STATEMENT OF FINANCIAL POSITION

In thousands of rupees	Note	Company		Group	
As at 31st March		2020	2019	2020	2019
<b>Assets</b>					
Cash and cash equivalents	16	291,440	226,281	291,690	226,537
Balances with banks and financial institutions	17	1,214,097	56,747	1,214,097	56,747
Financial assets measured at amortised cost - Loans and advances	18	1,658,310	2,504,264	1,658,310	2,504,264
Investments in securities	19	486,188	2,142	486,188	2,142
Investments in subsidiaries	20	-	-	-	-
Property, plant and equipment	21	11,539	13,569	11,539	13,569
Intangible assets	22	2,483	5,125	2,483	5,125
Right of use assets	23	63,643	-	63,643	-
Other assets	24	87,242	85,255	87,242	85,255
<b>Total assets</b>		<b>3,814,942</b>	<b>2,893,383</b>	<b>3,815,192</b>	<b>2,893,639</b>
<b>Liabilities</b>					
Due to banks	25	1,715	219,144	1,715	219,144
Financial liabilities at amortised cost - due to depositors	26	2,100,936	2,434,733	2,100,936	2,434,733
Debt securities issued	27	16,000	15,400	16,000	15,400
Deferred tax liabilities	28	-	-	-	-
Lease liabilities	23	74,386	-	74,386	-
Other liabilities	29	69,403	81,148	69,762	81,426
<b>Total liabilities</b>		<b>2,262,441</b>	<b>2,750,425</b>	<b>2,262,800</b>	<b>2,750,703</b>
<b>Equity</b>					
Stated capital	30	2,440,290	1,238,302	2,440,290	1,238,302
Advance against stated capital	301	300,000	-	300,000	-
Statutory reserve fund	31	7,259	7,259	7,259	7,259
Accumulated losses	32	(1,195,047)	(1,102,603)	(1,195,156)	(1,102,625)
<b>Total equity attributable to the owners of the Company</b>		<b>1,552,501</b>	<b>142,958</b>	<b>1,552,392</b>	<b>142,936</b>
<b>Total liabilities and equity</b>		<b>3,814,942</b>	<b>2,893,383</b>	<b>3,815,192</b>	<b>2,893,639</b>
Commitments and contingencies	33	40,028	47,431	40,028	47,431
Net assets value per share (Rs.)		7.36	1.69	7.36	1.69

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.



**Uditha Nadeeshan**  
Accountant



**Nalin Wijekoon**  
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



**Channa Manoharan**  
Director

August 27, 2020  
Colombo, Sri Lanka



## STATEMENT OF CHANGES IN EQUITY - COMPANY

In thousands of rupees	Stated capital	Advance against stated capital	Reserve fund	Retained earnings	Total equity
Balance at 1 April 2018	1,078,227	-	7,259	(869,795)	215,691
Adjustment on initial application of SLFRS 9	-	-	-	(134,644)	(134,644)
<b>Restated balance at 1 April 2018</b>	<b>1,078,227</b>	<b>-</b>	<b>7,259</b>	<b>(1,004,439)</b>	<b>81,047</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(93,684)	(93,684)
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	(6,222)	(6,222)
Tax on other comprehensive income	-	-	-	1,742	1,742
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,480)</b>	<b>(4,480)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(98,164)</b>	<b>(98,164)</b>
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Issue of ordinary shares through private placement	160,075	-	-	-	160,075
<b>Total contribution and distribution</b>	<b>160,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,075</b>
<b>Total transactions with owners of the Company</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 March 2019</b>	<b>1,238,302</b>	<b>-</b>	<b>7,259</b>	<b>(1,102,603)</b>	<b>142,958</b>
<b>Balance at 31 March 2019</b>	<b>1,238,302</b>	<b>-</b>	<b>7,259</b>	<b>(1,102,603)</b>	<b>142,958</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(80,086)	(80,086)
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	(470)	(470)
Tax on other comprehensive income	-	-	-	132	132
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(338)</b>	<b>(338)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(80,424)</b>	<b>(80,424)</b>
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Issue of ordinary shares through right issue	1,201,988	-	-	-	1,201,988
Advance against stated capital	-	300,000	-	-	300,000
Transaction cost related to rights issue	-	-	-	(12,020)	(12,020)
<b>Total contribution and distribution</b>	<b>1,201,988</b>	<b>300,000</b>	<b>-</b>	<b>(12,020)</b>	<b>1,489,968</b>
<b>Total transactions with owners of the Company</b>	<b>1,201,988</b>	<b>300,000</b>	<b>-</b>	<b>(12,020)</b>	<b>1,489,968</b>
<b>Balance at 31 March 2020</b>	<b>2,440,290</b>	<b>300,000</b>	<b>7,259</b>	<b>(1,195,047)</b>	<b>1,552,502</b>

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	Advance against stated capital	Reserve fund	Retained earnings	Total equity
<b>Balance at 1 April 2018</b>	<b>1,078,227</b>	<b>-</b>	<b>7,259</b>	<b>(870,742)</b>	<b>214,744</b>
Adjustment on initial application of SLFRS 9	-	-	-	(134,644)	(134,644)
<b>Restated balance at 1 April 2018</b>	<b>1,078,227</b>	<b>-</b>	<b>7,259</b>	<b>(1,005,386)</b>	<b>80,100</b>
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(92,759)	(92,759)
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	(6,222)	(6,222)
Tax on other comprehensive income	-	-	-	1,742	1,742
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,480)</b>	<b>(4,480)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(97,239)</b>	<b>(97,239)</b>
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Issue of ordinary shares through private placement	160,075	-	-	-	160,075
<b>Total contribution and distribution</b>	<b>160,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,075</b>
<b>Total transactions with owners of the Company</b>	<b>160,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,075</b>
<b>Balance at 31 March 2019</b>	<b>1,238,302</b>	<b>-</b>	<b>7,259</b>	<b>(1,102,625)</b>	<b>142,936</b>
Balance at 31 March 2019	1,238,302	-	7,259	(1,102,625)	142,936
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(80,173)	(80,173)
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	(470)	(470)
Tax on other comprehensive income	-	-	-	132	132
<b>Total other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(338)</b>	<b>(338)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(80,511)</b>	<b>(80,511)</b>
<b>Transactions with owners of the Company</b>					
<b>Contributions and distributions</b>					
Issue of ordinary shares through rights issue	1,201,988	-	-	-	1,201,988
Advance against stated capital	-	300,000	-	-	300,000
Transaction cost related to rights issue	-	-	-	(12,020)	(12,020)
<b>Total contribution and distribution</b>	<b>1,201,988</b>	<b>300,000</b>	<b>-</b>	<b>(12,020)</b>	<b>1,489,968</b>
<b>Total transactions with owners of the Company</b>	<b>1,201,988</b>	<b>300,000</b>	<b>-</b>	<b>(12,020)</b>	<b>1,489,968</b>
<b>Balance at 31 March 2020</b>	<b>2,440,290</b>	<b>300,000</b>	<b>7,259</b>	<b>(1,195,156)</b>	<b>1,552,393</b>

Figures in brackets indicate deductions.

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

## STATEMENT OF CASH FLOWS

In thousands of rupees	Note	Company		Group	
For the year ended 31 March		2020	2019	2020	2019
<b>Cash flows from operating activities</b>					
Loss before tax		(79,954)	(91,942)	(80,041)	(91,017)
<b>Adjustment for:</b>					
- Depreciation and amortisation		36,593	6,786	36,592	6,786
- Net gain on investment securities at FVPTL		(29,294)	461	(29,294)	461
- Net impairment loss on loans and advances		122,535	94,414	122,535	94,414
- Interest expense on preference shares		600	600	600	600
- Interest expense on leases		9,757	-	9,757	-
- Dividend on equity securities at FVPTL		(311)	(298)	(311)	(298)
- Interest income		(115,937)	(22,625)	(115,937)	(22,625)
- Provision for retirement benefit obligation		4,690	3,755	4,690	3,755
- Gain on disposal of property, plant and equipment		(231)	(277)	(231)	(277)
		<b>(51,553)</b>	<b>(9,126)</b>	<b>(51,639)</b>	<b>(8,201)</b>
<b>Changes in</b>					
Financial assets measured at amortised cost - Loans and advances		723,421	(244,855)	723,421	(244,855)
Other assets		(1,988)	(2,052)	(1,988)	(2,052)
Due to customers		(333,798)	(20,853)	(333,798)	(20,853)
Other liabilities		(13,195)	(72,491)	(13,114)	(73,428)
		<b>322,888</b>	<b>(349,377)</b>	<b>322,882</b>	<b>(349,389)</b>
Retiring gratuity paid	29.1	(3,710)	(1,646)	(3,710)	(1,646)
Income tax paid		-	-	-	-
<b>Net cash from/ (used in) operating activities</b>		<b>319,178</b>	<b>(351,023)</b>	<b>319,172</b>	<b>(351,036)</b>
<b>Cash flows from investing activities</b>					
Interest income on short term investment	7.1	115,937	22,625	115,937	22,625
Investments in fixed deposits		(1,157,350)	(10,698)	(1,157,350)	(10,698)
Investments in securities		(454,752)	-	(454,752)	-
Acquisition of property, plant and equipment		(2,349)	(5,969)	(2,349)	(5,969)
Purchase of intangible assets		(642)	(1,837)	(642)	(1,837)
Proceeds from disposal of property, plant and equipment		231	277	231	277
Dividends received from investments	10	311	298	311	298
<b>Net cash from investing activities</b>		<b>(1,498,614)</b>	<b>4,696</b>	<b>(1,498,614)</b>	<b>4,696</b>
<b>Cash flows from / (used in) financing activities</b>					
Net proceeds from rights issue of shares		1,189,968	160,075	1,189,968	160,075
Advances against stated capital		300,000	-	300,000	-
Re-payment lease liabilities		(27,944)	-	(27,944)	-
<b>Net cash from / (used in) financing activities</b>		<b>1,462,024</b>	<b>160,075</b>	<b>1,462,024</b>	<b>160,075</b>
Net increase / (decrease) in cash and cash equivalents		282,588	(186,252)	282,582	(186,265)
Cash and cash equivalents at beginning of the year		7,137	193,389	7,393	193,658
<b>Cash and cash equivalents at the end of the year</b>		<b>289,725</b>	<b>7,137</b>	<b>289,975</b>	<b>7,393</b>
<b>Cash and cash equivalents at the end of the year</b>					
Cash and cash equivalents	16	291,440	226,281	291,690	226,537
Bank overdraft	16	(1,715)	(219,144)	(1,715)	(219,144)
		<b>289,725</b>	<b>7,137</b>	<b>289,975</b>	<b>7,393</b>

Figures in brackets indicate deductions.

The notes to the financial statements form 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; under rating 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 2020 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 is Sterling Capital Investments (Private) Limited and the ultimate parent entity is Rush Japan Corporation.

### Number of Employees

The staff strength of the Group as at 31st March 2020 was 117 (123 as at 31st March 2019).

## 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 2020 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 and the listing rules of the Colombo Stock Exchange.

### 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 2020 (including comparatives) were approved and authorised for issue by the Management on 27th August 2020.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

### 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
Financial instruments at FVPTL	Fair value
Financial assets at FVOCI	Fair value
Defined benefit obligations	Projected unit credit method of the defined benefit obligations

### 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 comprise of those items as explained in Note 16 and Note 25.

### 2.9 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements of the Company and the Group in conformity with SLFRSs and LKAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

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

- Fair Value Measurement
- Impairment of Financial Assets
- Useful life of Property, Plant and Equipment
- Impairment of Non-Financial Assets
- Employee Benefit
- Deferred Taxation
- Commitments and Contingencies

#### 2.9.1 Judgments

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.

- Note 4.1: Determination of control over investees.
- Note 4.17: Classification of financial assets: assessment of the business model within

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. In addition to that, 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.

### 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 2020 is included in the following notes.

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

- Impact of COVID-19: Uncertainties with regard to future operations and cash flows.

### 2.10 Going Concern

The management has made an assessment of its ability to continue as a going concern by projecting the future cash flows and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, the Directors resolved to raise a sum of Rs. 809.76 Mn by way of a rights issue of shares. The Company by letter dated 28th February 2020, informed the shareholders of its intention to convene an Extraordinary General Meeting to obtain shareholder approval for the aforesaid Rights Issue. However, due to the impact of COVID -19, the Company was unable to proceed with the proposed Rights Issue. The controlling shareholder Sterling Capital Investment (Pvt) Ltd infused a sum of Rs. 300 Mn for the purpose of the Rights Issue in March 2020. The controlling shareholder has confirmed that the sum of Rs. 300Mn could be applied in an Issue of Shares by the Company in the ensuing financial year.

Therefore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. As a result, the financial statements continue to be prepared on a going concern basis.

## 3. CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the Accounting Policies as set out in Notes 4.1 to 4.19 to all periods presented in these Financial Statements, except for changes arising out of transition to SLFRS 16 as set out below:

### 3.1 New and amended standards and interpretations

In these Financial Statements, the Group has applied SLFRS 16, which is effective for the annual reporting periods beginning on or after 1st April, 2019 for the first time. A number of other new standards are also effective from 1st April 2019, but they do not have material effect on the Group's Financial statements. The Group has not early adopted any other accounting standard, interpretation or amendment that has been issued but not effective.

#### 3.1.1 SLFRS 16 Leases

The Group applied SLFRS 16 with a date of initial application of 1st April 2019. As a result, the Group has changed its accounting policy for lease contracts as detailed below.

The Group applied SLFRS 16 using the modified retrospective approach under which no cumulative effect of initial application is recognized in retained earnings at 1st April 2020. Accordingly, the comparative information presented for 2019/20 is not restated. That is, it is presented, as previously reported under LKAS 17 and related interpretations. The details of the change in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have generally been applied to comparative information.

#### A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under SLFRS 16, the Group assesses whether a contract is or contains a lease based on the definition of a lease.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

On transition to SLFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1st April 2019.

### B. As a lessee

The Group decided to apply recognition exemptions to short-term leases of machinery and leases of IT equipment. For leases of other assets, which were classified as operating under LKAS 17, the Group recognised right-of-use assets and lease liabilities.

### 1. Leases classified as operating leases under LKAS 17

On transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1st April 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The group has tested its right of use assets for impairment on the date of transition and has concluded that there is no indication that the right of use assets are impaired.

The Group used the following practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.

- Adjusted the right-of-use assets by the amount of LKAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review. Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

### 2. Leases previously classified as finance leases under SLFRS 17

For leases that were classified as finance leases under LKAS 17, the carrying amount of the right-of-use asset and the lease liability at 1st April 2019 are determined at the carrying amount of the lease asset and lease liability under LKAS 17 immediately before that date.

### C. As a lessor

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group accounted for its leases in accordance with SLFRS 16 from the date of initial application.

Under SLFRS 16, the Group is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset. On transition, the Group reassessed the classification of a sub-lease contract previously classified as an operating lease under LKAS 17. The Group concluded that the sub-lease is a finance lease under SLFRS 16.

The Group applied SLFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

### Impacts on financial statements

On transition to SLFRS 16, the Group recognised an additional Rs. 92,573,013/- of right-of-use assets and lease liabilities.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1st April 2019. The weighted-average rate applied is 12%.

	In thousands of rupees
Operating lease commitments at 1st April 2019	117,429
Discounted using incremental borrowing rate at 1st April 2019	92,573
Lease liability as at 1st April 2019	92,573

## 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

### 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:

- Equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.
- 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



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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 or equipment have different useful lives, then they are accounted for as separate items (major components) of property 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 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 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.

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 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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

### 4.4.4 Deposits from Customers

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

## 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.

## 4.6 Interest

### 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 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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

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.

## 4.7 Fee and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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

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

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

### 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 IAS 37 Provisions, "Contingent 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

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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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

Wherever 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 in compliance with the Finance Companies (Capital Funds) Direction No 1 of 2003. As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve fund out of the net profits of each year after due provision has been made for Taxation and Bad and Doubtful Debts on following basis.

Capital Funds to Deposit Liabilities	Percentage of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

### 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

##### Financial assets

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.

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 purposes 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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 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.

#### 4.17.3 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.

#### 4.17.4 Financial liabilities

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

#### 4.17.5 Derecognition

##### 4.17.5.1 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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

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.

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.

### 4.17.5.2 Financial liabilities

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

### 4.17.6 Modifications of financial assets and financial liabilities

#### 4.17.6.1 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



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

### 4.17.6.2 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.

### 4.17.7 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 SLFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

### 4.17.8 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 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

### 4.17.9 Impairment

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'.

Lifetime 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;
- 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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

- 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 180 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.
- 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;
- 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.

#### **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

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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.

### Individual or collective assessment

A facility is considered for impairment under the individual impairment basis when the ageing of the facility exceeds 6 months and the outstanding receivable value is more than Rs. 1Mn.

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.

### 4.17.10 Designation at fair value through profit or loss

#### 4.17.10.1 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.

#### 4.17.10.2 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.

### 4.18 Hedge accounting

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

### 4.19 SLFRS 16 Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

### Policy applicable from 1st April 2019

At inception of a contract, the Group assesses whether a

contract is, or contains, a lease.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1st April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

**Policy applicable before 1st April 2019**

For contracts entered into before 1 April 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

**A. As a lessee**

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease

payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines the incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using

the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right of use assets that do not meet the definition of investment property in right of use asset and lease liabilities in the statement of financial position as a separate line item.

**Short-term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

leases of low-value assets, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### B. As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies SLFRS 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'

The accounting policies applicable to the Group as a lessor in the comparative period were not different from SLFRS 16. However, when the Group was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

## 5 AMENDMENTS TO EXISTING ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Several amendments to Accounting Standards are effective for annual financial periods beginning on or after January 1, 2020, and earlier application is permitted. However, the Company has not early adopted the following amendments to Accounting Standards in preparing these Financial Statements as they are not expected to have a significant impact on the Company's Financial Statements.

### 5.1. Amendments to references to conceptual framework in SLFRS Standards

CA Sri Lanka has issued a revised Conceptual Framework which will be used in standard setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity by revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition

- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current Accounting Standards. However, if the Company rely on the framework in determining certain accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. The Company will need to consider whether those accounting policies are still appropriate under the revised Framework.

### 5.2. Definition of Material (Amendments to LKAS 1 and LKAS 8)

In November 2018, the CA Sri Lanka issued amendments to LKAS 1 and Sri Lanka Accounting Standard – LKAS 8 on "Accounting Policies, Changes in Accounting Estimates and Errors" to align the definition of 'material' across the standards and to clarify certain aspects of the term 'definition'. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose Financial Statements make on the basis of those Financial Statements, which provide financial information about a specific reporting entity.' The Company shall apply those amendments prospectively for annual financial periods beginning on or after 1st January 2020.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
For the year ended 31 March	2020	2019	2020	2019
<b>6 Gross income</b>				
Interest income (Note 7.1)	563,581	546,759	563,581	546,759
Fee and commission income (Note 8)	5,177	7,260	5,177	7,260
Net fair value gains /(losses) from financial assets at FVTPL (Note 9)	29,294	(461)	29,294	(461)
Other operating income (Note 10)	31,475	63,112	31,475	63,112
	<b>629,527</b>	<b>616,669</b>	<b>629,527</b>	<b>616,670</b>

**7 Net interest income****7.1 Interest income**

Term loans and other advances	127,188	144,845	127,188	144,845
Cash and cash equivalents	33,385	17,498	33,385	17,498
Balances with banks and financial institutions	82,552	5,127	82,552	5,127
Finance lease and hire purchase	275,912	343,354	275,912	343,354
Interest on overdue rentals	44,544	35,936	44,544	35,936
<b>Total interest income</b>	<b>563,581</b>	<b>546,759</b>	<b>563,581</b>	<b>546,759</b>

**7.2 Interest expense**

Interest on overdrafts and charges	4,194	60,117	4,194	60,117
Interest on borrowings	-	1,494	-	1,494
Interest on fixed and savings deposits	287,273	294,856	287,273	294,856
Interest on preference shares	600	600	600	600
<b>Total interest expense</b>	<b>292,067</b>	<b>357,067</b>	<b>292,067</b>	<b>357,066</b>
<b>Net interest income</b>	<b>271,514</b>	<b>189,692</b>	<b>271,514</b>	<b>189,693</b>

**8 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 .

In thousands of rupees	Company		Group	
For the year ended 31 March	2020	2019	2020	2019
Fee and commission income	5,177	7,260	5,177	7,260
<b>Comprising</b>				
Guarantee fees	27	23	27	23
Insurance commission	4,963	4,304	4,963	4,304
Service charges	187	2,933	187	2,933
<b>Total fee and commission income from contract with customers</b>	<b>5,177</b>	<b>7,260</b>	<b>5,177</b>	<b>7,260</b>

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

In thousands of rupees	Company		Group	
For the year ended 31 March	2020	2019	2020	2019
Fair value gain (loss) on financial assets at FVTPL - Shares (Note 19.1.1)	(300)	(461)	(300)	(461)
Fair value gain (loss) on financial assets at FVTPL - Unit Trust	29,594	-	29,594	-
<b>Net fair value gains /(losses) from financial assets at FVTPL</b>	<b>29,294</b>	<b>(461)</b>	<b>29,294</b>	<b>(461)</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
For the year ended 31 March	2020	2019	2020	2019

**10 Other operating income**

Dividend on equity securities measured at FVTPL	311	298	311	298
Net gain from foreign exchange	75	103	75	103
Unwinding interest income on employee loan	2,510	523	2,510	523
Loan loss recoveries	24,077	57,453	24,077	57,453
Gain on disposal of property, plant and equipment	231	277	231	277
Other	4,271	4,458	4,271	4,458
<b>Total other operating income</b>	<b>31,475</b>	<b>63,112</b>	<b>31,475</b>	<b>63,112</b>

**11 Impairment charges for loans and receivables and other losses**

Lease receivables	40,167	18,499	40,167	18,499
Loans and advances	17,488	60,359	17,488	60,359
Hire purchase receivables	2,182	(1,255)	2,182	(1,255)
Margin trading	606	(3,842)	606	(3,842)
Pawning & other	28	(558)	28	(558)
Losses on disposal of collaterals	62,064	12,186	62,064	12,186
<b>Net impairment charges on loans and receivables</b>	<b>122,535</b>	<b>85,389</b>	<b>122,535</b>	<b>85,389</b>

**12 Personnel expenses**

Remuneration	110,469	111,495	110,469	111,495
Employee benefit - Retirement benefit obligation (Note 29.1)	4,689	3,755	4,689	3,755
Employee benefit - Defined contribution plans (EPF/ETF)	11,939	11,475	11,939	11,475
Amortisation of prepaid staff loans	2,510	523	2,510	523
<b>Total personnel expenses</b>	<b>129,607</b>	<b>127,248</b>	<b>129,607</b>	<b>127,248</b>

**13 Other operating expenses**

Directors' fees and emoluments	7,453	2,357	7,453	2,357
Auditor's remunerations				
Statutory audit	1,100	1,100	1,100	1,100
Audit related services and expenses	550	550	765	765
Non audit services and expenses	540	540	640	640
Professional and legal fees	10,294	5,782	9,979	5,467
Reversal of Impairment of real estate	-	(17)	-	(17)
Office administrative and establishment expenses	97,061	112,482	97,148	111,557
<b>Total other operating expenses</b>	<b>116,998</b>	<b>122,794</b>	<b>117,085</b>	<b>121,869</b>

**14 Income tax expense/(reversal)**

Current tax expense	-	-	-	-
Deferred tax expense (Note 14.1)	132	1,742	132	1,742
<b>Total tax expenses</b>	<b>132</b>	<b>1,742</b>	<b>132</b>	<b>1,742</b>

**14.1 Deferred tax expense**

Deferred tax recognised in other comprehensive income	132	1,742	132	1,742
Deferred tax recognised in profit or loss	(132)	(1,742)	(132)	(1,742)
	-	-	-	-



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees For the year ended 31 March	Company		Group	
	2020	2019	2020	2019
<b>14.2 Reconciliation of tax expense</b>				
Loss before tax	(79,954)	(91,942)	(80,041)	(91,017)
Tax at domestic rate of 28%	(22,387)	(25,744)	(22,387)	(25,485)
Tax effect on exempted income	(87)	(88)	(87)	(88)
Tax effect on disallowable expenses	151,870	18,450	151,870	18,191
Tax effect on capital allowances	(61,847)	(92,915)	(61,847)	(92,915)
Tax effect on other allowable expenses	(67,531)	125,425	(67,531)	125,425
Effect of taxable losses	(18)	(25,128)	(18)	(25,128)
<b>Income tax expenses</b>	-	-	-	-
Effective tax rate	0%	0%	0%	0%

In terms of the provisions of Inland Revenue Act No 26 of 2017 and amendments thereto, the Company is liable for taxation at a rate of 28%.

In thousands of rupees For the year ended 31 March	Company	
	2020	2019
<b>14.3 Analysis of tax losses</b>		
Balance at 1 April	1,093,770	1,248,259
Adjustments on over/under provision	135,170	(64,745)
Adjustments on tax assessments	(120,304)	-
Loss incurred during the year	-	211,767
Loss claimed during the year	(65)	(301,511)
<b>Closing tax loss</b>	<b>1,108,571</b>	<b>1,093,770</b>

**15 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.

For the year ended 31 March	Company		Group	
	2020	2019	2020	2019
Loss for the year attributable to ordinary shareholders (Rs.000)	(80,086)	(93,684)	(80,173)	(92,759)
Weighted average number of shares at 31 March ('000) (Note 15.1)	196,316	67,731	196,316	67,500
<b>Loss per ordinary share (Rs.)</b>	<b>(0.41)</b>	<b>(1.38)</b>	<b>(0.41)</b>	<b>(1.37)</b>

**15.1 Weighted average number of shares**

Brought forward number of shares	84,350	67,500	84,350	67,500
Effect of shares issued during the year	111,966	231	111,966	231
<b>Weighted average number of shares</b>	<b>196,316</b>	<b>67,731</b>	<b>196,316</b>	<b>67,731</b>

**16 Cash and cash equivalents**

In thousands of rupees As at 31 March	Company		Group	
	2020	2019	2020	2019
Cash in hand	7,103	10,520	7,353	10,776
Cash and cash equivalents with other financial institutions	33,534	29,951	33,534	29,951
Securities under reverse repurchase agreements	250,803	185,810	250,803	185,810
<b>Cash and cash equivalents in the statement of financial position</b>	<b>291,440</b>	<b>226,281</b>	<b>291,690</b>	<b>226,537</b>
Bank overdrafts repayable on demand and used for cash management purposes (Note 25)	(1,715)	(219,144)	(1,715)	(219,144)
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>289,725</b>	<b>7,137</b>	<b>289,975</b>	<b>7,393</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
For the year ended 31 March	2020	2019	2020	2019

**17 Balances with banks and financial institutions**

Investment in fixed deposits	1,134,915	56,747	1,134,915	56,747
Investment in securitization	79,182	-	79,182	-
	<b>1,214,097</b>	<b>56,747</b>	<b>1,214,097</b>	<b>56,747</b>

In thousands of rupees	Company		Group	
As at 31 March	2020	2019	2020	2019

**18 Financial assets measured at amortised cost - Loans and advances**

Loans	873,374	1,016,694	873,374	1,016,694
Finance leases	1,261,523	1,881,744	1,261,523	1,881,744
<b>Gross loans and receivables (Note 18.1)</b>	<b>2,134,897</b>	<b>2,898,438</b>	<b>2,134,897</b>	<b>2,898,438</b>
Write off	-	-	-	-
	<b>2,134,897</b>	<b>2,898,438</b>	<b>2,134,897</b>	<b>2,898,438</b>
Less: Impairment loss allowance (Note 18.2)	(476,587)	(394,174)	(476,587)	(394,174)
<b>Net loans and advances</b>	<b>1,658,310</b>	<b>2,504,264</b>	<b>1,658,310</b>	<b>2,504,264</b>

**18.1 Analysis by product**

Pawning	133,734	86,442	133,734	86,442
Hire Purchase	5,300	7,461	5,300	7,461
Margin trading receivable	240,804	238,264	240,804	238,264
Staff leases/ Loans	10,691	18,481	10,691	18,481
Bills of Exchange	170	170	170	170
Term loans	345,534	489,410	345,534	489,410
Ikman Draft	48,847	76,423	48,847	76,423
Group Sale	5,274	6,517	5,274	6,517
Loans against fixed deposits	83,020	93,526	83,020	93,526
<b>Loans</b>	<b>873,374</b>	<b>1,016,693</b>	<b>873,374</b>	<b>1,016,693</b>
Leasing	1,261,523	1,881,744	1,261,523	1,881,744
<b>Gross total</b>	<b>2,134,897</b>	<b>2,898,438</b>	<b>2,134,897</b>	<b>2,898,437</b>

**Analysis by currency**

Sri Lankan rupees	2,134,897	2,898,438	2,134,897	2,898,437
<b>Gross total</b>	<b>2,134,897</b>	<b>2,898,438</b>	<b>2,134,897</b>	<b>2,898,437</b>

**18.2 Impairment loss allowance**

As at 31 March	Note	2020			2019		
In thousands of rupees		Gross carrying amount	ECL allowance	Carrying amount	Gross amount	ECL allowance	Carrying amount
Hire purchase	18.2.1	5,300	3,277	2,023	7,461	1,037	6,424
Loans	18.2.2	493,366	170,418	322,948	684,357	149,854	534,503
Margin trading	18.2.3	240,804	93,337	147,467	238,264	80,378	157,886
Pawning and other	18.2.4	133,904	805	133,099	86,612	171	86,441
Lease	18.2.5	1,261,523	208,750	1,052,773	1,881,744	162,734	1,719,010
		<b>2,134,897</b>	<b>476,587</b>	<b>1,658,310</b>	<b>2,898,438</b>	<b>394,174</b>	<b>2,504,264</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**18.2.1 Hire purchase**

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
<b>In thousands of rupees</b>		
<b>Gross investment in hire purchase</b>		
Less than one year	2,556	3,168
Between one and five years	3,401	5,600
More than five years	-	-
	<b>5,957</b>	<b>8,768</b>
Unearned income	(657)	(1,307)
	<b>5,300</b>	<b>7,461</b>
Impairment allowance for hire purchase - individual	-	(65)
Impairment allowance for hire purchase - collective	(3,277)	(972)
<b>Net investment in hire purchase</b>	<b>2,023</b>	<b>6,424</b>

**18.2.2 Loans**

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
<b>In thousands of rupees</b>		
<b>Gross investment in loan receivables</b>		
Less than one year	385,208	360,578
Between one and five years	165,261	419,495
More than five years	-	26,060
	<b>550,469</b>	<b>806,133</b>
Unearned income	(57,103)	(121,776)
	<b>493,366</b>	<b>684,357</b>
Impairment allowance for loan receivables - individual	(132,179)	(106,106)
Impairment allowance for loan receivables - collective	(38,239)	(43,748)
<b>Net investment in loan receivables</b>	<b>322,948</b>	<b>534,503</b>

**18.2.3 Margin trading receivables**

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
<b>In thousands of rupees</b>		
<b>Gross investment in margin trading receivables</b>		
Less than one year	240,804	238,264
Between one and five years	-	-
More than five years	-	-
	<b>240,804</b>	<b>238,264</b>
Unearned income	-	-
	<b>240,804</b>	<b>238,264</b>
Impairment allowance for margin trading receivables - individual	(93,337)	(80,378)
Impairment allowance for margin trading receivables - collective	-	-
<b>Net investment in margin trading receivables</b>	<b>147,467</b>	<b>157,886</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**18.2.4 Pawning and other receivables**

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
<b>In thousands of rupees</b>		
<b>Gross investment in pawning and other receivables</b>		
Less than one year	133,904	86,612
Between one and five years	-	-
More than five years	-	-
	<b>133,904</b>	<b>86,612</b>
Unearned income	-	-
	<b>133,904</b>	<b>86,612</b>
Impairment allowance for pawning and other receivables - individual	(805)	(171)
Impairment allowance for pawning and other receivables - collective	-	-
<b>Net investment in pawning and other receivables</b>	<b>133,099</b>	<b>86,441</b>

**18.2.5 Finance lease receivables**

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.

<b>As at 31 March</b>	<b>2020</b>	<b>2019</b>
<b>In thousands of rupees</b>		
<b>Gross investment in finance lease receivables</b>		
Less than one year	671,977	157,662
Between one and five years	859,760	2,296,161
More than five years	-	5,862
	<b>1,531,737</b>	<b>2,459,685</b>
Unearned finance income	(270,214)	(577,941)
	<b>1,261,523</b>	<b>1,881,744</b>
Impairment allowance for finance lease receivables - individual	(160,540)	(85,390)
Impairment allowance for finance lease receivables - collective	(48,210)	(77,344)
<b>Net investment in finance lease receivables</b>	<b>1,052,773</b>	<b>1,719,010</b>

**18.4.3** The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss:

<b>31st March 2020</b>	<b>Individual Rs.</b>	<b>Collective Rs.</b>	<b>Total Rs.</b>
<b>Financial assets at amortised cost-Hire Purchase Receivables</b>			
Stage 1	-	(202)	(202)
Stage 2	-	(40)	(40)
Stage 3	(66)	2,489	2,423
	<b>(66)</b>	<b>2,247</b>	<b>2,182</b>
<b>Financial assets at amortised cost-Finance Lease Receivables</b>			
Stage 1	-	(11,271)	(11,271)
Stage 2	-	(19,161)	(19,161)
Stage 3	66,824	3,775	70,599
	<b>66,824</b>	<b>(26,657)</b>	<b>40,167</b>
<b>Financial assets at amortised cost-Loans and Advances</b>			
Stage 1	-	(4,989)	(4,989)
Stage 2	-	(5,886)	(5,886)
Stage 3	22,997	5,365	28,363
	<b>22,997</b>	<b>(5,510)</b>	<b>17,488</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

<b>31st March 2020</b>	<b>Individual Rs.</b>	<b>Collective Rs.</b>	<b>Total Rs.</b>
<b>Financial assets at amortised cost-Margin Trading</b>			
Stage 1	-	-	-
Stage 2	-	-	-
Stage 3	606	-	606
	<b>606</b>	<b>-</b>	<b>606</b>
<b>Financial assets at amortised cost-Pawning and Other</b>			
Stage 1	-	-	-
Stage 2	-	-	-
Stage 3	28	-	28
	<b>28</b>	<b>-</b>	<b>28</b>
<b>Financial assets at amortised cost -Total</b>			
Stage 1	-	(16,462)	(16,462)
Stage 2	-	(25,086)	(25,086)
Stage 3	90,390	11,629	102,019
	<b>90,390</b>	<b>(29,919)</b>	<b>60,472</b>
<b>31st March 2019</b>			
	<b>Individual Rs.</b>	<b>Collective Rs.</b>	<b>Total Rs.</b>
<b>Financial assets at amortised cost-Hire Purchase Receivables</b>			
Stage 1	-	-	-
Stage 2	-	(438)	(438)
Stage 3	(186)	(631)	(817)
	<b>(186)</b>	<b>(1,069)</b>	<b>(1,255)</b>
<b>Financial assets at amortised cost-Finance Lease Receivables</b>			
Stage 1	-	(2,439)	(2,439)
Stage 2	-	(5,250)	(5,250)
Stage 3	29,424	(3,235)	26,189
	<b>29,424</b>	<b>(10,924)</b>	<b>18,500</b>
<b>Financial assets at amortised cost-Loans and Advances</b>			
Stage 1	-	3,625	3,625
Stage 2	-	14,248	14,248
Stage 3	41,426	1,060	42,486
	<b>41,426</b>	<b>18,933</b>	<b>60,359</b>
<b>Financial assets at amortised cost-Margin Trading</b>			
Stage 1	-	-	-
Stage 2	-	-	-
Stage 3	(3,842)	-	(3,842)
	<b>(3,842)</b>	<b>-</b>	<b>(3,842)</b>
<b>Financial assets at amortised cost-Pawning and Other</b>			
Stage 1	-	-	-
Stage 2	-	-	-
Stage 3	(558)	-	(558)
	<b>(558)</b>	<b>-</b>	<b>(558)</b>
<b>Financial assets at amortised cost -Total</b>			
Stage 1	-	1,186	1,186
Stage 2	-	8,560	8,560
Stage 3	66,263	(2,805)	63,458
	<b>66,263</b>	<b>6,940</b>	<b>73,204</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**18.4.4 Movement in Impairment during the year**

Rs.	2020	2019
<b>Stage 1</b>		
Restated opening balance as at 1st April	23,664	28,867
Net impairment charge for the year	63,256	(5,203)
<b>Closing balance as at 31st March</b>	<b>86,920</b>	<b>23,664</b>
<b>Stage 2</b>		
Restated opening balance as at 1st April	91,097	67,306
Net impairment charge for the year	4,559	23,791
<b>Closing balance as at 31st March</b>	<b>95,656</b>	<b>91,097</b>
<b>Stage 3</b>		
Restated opening balance as at 1st April	279,413	203,589
Net impairment charge for the year	14,598	75,824
<b>Closing balance as at 31st March</b>	<b>294,011</b>	<b>279,413</b>
<b>Total</b>		
Opening balance as at 1st April	394,174	299,762
Net impairment charge for the year	60,472	73,204
Adjustment in recognizing interest income on net basis for credit impaired loans advances	21,941	21,208
<b>Closing balance as at 31st March</b>	<b>476,587</b>	<b>394,174</b>

**18.4.5 Breakdown of Gross Loans & Provision**

Rs.	2020	2019
<b>Stage 1</b>		
Gross receivables	1,167,410	1,880,201
Impairment	86,920	23,664
<b>Net receivable</b>	<b>1,080,490</b>	<b>1,856,537</b>
<b>Stage 2</b>		
Gross receivables	379,015	578,836
Impairment	95,656	91,097
<b>Net receivable</b>	<b>283,359</b>	<b>487,739</b>
<b>Stage 3</b>		
Gross receivables	588,472	439,401
Impairment	294,011	279,413
<b>Net receivable</b>	<b>294,461</b>	<b>159,988</b>
<b>Total</b>		
Gross receivables	2,134,897	2,898,438
Impairment	476,587	394,174
<b>Net receivable</b>	<b>1,658,310</b>	<b>2,504,264</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Note	Company		Group	
As at 31st March		2020	2019	2020	2019

**19 Investments in securities**

Investment in securities measured at FVTPL - Quoted investments	19.1	1,819	2,119	1,819	2,119
Investment in securities measured at FVTPL - Unit trust	19.2	484,346	-	484,346	-
Investment in securities measured at FVOCI - Debt instruments		48	48	48	48
Investment in securities measured at FVOCI - Equity instruments		23	23	23	23
		<b>486,236</b>	<b>2,190</b>	<b>486,236</b>	<b>2,190</b>
Less: Impairment charges on debt securities	19.3	(48)	(48)	(48)	(48)
<b>Net investments in securities</b>		<b>486,188</b>	<b>2,142</b>	<b>486,188</b>	<b>2,142</b>

**19.1 Financial assets 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)		(1,567)	(1,267)	(1,567)	(1,267)
<b>Total</b>		<b>1,819</b>	<b>2,119</b>	<b>1,819</b>	<b>2,119</b>

**19.1.1 Movements in fair value changes**

Balance at 1 April		(1,267)	(806)	(1,267)	(806)
Gain / (Reversal) during the year		(300)	(461)	(300)	(461)
<b>Balance as at 31 March</b>		<b>(1,567)</b>	<b>(1,267)</b>	<b>(1,567)</b>	<b>(1,267)</b>

**19.1.2 Quoted equity securities held by the - Company/ Group**

As at 31st March	2020			2019		
In thousands of rupees	No of Shares	Total cost	Market value	No of shares	Total cost	Market value
<b>Sector</b>						
<b>Bank, finance and insurance</b>						
Nations Trust Bank PLC	3,077	214	231	3,077	214	277
Vanik Incorporation PLC	61	3	-	61	3	-
People's Leasing & Finance PLC	71,089	1,242	867	69,000	1,242	924
Sampath Bank PLC	24	6	3	24	6	4
		<b>1,465</b>	<b>1,101</b>		<b>1,465</b>	<b>1,205</b>
<b>Sector Percentage</b>			<b>61%</b>			<b>57%</b>
<b>Hotel and travels</b>						
Keels Hotels PLC	7,085	150	47	7,085	150	53
Hotel Services Ceylon PLC	43,500	1,320	379	43,500	1,320	557
		<b>1,470</b>	<b>426</b>		<b>1,470</b>	<b>610</b>
<b>Sector Percentage</b>			<b>23%</b>			<b>29%</b>
<b>Manufacturing</b>						
ACL Cables PLC	9,400	451	292	9,400	451	304
		<b>451</b>	<b>292</b>		<b>451</b>	<b>304</b>
<b>Sector Percentage</b>			<b>16%</b>			<b>14%</b>
<b>Total</b>		<b>3,386</b>	<b>1,819</b>		<b>3,386</b>	<b>2,119</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**19.2 Financial assets measured at FVTPL**

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
Investment in unit trust				
Cost	454,752	-	454,752	-
Fair value changes	29,594	-	29,594	-
<b>Total</b>	<b>484,346</b>	<b>-</b>	<b>484,346</b>	<b>-</b>

**19.3 Movements in impairment charges during the year**

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
Balance as at 1st April	48	48	48	48
Charge/(Write back) to statement of profit or loss	-	-	-	-
<b>Balance as at 31st March</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>48</b>

**20 Investments in subsidiaries**

Unquoted equity share (Note 20.1)	175,000	175,000	-	-
Less: Impairment charges	(175,000)	(175,000)	-	-
<b>Net total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**20.1 Unquoted equity shares**

	2020		2019	
	Rs.'000	Holding %	Rs.'000	Holding %
PMB Services Ltd.	175,000	100	175,000	100
<b>Closing balance</b>	<b>175,000</b>	<b>100</b>	<b>175,000</b>	<b>100</b>

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 Limited incurred a loss of Rs.85,638/- on financial year 2019/20. (2018/19 - Rs.98,387).



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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

In thousands of rupees	Motor vehicle	Furniture and fittings	Computer	Office equipment	Total
<b>Cost</b>					
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)
<b>Balance at 31st March 2019</b>	<b>27,810</b>	<b>22,077</b>	<b>42,320</b>	<b>29,532</b>	<b>121,739</b>
Balance as at 1st April 2019	27,810	22,077	42,320	29,532	121,739
Additions	-	198	654	1,496	2,348
Disposals	(1,285)	-	-	-	(1,285)
<b>Balance as at 31st March 2020</b>	<b>26,525</b>	<b>22,275</b>	<b>42,974</b>	<b>31,028</b>	<b>122,802</b>
<b>Accumulated depreciation and impairment losses</b>					
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)
<b>Balance as at 31st March 2019</b>	<b>27,810</b>	<b>19,047</b>	<b>36,046</b>	<b>25,267</b>	<b>108,170</b>
Balance as at 1st April 2019	27,810	19,047	36,046	25,267	108,170
Depreciation for the year	-	626	2,543	1,209	4,378
Disposals	(1,285)	-	-	-	(1,285)
<b>Balance as at 31st March 2020</b>	<b>26,525</b>	<b>19,673</b>	<b>38,589</b>	<b>26,476</b>	<b>111,263</b>
<b>Carrying amount</b>					
Balance as at 1st April 2018	-	3,461	4,033	3,809	11,303
Balance as at 31st March 2019	-	3,030	6,274	4,265	13,569
Balance as at 31st March 2020	-	2,602	4,385	4,552	11,539

**21.2** There were no capitalised borrowing costs related to the acquisition of equipment during the year 31 March 2020 (31 March 2019: 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.

In thousands of rupees	Company		Group	
As as at 31st March	2020	2019	2020	2019
Motor vehicle	26,525	27,810	26,525	27,810
Computers	29,150	26,038	35,090	31,978
Furniture and fitting	15,690	15,690	17,956	17,956
Office equipment	16,900	16,845	21,960	21,905
<b>Total</b>	<b>88,265</b>	<b>86,383</b>	<b>101,531</b>	<b>99,649</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**22 Intangible assets**

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

**22.1 Reconciliation of carrying amount**

In thousands of rupees	Company	Group
<b>Cost</b>		
Balance as at 1st April 2018	29,083	29,722
Additions	1,837	1,837
<b>Balance as at 31st March 2019</b>	<b>30,920</b>	<b>31,559</b>
Balance as at 1st April 2019	30,920	31,559
Additions	642	642
<b>Balance as at 31st March 2020</b>	<b>31,562</b>	<b>32,201</b>
<b>Accumulated amortization</b>		
Balance as at 1st April 2018	22,712	23,351
Amortisation	3,083	3,083
<b>Balance as at 31st March 2019</b>	<b>25,795</b>	<b>26,434</b>
Balance as at 1st April 2019	25,795	26,434
Amortisation	3,285	3,285
<b>Balance as at 31st March 2020</b>	<b>29,080</b>	<b>29,719</b>
<b>Carrying amount</b>		
Balance as at 31st March 2019	5,125	5,125
Balance as at 31st March 2020	2,483	2,483

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

**22.1 Fully depreciated intangible assets**

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
Computer software	20,840	17,957	20,840	17,957

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				

**23 Right of use assets****23.1 Right of use assets**

Cost				
Recognition of right of use asset on initial application of SLFRS 16	92,573	-	92,573	-
<b>Balance as at the beginning of the year</b>	<b>92,573</b>	<b>-</b>	<b>92,573</b>	<b>-</b>
Additions during the year	-	-	-	-
Disposals / Transfers during the year	-	-	-	-
<b>Balance as at the end of the year</b>	<b>92,573</b>	<b>-</b>	<b>92,573</b>	<b>-</b>
<b>Accumulated depreciation</b>				
Balance as at the beginning of the year	-	-	-	-
Charge for the year	28,930	-	28,930	-
Disposals during the year	-	-	-	-
<b>Balance as at the end of the year</b>	<b>28,930</b>	<b>-</b>	<b>28,930</b>	<b>-</b>
<b>Carrying value as at the end of the year</b>	<b>63,643</b>	<b>-</b>	<b>63,643</b>	<b>-</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019
<b>23.2 Lease liabilities</b>				
Lease liabilities included in the statement of financial position				
Current liabilities	35,062	-	35,062	-
Non-current liabilities	39,324	-	39,324	-
<b>Total</b>	<b>74,386</b>	<b>-</b>	<b>74,386</b>	<b>-</b>
<b>Maturity analysis - Contractual undiscounted cash flows</b>				
Not later than one year	40,848	-	40,848	-
Later than one year and not later than five years	45,284	-	45,284	-
Later than five years	2,610	-	2,610	-
<b>Movement of lease liability</b>				
Recognition of right of use asset on initial application of SLFRS 16	92,573	-	92,573	-
<b>Balance as at the beginning of the year</b>	<b>92,573</b>	<b>-</b>	<b>92,573</b>	<b>-</b>
Interest expense on leases	9,757	-	9,757	-
Lease rental payments	(27,944)	-	(27,944)	-
<b>Lease liability as at the end of the year</b>	<b>74,386</b>	<b>-</b>	<b>74,386</b>	<b>-</b>

**23.4 Details of leases**

Leasehold Property	Asset type	Repayment terms	Interest rate	Balance as at 31 March 2020
Colombo	Building	12 months	12%	26,912
Wellawatta	Building	60 months	12%	2,648
Awissawella	Building	60 months	12%	2,647
Gampaha	Building	72 months	12%	2,246
Mathugama	Building	60 months	12%	2,002
Kandy	Building	36 months	12%	10,813
Kurunegala	Building	60 months	12%	6,036
Elpitiya	Building	60 months	12%	2,653
Matara	Building	60 months	12%	2,525
Negombo	Building	60 months	12%	7,603
Anuradhapura	Building	60 months	12%	4,169
Trincomalee	Building	60 months	12%	4,132
<b>Total</b>				<b>74,386</b>

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019
<b>24 Other assets</b>				
Security deposits	7,056	6,821	7,056	6,821
Advance payments	6,672	4,987	6,672	4,987
Real estate inventories (Note 24.1)	36,407	36,407	36,407	36,407
Prepaid staff cost	2,436	4,946	2,436	4,946
Stationary stock	1,412	1,288	1,412	1,288
ESC recoverable	7,744	6,395	7,744	6,395
Recoverable from director (Note 24.2)	-	-	-	-
VAT recoverable (Note 24.3)	-	-	-	-
Other receivables	25,515	24,411	25,515	24,411
Suspense account (Note 24.4)	-	-	-	-
<b>Total</b>	<b>87,242</b>	<b>85,255</b>	<b>87,242</b>	<b>85,255</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
<b>24.1 Real estate inventories</b>				
Balance as at 1st April	36,407	36,390	36,407	36,390
Disposals during the year	-	-	-	-
<b>Balance as at 31st March</b>	<b>36,407</b>	<b>36,390</b>	<b>36,407</b>	<b>36,390</b>
Impairment reversal/(provision)	-	17	-	17
<b>Balance as at 31st March</b>	<b>36,407</b>	<b>36,407</b>	<b>36,407</b>	<b>36,407</b>
<b>24.2 Recoverable from former director</b>				
Recoverable from former director	11,632	11,632	11,632	11,632
Impairment provision	(11,632)	(11,632)	(11,632)	(11,632)
<b>Balance as at 31st March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>24.3 VAT recoverable</b>				
VAT recoverable balance	18,468	18,468	18,468	18,468
Impairment provision	(18,468)	(18,468)	(18,468)	(18,468)
<b>Balance as at 31st March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**24.4 Suspense account balance**

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

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
Suspense account balance	138,552	138,552	138,552	138,552
Impairment provision	(138,552)	(138,552)	(138,552)	(138,552)
<b>Balance as at 31st March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				

**25 Due to banks**

Bank overdraft	1,715	219,144	1,715	219,144
<b>Total</b>	<b>1,715</b>	<b>219,144</b>	<b>1,715</b>	<b>219,144</b>

**26 Financial liabilities at amortised cost - due to depositors**

Fixed deposits	2,073,565	2,404,582	2,073,565	2,404,582
Savings deposits	27,371	30,151	27,371	30,151
<b>Total</b>	<b>2,100,936</b>	<b>2,434,733</b>	<b>2,100,936</b>	<b>2,434,733</b>

**26.1 Analysis by currency**

Sri Lankan rupees	2,100,936	2,434,733	2,100,936	2,434,733
<b>Total</b>	<b>2,100,936</b>	<b>2,434,733</b>	<b>2,100,936</b>	<b>2,434,733</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019

**27 Debt securities issued**

Cumulative preference shares (Note 27.1)	16,000	15,400	16,000	15,400
<b>Total</b>	<b>16,000</b>	<b>15,400</b>	<b>16,000</b>	<b>15,400</b>
Due within 1 year	-	-	-	-
Due after 1 year	16,000	15,400	16,000	15,400
<b>Total</b>	<b>16,000</b>	<b>15,400</b>	<b>16,000</b>	<b>15,400</b>

**27.1 Details of debt securities issued - Company / Group**

As at 31st March			2020	2019
In thousands of rupees	Face value			
Issued by the Company				
6% cumulative non redeemable preference shares		10,000	10,000	10,000
Interest Payable		-	6,000	5,400
<b>Total</b>		<b>10,000</b>	<b>16,000</b>	<b>15,400</b>

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019

**28 Deferred taxation**

Deferred tax assets (Note 28.1)	(76,060)	(96,664)	(76,060)	(96,664)
Deferred tax liabilities (Note 28.2)	76,060	96,664	76,060	96,664
<b>Balance as at 31st March</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**28.1 Deferred tax assets**

Balance as at 1st April	96,664	111,688	96,664	111,688
Origination/(reversal) of temporary difference	(20,604)	(15,024)	(20,604)	(15,024)
<b>Balance as at 31st March</b>	<b>76,060</b>	<b>96,664</b>	<b>76,060</b>	<b>96,664</b>
Retiring gratuity	6,568	6,162	6,568	6,162
Impairment on loans and advances	36,002	32,541	36,002	32,541
Lease liability	20,828	-	20,828	-
Tax losses	12,663	57,961	12,663	57,961
<b>Balance as at 31st March</b>	<b>76,060</b>	<b>96,664</b>	<b>76,061</b>	<b>96,664</b>

**28.2 Deferred tax liabilities**

Balance as at 1st April	96,664	111,688	96,664	111,688
Origination/(reversal) of temporary difference	(20,604)	(15,024)	(20,604)	(15,024)
<b>Balance as at 31st March</b>	<b>76,060</b>	<b>96,664</b>	<b>76,060</b>	<b>96,664</b>
Property plant and equipment	828	1,068	828	1,068
Intangible assets	695	1,435	695	1,435
Leased assets	56,717	94,161	56,717	94,161
Right of use assets	17,820	-	17,820	-
<b>Balance as at 31st March</b>	<b>76,060</b>	<b>96,664</b>	<b>76,060</b>	<b>96,664</b>

**28.3 Unrecognized deferred tax assets**

Deferred tax assets have not been recognized in respect of the following items, because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

In thousands of rupees	Company	
For the year ended 31st March	2020	2019
<b>Tax losses</b>	<b>1,033,614</b>	<b>886,766</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019

**29 Other liabilities**

Employee benefit obligation (Note 29.1)	23,456	22,006	23,456	22,006
Real estate advance	-	1,000	-	1,000
Other payables	43,7110	48,352	44,069	48,630
Financial liabilities (Note 29.2)	2,237	9,790	2,237	9,790
<b>Total</b>	<b>69,404</b>	<b>81,148</b>	<b>69,763</b>	<b>81,426</b>

**29.1 Employee benefit obligation****Movement in the present value of defined benefit obligation**

Balance at the beginning of the year	22,006	13,674	22,006	13,674
<b>Amount recognised in profit or loss</b>				
Interest cost	2,311	1,422	2,311	1,422
Current service cost	2,379	2,333	2,379	2,333
<b>Total amount recognised in profit or loss</b>	<b>4,690</b>	<b>3,755</b>	<b>4,690</b>	<b>3,755</b>

**Amount recognized in the other comprehensive income**

Actuarial gain	470	6,223	470	6,223
Payment made during the year	(3,710)	(1,646)	(3,710)	(1,646)
<b>Balance at the end of the year</b>	<b>23,457</b>	<b>22,006</b>	<b>23,457</b>	<b>22,006</b>

The Company carried out an actuarial valuation of the gratuity liability as at 31 March 2020 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	2020	2019
<b>Actuarial assumption</b>		
Discount rate	9.00%	10.50%
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.

**29.1.2 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 (Rs'000)
1% point Increase	10.0%	22,820
1% point Decrease	10.0%	24,135
9.0%	1% point Increase	24,165
9.0%	1% point Decrease	22,780

In thousands of rupees	Company		Group	
As at 31st March	2020	2019	2020	2019
<b>29.2 Financial liabilities</b>				
Amounts payable to suppliers	402	7,042	402	7,042
Insurance payables	1,835	2,748	1,835	2,748
<b>Total financial liabilities</b>	<b>2,237</b>	<b>9,790</b>	<b>2,237</b>	<b>9,790</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**30 Stated capital**

In thousands of rupees As at 31st March	Number of shares (thousands)	Company		Group	
		2020	2019	2020	2019
Issued and fully paid ordinary shares	67,500	1,238,302	1,078,227	1,238,302	1,078,227
Private placement - shares	16,850	-	160,075	-	160,075
Rights issue - shares	126,525	1,201,988	-	1,201,988	-
<b>Total</b>	<b>210,875</b>	<b>2,440,290</b>	<b>1,238,302</b>	<b>2,440,290</b>	<b>1,238,302</b>

**Ordinary shares**

Holders 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.

**Rights issue of shares**

On 13th May 2019, the Company raised a capital of Rs.1,201,988,000/- through a rights issue by issuing 126,525 shares at an exercise price of Rs. 9.50/- per share.

**30.1 Advance against stated capital**

The Directors resolved to raise a sum of Rs. 809.76 Mn by way of a rights issue of shares. The Company by letter dated 28 February 2020, informed the shareholders of its intention to convene an Extraordinary General Meeting to obtain shareholder approval for the aforesaid Rights Issue. However, due to the impact of COVID -19, the Company was unable to proceed with the proposed Rights Issue. The controlling shareholder Sterling Capital Investment (Pvt) Ltd infused a sum of Rs. 300 Mn for the purpose of the Rights Issue in during the year under review. The controlling shareholder has confirmed that the sum of Rs. 300Mn could be applied in an Issue of Shares by the Company in the ensuing financial year.

**31 Reserves****Statutory reserve fund**

The Reserve Fund is maintained in compliance with the Finance Companies (Capital Funds) Direction No 1 of 2003. As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such Reserve Fund out of the net profits of the each year after due provision has been made for Taxation and Bad and Doubtful Debts on following basis.

Capital Funds to Deposit Liabilities	% of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

However, due to reporting losses for the year ended 31 March 2020, no transfer were made to the reserve fund.

In thousands of rupees As at 31 March	Company		Group	
	2020	2019	2020	2019
Balance as at the beginning of the year	7,259	7,259	7,259	7,259
Transfer during the year	-	-	-	-
<b>Balance as at the end of the year</b>	<b>7,259</b>	<b>7,259</b>	<b>7,259</b>	<b>7,259</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Company		Group	
As at 31 March	2020	2019	2020	2019
<b>32 Accumulated losses</b>				
Balance as at the beginning of the year	(1,102,603)	(869,795)	(1,102,625)	(870,742)
Adjustment on initial application of SLFRS 9	-	(134,644)	-	(134,644)
<b>Adjusted balance as at the beginning of the year</b>	<b>(1,102,603)</b>	<b>(1,004,439)</b>	<b>(1,102,625)</b>	<b>(1,005,386)</b>
Loss for the year	(80,086)	(93,684)	(80,173)	(92,759)
Other comprehensive income	(339)	(4,480)	(339)	(4,480)
Transaction cost related to rights issue	(12,020)	-	(12,020)	-
<b>Balance as at the end of the year</b>	<b>(1,195,048)</b>	<b>(1,102,603)</b>	<b>(1,195,157)</b>	<b>(1,102,625)</b>

**33 Contingent liabilities and commitments**

There are no contingent liabilities and commitments as at the end of the financial period except for the following.

**33.1 Composition of contingent liabilities and commitments**

In thousands of rupees	Company		Group	
As at 31 March	2020	2019	2020	2019
Contingent liabilities	1,098	900	1,098	900
Commitments	38,930	46,531	38,930	46,531
<b>Total</b>	<b>40,028</b>	<b>47,431</b>	<b>40,028</b>	<b>47,431</b>
<b>Contingent liabilities</b>				
- Guarantees	1,098	900	1,098	900
<b>Commitments</b>				
- Un-utilized facilities (Margin Trading)	38,930	46,531	38,930	46,531
	<b>40,028</b>	<b>47,431</b>	<b>40,028</b>	<b>47,431</b>

**33.2 Income tax assessments**

The Company received an Income Tax Assessment for a sum of Rs.9.7 Mn from the Department of Inland Revenue for the Year of Assessment 2017/2018. The Company recorded a tax loss of Rs. 486 Mn for the said Year of Assessment. The Company lodged an appeal with the Department of Inland Revenue over inconsistencies in the application of the provisions of Inland Revenue Act.

Tax losses amounting to Rs. 376 Mn being the matters under dispute are included in the unrecognized tax losses of Rs. 1,014 Mn referred to in Note 28.3 to the financial statements. This amount is not adjusted in the tax loss carried forward since the Company is confident that the outcome of the appeal would be positive to the Company.

**34 Related party disclosures****34.1 Parent and ultimate controlling party**

The Company's immediate parent and ultimate controlling party is Sterling Capital Investments (Private) Limited and the ultimate parent company is Rush Japan Corporation.

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. In the current financial year, 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 controlling entity is SCIL.



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**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.

In thousands of rupees	Company		Group	
	2020	2019	2020	2019
<b>As at 31st March</b>				
<b>34.2.1 Remuneration to Board of Directors</b>				
Short-term Employee Benefits	7,453	2,357	7,453	2,357
<b>34.2.2 Share transactions with KMP</b>				
<b>No. of Ordinary Shares held at the end of the financial period;</b>				
The Parent Company (Sterling Capital Investments (Pvt) Ltd)	143,809	16,850	143,809	16,850
People's Bank	33,856	33,856	33,856	33,856
People's Leasing & Finance PLC	25,014	25,014	25,014	25,014
Board of Directors	2,500	1,000	1,000	1,000

**34.3 Transactions with related entities****Transactions with the Government of Sri Lanka and the government related entities.**

People's bank, which is a government owned entity, People's bank, holds 16% shares of shares of People's Merchant Finance PLC. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individual significant transactions with the Government of Sri Lanka and Government related entities during the year, other than on normal day-to-day business operations.

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

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

**34.3.1 Company**

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

In thousands of rupees	Sterling Capital Investment (Private) Limited (Parent Company)		People's Bank (Significant influence over the company)		PMB Services Limited (Subsidiary of People's merchant Finance PLC)		Subsidiaries of People's Bank	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>As at 31st March</b>								
<b>(a) Items in statement of profit or loss</b>								
Interest income		-	47,582	256	-	-	-	-
Interest expense		-	2,744	59,123	-	-	-	-
Fee and commission income		-	-	-	-	-	497	1,421
Other operating expenses		-	18,281	15,428	-	-	12	2,157

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

In thousands of rupees	Sterling Capital Investment (Private) Limited (Parent Company)		People's Bank (Significant influence over the company)		PMB Services Limited (Subsidiary of People's Merchant Finance PLC)		Subsidiaries of People's Bank	
	2020	2019	2020	2019	2020	2019	2020	2019
<b>As at 31st March</b>								
<b>(b) Items in statement of financial position</b>								
<b>Assets</b>								
Cash and cash equivalents	-	-	32,379	29,022	-	-	-	-
Investments in fixed deposits	-	-	413,502	-	-	-	-	-
Investments in subsidiaries / affiliates	-	-	-	-	175,000	175,000	-	-
Other assets	-	-	-	-	19,221	19,140	-	-
Provisions made	-	-	-	-	(194,221)	(194,140)	-	-
<b>Liabilities</b>								
Due to banks	-	-	1,715	219,051	-	-	-	-
Debt securities issued	-	-	10,000	10,000	-	-	-	-
Preference shares dividend payable	-	-	6,000	5,400	-	-	-	-
<b>(c) Transactions</b>								
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC	-	-	-	-	-	-	839	1,497
Fleet vehicle hiring charges	-	-	-	-	-	-	720	660

**34.3.2 Group**

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

In thousand of rupees	Sterling Capital Investment (Private) Limited (Parent Company)		People's Bank (Significant influence over the company)		Subsidiaries of People's Bank	
	2020	2019	2020	2019	2020	2019
<b>As at 31st March</b>						
<b>(a) Items in statement of profit or loss</b>						
Interest income	-	-	47,582	256	-	-
Interest expense	-	-	2,744	59,123	-	-
Fee and commission income	-	-	-	-	497	1,421
Other operating expenses	-	-	18,281	15,428	12	2,157
<b>(b) Items in statement of financial position</b>						
<b>Assets</b>						
Cash and cash equivalents	-	-	32,379	29,022	-	-
Investments in fixed deposits	-	-	413,502	-	-	-
<b>Liabilities</b>						
Due to banks	-	-	1,715	219,051	-	-
Debt securities issued	-	-	10,000	10,000	-	-
Preference shares dividend payable	-	-	6,000	5,400	-	-
<b>(c) Transactions</b>						
Advances in lieu of rights issue of shares		300,000	-	-	-	-
Insurance premium paid in respect of customers introduced by People's Merchant Finance PLC		-	-	-	839	1,497
Fleet vehicle hiring charges		-	-	-	720	660

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**35 Financial instrument - Fair values 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 2020	Carrying amount		Fair value					
	Rs' 000		Rs' 000					
	Company	Group	Company			Group		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets measured at fair value</b>								
Investment securities measured at FVTPL (Note a)	486,165	486,165	1,819	484,346	-	1,819	484,346	-
Investment securities measured at FVOCI (Note b)	23	23	-	-	23	-	-	23
	<b>486,188</b>	<b>486,188</b>	<b>1,819</b>	<b>484,346</b>	<b>23</b>	<b>1,819</b>	<b>484,346</b>	<b>23</b>
<b>Financial assets not measured at fair value</b>								
Loans and advances to customers (Note c)	1,658,310	1,658,310	-	-	-	-	-	-
Cash and cash equivalents (Note d)	291,440	291,690	-	-	-	-	-	-
Balances with banks and financial institutions (Note e)	1,214,097	1,214,097	-	-	-	-	-	-
	<b>3,163,847</b>	<b>3,164,097</b>	-	-	-	-	-	-
	<b>3,650,035</b>	<b>3,650,285</b>	<b>1,819</b>	<b>484,346</b>	<b>23</b>	<b>1,819</b>	<b>484,346</b>	<b>23</b>
<b>Financial liabilities not measured at fair value</b>								
Due to banks (Note f)	1,715	1,715	-	-	-	-	-	-
Deposits from customers (Note g)	2,100,936	2,100,936	-	-	-	-	-	-
Debt securities issued (Note h)	16,000	16,000	-	-	-	-	-	-
Financial Liabilities (Note i)	2,237	2,237	-	-	-	-	-	-
Lease liabilities (Note j)	74,386	74,386	-	-	-	-	-	-
	<b>2,195,274</b>	<b>2,195,274</b>	-	-	-	-	-	-

As at 31st March 2019	Carrying amount		Fair value						
	Rs' 000		Rs' 000						
	Company	Group	Company			Group			
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	
<b>Financial assets measured at fair value</b>									
Investment securities measured at FVTPL (Note a)	2,119	2,119	2,119	-	-	-	2,119	-	-
Investment securities measured at FVOCI (Note b)	23	23	-	-	23	-	-	-	23
	<b>2,142</b>	<b>2,142</b>	<b>2,119</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>2,119</b>	<b>-</b>	<b>23</b>
<b>Financial assets not measured at fair value</b>									
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	-	-	-	-	-	-	-
	<b>2,787,292</b>	<b>2,787,548</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>2,789,434</b>	<b>2,789,690</b>	<b>2,119</b>	<b>-</b>	<b>23</b>	<b>-</b>	<b>2,119</b>	<b>-</b>	<b>23</b>
<b>Financial liabilities not measured at fair value</b>									
Due to banks (Note f)	219,144	219,144	-	-	-	-	-	-	-
Deposits from customers (Note g)	2,434,733	2,434,733	-	-	-	-	-	-	-
Debt securities issued (Note h)	15,400	15,400	-	-	-	-	-	-	-
Financial Liabilities (Note i)	9,790	9,790	-	-	-	-	-	-	-
	<b>2,679,067</b>	<b>2,679,067</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

- a) Investment securities measured at FVTPL - The carrying amount of these investments reflect last traded price at stock exchange.
- b) Investment securities measured at FVOCI- The carrying amount of these shows investments in the Credit Information Bureau of Sri Lanka. Investment in government securities are reflect last trades prices. As CRIB is a Private Company unable to find market values. It is assumed that the carrying amounts approximate their fair values.
- c) Loans and advances to customers - The carrying amount reflects amortised value of loan and advances. Thus its carrying amount approximates to the fair value.
- d) 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.
- e) 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.
- f) 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.
- g) Deposits from customers - The carrying amount reflecting amortised cost of deposits from customers. Thus its carrying amount approximates to the fair value.
- h) Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% interest rate.
- i) Financial liabilities - The carrying value is approximately its fair value of the financial instrument
- j) Lease liabilities - The carrying amount reflecting amortised cost of lease liabilities

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**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 frame work and manage the risk through Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC). The main role of the Board of Directors in Risk Management is,

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

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

The Group Audit Committee oversees how management

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

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

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

**Assets and Liability Committee (ALCO)**

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

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

**A. Credit Risk**

The credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to

meets its contractual obligations and arises principally from default on a debt that may arise from a borrower failing to make required payments, in the first resort; the risk is that of the lender and includes cost principals and interest, disruption to cash flows and increased collection flows. Company Credit Management process includes,

- 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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 :

In thousands of rupees As at 31st March	Company	
	2020	2019
Cash and cash equivalents	291,440	226,281
Balances with banks and financial institutions	1,214,097	56,747
Investment securities measured at FVTPL	486,165	2,119
Loans and advances to customers	1,658,310	2,504,264
Investment securities measured at FVOCI	23	23
Security Deposits	7,056	6,821
	<b>3,657,090</b>	<b>2,796,255</b>

**Loans and advances to customers**

Under SLFRS 9, impairment of loans and advances are assessed based on Expected Credit Loss model. The approach is to classify loans into individually significant exposures and other loans into homogenous portfolios by segment / product for impairment assessment.

In thousands of rupees As at 31st March	Company	
	2020	2019
<b>Gross carrying amount at amortised cost</b>		
Individually significant portfolio	902,477	605,036
Individually non significant portfolio	1,232,420	2,293,402
	<b>2,134,897</b>	<b>2,898,438</b>

**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 homogenous 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 90 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
- the assessment of the external rating agencies indicates a default grading of the borrower; or

In assessing whether a borrower is

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

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 and management decision.

#### Impact on Credit risk due to the COVID-19 pandemic

The impact of COVID-19 on the credit risk of loans and advances customers are given under Note 42.1.

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

#### Measurement of ECL

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

1. Probability of default (PD);
2. Loss given default (LGD);
3. 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

Financial assets at amortised cost – Loans and receivables from customers

Movement during the year	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance at beginning	23,664	91,097	279,413	394,175	28,867	67,306	203,589	299,762
Transfer to Stage 1	40,685	265	(3,198)	37,752	(8,368)	24,963	34,408	51,003
Transfer to Stage 2	19,541	(299)	(247)	18,995	(12,296)	(26,314)	15,262	(23,347)
Transfer to Stage 3	1,896	4,548	4,414	10,858	(655)	(4,429)	(9,381)	(14,465)
New financial assets originated	1,133	45	37	1,215	16,116	29,571	23,628	69,315
Margin Trading	-	-	12,959	12,959	-	-	12,710	12,710
Pawning and other	-	-	634	634	-	-	(803)	(803)
<b>Balance as at 31 March</b>	<b>86,920</b>	<b>95,656</b>	<b>294,012</b>	<b>476,587</b>	<b>23,664</b>	<b>91,097</b>	<b>279,413</b>	<b>394,174</b>

Individually significant impairment	As at	As at
	31/03/ 2020	31/03/ 2019
	Rs.000	Rs.000
Gross receivable	902,477	605,036
Less: Allowance for impairment	386,861	272,110
	<b>515,616</b>	<b>332,926</b>

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.

Collective impairment	As at	As at
	31/03/ 2020	31/03/ 2019
	Rs.000	Rs.000
Gross receivable	1,232,420	2,293,402
Less: Allowance for impairment	89,726	122,063
	<b>1,142,694</b>	<b>2,171,339</b>

**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 constantly monitors credit concentration risk under product portfolio.

**Product concentration**

Product category	As at 31/03/2020		As at 31/03/2019	
	Rs.000	%	Rs.000	%
	Leasing and hire purchase	1,054,796	64%	1,725,434
Loans	322,948	19%	534,503	21%
Margin trading receivable	147,467	9%	157,886	6%
Pawning and others	133,099	8%	86,441	3%
	<b>1,658,310</b>	<b>100%</b>	<b>2,504,264</b>	<b>100%</b>



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**Financial investments**

Category	As at	As at
	31/03/2020	31/03/2019
	Rs.000	Rs.000
Balances with bank and financial institutions	1,214,097	56,747
Investment in securities	486,165	2,119
Investment in FVOCI - equity securities	23	23
Security deposits	7,056	6,821
	<b>1,707,341</b>	<b>65,710</b>

**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 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, behavioral characteristics of the Company's financial assets and liabilities.

Exposure to liquidity risk	As at	As at
	31/03/2020	31/03/2019
	Rs.000	Rs.000
Net loans/ Total assets	0.43	0.87
Gross Loans/ Customer deposits	1.02	1.19

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

The following are the remaining maturities of financial liabilities as at the reporting date.

Company/Group	Up to 3	03-12	01-05 Years	Total as at
	Months	Months		31.03.2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Due to banks	1,715	-	-	1,715
Financial liabilities at amortised cost - due to depositors	613,659	1,086,538	400,739	2,100,936
Debt securities issued	-	-	16,000	16,000
Financial Liabilities	2,237	-	-	2,237
Lease liabilities	13,809	21,253	39,324	74,386
Un-utilized facilities (Margin Trading)	38,930	-	-	38,930
Guarantees	1,098	-	-	1,098
	<b>671,448</b>	<b>1,107,790</b>	<b>456,064</b>	<b>2,235,302</b>

### Impact of COVID-19 on the liquidity risk

Considering the maturity analysis of assets in Note 371, the Company has funds to meet the short-term liquidity requirements. Refer Note 42.1.2 for further details of the implications of COVID-19 on the liquidity of the Company.

### 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 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, 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 reprising 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 reprising 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

This 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.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

Interest rate risk exposure on financial assets and liabilities

Company	Up to 3	03-12	01-05 Years	Non	Total as at
	Months	Months		interest bearing	31.03.2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Cash and cash equivalents	291,440	-	-	-	291,440
Balances with banks and financial institutions	-	403,427	810,669	-	1,214,097
Financial assets measured at amortised cost - Loans and advances	594,691	324,701	738,918	-	1,658,310
Investment in securities measured at FVTPL - Quoted investments	-	-	1,819	-	1,819
Investment in securities measured at FVTPL - Unit trust	-	-	484,346	-	484,346
Investment in securities measured at FVOCI - Equity instruments	-	-	23	-	23
	<b>886,131</b>	<b>728,128</b>	<b>2,035,775</b>	<b>-</b>	<b>3,650,035</b>
<b>Liabilities</b>					
Due to banks	1,715	-	-	-	1,715
Financial liabilities at amortised cost - due to depositors	613,659	1,086,538	400,739	-	2,100,936
Debt securities issued	-	-	16,000	-	16,000
Financial Liabilities	2,237	-	-	-	2,237
Lease liabilities	13,809	21,253	39,324	-	74,386
	<b>631,420</b>	<b>1,107,791</b>	<b>456,063</b>	<b>-</b>	<b>2,195,274</b>
<b>Group</b>					
Group	Up to 3	03-12	01-05 Years	Non	Total as at
	Months	Months		interest bearing	31.03.2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Assets</b>					
Cash and cash equivalents	291,690	-	-	-	291,690
Balances with banks and financial institutions	-	403,427	810,669	-	1,214,097
Financial assets measured at amortised cost - Loans and advances	594,691	324,701	738,918	-	1,658,310
Investment in securities measured at FVTPL - Quoted investments	-	-	1,819	-	1,819
Investment in securities measured at FVTPL - Unit trust	-	-	484,346	-	484,346
Investment in securities measured at FVOCI - Equity instruments	-	-	23	-	23
	<b>886,381</b>	<b>728,128</b>	<b>2,035,775</b>	<b>-</b>	<b>3,650,285</b>
<b>Liabilities</b>					
Due to banks	1,715	-	-	-	1,715
Due to customers	613,659	1,086,538	400,739	-	2,100,936
Debt securities issued	-	-	16,000	-	16,000
Financial Liabilities	2,237	-	-	-	2,237
Lease liabilities	13,809	21,253	39,324	-	74,386
	<b>631,420</b>	<b>1,107,791</b>	<b>456,063</b>	<b>-</b>	<b>2,195,274</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**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 behavior. Operational risks arise from all of the Group's operations.

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

- Appropriate segregation of duties on requirements, including the independent authorization of transactions;
- Reconciliation and monitoring of transactions on requirements;
- Compliance with regulatory and other legal requirements and keeping up to date with changes;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Documentation of control and procedures;
- Requirements for the reporting

of operational losses and proposed remedial action;

- Training and professional developments;
- Ethical and business standards;
- Risk mitigation, including insurance where this is cost effective.

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

**36 Capital management**

The Company's capital management is performed primarily considering regulatory capital.

The Company's lead regulator, the Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for the Company.

Capital consist of ordinary shares, 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 objective is when managing capital are:

- 01) 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.
- 02) to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

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.

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

Category	As at	As at
	31/03/2020	31/03/2019
	Rs.000	Rs.000
Total liabilities	2,262,441	2,750,425
Less: Cash and cash equivalents	291,440	226,281
Net debt	1,971,001	2,524,144
Total adjusted equity (excluding advance against stated capital)	1,252,501	142,958
<b>Net debt to adjusted equity ratio</b>	<b>1.57</b>	<b>17.66</b>

**36.2 Re-issue of financial statements**

The Company reissued the financial statements and the auditor's report dated 30th June 2020 due to the error of considering advanced received against stated capital amounting to Rs 300 Mn as part of regulatory core capital in the computation of capital adequacy as per the Finance Business Act No 24 of 2011 and the Financial Business Act -Direction No 03 of 2018. Further the Company had disclosed that it meets the requirements of minimum Core Capital as per the Finance Business Act - Direction No 02 of 2017 as at the year end. However, excluding the advance against stated capital of the Rs 300 Mn from regulatory core capital, the Company does not meet the minimum Core Capital requirement as at the financial year end. These errors were amended and presented in Note 36.4 and Note 40 to the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**36.3 Capital adequacy**

The details of the computation of risk weighted assets, capital and the ratios of the Company are given below:

**Total risk weighted assets computation**

As at 31st March	2020			2019		
	Amount	Risk Weight Factor %	Risk Weighted Balance	Amount	Risk Weight Factor %	Risk Weighted Balance
	Rs. '000		Rs. '000	Rs. '000		Rs. '000
<b>Claims on Government of Sri Lanka, Public Sector Entities and Central Bank of Sri Lanka</b>						
Central Bank of Sri Lanka	-	-	-	185,834	0%	-
Claims on financial institutions						
Banks				56,747	50%	28,373
AAA to BBB-	826,892	20%	165,378			
Financial Institutions	-	-	-	-	0%	-
AAA to AA-	227,504	20%	45,501	-	0%	-
A+ to A-	444,038	50%	222,019	-	0%	-
Unrated	484,346	100%	484,346	-	0%	-
Retail claims						
Retail claims in respect of motor vehicles and machinery	882,327	100%	882,327	1,990,066	100%	1,990,066
<b>Claims Secured by Gold</b>						
Outstanding claim portion up to 70% of the market value	15,473	-	-	75,548	-	-
Remaining Outstanding claim portion over 70% of the market value	113,639	100%	113,639	10,894	100%	10,894
Retail claims secured by immovable property						
Retail claims that do not qualify for regulatory capital purposes	67,137	100%	67,137	111,118	100%	111,118
Other retail claims	187,596	125%	234,495	228,963	125%	286,204
<b>Non-performing retail claims secured by immovable property</b>						
Specific provisions are equal or more than 20%	25,839	50%	12,919	-	-	-
Specific provisions are less than 20%	38,442	100%	38,442	-	-	-
<b>Non-Performing Assets (NPAs)</b>						
Specific provisions are equal or more than 20%	98,281	100%	98,281	19,077	50%	9,539
<b>Other Non-Performing Assets</b>						
Specific provisions are equal or more than 20%	156,695	150%	235,042	75,574	100%	75,574
<b>Other claims/assets)</b>						
Notes and Coins	7,103	0%	-	10,519	0%	-
Cash Items in the Process of collection	-	20%	-	29,951	20%	5,990
Fixed Assets	11,539	100%	11,539	13,568	100%	13,568
Other Assets/Exposures	228,094	100%	228,094	87,374	100%	87,374
<b>Risk Weighted Amount for Operational Risk</b>			<b>317,469</b>			<b>210,248</b>
<b>Total Risk Weighted Amount</b>			<b>3,156,627</b>			<b>2,828,947</b>

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**36.4 Total Capital Base Computation**

As at 31 March	2020	2019
	Amount	Amount
	Rs. '000	Rs. '000
<b>Tier I capital</b>		
Stated capital	2,440,290	1,238,302
Reserve fund	7,259	7,259
Audited retained earnings/(losses)	(1,102,603)	(1,004,439)
Transaction cost related to rights issue	(12,020)	-
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit(losses)	(80,425)	(98,164)
<b>Tier I capital</b>	<b>1,252,501</b>	<b>142,958</b>
<b>Adjustments to Tier I capital</b>	<b>(3,033)</b>	<b>(5,856)</b>
Other intangible assets (net)	(2,483)	(5,125)
50% of investment in other banking and financial institutions	(551)	(731)
Tier I Capital (after adjustments)	1,249,468	137,102
<b>Tier 2 Capital</b>	<b>-</b>	<b>-</b>
Instruments qualified as Tier 2 capital	-	-
Revaluation gains (50% of eligible revaluation gains)	-	-
<b>Eligible Tier 2 Capital</b>	<b>-</b>	<b>-</b>
<b>Total Adjustments to eligible Tier 2 Capital</b>	<b>551</b>	<b>(731)</b>
<b>Eligible Tier 2 Capital after adjustments</b>	<b>(551)</b>	<b>(731)</b>
<b>Total Capital</b>	<b>1,248,917</b>	<b>136,371</b>

As at 31 March	2020	2019
	Amount	Amount
	Rs. '000	Rs. '000
<b>Core Capital Ratio (Minimum 6.5%)</b>	$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$	4.85%
Core Capital Ratio	= Risk Weighted Assets	39.58%
<b>Total Risk Weighted Capital Ratio (Minimum 10.5%)</b>	$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}} \times 100$	4.82%
Total Risk Weighted Capital Ratio	= Risk Weighted Assets	39.56%

**36.5 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.

Based on Direction No. 03 of 2018		
As at 31st March	2020	2019
Core Capital Ratio	Based on Direction No. 03 of 2018	4.85%
Total Capital Ratio	Based on Direction No. 03 of 2018	4.82%

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**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.

As at 31st March	2020			2019		
	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000
<b>37.1 (a) Group</b>						
<b>Interest bearing assets</b>						
Cash & Cash Equivalent	291,689	-	291,689	226,537	-	226,537
Investment in Fixed Deposits	1,214,097	-	1,214,097	56,747	-	56,747
Financial Investments - FVTPL	486,165	23	486,188	2,119	23	2,142
Loans and advances to customers	919,392	738,918	1,658,310	1,089,394	1,414,870	2,504,264
<b>Total Interest bearing assets</b>	<b>2,911,343</b>	<b>738,941</b>	<b>3,650,283</b>	<b>1,374,797</b>	<b>1,414,893</b>	<b>2,789,690</b>
<b>Total Non - Interest bearing assets</b>	<b>6,528</b>	<b>158,379</b>	<b>164,907</b>	<b>41,613</b>	<b>62,336</b>	<b>103,949</b>
<b>Total assets</b>	<b>2,917,871</b>	<b>897,320</b>	<b>3,815,191</b>	<b>1,416,410</b>	<b>1,477,229</b>	<b>2,893,639</b>
Percentage	76.48%	23.52%	100.00%	48.95%	51.05%	100.00%
<b>Interest bearing liabilities</b>						
Due to Banks	1,715	-	1,715	219,144	-	219,144
Due to customers	1,700,197	400,739	2,100,936	1,741,344	693,389	2,434,733
Debt securities issued	-	16,000	16,000	-	15,400	15,400
Lease liabilities	35,062	39,324	74,386	-	-	-
<b>Total interest bearing liabilities</b>	<b>1,736,973</b>	<b>456,064</b>	<b>2,193,037</b>	<b>1,960,488</b>	<b>708,789</b>	<b>2,669,277</b>
<b>Total Non- Interest bearing Liabilities</b>	<b>104,466</b>	<b>39,681</b>	<b>144,147</b>	<b>41,614</b>	<b>39,812</b>	<b>81,426</b>
<b>Equity</b>	<b>-</b>	<b>1,552,392</b>	<b>1,552,392</b>	<b>-</b>	<b>142,936</b>	<b>142,936</b>
<b>Total liabilities &amp; equity</b>	<b>1,841,440</b>	<b>2,048,137</b>	<b>3,889,576</b>	<b>2,002,102</b>	<b>891,537</b>	<b>2,893,639</b>
Percentage	47.34%	52.66%	100.00%	69.19%	30.81%	100.00%
<b>37.2 (b) Company</b>						
<b>Interest bearing assets</b>						
Cash & Cash Equivalent	291,440	-	291,440	226,281	-	226,281
Investment in Fixed Deposits	1,214,097	-	1,214,097	56,747	-	56,747
Financial Investments - FVTPL	486,165	23	486,188	2,119	23	2,142
Loans and advances to customers	919,392	738,918	1,658,310	1,089,394	1,414,870	2,504,264
<b>Total Interest bearing assets</b>	<b>2,911,094</b>	<b>738,941</b>	<b>3,650,034</b>	<b>1,374,541</b>	<b>1,414,893</b>	<b>2,789,434</b>
<b>Total Non - Interest bearing assets</b>	<b>6,528</b>	<b>158,379</b>	<b>164,907</b>	<b>41,613</b>	<b>62,336</b>	<b>103,949</b>
<b>Total assets</b>	<b>2,917,622</b>	<b>897,320</b>	<b>3,814,942</b>	<b>1,416,154</b>	<b>1,477,229</b>	<b>2,893,383</b>
Percentage	76.48%	23.52%	100.00%	48.94%	51.06%	100.00%
<b>Interest bearing liabilities</b>						
Due to Banks	1,715	-	1,715	219,144	-	219,144
Deposits from customers	1,700,197	400,739	2,100,936	1,741,344	693,389	2,434,733
Debt securities issued	-	16,000	16,000	-	15,400	15,400
Lease liabilities	35,062	39,324	74,386	-	-	-
<b>Total interest bearing liabilities</b>	<b>1,736,973</b>	<b>456,064</b>	<b>2,193,037</b>	<b>1,960,488</b>	<b>708,789</b>	<b>2,669,277</b>
<b>Total Non- Interest bearing Liabilities</b>	<b>104,110</b>	<b>39,681</b>	<b>143,791</b>	<b>41,614</b>	<b>39,534</b>	<b>81,148</b>
<b>Equity</b>	<b>-</b>	<b>1,552,501</b>	<b>1,552,501</b>	<b>-</b>	<b>142,958</b>	<b>142,958</b>
<b>Total liabilities &amp; equity</b>	<b>1,841,084</b>	<b>2,048,245</b>	<b>3,889,329</b>	<b>2,002,102</b>	<b>891,281</b>	<b>2,893,383</b>
Percentage	47.34%	52.66%	100.00%	69.20%	30.80%	100.00%

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

**38 Segmental analysis - Group**

As per the SLFRS 8 'Operating Segments', Company is required to disclose information to enable users of its Financial Statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Accordingly, below information gives the segmental information on performance of the Company's main business line.

<b>For the year ended 31 March 2020</b>	<b>Leasing &amp; hire purchases</b>	<b>Trade Bills, loans and pawning</b>	<b>Margin trading</b>	<b>Other</b>	<b>Total</b>
	<b>Rs'000</b>	<b>Rs'000</b>	<b>Rs'000</b>	<b>Rs'000</b>	<b>Rs'000</b>
Interest income	316,450	104,667	26,528	115,936	563,581
Fee and commission income	5,150	-	-	27	5,177
Net income from other financial instruments at FVTPL	-	-	-	29,294	29,294
Other operating income	8,382	629	-	22,464	31,475
<b>Gross revenue</b>	<b>329,982</b>	<b>105,296</b>	<b>26,528</b>	<b>167,722</b>	<b>629,527</b>
Interest expenses	(80,748)	(34,912)	(11,289)	(165,117)	(292,067)
<b>Total operating income</b>	<b>249,233</b>	<b>70,384</b>	<b>15,239</b>	<b>2,605</b>	<b>337,460</b>
Impairment charges for loans, advances and other receivables	(104,413)	(17,516)	(606)	-	(122,535)
<b>Net operating income</b>	<b>144,820</b>	<b>52,868</b>	<b>14,633</b>	<b>2,605</b>	<b>214,925</b>
Depreciation and amortisation	(2,119)	(916)	(296)	(4,332)	(7,663)
Amortization of right of use assets	(7,998)	(3,458)	(1,118)	(16,356)	(28,930)
Staff and other expenses	(68,203)	(29,488)	(9,535)	(139,465)	(246,692)
<b>Segment results</b>	<b>66,499</b>	<b>19,006</b>	<b>3,683</b>	<b>(157,547)</b>	<b>(68,360)</b>
<b>Taxes on financial services</b>					<b>(11,681)</b>
<b>Net tax expense</b>					<b>(132)</b>
<b>Profit for the year</b>					<b>(80,173)</b>
<b>As at 31 March</b>					
<b>Segment assets</b>	<b>1,054,795</b>	<b>456,046</b>	<b>147,467</b>	<b>2,156,883</b>	<b>3,815,192</b>
<b>Segment liabilities</b>	<b>625,602</b>	<b>270,482</b>	<b>87,463</b>	<b>1,279,253</b>	<b>2,262,800</b>

**Basis of allocation**

Expenses that are not specifically allocated to each segment are allocated to based on the respective assets base of each segment under consideration.



## NOTES TO THE FINANCIAL STATEMENTS (contd.)

For the Year ended 31st March 2019	Leasing & hire purchases	Trade Bills, loans and Pawning	Margin trading	Other	Total
	Rs'000	Rs'000	Rs'000	Rs'000	Rs'000
Interest Income	373,851	125,051	25,233	22,625	546,759
Fee and commission income	7,237	-	-	23	7,259
Net income from other financial instruments at FVTPL	-	-	-	(461)	(461)
Other operating income	24,161	1,459	-	37,492	63,112
<b>Gross revenue</b>	<b>405,248</b>	<b>126,510</b>	<b>25,233</b>	<b>59,679</b>	<b>616,670</b>
Interest Expenses	(213,396)	(87,085)	(26,913)	(29,673)	(357,066)
<b>Total operating income</b>	<b>191,852</b>	<b>39,425</b>	<b>(1,680)</b>	<b>30,006</b>	<b>259,604</b>
Impairment charges for loans, advances and other receivables	(27,763)	(61,569)	3,943	-	(85,389)
<b>Net operating income</b>	<b>164,090</b>	<b>(22,144)</b>	<b>2,263</b>	<b>30,006</b>	<b>174,215</b>
Depreciation and Amortization	(4,055)	(1,655)	(511)	(564)	(6,786)
Staff and other expenses	(148,881)	(60,757)	(18,777)	(20,702)	(249,118)
<b>Segment Results</b>	<b>11,152</b>	<b>(84,556)</b>	<b>(17,025)</b>	<b>8,739</b>	<b>(81,689)</b>
<b>Taxes on financial services</b>					<b>(9,328)</b>
<b>Net tax expense</b>					<b>(1,742)</b>
<b>Profit for the year</b>					<b>(92,759)</b>
<b>As at 31 March</b>					
<b>Segment assets</b>	<b>1,729,341</b>	<b>705,730</b>	<b>218,102</b>	<b>240,466</b>	<b>2,893,639</b>
<b>Segment liabilities</b>	<b>1,643,917</b>	<b>670,869</b>	<b>207,329</b>	<b>228,587</b>	<b>2,750,703</b>

**Basis of allocation**

Expenses that are not specifically allocated to each segment are allocated to based on the respective assets base of each segment under consideration.

**39 Directors responsibility statement**

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

**40 Cap imposed by the Central Bank**

The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the Company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total 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 Events after reporting date**

Subsequent to the statement of financial position date, no circumstances have arisen which would require adjustment to or disclosure in the financial statements.

**42 Assessment of the going concern assumption****42.1 Coronavirus (COVID-19) pandemic**

The COVID-19 outbreak, since

early 2020, has brought about additional uncertainties in the Group's operating environment. The implications of the outbreak is considered in areas of financial reporting such as, appropriateness of the use of going concern assumption, events after reporting date, fair value measurement of financial and non-financial assets and measurement of deferred tax. The Group has been closely monitoring the impact of the developments on the Group's business and has taken measures to communicate with the stakeholders of the Company in order to mitigate the risk.

The ongoing COVID-19 pandemic

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

has increased the estimation uncertainty in the preparation of these Consolidated Financial Statements. The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and inflation). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in these Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

The significant accounting estimates impacted by these

forecasts and associated uncertainties are predominantly related to expected credit losses which is described below.

#### 42.1.1 Impact of COVID-19 on the allowance for expected credit losses

The Group measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by SLFRS 9 Financial Instruments. The Group's accounting policy for the recognition and measurement of the allowance for expected credit losses is described at Note 4.17 to the financial statements for the year ended 31 March 2020.

The Group's allowance for expected credit losses assessed under collective and individual approaches are given in Note 35.2.

##### -Individually assessed allowance for expected credit losses

An individual measurement of impairment is 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 makes judgments about a debtor's financial situation and the net realisable value of any underlying collateral. Judgements and assumptions in respect of these matters have been updated to reflect the potential impact of COVID-19.

##### -Collectively assessed allowance for expected credit losses

In estimating collectively assessed ECL, the Group makes judgements and assumptions in relation to:

Assumption	Significant judgment involved
Economic factor adjustments	The Company used the most updated future economic forecasts available at the reporting date. The forecasts used in the computation are inclusive of the impact of COVID-19.
Assignment of the weightage to worst case scenario	Weightage assigned to worst case scenario has been increased by transferring the weightage from best case scenario to worst case scenario.
Probability of Default (PDs) and Loss Given Default (LGDs)	The Company considered the PDs and LGDs computed as at 29th February 2020.

The modelling methodology applied in estimating in ECL in these consolidated financial statements is consistent with the guidelines in SLFRS 09 Financial Instruments. The impact of COVID-19 on the global economy and how governments, businesses and consumers respond is uncertain. This uncertainty is reflected in the Group's assessment of expected credit losses from its credit portfolio which are subject to a number of management judgements and estimates.

#### 42.1.2 Sensitivity analysis of the expected credit loss model

The uncertainty on the impact of COVID-19 introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance within the current and next financial years.

Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Group should be considered as a best estimate within a range of possible estimates. The table below illustrates the sensitivity of ECL to key factors used in determining it:

## NOTES TO THE FINANCIAL STATEMENTS (contd.)

ECL sensitivity - Weightings applied to forecast scenarios

<b>As at 31 March 2020</b>	<b>Total collective impairment</b>	<b>Impact to the statement of profit or loss</b>
<b>In thousands of rupees</b>		
100% best case scenario	76,388	(13,338)
100% base case scenario	88,587	(1,139)
100% worst case scenario	99,049	9,323

**42.1.3 Impact of COVID-19 on the liquidity of the Company**

COVID-19 outbreak has negatively impacted the liquidity position of Banks and Finance Institutions in the industry due to reasons that include;

- Moratorium programme of Central Bank of Sri Lanka for customers to defer payment of loan/lease rentals by 6 months.
- Increase in unemployment in the country
- Withdrawal of deposits by customers to meet their cash requirements

However, as given in Note 37.1 under maturity profile of assets and liabilities, the Company has a strong current asset position due to the short-term investments in addition to the loans and advances. These assets will satisfy short-term working capital requirements of the Company, if need arises, without the need to draw borrowings.

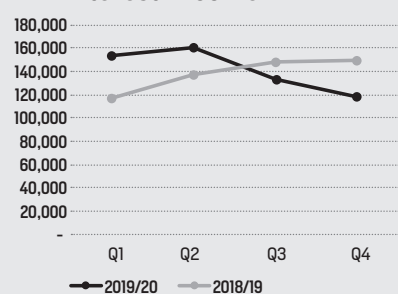
**42.1.4 Impact of COVID-19 on fair value measurement of financial instruments**

The Group has invested in securities and accounted for under fair value through profit or loss and fair value through other comprehensive income. The fair value of these financial assets are obtained from observable market data and hence, has not changed as a result of COVID-19. Even though market prices had fluctuations at the end of the reporting period, the Company has obtained the prices available at the reporting date. Accordingly, the use of management judgement in determining the fair value for these assets are at a minimum.

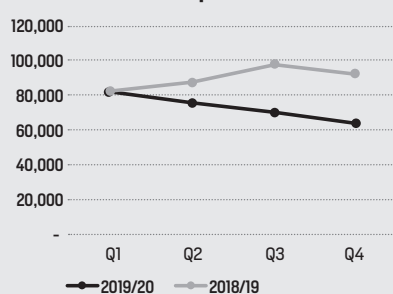
## QUARTERLY FINANCIAL PERFORMANCE

In thousands of rupees	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	Apr - Jun		July - Sep		Oct - Dec		Jan - Mar		For the Year	
	2019	2018	2019	2018	2019	2018	2020	2019	2020	2019
Interest income	153,033	117,115	160,238	137,807	132,686	148,539	117,624	149,481	563,581	546,759
Less: Interest expense	82,300	82,451	75,912	87,811	69,919	97,487	63,936	92,660	292,067	357,067
Net interest income	70,733	34,664	84,326	49,996	62,767	51,052	53,688	56,821	271,514	189,692
Fee and commission income	861	1,757	1,320	2,472	2,002	2,594	995	1,328	5,177	7,260
Other operating income	7,986	20,738	16,756	20,124	16,596	10,536	19,431	9,832	60,769	62,651
<b>Total operating income</b>	<b>79,580</b>	<b>57,159</b>	<b>102,402</b>	<b>72,592</b>	<b>81,365</b>	<b>64,182</b>	<b>74,114</b>	<b>67,981</b>	<b>337,460</b>	<b>259,603</b>
Less: Net impairment charges/ (reversal) on financial assets	30,503	(3,870)	59,994	8,670	10,310	17,157	21,728	62,188	122,535	85,389
<b>Net operating income</b>	<b>49,077</b>	<b>61,029</b>	<b>42,408</b>	<b>63,922</b>	<b>71,055</b>	<b>47,025</b>	<b>52,386</b>	<b>5,793</b>	<b>214,925</b>	<b>174,214</b>
Less: Staff costs	31,845	27,948	31,539	32,230	30,500	33,935	35,723	34,367	129,607	127,248
Depreciation & Amortisation of property, plant and equipment	1,906	1,544	1,908	1,652	1,935	1,726	1,914	1,864	7,663	6,786
Amortisation of right of use assets	-	-	-	-	-	-	28,930	-	28,930	-
Other expenses	35,164	28,115	36,535	28,533	41,309	28,766	3,991	36,865	116,998	122,794
<b>Operating profit/ (loss) before taxes on financial services</b>	<b>(19,838)</b>	<b>3,422</b>	<b>(27,574)</b>	<b>1,507</b>	<b>(2,689)</b>	<b>(17,402)</b>	<b>(18,172)</b>	<b>(67,303)</b>	<b>(68,273)</b>	<b>(82,614)</b>
Less: Taxes on financial services	351	-	3,833	7,922	4,451	2,547	3,047	176	11,681	9,328
Operating profit/ (loss) after taxes on financial services	(20,189)	3,422	(31,407)	(6,415)	(7,140)	(19,949)	(21,219)	(67,479)	(79,954)	(91,942)
Less: Net tax expense	-	-	-	-	-	-	132	1,742	132	1,742
<b>Loss for the period</b>	<b>(20,189)</b>	<b>3,422</b>	<b>(31,407)</b>	<b>(6,415)</b>	<b>(7,140)</b>	<b>(19,949)</b>	<b>(21,351)</b>	<b>(69,221)</b>	<b>(80,086)</b>	<b>(93,684)</b>
Basic loss per ordinary share - (Rs)	(0.10)	0.05	(0.25)	(0.10)	(0.06)	(0.30)	(0.10)	(1.03)	(0.41)	(1.38)

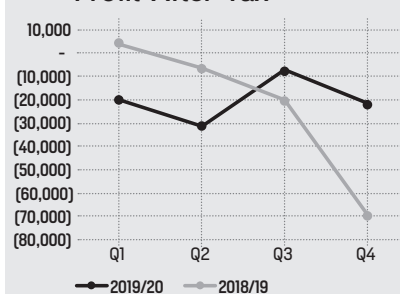
### Interest Income



### Interest Expense



### Profit After Tax



## DECADE AT A GLANCE

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
<b>FINANCIAL CAPITAL</b>										
<b>Operating results (Rs.'000)</b>										
Income	629,527	616,671	467,004	375,535	381,358	664,827	757,861	661,236	505,096	586,830
Interest income	563,581	546,759	431,790	365,433	377,193	659,707	750,661	640,259	492,823	550,215
Interest expenses	292,067	357,067	339,682	342,347	281,622	475,897	591,995	425,598	301,641	383,609
Net interest income	271,514	189,692	92,108	23,086	95,571	183,810	158,666	214,661	191,182	166,606
Impairment charges for loans and receivables and other losses	122,535	85,389	94,900	40,428	68,842	264,238	229,171	66,776	49,827	237,218
Other operating expenses	116,999	122,794	79,364	88,189	74,451	149,702	104,757	177,045	102,283	82,331
Profit/Loss before tax	(79,954)	(91,942)	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)	(89,740)	106,245	(215,320)
Profit/Loss for the year	(80,086)	(93,684)	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)	(90,894)	92,740	(202,500)
Return on assets (ROA)	-2.39%	-3.22%	-4.64%	-5.65%	-2.19%	-6.99%	-5.14%	-2.41%	2.80%	-5.97%
Cost to income ratio (%)	86%	100%	111%	143%	118%	108%	106%	111%	106%	92%
<b>Financial position (Rs.'000)</b>										
Cash balance with banks & reverse repo	291,440	226,281	289,945	313,065	477,313	399,141	231,787	168,791	126,493	47,557
Loans and Receivables	1,658,310	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
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	287,089
Total assets	3,814,942	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
Borrowings	-	-	-	350,000	-	24,940	49,960	227,143	451,737	2,929,063
Deposits from customers	2,100,936	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	1,552,501	142,959	215,691	363,454	553,339	642,894	880,008	1,268,155	893,551	470,553
Total liabilities and shareholder's funds	3,814,942	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
<b>Financial cash flows (Rs.'000)</b>										
Cash flows from operating activities	319,178	(351,023)	(621,006)	(977,734)	(386,341)	289,680	899,854	161,375	(336,701)	(609,696)
Cash flows from investing activities	(1,498,614)	4,697	1,063,789	290,362	457,008	(96,929)	(317,793)	(8,235)	403,148	(4,198)
Cash flows from financing activities	1,462,024	160,075	(354,465)	354,465	(24,940)	(25,020)	(177,183)	(224,594)	(79,286)	709,656
Total net cash inflows/outflows	282,588	(186,252)	88,318	(332,907)	45,726	167,730	404,878	(71,453)	(12,839)	95,762
<b>Statutory ratio</b>										
Capital adequacy ratio										
Core capital ratio (required min -6%)(%)	39.58%	4.85%	8.69%	-6.84%	-0.73%	2.26%	9.54%	19.31%	32.11%	N/A
Total risk weighted capital ratio (required min -10%)(%)	39.56%	4.82%	8.68%	-6.85%	-0.74%	2.25%	9.53%	31.67%	33.36%	N/A
<b>HUMAN CAPITAL</b>										
Number of employees	118	123	124	118	110	96	117	155	124	123
Profit before tax per employee (Rs.'000)	(677.58)	(747.50)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)	(579)	857	(1,751)
Employees' salaries & benefits (Rs.'000)	129,607	127,248	96,543	92,499	79,487	79,135	88,926	117,442	91,590	39,602
<b>RELATIONSHIP CAPITAL</b>										
Number of branches	10	10	10	10	10	10	10	10	10	10
Number of shareholders	9,911	10,089	10,133	10,182	10,345	10,530	11,335	11,824	12,465	11,207
Number of ordinary shares (Rs.'000)	210,875	84,350	67,500	67,500	67,500	67,500	67,500	67,500	67,500	37,500
Earnings per share -Company (Rs.)	(0.41)	(1.38)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)	(1.35)	1.88	(5.42)
Net assets value per share (Rs.)	7.36	1.69	3.20	5.38	8.22	9.52	13.03	18.79	13.24	12.28
<b>Market price per share (Rs.)</b>										
Highest	11.40	13.50	21.00	24.0	30	29.3	171	179	42	35.9
Lowest	7.40	8.20	11.00	9.4	11.4	16	10.4	11.6	12	19.9
Closing	8.70	9.20	11.00	13.9	12	23.9	16.9	13.5	12.9	23.5
Market capitalisation (Rs.'000)	1,834,613	776,020	742,500	938,250	810,000	1,613,250	1,140,750	911,250	870,750	881,250
Price earning ratio (PE) (Times)	-	-	-	-	-	-	-	-	6.86	-
Dividend per share (DPS) (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Dividend paid (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Gross ordinary dividend (Rs.'000)	-	-	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-
Dividend cover (Times)	-	-	-	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-	-	-	-	-	-
Debt equity (Times)	1.46	19.24	12.57	8.53	5.50	5.77	5.03	2.63	2.27	6.88
Return on equity (ROE) (%)	-9.45%	-52.24%	-51.22%	-43.49%	-14.52%	-44.32%	-23.73%	-8.41%	13.60%	-35.40%
Total liabilities	2,262,441	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

## INVESTOR INFORMATION

### Distribution of Shareholdings as at 31 March 2020

Range of Shareholding	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	9,193	1,352,124	0.64	10	1,870	0.00	9,203	1,353,994	0.64
1,001 - 10,000	603	1,870,617	0.89	5	14,500	0.01	608	1,885,117	0.90
10,001 - 100,000	86	2,491,743	1.18	3	185,401	0.09	89	2,677,144	1.27
100,001 - 1,000,000	8	2,279,374	1.08	0	0	0.00	8	2,279,374	1.08
1,000,001 & Above	3	202,679,371	96.11	0	0	0.00	3	202,679,371	96.11
	<b>9,893</b>	<b>210,673,229</b>	<b>99.90</b>	<b>18</b>	<b>201,771</b>	<b>0.10</b>	<b>9,911</b>	<b>210,875,000</b>	<b>100.00</b>

### Catagories of Shareholdings - Individuals/Institutions

	31.03.2020			31.03.2019		
	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding
Individual	9,779	7,164,125	3.40	9,951	7,256,294	8.60
Institutions	132	203,710,875	96.60	138	77,093,706	91.40
<b>Total</b>	<b>9,911</b>	<b>210,875,000</b>	<b>100.00</b>	<b>10,089</b>	<b>84,350,000</b>	<b>100.00</b>

### Catagories of Shareholdings - Resident/Non-Resident

	31.03.2020			31.03.2019		
	No. of Shareholders	No. of Shares	(%) of Shareholding	No. of Shareholders	No. of Shares	(%) of Shareholding
Resident	9,893	210,673,229	99.90	10,070	83,936,152	99.51
Non-Resident	18	201,771	0.10	19	413,848	0.49
<b>Total</b>	<b>9,911</b>	<b>210,875,000</b>	<b>100.00</b>	<b>10,089</b>	<b>84,350,000</b>	<b>100.00</b>

### Share Information

Financial Year ended	31.03.2020	31.03.2019	31.03.2018	31.03.2017	31.03.2016
<b>Market value of shares</b>					
Highest price during the year (Rs.)	11.40	13.50	21.00	24.00	30.00
Lowest price during the year (Rs.)	7.40	8.20	11.00	9.40	11.40
Colsing price (Rs.)	8.70	9.20	11.00	13.90	12.00
<b>Investor Ratios</b>					
Price Earnings Ratio	-	-	-	-	-
Net Asset Value per share (Rs.)	7.36	1.69	3.20	5.38	8.20
<b>Share Trading</b>					
Number of transactions	611	1,105	1,411	1,645	2,863
Number of shares traded	258,972	658,569	1,136,896	1,659,566	10,376,995
Value of shares traded (Rs.000's)	2,583	7,108	18,254	32,798	241,262
Market Capitalisation (Rs.000's)	1,834,613	776,020	742,500	938,250	810,000

## Twenty Largest Ordinary Shareholders

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

Name of the Share Holder	No of Shares			
	2020	%	2019	%
Sterling Capital Investments (Pvt) Ltd	143,809,123	68.20%	16,850,000	19.98%
People's Bank	33,856,246	16.06%	33,856,246	40.14%
People's Leasing & Finance PLC	25,014,002	11.86%	25,014,002	29.66%
Mr. L. De Fonseka	1,000,000	0.47%	1,000,000	1.19%
Mr. H.V. Pakianathan	340,993	0.16%	340,993	0.40%
People's Leasing & Finance PLC/ Dr. H.S.D. Soysa & Mrs. G. Soysa	310,704	0.15%	309,377	0.37%
Mr. Z.G. Carimjee	200,000	0.09%	196,158	0.23%
Mr. H. Beruwalage	116,200	0.06%	116,200	0.14%
Mr. H.P.G.N. Pathirana	108,390	0.05%	104,890	0.12%
Mr. B.W. Kundanmal	102,100	0.05%	102,100	0.12%
Mrs. R.D. Jayawardana / Mr. S. Munaweera	100,987	0.05%	100,987	0.12%
Mr. P.K. Biswas	100,000	0.05%	100,000	0.12%
Richard Pieris Financial Services (Pvt) Ltd/ Mr. C. Thalagahawatte	93,984	0.04%	105,984	0.13%
Asha Financial Services Limited/ Mr. C.N. Pakianathan	92,975	0.04%	92,975	0.11%
Mr. A.H. Munasinghe	84,084	0.04%	84,084	0.10%
Mrs. R.D. Jayawardana	77,667	0.04%	77,667	0.09%
Mr. S. Munaweera / Mrs.R.D. Jayawardana	77,667	0.04%	77,667	0.09%
Mr. M.D.W.J.A Gunathilake	77,021	0.04%	77,021	0.09%
People's Leasing & Finance PLC / L.P.Hapangama	76,335	0.04%	76,335	0.09%
Mr. S. Munaweera	70,900	0.03%	-	0.00%
	<b>205,709,378</b>	<b>97.56%</b>	<b>78,682,686</b>	<b>93.53%</b>

Directors'/CEO's Holding in Shares as at 31st March	Position	No of Shares	
		2020	2019
Mr. C.P.Abeywickrama	Chairman	Nil	Nil
Mr. D.N.Daluwatte	Director	2,500	Nil
Mr. C.S.Manoharan	Director	Nil	Nil
Mr. G.B.R.P.Gunawardana	Director	Nil	Nil
Mrs. G. Kodagoda	Director	Nil	Nil
Mr. K.R.P.Madusanka	Acting Chief Executive Officer / Executive Director	Nil	Nil
Mr. L. De Fonseka	Director	Nil	1,000,000
		<b>2,500</b>	<b>1,000,000</b>

## Public Holding

The percentage of ordinary share held by the public as at 31st March 2020 was 3.89% and number of shareholders representing the public holding was 9,907. The float adjusted market capitalization as at 31st March 2020 was Rs: 71,366,426/-

The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 713.1 (b).

## GLOSSARY

### A

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

#### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

#### Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

#### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

#### Asset and Liability Committee (ALCO)

A risk-management committee in a finance company that generally comprises the senior-management levels of the institution. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the finance company's forecast and strategic balance-sheet allocations.

#### Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

#### Available-for-Sale financial Asset

non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity

investments or (c) financial assets at fair value through profit or loss

### C

#### Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

#### Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

#### Commercial Paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

#### Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

#### Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

#### Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

#### Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

#### Cost to Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

$$\frac{\text{Total Operating cost Without VAT on Financial Services}}{\text{Net Operating Income}} * 100$$

#### Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

#### Credit Risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

#### Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet



to satisfy its current debt and other payables.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

## D

### Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

### Dividend Per Share (Rs:)

Dividend by profit after tax; indicates the percentage of earnings paid out to shareholders as dividends.

$$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Number of Ordinary Share}}$$

### Dividend Yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} * 100$$

## E

### Earning Yield (EY)

The earnings yield refers to the earnings per share for the most recent 12-month period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of a company's earnings per share.

$$\frac{\text{Earning Per Share}}{\text{Market Price Per Share}} * 100$$

### Earnings per Ordinary share (EPS) (EPS - Rs:)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

$$\frac{\text{Profit / Loss Attributable to ordinary shareholders}}{\text{Average Number of Share}}$$

### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

### Employee Turnover (%)

Employee turnover refers to the workers leaving an organization over a period as a percentage of average employees during the period.

$$\frac{\text{Number of attritions during the year}}{\text{Average number of employees during the year}} * 100$$

### Exposure

A claim, contingent claim or position which carries a risk of financial loss.

## F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

### Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

### Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

## G

**Gearing**

Long term borrowings divided by the total funds available for shareholders.

**Group**

A group is a parent and all its subsidiaries.

**Guarantees**

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

**H****Held-to-Maturity (HTM) Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

**I****Impaired Loans**

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impairment Allowances**

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

**Individually Assessed Impairment**

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**Intangible Asset**

An intangible asset is an identifiable non-monetary asset without physical substance.

**Interest cover**

A ratio showing the number of times interest charges are covered by earnings before interest and tax.

$$\frac{\text{Profit Before Interest \& Tax}}{\text{Interest Expenses}}$$

**Interest in Suspense**

Interest suspended on non-performing leases, hire purchases and other advances.

**Interest Margin**

Net interest income expressed as a percentage of average interest earnings assets.

**Interest rate risk**

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

**Interest Spread**

Represents the difference between the average interest rate earned on interest earnings assets and the average interest rate paid on interest-bearing liabilities.

**International Financial Reporting Standards (IFRS)**

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

**Investment properties**

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use or sale.

**K****Key Management Personnel (KMP)**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

**L****Lending portfolio**

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

**Liquid Assets**

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with Banks, bills of exchange and Treasury Bills and Bonds.

**Liquidity Risk**

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

**Loan to Value Ratio (LTV)**

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

**Loan to value ratio (LTV)**

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

**Loans and Receivables**

Conventional loan assets that are unquoted (originated or acquired).

**M****Market Capitalisation**

Number of ordinary shares in issue multiplied by the market value of a share as at the year end. Market price per share x Number of shares

**Market Risk**

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

**Materiality**

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of

users of Financial Statements.

## N

### Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

$$\frac{\text{Total Share Holders Equity}}{\text{Number of Share}}$$

### Net Interest Income (NII)

The difference between income earned from interest bearing assets and cost incurred on financial instrument/facilities used for funding the interest bearing assets.

### Net Interest Margin (NIM - %)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} * 100$$

### Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} * 100$$

### Non-performing ratio

Total non-performing leases, hire purchase loans and other advances divided by total advances portfolio.

$$\frac{\text{Gross non-performing portfolio}}{\text{Gross loans and receivables}} * 100$$

## O

### Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

### Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or

to realise the assets and settled the liability simultaneously.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Parent Company

A Parent is an entity which has one or more subsidiaries.

### Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

### Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

$$\frac{\text{Market price per share}}{\text{Earnings per share}}$$

### Price to Book Value (PBV - Times)

$$\frac{\text{Market Price Per Share}}{\text{Net Assets Per Share}}$$

### Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

### Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Assets (ROA)

Profit after tax expressed as a

percentage of the average assets.

$$\frac{\text{Profit After tax}}{\text{Total Assets}} * 100$$

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of risk mitigants such as collateral, guarantee and credit protection

### Risk weighted assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

## S

### Segment analysis

Analysis of financial information by segments of an entity specifically the different business in which it operates.

### Shareholders' Funds

Total of stated capital and reserves.

### Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company.

### Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the followings. Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

### Subsidiary Company

A subsidiary is an enterprise that is

controlled by another enterprise which is known as the parent.

### Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T

### Tier I Capital

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

$$\frac{\text{Total Capital}}{\text{Total Risk Weighted Amount}} * 100$$

### Tier II Capital

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

$$\frac{\text{Tier II Capital}}{\text{Total Risk Weighted Amount}} * 100$$

### Total Return of Share (%)

Total shareholder return is the financial gain that results from a change in the stock's price plus any dividends paid by the company during the measured interval divided by the initial purchase price of the stock.

$$\frac{(\text{Closing Market Price} - \text{Opening Market Price}) + \text{Dividend Per Share}}{\text{Opening Market Price}} * 100$$

### Transaction costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

## V

### Value Added

Value of wealth created by providing financial and other-related services less the cost of providing such services.

## Y

### Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

### Yield to Maturity

Discount rate at which the present value of future cash flows would equal the security's current price.

## OUR SERVICES

### Deposit Division

Fixed Deposits and Savings Deposits  
SFIDA – Savings & FD in Local Currency

### Credit Division

Leasing  
Ikman Draft  
Mortgage Loan  
Margin Trading  
Trade Finance  
Short term / Medium term loans  
Personal loans  
Group Sales

### Pawning

Gold Loans

### Real Estate

Sale of Property Development  
Owner Behalf sale

### Branches

#### Kurunegala

183c,02nd Floor,Colombo Rd,Kurunegala  
Tel : 037 7389091-3 Fax 037 2220911

#### Matara

No.68,Anagarika Dharmapala Mawatha,Nupe,Matara  
Tel : 041 7389091-3 Fax 041 2220700

#### Negombo

198,St Joseph Street,Negombo  
Tel : 0317389090-3 Fax 031 2228577

#### Awissawella

75,Yatiantota Road,Awissawella  
Tel : 0367389091-5 Fax 036 2233520

#### Matugama

74B,Neboda Road,Matugama  
Tel : 034 7212933, 034 7212892, 0342243828  
Fax 0342243828

#### Elpitiya

10/5,Pituwala Road,Elpitiya  
Tel : 091 7214505/508 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 : 0117500580-3 Fax 01175000584

## NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 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 Wednesday, the 30 day of September 2020 at 9.30 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 2020 together with report of the Auditors thereon.
2. To reappoint Messrs. KPMG, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31st March 2021.
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 of

PEOPLE'S MERCHANT FINANCE PLC



**Corporate Services (Private) Limited**

*Company Secretaries*

*Colombo, on this 08 day of September 2020*

### **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.

## PROXY FORM

I/We .....of  
 .....being a  
 shareholder / shareholders of People's Merchant Finance PLC, hereby appoint Mr./Mrs./Miss.....  
 .....(holder of N.I.C./PPNo .....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 him |
| 4. Mr. K. Rangana Madusanka  | or failing him |
| 5. Mr. Travis Waas           |                |

as my/our proxy to attend and vote/speak at the Thirty Sixth Annual General Meeting of the Company to be held on the 30th day of September 2020 at 9.30 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.

- |  | <b>For</b>               | <b>Against</b>           |
|--|--------------------------|--------------------------|
| (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 2020 together with report of the Auditors thereon.  | <input type="checkbox"/> | <input type="checkbox"/> |
| (2) To reappoint Messrs. KPMG, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31st March 2021 | <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 ..... 2020

.....  
 Signature

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

Notes:

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

### INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 17(5) of the Articles of Association of the Company the instrument appointing the proxy should be in writing.
2. The full name and the address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall -
  - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
  - (c) In the case of joint-holders, be signed by the joint-holder whose name appears first in the Register of Members.
4. The completed Form of Proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the registered office of the Company, People's Merchant Finance PLC, No.21, Nawam Mawatha, Colombo 02 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: www.peoplesmerchant.lk

### 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

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

### Bankers

People's 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; under rating watch with developing implications by ICRA Lanka Limited.

# Notes

A series of horizontal dotted lines for writing notes.



[www.peoplesmerchant.lk](http://www.peoplesmerchant.lk)