

Reaction



Reaction

Every catalyst sparks a reaction that flows along defined and desired pathways. Sterling Capital Investments (Pvt) Ltd. was the catalyst that turned an eight-year loss making streak to profit, when it became PMF's new strategic investor and principal shareholder last year.

The desired "reaction" is in motion. Working on a visionary strategic plan, PMF is on track to further strengthen its prospects. The Company is also on course to expand its reach across Sri Lanka and abroad. We are promoting a growing, diversified portfolio across existing as well as new market segments as we look to play a wider and more supportive role in the economic growth of Sri Lanka.

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About This Report

The Report covers the performance of People's Merchant Finance PLC (PMF) during the financial year ended 31 March 2022 and its position as of that date. Our aim is to provide a balanced review of our performance by communicating relevant material information in a concise but comprehensive manner. This Report contains information about our strategy under which we manage our business, our corporate sustainability considerations, and the disparate needs of our stakeholders. It also includes our risk management, best governance practices and our performance inclusive of future prospects of the surrounding economic, social, and environmental context for the year under review.

Report boundary

The Report covers the operations of People's Merchant Finance PLC, duly identified as the "Company". The key financial aspects and non-financial aspects are discussed in the context of the Company.

The PMF Annual Report 2021/22 covers the 12-month period from 1 April 2021 to 31 March 2022, which is consistent with the usual annual reporting cycle for financial reporting. The most recent report of the Company for the year ended 31 March 2021 is available on our website: <http://peoplesmerchant.lk/>.

There are no significant changes from previous reporting periods in the scope and aspect boundaries neither are there any restatements as compared to the Annual Report issued in previous reporting years.

Reporting frameworks

We have drawn on the concepts and principles mentioned in the following guides in preparation of this report.

- International Integrated Reporting Council (IIRC) Framework (www.theiirc.org)
- Global Reporting Initiative (GRI) Standards <https://www.globalreporting.org/standards>
- The Smart Integrated Reporting Methodology™ www.smart.lk
- Code of Best Practice on Corporate Governance issued by the CA Sri Lanka

Compliance

We operate in accordance with all applicable laws, rules, regulations, directions, and standards while abiding by guidelines for voluntary disclosures, both in letter and in spirit.

Queries

We welcome your comments and queries on this Report and we invite you to direct them to:

Confidential Secretary

People's Merchant Finance PLC
No. 361, 361/1, R A De Mel Mawatha,
Colombo 03
Phone: +94 11 766 6333
Email: pmfagm@pmb.lk

About Us

People's Merchant Finance PLC (PMF) is a Public Limited Liability Company which was incorporated in Sri Lanka on 26 January 1983 and listed on the Colombo Stock Exchange in July 1994. It is registered under the Finance Leasing Act No. 56 of 2000 and under the Finance Business Act No. 42 of 2011.

Having navigated the challenges of Sri Lanka's banking, finance, and leasing industries for 39 years, the Company began a transformational journey in 2019 to renew, revitalise, and reposition the business paradigm to fulfil its uncharted potential. The development of a cohesive five-year strategic plan; a capital infusion from its majority shareholder, Sterling Capital Investments (Pvt) Ltd. (SCIL); the appointment of a Board of Directors with significant banking and finance expertise; and a dynamic management team leading key business functions have enabled PMF to focus on the next phase of business.

The success of this journey is reflected in the turnaround of an eight year loss-making streak, in a financial year fraught with numerous challenges across the world, following the COVID-19 pandemic and ensuing economic crisis. In tandem with our digital vision, we will expand our digital footprint, taking forward the business on a diversified platform to cater to a range of industries and emerging customer segments. Our aim is to expand regionally: to enrich the lives of more people, more often, in more places, by providing financial services whenever and wherever they are needed.

Vision

"Service Excellence in Financial Services whenever wherever"

Mission

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

Core Values

Integrity

We will always adhere to highest ethical standards in all our actions.

Relationships

We seek to establish mutually beneficial relationships with all our stakeholders, based on trust and the desire to innovate win-win solutions.

Respect

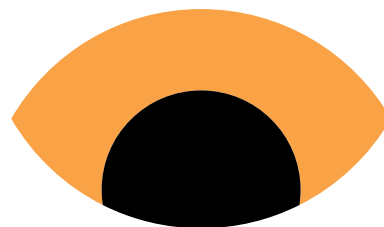
We value our people, encourage their development, partner their success and reward their performance.

Community

We embed ourselves in Sri Lankan communities and consider it our responsibility to recognise and respect the good practices of local communities.

Pursue Excellence

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



Milestones

1983

- People's Merchant Bank PLC (now known as People's Merchant Finance PLC) was incorporated as a Limited Liability Company on 26 January 1983, under the Companies Act No. 17 of 1982.
- A joint venture between People's Bank (75%) and Guinness Mahon & Company Ltd., of UK (25%).
- Subsequently, Guinness Mahon & Company Ltd., sold their equity in People's Merchant Bank PLC to People's Bank, as they curtailed their activities in Asia.

1993

- In June 1993, People's Merchant Bank PLC underwent a major capital restructuring through a private placement to a consortium of corporate investors including the Development Finance Corporation of Ceylon (currently DFCC Bank), HNB and Acceptor Business Capital (SL) Ltd. – Hong Kong [currently Southbridge Capital Investment (SL) Ltd.] Australia.
- People's Merchant Bank PLC was listed on the Colombo Stock Exchange in 1994.

2010

- Following the rights issue in January 2010, People's Leasing Company (Pvt) Ltd., became a major shareholder alongside People's Bank, Lanka ORIX Leasing Company PLC, Environmental Resources Investment PLC and South Bridge Capital Investments (Pvt) Ltd.

2011

- The name of People's Merchant Bank PLC was changed to People's Merchant PLC in April 2011.
- Following the rights issue in November 2011, Capital Trust Holdings acquired a 26% stake of People's Merchant PLC and became the second largest shareholder.

2012

- The name People's Merchant PLC was changed to People's Merchant Finance PLC (PMF) in May 2012, subsequent to the license issued by the Central Bank of Sri Lanka to carry out finance business in April 2012.

2015

- People's Leasing & Finance PLC assumed duties as the Managing Agent of PMF in July 2015 consequent to the Direction issued by the Monetary Board.
- People's Bank and People's Leasing & Finance PLC jointly acquired 9.57% stake of PMF in July 2015.
- In August 2015, People's Bank and People's Leasing & Finance PLC jointly acquired a 38.44% stake in PMF and became the first and second largest shareholders of the Company. The joint shareholding amounted to 87.21%

2018

- The ordinary shares of the Company were transferred to the *Diri Savi* Board of the Colombo Stock Exchange in July 2018.

2019

- Sterling Capital Investments (Pvt) Ltd. acquired a 19.98% shareholding of PMF and became the third largest shareholder in April 2019.
- Subsequently, Sterling Capital Investments (Pvt) Ltd. became the majority shareholder of PMF acquiring 68.20% of the Company's shares.

2021

- Following the rights issue in March 2021, Sterling Capital Investments (Pvt) Ltd. increased their shareholding to 78.55% of PMF.
- The Head Office of PMF was relocated to No. 361, 361/1 R. A. De Mel Mawatha, Colombo on 14 October 2021.
- Following the rights issue in December 2021, Sterling Capital Investments (Pvt) Ltd. increased their shareholding to 82.08% of PMF.

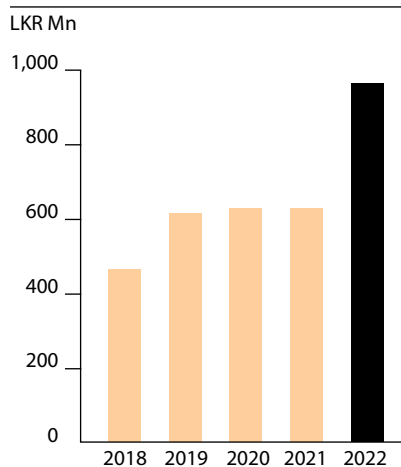
2022

- The new corporate website of PMF was launched on 28 January 2022

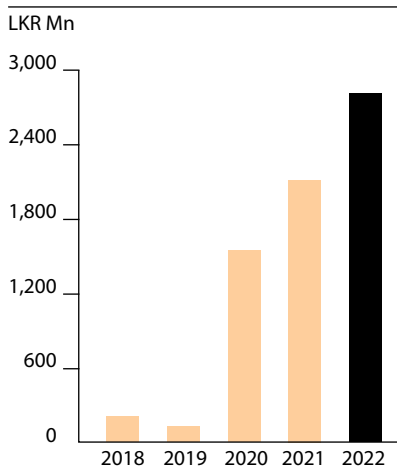
6 Financial Highlights

For the year ended 31 March	Company			Group		
	2022	2021	Change (%)	2022	2021	Change (%)
Gross income (LKR '000)	969,469	629,491	54.01	969,469	629,491	54.01
Profit before tax (LKR '000)	140,174	67,402	107.97	140,001	67,325	107.95
Profit for the year (LKR '000)	191,800	67,799	182.89	191,627	67,722	182.96
Profit per share (LKR)	0.55	0.32	74.29	0.55	0.32	74.33
Return on assets (%)	2.95	1.59	85.61	2.95	1.59	85.44
Return on equity (%)	7.73	3.68	109.89	7.72	3.68	109.73
As at 31 March						
Total Assets (LKR '000)	8,279,816	4,703,852	76.02	8,280,059	4,704,099	76.02
Equity (LKR '000)	2,833,695	2,131,201	32.96	2,833,336	2,131,015	32.96

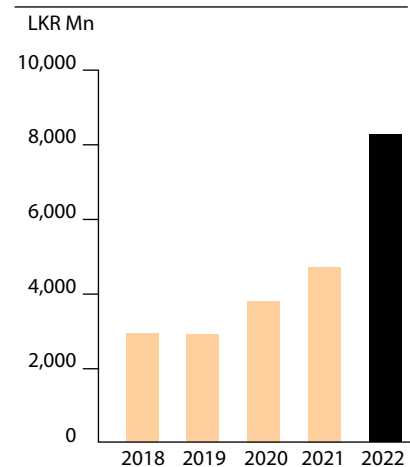
Income



Equity



Total Assets



Operational Highlights



Introduced Navodaya Entrepreneur Loan Scheme and Leasing Facility for three-wheelers.



LKR 45 Mn in entrepreneur loans provided



Over LKR 900 Mn portfolio of leasing for 3-wheelers



57% increase in total lending customer base



756 customers benefited from extended debt moratoria



Relocated and upgraded several branches for customer convenience



Research unit established



Implementation of new core banking system underway



Digitalisation and adaptable work-practices introduced for staff



294 man-days of training provided



Partnership with UN Global Week of Action

8 Chairman's Message



The early results of our long-term transformative journey have displayed considerable resilience in the face of crisis, and built confidence amongst our stakeholders.

I am pleased to present to you, on behalf of the Board of Directors, the Annual Report of People's Merchant Finance PLC (PMF) for the financial year 2021/22.

Transformational growth

The financial year ending 31 March 2022 was a momentous year for our Company despite the numerous challenges faced by Sri Lanka. The capital infusion by Sterling Capital Investments (Pvt) Ltd. (SCIL), our majority shareholder, instilled confidence both internally and externally and propelled us forward, in our efforts to transform the trajectory of PMF. The vast experience and expertise brought to the table by our new Board of Directors proved vital to restructuring and diversifying our portfolio of financial services, embarking on a pathway to digitalisation, restoring confidence in the Company, improving corporate governance, streamlining transformation, and gearing the Company to reach a wider range of customer segments.

In keeping with our five-year strategic roadmap to turn around the Company's performance; our aggressive commitment to transformation and restructuring, even in the face of a global pandemic, has kept PMF on the path to becoming a successful financial institution. In the year under review, we faced a host of unprecedented challenges; however, being a medium-sized financial institution proved favourable, allowing

PMF to pivot with the agility required to meet the needs of a changing environment and take advantage of new opportunities opening up in the market. Our successes allow us to continue fulfilling the financial needs of small and medium-sized enterprises and contributing to the financial and economic stability of our nation.

Dynamic leadership from the Board, a proficient management team and our success in placing the right people in management and leadership positions, led to a strengthening of institutional leadership overall. In the face of a pandemic and looming economic crisis, PMF was able to double its Profit Before Tax to LKR 201 Mn, a milestone that mark a significant turnaround after an eight-year loss-making streak.

PMF has invested in implementing a new core banking system, replacing the current system that is over two decades old. This new initiative would change the way PMF does business and offer greater convenience and flexibility to our valued customers, while adding efficacy to business operations and overcoming limitations posed by the older system. Moving away from traditional legacy thinking and procedures we also took initial steps to migrate from a brick-and-mortar based model to embrace digital transformation. Offering digital solutions of financial services keeps our focus on reaching more people in more places, more often.



Our successes allow us to continue fulfilling the financial needs of small and medium-sized enterprises and contributing to the financial and economic stability of our nation.

The COVID-19 pandemic prompted us to evolve further, address critical needs and innovate our business model. Taking a pragmatic focus, we armed our managers, team leads, and branch staff with the necessary skills and training to boost productivity and revolutionise customer service, while ensuring they were better equipped to take advantage of our scaling up of digitalisation.

Overcoming challenges to achieve success

Moving into 2021, the hardships thrust upon us by COVID-19 appeared to be diminishing and there were signs of the country and economy returning to normalcy. The uptick in tourist arrivals was encouraging, while the manufacturing, service and agriculture sectors showed signs of recovery. The start of the financial year 2021/22 saw Sri Lanka's financial systems on steady footing with banks and non-banking financial institutions lending stability to the overall system. However, disruption in economic activity, and necessary policy measures such as

Chairman's Message

the Government's restrictions on vehicle imports continued to hamper our operations. Towards the end of 2021, our problems were exacerbated by the shortage in dollar liquidity, which continued to deteriorate into the following calendar year. Despite these unfavourable headwinds, PMF was able to deliver solid results with the potential for steady growth in the future.

Profit After Tax grew by 182.89% to LKR 191 Mn, the lending portfolio increased by 111.51% and Non-Performing Loans declined by 19.35% YoY during the period under review. The Company's success has been exemplary across the board, with results showcasing the outcome of pragmatic and strategic initiatives put in place, and prudent measures introduced to optimally manage resources and harness opportunities. The early results of our long-term transformative journey have displayed considerable resilience in the face of crisis, and built confidence amongst our stakeholders.

Committed to compliance backed by strong corporate governance

The new Board of Directors of PMF consists of leading experts in the industry, who have shown strong commitment to maintaining good governance and strengthening the Company's risk management frameworks. The Board strives to

comply with industry requirements and regulations by employing solid management principles as well as evaluating and continuously improving governance and risk management procedures. Incorporated into our diversification plan was the requirement to fill leadership positions with experts and professionals, with extensive expertise in respective their fields. This has been a critical factor in PMF's recent success. Our Risk Committee, new Head of Risk, and dedicated department are guided by best-in-class practices to manage risk effectively and efficiently. The rights issue, which drew to a close at the end of the previous financial year, assisted in bridging PMF's regulatory capital requirements and strengthened our financial position, which bolstered growth in 2021/22.

Working sustainability into our DNA

At PMF we believe in sustainability being in our DNA, rather than a feather in our cap. We have created a culture where sustainability is embedded in the way we do business every day. The Company seeks to exercise prudence, in the pursuit of profitable growth that is beneficial to all our stakeholders. From evaluating prospective clients to minimising the use of resources, materials, and energy at our branches, sustainability is fundamental to our business strategy. We employ a quadruple bottom line approach that fosters a positive correlation with the planet; the people who are our customers, staff, shareholders

and community; the Company's profitability; and progress, an essential element that ensures the results of our success are passed on to all our stakeholders.

Looking ahead

Prior to the COVID-19 pandemic and the country's economic crisis, we put in place a five-year short-term plan and a ten-year longer-term plan. Despite subsequent challenges, we remain committed to our goals. Today, we have a solid foundation on which to build a leading Financial Institution of the future.

In the year under review, we launched two new financial products that place a clear focus on the entrepreneur segment, which will play a critical role in restoration of the country's economic fortunes. As part of the Company's efforts to foster entrepreneur development and contribute to national development, PMF will continue to expand its product portfolio to grasp new opportunities that arise in the market and cater to untapped customer segments; while strengthening our stakeholder base and contributing to rebuilding the country's economy.

Our digital transformation will reach a critical new milestone by the end of 2022 and set in place a platform for further expansion of our presence and reach across the island. Our digital footprint will allow us to widen our network and create partnerships with other compatible institutions. Our

Chairman's Message

longer-term journey of transformation sets sights on expansion into South-East Asia, bringing our novel products and time-tested financial expertise to other emerging markets.

Heartfelt thanks

As we conclude a review of the financial year ending 31 March 2022, I would like to express my appreciation to the Governor, Director, and the team at the Central Bank of Sri Lanka for their support. My gratitude also goes out to our majority investor, Sterling Capital Investments (Pvt) Ltd. for placing their faith in PMF at a time of unprecedented difficulty. I would like to thank my colleagues on the Board for their visionary leadership in navigating these tough economic conditions. Above all, my heartfelt appreciation goes to the PMF team who have persevered and delivered outstanding results, and our customers who have placed their trust in us. I look forward to further success along the path of PMF's dynamic and transformational journey in the years to come.



Chandula Abeywickrema
Chairman

31 August 2022
Colombo

Chief Executive Officer's Review



For the second consecutive year, we were able to deliver positive financial results, which is testament to our strength as a company and a strong indicator of our potential for sustainable growth.

People's Merchant Finance PLC (PMF) began the financial year 2021/22 on a strong note and we continued to build on the success of the previous year. The Sri Lankan economy began to show signs of recovery after two years of weak growth, but the positive outlook was short lived. Despite renewed challenges of growing economic instability, we continued to make bold strides towards achieving the goals of our five-year strategic plan and ten-year vision. For the second consecutive year, we were able to deliver positive financial results, which is testament to our strength as a company and a strong indicator of our potential for sustainable growth.

Reaching greater heights

We opened the new financial year with confidence, reaching a major milestone in breaking an eight-year loss making streak the previous year. The backing of our majority investor, Sterling Capital Investments (Pvt) Ltd. (SCIL), allowed us to continue our upward trajectory. Furthermore, we were guided by the expertise of our Board of Directors. With the backing of fresh capital infusion from SCIL by way of a Rights Issue in December 2021, we were able to recruit key personnel and launch new products that aligned with our turnaround strategy.

In strengthening our portfolio, we introduced a specialised financial product for entrepreneurs engaged in small and medium enterprises, alongside short-term products that met the dynamic needs of a changing economic environment. PMF's Navodaya Entrepreneurship Development Loan Scheme has already granted over 100 new loans amounting to over LKR 50 Mn in support of a variety of sectors from agriculture and manufacturing to food processing. At the same time, a leasing facility for three-wheelers was introduced alongside a sound vetting process, which has achieved a portfolio over LKR 900 Mn with a considerably low level of NPL. We recruited seasoned experts to take over senior positions and launch these products at a critical juncture in the Nation's development and our Company's journey. The diversification of our portfolio, allows us to reach beyond the branch network and brings us closer to our vision of catering to communities with a diverse range of financial needs. Taking advantage of low-interest rates, we also ventured into the real estate market by development and sale of several land plots.

The cohesive five-year strategic plan that was put in motion in 2020/21, targets an asset base of LKR 25 Bn and profit after tax of LKR 1 Bn by 2025/26;



The motivation and commitment of our employees were key elements in our success.

which aligns with the Masterplan of the Central Bank of Sri Lanka (CBSL). Major milestones of the strategic plan have been reached in 2020/21 and 2021/22 in terms of asset growth, deposit growth and NPL reduction. Additionally, all internal controls and procedure manuals have been reviewed, and the strategic plan is continually evaluated and adjusted to ensure it is aligned with PMF's long-term vision.

During this period, our data centre was relocated to SLT's main data centre; a vital and timely decision that has helped us circumvent issues arising from the recent power outages and fuel crisis. A new IT system and filing system were implemented to improve convenience and efficiency, and a new client screening system was also introduced.

Chief Executive Officer's Review

The Company has taken significant steps to better serve our valued customers. We have relocated a number of branches to more accessible locations including the Head Office to Duplication Road, and the main Colombo branch, now centrally located on Dharmapala Mawatha. PMF currently operates eleven branches, and our service centre in Welawatte has received CBSL approval to upgrade to a branch. Additionally, we have refurbished a number of existing branches with upgraded infrastructure to better serve our customers. The Company is also pleased to announce that it has obtained CBSL approval to open six new branches; the first of which was opened in Matale in August 2022.

The motivation and commitment of our employees were key elements in our success. PMF pledged a percentage of turnover to the capacity development of our team. Bonuses and salary increments were proudly granted for the first time in ten years. We provided work-from-home facilities to a majority of the staff and additional support during periods of lockdown and restricted travel. Throughout this difficult period, we were able to establish efficient systems with a combination of remote work and minimal staff physically manning branches.

Overcoming challenges to deliver excellence

The challenges facing the economy intensified as we progressed into the third and fourth quarters of the year under review; putting further strain on the NBF sector. Interest rates continued to climb and the ban on vehicle imports remained in place. Despite these extraordinary circumstances, PMF delivered our best ever performance across all areas. We were able to grow our asset base by 76%, our lending base increased by 111% and our deposit base grew by 40%. Overall, we achieved an increase in profitability of 182%.

PMF maintained comfortable levels of liquidity throughout the year, along with an adequate core capital ratio. The capital infusion from the rights issue that took place in December 2021 helped us to improve funding capabilities and ensured we were in compliance with all prudential requirements from CBSL. As PMF gained further confidence of customers, banks, and other financial institutions, we were granted facilities in excess of LKR 2 Bn from commercial and investment banks. The Company's deposit base now stands at LKR 3.2 Bn showcasing the confidence of customers, banks, and other institutions. With space to leverage, PMF has the potential to grow and expand rapidly to meet the dynamic demands of the economy

and market. Our NPLs have reduced to 6.1% from 13% the previous year, primarily through the dedicated and continuous follow-up of our staff, successful recovery of past loans, and strict management of arrears. Over 800 customers were granted debt moratoria on the guidance of CBSL during the year.

A forward-looking focus

As we begin to rebuild as a nation, charting a course for economic stability, prospects for PMF look bright. With the backing of SCIL and the strength of our Board of Directors, we remain confident as we look to the future. We are led by a Senior Management team that brings a wealth of experience and skill to their leadership roles, and our team of highly motivated individuals is committed to building on the success of the past year.

Being a mid-sized company, PMF is well positioned to adapt quickly to a range of different economic scenarios and seize opportunities that allow us to expand and diversify our range of financial services. We continue to be guided by our five-year strategic plan, which has helped us overcome the challenges of the recent past, deliver outstanding financial results and build a resilient balance sheet.

In order to further our future-ready approach, PMF has placed a strong focus on digitalisation as a means of enhancing the customer experience and expanding our customer-base to include niche market segments that are currently not being serviced. Implementation of a new core banking system is currently underway with some improvements already accessible to the public and complete migration scheduled for end of December 2022. With a far-reaching digital footprint and diversified portfolio, we are confident in our ability to bring PMF to the forefront of the NBF1 sector.

Appreciation

I would like to take this opportunity to extend my heartfelt appreciation to the entire PMF family including our main shareholder Sterling Capital, who have continued to back us during this time of unprecedented difficulty. The Chairman and Board of Directors have provided invaluable guidance and laid a solid foundation for a bright future. I am thankful to the Management and our team for their dedication, which led to an outstandingly successful result. I am also deeply appreciative of our customers, business partners, and regulators for making PMF's successes a possibility. We are committed to creating value and serving all our stakeholders to the very best of our ability.



Nalin Wijekoon
Chief Executive Officer

31 August 2022
Colombo



Business Model and Context

Stakeholders

Our principal stakeholders are employees, customers, investors, business partners, regulators, and the community and the environment. By balancing the needs of stakeholders over the short and long term, we strive to deliver a sustainable performance. The pandemic has impacted the manner, the level, and the frequency of engagement with our stakeholders.

Stakeholder	Why they matter to us	Key concerns raised	
Employees	Loyal, hard-working and committed employees facilitate the achievement of our corporate strategy.	<ul style="list-style-type: none"> • Structural changes • Health and safety • Skills development • Work-life balance • Employee grievances and suggestions • Equal opportunity 	<ul style="list-style-type: none"> • Issues related to operations, business performance and internal procedures • Company related news • Career progression and rewards
Customers	Sustainable growth in our asset base and profitability depend on the customers.	<ul style="list-style-type: none"> • Debt moratoriums • Convenience • Interest rates • Customer service and experience 	<ul style="list-style-type: none"> • Operational efficiency • Risk-focused organisational culture • Financial inclusion • Speedy complaint resolution
Business partners	Business partners provide the equipment and expertise support services needed to serve our customers.	<ul style="list-style-type: none"> • Fair transactions • Transparency in the bidding process • Timely settlements 	<ul style="list-style-type: none"> • Competitive advantage • Accountability • Sustainability and functionality of the supply chain
Regulators	Regulators strengthen the corporate governance of our Company and facilitate a sound and efficient financial services system.	<ul style="list-style-type: none"> • Compliance with directions • Relief program for customers • Good governance practices 	<ul style="list-style-type: none"> • Ethically-driven business model • Transparency
Investors	Investors provide the needed capital for business growth and help meet regulatory requirements.	<ul style="list-style-type: none"> • Return on investment • The goodwill of the Company • Financial strength and resilience • Risk management 	<ul style="list-style-type: none"> • Sustainability in management performance • Sustainable profitability • The integrity of Board and Management
Community and the environment	Community relevance and safeguarding the environment in which we operate is fundamental to our survival and success.	<ul style="list-style-type: none"> • Societal health and well-being • Social investment • Community development • Employment generation • Conservation practices 	<ul style="list-style-type: none"> • Resource efficiency • Energy conservation • Environmental protection • Reducing our carbon footprint

Our response	Method and frequency of engagement
<ul style="list-style-type: none"> • Providing job security • Implementing a work from home culture • Conducting online training programs • Providing staff welfare facilities • Not reducing salaries • Implementing an employee grievance and redressal procedure Discussion of key issues at the Executive Committee (EC) meeting 	<ul style="list-style-type: none"> • Open door policy • Special meeting with senior management • Performance appraisal • Setting up PMF Staff Welfare Society • Intranet, emails and memos – Regularly • Branch visits – Regularly • Virtual meetings – Regularly • Performance appraisals – Yearly • EC meeting – Weekly • Special management meetings – As and when required • Welfare activities – Throughout the year
<ul style="list-style-type: none"> • Enabling the online transfer platform • Providing assistance to obtain the debt moratorium 	<ul style="list-style-type: none"> • Increasing the level of engagement on social media platforms • Call centre – Ongoing • Customer visits – Regularly • Branch network – Regularly • Social media – Ongoing • Corporate website – Ongoing
<ul style="list-style-type: none"> • Annual registration of suppliers • Maintaining systematic and transparent procurement processes • Maintaining healthy, mutually beneficial relationships with suppliers and service providers 	<ul style="list-style-type: none"> • Having regular direct communication with major suppliers • Making timely payments • Procurement from local suppliers • Supplier registrations – As and when needed • Tender notices – As and when needed • Supplier screening – As and when needed • Individual meetings – As and when needed
<ul style="list-style-type: none"> • Complying with regulatory directions • Embracing sustainable practices and regulatory compliance that enable a safe and stable financial services system 	<ul style="list-style-type: none"> • Providing timely and detailed regulatory updates and disclosures • Regular directives and circulars – Ongoing • Compliance forums, and discussions – Quarterly • Inspection of new rules and regulations – Daily • Press releases – Ongoing
<ul style="list-style-type: none"> • Profit making culture, strengthening of core capital and transparency • Ensuring optimal return on investment • Strengthening risk assessment and mitigation 	<ul style="list-style-type: none"> • Adhering to the Company’s Code of Conduct • Public affairs management • Balancing profitability in the short term and sustainable profitable growth in the long term • Annual reports and forums – Annually • Annual General Meeting – Annually • Interim financial statements – Quarterly • Corporate website – Ongoing • Announcements to the CSE – As and when needed • Media releases – As and when needed
<ul style="list-style-type: none"> • Uplifting the quality of life of communities • Supporting community health and well-being • Supporting entrepreneurs 	<ul style="list-style-type: none"> • Supporting economic empowerment of females • Adopting environmentally friendly initiatives • Media publications – Ongoing • Internet, brochures, leaflets and advertisements – Ongoing • Employee volunteering activities – Annually

Operating Environment

Global economy

Following the immediate aftermath of the COVID-19 pandemic, revival of economic activities across the globe created a conducive environment for economic growth while supporting private sector credit expansion in 2021. Government-backed vaccination programmes, business and social adaptations, and better prepared healthcare infrastructure helped curtail the immediate effects of the pandemic in 2021, when compared to the impact of the initial outbreak.

Despite these improvements in 2021, the global economy faces a number of major headwinds in 2022, as multiple economic shocks and new risks have put increasing pressure on already struggling economies. Global growth prospects have been downgraded amidst gloomy sentiment, with forecasts projecting slow growth of between 2.9%¹ and 3.2%, down from 5.7% the previous year². Economists have warned of “stagflation” as the global economy faces a protracted struggle with rising inflation and slow growth.

Amidst these crises, the value of the US dollar is the strongest it has been in two decades, fuelled by economic recovery and aggressive monetary policies by the US Federal Reserve System. At the same time, a number of developing countries across the

globe are capitulating in the face of rising borrowing costs, inflation, and a growing debt burden. Apart from Sri Lanka and a handful of countries already in default, at least a dozen others are in the danger zone for sovereign default, and at risk of economic collapse³. Almost all the world’s advanced economies are also feeling the effects of the global doldrums, with rapidly rising inflation hitting record levels in almost all OECD countries⁴ driven primarily by increasing food and energy prices.

Sri Lankan economy

The year 2021 saw a slow resurgence of the Sri Lankan economy as the country posted a GDP growth rate of 3.3% on the back of restored economic activity post-pandemic, and gradual recovery of the tourism sector that had seen multiple years of crisis. However, the first quarter of 2022 saw a reversal of fortunes as in the face of multiple global pressures, systemic structural vulnerabilities, and economic weaknesses. Economic performance and outlook for the country remains bleak due to unbearable fiscal and external imbalances that have compounded slow recovery.

The Department of Census and Statistics recorded a 1.6% contraction of GDP in the first quarter of 2022⁵. This change sets a dismal tone for Sri Lanka’s economy which is expected

to contract by more than 6% during the year⁶ with the potential to be the worst economic contraction in the country’s history, according to the Governor of the Central Bank. Domestic economic activity suffered during the first two quarters of the year with the agriculture sector the hardest hit. All industries were heavily affected by supply-side disruptions during the year; including persistent fuel shortages, routine and extended blackouts, severe escalation in cost of raw materials, and other aggravated supply-chain issues. Sri Lanka’s headline inflation reached 60.8% and food inflation surpassed 90% in July 2022, reflecting the depth of economic and social impact.

Market interest rates have been gradually adjusting upwards in response to tight monetary policy measures adopted and yields on Government Securities have also increased notably, due to the Government’s elevated borrowing requirement. While this has created anomalies in the market interest rate structure, and higher marked-to-market losses for financial institutions, persistently high rates are expected to draw a significant amount of money into circulation into the banking and financial system. During the first half of 2021, the Non-Banking Financial Institution (NBFI) sector saw significant improvements, resulting in an overall positive outlook in 2021. According to Central Bank reports, Licensed Finance

¹ International Monetary Fund. (2022). *World Economic Outlook, June 2022*.

² World Bank. (2022). *Global Economic Prospects, June 2022*.

³ Reuters. (2022). *The big default? The dozen countries in the danger zone, July 2022*.

⁴ OECD. (2022). *Statistics News Release, July 2022*.

⁵ Central Bank of Sri Lanka. (2022).

⁶ Wall Street Journal. (2022).

Companies (LFCs) total assets under management grew to LKR 1,452 Bn in 2021, while Specialised Leasing Companies (SLCs) total assets under management grew to LKR 35.7 Bn.⁷ Effects of the economic downturn and consistently high interest rates are likely to hurt loan growth in 2022. Bottom-line growth in the sector is also expected to take a hit as the financial services sector would be required to make higher impairment provisions.

Rapid deterioration of Sri Lanka’s dwindling foreign reserves was hastened by an exchange rate adjustment in the early part of March 2022 that saw the rupee depreciate rapidly; almost 80% against the US dollar. Sri Lanka’s external debt included USD 51 Bn in foreign debt, of which USD 28 Bn was due by 2027. The country’s debt servicing requirements stood at USD 7 Bn for what remains of 2022, against foreign reserves of just USD 1.9 Bn as at the end of March 2022.




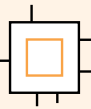

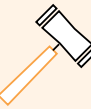
In order to work toward sustainability of the Country’s external debt, the Government and Central Bank have identified the need to implement urgent measures and reform, supported by an International Monetary Fund (IMF) Extended Fund Facility (EFF) arrangement addressing external sector vulnerabilities and aimed at resolving persistent and long-standing issues in Sri Lanka’s economy. To this end, an IMF mission team visited Colombo subsequent to the end of the financial year ended 31 March 2022 to discuss IMF support

for Sri Lanka and the expected economic reform programme. Further, negotiations are also underway with bilateral and multilateral partners to secure bridging financing. In line with IMF guidelines, Sri Lanka will need to implement several structural reforms including fiscal consolidation, reform of state-owned enterprises, and take steps to achieve public debt sustainability.

While the country’s economy faces a number of structural challenges in the year ahead, such as external

sector stability, inflationary pressures, weakening of the rupee, and a significant budget deficit, there has been some progress toward restoring macroeconomic stability in the country. The trade deficit narrowed significantly in May 2022, and the country showed a surplus for the first time in over two decades; recording a surplus of USD 21 Mn in June 2022. This is especially significant when compared to the deficit of USD 652 Mn recorded in June 2021. This is largely the effect of recently initiated demand-destruction policies and constraints on foreign exchange liquidity in the domestic forex market.

PESTEL analysis

	P	Political: Influence of the country’s political climate, on business.
	E	Economic: Impact of the national and global economic environment, economic shocks, and prevalent crisis.
	S	Social: Impact of social upheaval and context, and role of the organisation with regard to transformation and sustainable development.
	T	Technological: Effects of digitalisation, technological change, and competition on the business environment
	E	Environmental: Role of natural environment, as it is impacted by, and impacting on the way of doing business.
	L	Legal: Significance of regulatory and legal changes, and role of risk management, compliance, and governance.

⁷ Central Bank of Sri Lanka. (2022). Annual Report 2021: Key Economic Indicators, April 2022

Operating Environment

PMF's proactive response to a challenging operating environment

The Company's proactive, agile, and robust response to navigating a difficult business environment is explored utilising the following analytical tools. These strategic measures contribute to PMF's responsiveness to the operating environment, and ensure long-term business sustainability.

External environment effect	Impact to the Company	Strategic measures initiated by PMF
P: Political influence on business		
<p>COVID-19 related lockdowns and travel restrictions imposed by the Government during 2021</p>	<ul style="list-style-type: none"> • Travel restrictions on staff critical to operations • Impact on continuity of business operations during this period • Key risks exposed to: <ul style="list-style-type: none"> – Operational risk – Strategic risk 	<ul style="list-style-type: none"> • PMF remained fully committed to managing its business and ensuring continuity of operations during lockdown periods. Prior assessment of requirements for smooth operations enabled the Company to be better prepared. • PMF showcased resilience in facing risk events while focusing on executing the formulated strategy, with commendable results.
E: Turbulence in the economic environment and resulting uncertainty		
Credit		
<p>Significant NBFI credit growth recorded during the year despite slow growth witnessed the previous year. This was primarily due to resumption of economic activities.</p> <p>NBFI asset base increased by 14.28% to LKR 1,589.8 Bn during the year ended 31 March 2022. This is compared to the 3% contraction in the previous year.</p> <p><i>Refer Table 2.1 for highlights of NBFI sectoral performance</i></p> <p>Total gross NPLs of the sector reduced by 28% year-on-year, by end March 2022. This is compared to a decrease of 39% recorded in the previous year.</p>	<p>In consideration of the total assets of the Company, PMF reported LKR 8.28 Bn (Audited) at the closure of FY 2021/22. In comparison to LKR 4.70 Bn reported the previous year. A 76% growth over the period, in comparison to a growth of 23% witnessed in the previous comparative period.</p>	<ul style="list-style-type: none"> • Continuous monitoring of performance against budgetary targets. • Reconcentration on credit evaluation and recovery strategies to capture current challenges. • Renewed focus on lending products such as gold related lending and entrepreneurial lending to capture demand in the current context.
Profitability		
<p>Improvements in Net Interest Income (Nil) coupled with a positive surge in non-interest income directing to increase sector profits.</p> <p>The overall sector's PAT witnessed an increase to LKR 59.8 Bn for the year ended 31 March 2022, from LKR 29.7 Bn for the year ended 31 March 2021.</p>	<p>PMF reported LKR 191.80 Mn (Audited) profit after tax (PAT) for the period ended 31 March 2022. In comparison to LKR 67.80 Mn (Audited) reported for the previous period, which was a 183% growth over the period. Further, the Company reported LKR 201.43 Mn as operating profit before taxes (PBT); the highest ever profits achieved by the Company, during the year ended 31 March 2022</p> <p><i>Refer Table 2.2 for highlights of PMF's financial performance in 2021/22</i></p>	

External environment effect	Impact to the Company	Strategic measures initiated by PMF
Liquidity		
<p>The sector has surpassed the regulatory minimum, with overall regulatory liquid assets available in the sector amounting to LKR 156.7 Bn by end March 2022.</p>	<p>PMF reported a regulatory liquid asset of LKR 1,077.83 Mn as at 31 March 2022, compared to LKR 740 Mn reported the previous year.</p>	<ul style="list-style-type: none"> Stress testing was performed for liquid positions on a periodic basis to provide early warning signals for preparedness. Actions were taken to minimise the maturity mismatch between assets and liabilities throughout the period. Seeking out alternative sources for low-cost funding arrangements. Extra efforts taken for due diligence programmes in order to roll out and focus on permeating an “anti-fraud” culture at all levels of the business.
Interest rate		
<p>The period saw an increasing trend for the AWPLR, with the same aggravated by the positive surge of CBSL policy rates.</p>	<ul style="list-style-type: none"> Increased cost of funding. Potential deterioration of the interest spread. 	<ul style="list-style-type: none"> The Company maintains a healthy predetermined level of interest spread at all times to be resilient enough to meet any unforeseen events.
S: Sustainable social development		
<p>Irrespective of recessionary conditions experienced with higher unemployment (5.5%) and lower disposable income (GDP per capita USD 3,695) in 2020, a significant revival was seen in terms of economic activity in 2021.</p> <p>The Government worked to improve social resilience by way of providing relief packages to COVID-19 affected business and individuals; notably for SMEs. Through this, the Government aimed to support livelihoods of individuals; to ease economic pressures and provide comfort against shocks during the pandemic period. This served to improve payments and lower defaults.</p> <p>Further, disruptions to employment status due to the pandemic were reversed to some extent in 2021, creating more opportunities. The year 2021 showed an unemployment rate of 5.1% and GDP per capita of USD 3,815, both improved from 2020.</p> <p><i>Refer Table 3.1 for statistics on Sri Lanka's unemployment rate</i></p>	<ul style="list-style-type: none"> Restrictions on movement of individuals. Extra pressure on the Company to be resilient in performance and ensure continuous improvement during the pandemic period. 	<ul style="list-style-type: none"> The Company honoured all moratorium requests in line with the related circulars, prioritising the needs of COVID-19 hit individuals and businesses inclusive of the SME sector, in order to support livelihood development of individuals. A transparent client complaint handling procedure was in place; providing speedy solutions that protected clients' interests at all times. <p>For internal stakeholders:</p> <ul style="list-style-type: none"> The Company's female employees took the opportunity to showcase their talents during events conducted for Women's Day 2022. PMF did not make any retrenchments or pay cuts despite pandemic induced challenges. 104 new opportunities were created for PMF cadre during the year ended 31 March 2022, compared to 92 during the previous year.

Operating Environment

External environment effect	Impact to the Company	Strategic measures initiated by PMF
T: Competition and technological change		
<p>Innovative technology related transformation in financial services has continued to evolve at a rapid pace during the pandemic period. In considering technological advancements, all large asset NBFIs now operate with multiple digital customer interfaces, with many offering omnichannel connectivity.</p> <p>At the same time, digitalising efforts in back-end system architecture was prevalent across the sector in order to improve efficiency and service-level delivery.</p>	<ul style="list-style-type: none"> • Increased challenges to achieve cost efficiencies through digitalisation plans in place. • Created the necessity for advanced monitoring and prevention to protect customers and the Company from increasingly sophisticated cybercrime, fraud risk, and financial crime. • Created the need for a future-ready team of staff, achieved via reskilling and making significant investments in tech-enabled environments to meet developing cybersecurity risk events. <p>Key risks exposed to:</p> <ul style="list-style-type: none"> • Cybersecurity risk • Strategic risks, and execution and business risks from external and internal drivers. • Increasing compliance risk due to new and emerging regulations and oversight. 	<ul style="list-style-type: none"> • The Company provided employees with adequate technology, tools and equipment to work productively from home during the pandemic and its aftermath. • PMF produced digital solutions that are tailored to match the precise needs of different customers in line with the Board's direction. • Rearrangement of internal process architecture through systematic process gap analysis in order to meet digitalisation and automation initiatives. • Increased process automation. • Continuous employee education to mitigate cyber related risks; especially cybersecurity risk in the context of accelerated digital migration. • Ongoing investment in technology platforms, processes, and controls; including monitoring for all product levels with proper and timely assessments during test phases before migration.
E: Climate change and environmental impact		
<p>In the current context, Sri Lanka will be one of the nation's worst affected by climate change. However, there is minimal preparedness to deal with potential economic, social, and environmental stresses brought on by climate change.</p> <p>Financial institutions have tended to focus more on green lending activities with the current needs in terms of energy efficient infrastructure and renewable energy.</p> <p>The CBSL funded by United Nations Development Programme (UNDP) Biodiversity Finance Initiative (BIOFIN), supported by the International Finance Corporation (IFC) launched a Road Map for Sustainable Finance in Sri Lanka in April 2019 with the aim of promoting sustainable finance practices to local communities. This provided a broad direction to financial regulators, financial institutions and the markets to effectively manage Environmental, Social and Governance (ESG) risks associated with projects.</p>	<ul style="list-style-type: none"> • Created the need for research on coverage of green lending lines to include large scale renewable energy projects. Thereby, entrepreneur finance products became more sought-after. 	<ul style="list-style-type: none"> • Working with the CBSL to implement the "Road Map for Sustainable Finance in Sri Lanka". • Continuously assessing suitability and strategic alignment of products and sectoral exposure with changing environmental factors and other impacted areas with varying risk profiles. • Emphasised the requirement of cost-effective initiatives with zero or minimal paper use to support the minimisation of the Company's carbon footprint, as part of initiatives to preserve natural ecosystems. • During 2021, PMF was a proud partner in contributing for the "Global Week of Action (Act4SDGs)" powered by the UN SDG Action Campaign to achieve SDGs around the world. In conjunction with this, with a view to encourage all employees to be eco-friendly citizens, PMF contributed to printing eco friendly grocery bags as part of the UN Global Week action campaign; under the themes LESS PLASTIC and ZERO WASTE.

External environment effect	Impact to the Company	Strategic measures initiated by PMF
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L: Regulatory/ Legal change, risk management and governance

The Country's legal and regulatory framework plays a vital role in safeguarding the stability and sustainability of the NBFi sector.

In order to strengthen overall system stability, CBSL has undertaken various initiatives by way of implementing needful regulatory measures.

By end 2021, CBSL increased the NBFi sector's core capital and total capital ratios to 15.5% and 17% respectively, compared to the reported levels of 14.5% and 15.7% respectively, at end 2020.

CBSL's ongoing Financial Sector Consolidation Masterplan is also a commendable effort as it aims to build strong and stable NBFis in the medium term, with the objective of safeguarding depositors of the NBFi sector, while ensuring new developments and improvement of Corporate Governance principles.

- Created the need for a coordinated, comprehensive and forward-looking approach to evaluate, respond to, and monitor regulatory change.
- Increased costs related to implementation of compliance and management of regulatory changes and impacts on financial measures.

Key risks exposed to:

- Strategic risk
- Business risk
- Compliance risk

- The Company expanded liquidity buffers to a level that is significantly higher than the regulatory minimum.
- PMF took swift action in early adoption of regulatory requirements.
- A strong compliance culture permeates across the business, underpinning efforts to maintain compliance leadership.

Table 2.1

NBFi sector performance, 2021 to 2022

	March 2022 (LKR Mn)	March 2021 (LKR Mn)
ASSETS	1,589,835	1,391,191
Cash and bank balances	101,944	86,544
Investments	175,368	154,694
Loans and advances (Net)	1,212,861	1,060,921
Trading stocks (b)	3,791	4,627
Fixed assets	57,944	53,223
Other assets	37,928	31,182
EQUITY AND LIABILITIES	1,589,835	1,391,191

Source: Central Bank of Sri Lanka

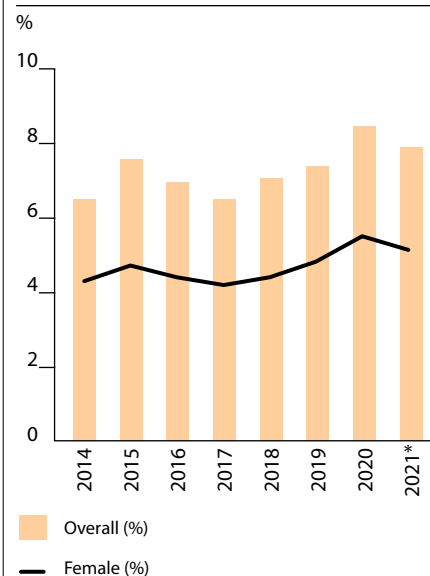
Table 2.2

PMF financial performance, FY 2020/21 vs FY 2021/22

	FY 2021/22	FY 2020/21
Asset size growth	76.02% ▲	23.30%
Lending portfolio growth	111.51% ▲	90.35%
Deposit-base growth	41.03% ▲	8.97%
NPL ratio	6.10% ▼	13.87%
Net NPL	0.81% ▼	2.32%
NPL provision cover	87.13% ▲	83.28%
Profit before tax (PBT)	LKR 201.43 Mn ▲	LKR 100.55 Mn
Profit after tax (PAT)	LKR 191.80 Mn ▲	LKR 67.80 Mn

Table 2.3

Sri Lanka unemployment Rate from 2014 to 2021



*Average of four quarters of 2021.

Source: Department of Census and Statistics

Operating Environment

SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • 39 years of expertise in the NBFi sector with proven track record of excellence • Vastly experienced and qualified top leadership with in-depth industry expertise • Strong brand image backed by the goodwill of People's Bank in the past and Sterling Group at present • Sustained financial stability (profitability, capital adequacy, and low NPLs within the sector) • Over 200-strong Island-wide network of Sterling motor vehicle dealers 	<ul style="list-style-type: none"> • High attrition among front office and marketing staff • Non-availability of fully-fledged digital approval system across the entire Company • Low island-wide coverage • Absence of investment grade credit rating • Unstable political and economic environment 	<ul style="list-style-type: none"> • Leasing being the main financing option for movable assets is reinforced by import restrictions that have increased demand for registered vehicles • Space for promotion of financial inclusion amongst lower and middle-income brackets prevailing in the country's development plan • Micro, small and Medium Enterprises (MSME) sector • Renewable energy sector • Construction and real estate sector • Untapped gold loan customer base not reached by banks • Huge demand for working capital financing from the informal sector 	<ul style="list-style-type: none"> • Stiff competition from banks / NBFIs in the vehicle financing market due to import restrictions on vehicles and other non-essential products • Low-cost funding and refinance schemes available to other financial institutions (especially banks) and increasing trend of benchmark rates of PMF borrowings • Emerging competitive pressure from Telco's and Fintech's entering the financial services domain • Policy uncertainty disrupting overall vehicle financing demand

Our Strategy

As we complete a second successful year in the current strategy cycle and PMF's journey of transformation initiated in 2019; our timely and forward-thinking initiatives are beginning to bear fruit. This section outlines material elements of PMF's five-year strategic plan and describes

the Company's performance against key performance indicators.

repositioning, and re-inventing the Company to stay competitive in an evolving operating environment.

Our strategic intent

PMF's strategy road map incorporates ten high-level intentions, set out with the intention of revitalising,

1

Finance environmentally friendly products and businesses that are sustainable and not harmful to the environment.

2

Collaborate with organisations who share similar goals to facilitate innovative technological development and utilisation in a sustainable manner.

3

Identify sectors where PMF can market its core products profitably in an environment of financial inclusivity.

4

Maintain a diversified business model that will effectively contribute to the economic needs of the country.

5

Create a new threshold for PMF to comply with the ultimate targets of the Master Plan introduced by the Central Bank of Sri Lanka (CBSL) for the NBF sector, within stipulated deadlines.

6

Proactively contribute toward achievement of the development goals of the Government.

7

Improve internal systems, processes, and resources for efficient delivery of financial services to more people, in more places.

8

Enhance the Company's human resource productivity while simultaneously increasing retention through state-of-the-art training techniques, fair treatment, fair compensation, and effective recognition.

9

Adhere to compliance required by authorities and regulators.

10

Expand market reach through a virtual agent network in the medium-term.

Our Strategy

Operationalising our strategy

Based on the strategic intent set out above, the Company has outlined two strategic pillars that will define the thrust of operations and actions in the next five years: Growth and Profitability. The following overarching integrated financial goals expand on the strategic pillars and outline a sustainable and holistic way forward for the next five years of operations.

1. Develop a diversified portfolio with a five-year Compound Annual Growth Rate (CAGR) between 40% to 50% in the portfolio of businesses by FY 2025/26.

2. Maintain an asset base above LKR 20 Bn by FY 2025/26.
3. Support financial value creation by achieving a profit after tax of over LKR 1,000 Mn by FY 2025/26.
4. Maintain a capital conservation buffer of 1% in addition to the minimum capital adequacy requirement (CAR) by FY 2025/26.

Sound performance against our targets

During the year under review, we made significant strides toward achieving the goals of our five-year strategic plan and overall vision for transformation. We reached major milestones of the strategic plan in terms of asset growth, deposit growth, and reduction of non-performing loans (NPL). At the same time, we have continued to improve our internal controls, systems, and processes, as we stay geared to achieving PMF's long-term vision.

TARGET	PROGRESS
Growth	Total assets grew by 76% during the year to reach LKR 8.27 Bn.
Grow our asset base to above LKR 20 Bn by FY 2025/26.	
Introduce new product lines to maintain a diversified portfolio whilst being aligned with the development plans of the Government.	Introduced Navodaya Entrepreneur Finance and new leasing facility for three-wheelers.
Revamp our branch structure, including the physical facilities, locations and human resources to drive new volumes.	Relocated and upgraded a number of branches to more accessible locations. Upgraded Wellawatte service centre to a branch.
Open six new branches in strategic locations across the country to optimise business performance and support the business portfolio and growth of business lines.	CBSL approval received for opening of six new branches, with the first to open in FY 2022/23.
Elevate existing product lines to new heights.	Growth seen across all core product categories, viz. leasing, loans, gold loans, and margin trading. See page 44 from our Social and Relationship Capital section, for details on performance of our products.
Infuse fresh capital to meet future minimum capital requirements as directed by CBSL.	Compliant with minimum capital requirement stipulated by CBSL, of LKR 2,500 Mn.
Focus on a new strategic alliance with the parent company to grow our operations via leasing.	Over 200-strong Island-wide network of motor vehicle dealers in place.
Investment in a core banking system and in IT infrastructure.	In the process of implementing a new core banking system, replacing the current system which is over two-decades old.
Profitability	
Achieve a profit after tax exceeding LKR 1,000 Mn by FY 2025/26.	PAT grew by 182.89% to LKR 191.8 Mn.
Reduce gross NPL from 29.7% in FY 2019/20 to less than 7.0% by FY 2025/26.	Ended the year with improvements in gross and net NPL ratios at 6.10% and 0.81%, respectively.
Achieve a ROA of 4.0-5.0% and ROE of above 20.0-24.0% (post tax) by FY 2025/26.	ROA of 3.00%, up from 1.59% the previous year. ROE of 7.84%, up from 3.68% the previous year. See page 44 from our Social and Relationship Capital section, for our key investor performance metrics.

Staying responsive in a changing business environment

Effects of the COVID-19 pandemic and the mounting economic crisis impacted PMF's operations and factored into the Company's strategic direction. Throughout the course of the year, the strategic plan was continually evaluated and adjusted to ensure it remained aligned with PMF's long-term vision. Due to uncertainty arising from the pandemic and the country's economic challenges, the Company's primary focus during the year was to build up and maintain a high-quality product portfolio. With the ban on vehicle imports remaining in force, PMF pioneered new products that were responsive to continued changes in the market and macro-environment. The Three-Wheeler (3W) lease product, launched in July 2021, and the

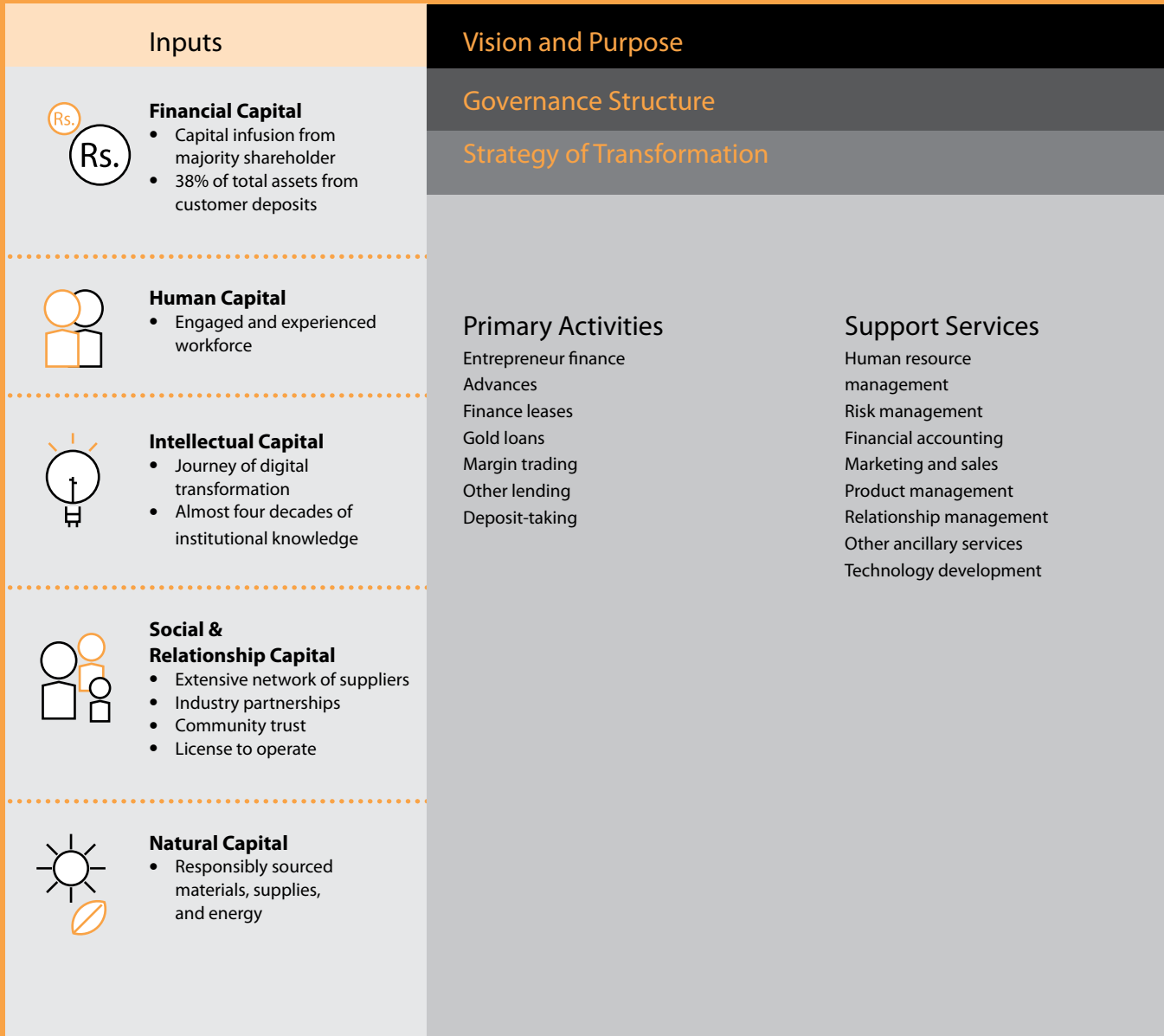
"Navodaya" Entrepreneur Loan scheme are two exemplary responses that promise to bring long-term returns in view of increasing the net interest margin of PMF's lending portfolio. The Social and Relationship Capital section on page 44 describes PMF's product portfolio and new products in detail. In line with our turnaround strategy, we were able to recruit key personnel to carry out research, assess market information, and design, launch, and implement these new products.

Looking to the future

Despite challenges faced during the year, and mounting global and local economic pressures, PMF remains confident and committed to our long-term goals. Investments made to implement a new core banking system and upgrades to physical and

digital infrastructure are expected to complete during 2022/23; creating a sound platform for more effective delivery of financial services. The Company will continue its steady and strategic recruitment drive, with the intention of attracting innovative new talent to spearhead business development of lending products. At the same time, we are studying the market for potential release of new leasing products. In addition, PMF's footprint is set to expand physically and digitally, enabling the Company to serve a greater proportion of customers in a timely manner. As part of PMF's continued digitalisation efforts, even more customer touch-points, services, and transactions will be managed digitally. These efforts are expected to improve not only customer experience and satisfaction, but add value to all stakeholders in our value-chain.

How We Create Value



External environment

Value Created for Stakeholders

Recording sustainable profits



Investors

- LKR 191.8 Mn PAT
- LKR 494.5 Mn NII
- LKR 8.27 Bn Total Assets

Diversity and inclusion Capacity development Culture of safety



Employees

- 32 man-days training provided
- Digital and adaptable work-practices introduced
- Improved employee safety and satisfaction

Digital transformation R&D and innovation



Customers, Partners, Regulators, Community

- New products launched
- R&D and research unit established
- 756 customers under moratoria
- LKR 50 Mn in entrepreneur loans
- LKR over 900 Mn portfolio of leasing for 3-wheelers
- New processes initiated
- Increase in customer base
- Improved customer convenience and satisfaction
- Supplier relationships developed
- Taxes contributed to government
- Investments in corporate governance
- CSR activities carried out

Service excellence Accountability Regulatory compliance Corporate responsibility Good governance

Reduced environmental impact



Environment

Support for a healthy environment
Conservation programmes carried out



Photography By David Cleverley / unsplash.com

Our Impact

Financial Capital

Overview

People's Merchant Finance PLC (PMF) delivered healthy financial results and ended the financial year by recording a profit of LKR 191 Mn. This enabled the PMF to prove its ability to withstand extreme pressure due to the prolonged economic slowdown caused by the continuation of the COVID-19 pandemic for the second consecutive year. Despite the challenges encountered due to the volatile interest rate environment and the weak credit appetite from the market, PMF continued to demonstrate its resilience. The robust business strategies to quickly realign its operations in line with the rapidly evolving external environment coupled with prudent lending practices are behind the success of the strong results produced during the financial year ended 31 March 2022.

Analysis of the Statement of Profit or Loss

Net interest income

Interest income, which accounted for 81% of the gross income of LKR 969 Mn, grew by 68% to LKR 794 Mn for the year from LKR 470 Mn reported in the financial year 2020/21. The 112% growth in the lending book contributed mainly for this growth.

Interest expenses, which accounted for 37.78% of the interest income, increased to LKR 300 Mn during the year from LKR 237 Mn reported in 2020/21. The change in the composition of the deposit portfolio,

coupled with the highly volatile interest rate regime that prevailed for most of the financial year, contributed to higher interest expenses. The Company recorded a 10% year-on-year growth in its overall savings portfolio and a 41% growth in its term deposit base.

The net interest income improved to LKR 494.5 Mn from LKR 233 Mn reported in 2020/21, recording a growth of 111.75%, accounting for 73.82% of the total operating income. The net interest margin reported an increase of 145 bps to 8.05% from 6.60% reported in 2020/21.

Fee-based income

Net fee and commission income, comprising fees related to loans and advances and insurance-related services, increased to LKR 19.2 Mn in 2021/22 from LKR 11.0 Mn reported in 2020/21. This year-on-year growth was driven by a substantial increase in fee-based revenue generated from lending-related transactions.

Other income

The total other income of the Company amounted to LKR 127.6 Mn for the financial year compared to LKR 103.5 Mn reported in 2020/21 and recorded a growth of 23.3%. The gain on real estate business, recovery of bad debts written off and other operating income are the main contributors of other income growth reported during the financial year under review.

Total operating income

Consequent to the improvements in net interest income, fee and commission income and other income sources, the total operating income grew to LKR 669 Mn from LKR 391 Mn reported in 2020/21 by LKR 277.5 Mn or 70.8% in 2021/22.

Impairment charges

For the second consecutive year, the Company managed to record a reversal of impairment provisions and other losses of LKR 40.91 Mn for the year compared to the reversal of LKR 41.8 Mn for the previous year. This was made possible due to restructuring of the recovery and collection function by re-designing the underlying systems and processes and recruitment of experienced personnel, which enabled the Company to recover several hard core non-performing loans, leading to the reversal of impairment provisions made earlier.

Operating expenses

Total operating expenses for the year increased by 52.7% to LKR 508.9 Mn from LKR 333.1 Mn in 2020/21. The main contributory factors for the increase were the increase in personnel expenses to LKR 260 Mn from LKR 174 Mn in 2020/21 as a result of recruitment of new staff for strengthening some of the functional areas, the increase in amortisation of right-of-use assets and other operating expenses. The cost to income ratio decreased by 899 bps and stood at 76.02% for FY 2021/22 compared to 85.01% in the previous year.

Financial Capital

Taxation

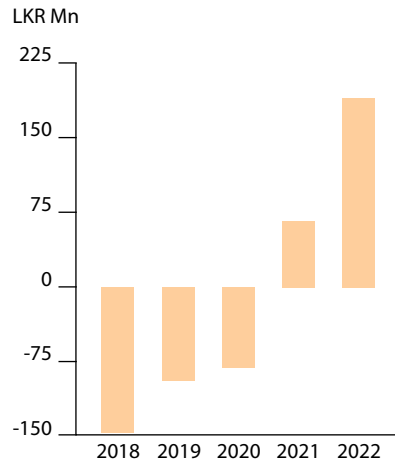
The increase in VAT on financial services is directly correlated to the change in profitability for the year. The total VAT on financial services liability for the year under review is LKR 61 Mn against the LKR 33.1 Mn for the previous financial year, reflecting a YoY increase of 84.7%. Meanwhile, the brought forward tax losses enables the Company to save its current year's tax liability. Therefore, a deferred tax asset has been 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. Accordingly, a tax reversal of LKR 51.6 Mn has been recognised in the current financial year.

In the Budget Proposals 2022, the Government has proposed to impose a surcharge tax of 25% on individuals or companies with a taxable income over LKR 2,000 Mn for the year of assessment 2020/21. However, the Company is not liable to pay this one-off surcharge tax due to the assessable income being lower than the threshold.

Profitability

The Company reported a profit before tax (PBT) of LKR 140.17 Mn in FY 2021/22, more than 100% growth when compared with the PBT recorded in the previous financial year. Profit after tax (PAT) for the year under review also grew by 182.89% to LKR 191.8 Mn from LKR 67.7 Mn registered in the previous year.

Profit/(Loss) after tax for the past five years



Total other comprehensive income

Total other comprehensive income of the Company was LKR 194.6 Mn. During the year, as against LKR 69.06 Mn reported in the previous financial year, primarily with other comprehensive income from reassessment of the retirement benefit liability, considering the revision of the minimum retirement age of the workers under the "Minimum Retirement Age of Workers Act No. 28 of 2021". This reassessment resulted in a net reversal of liability, immediately reversed to the statement of profit or loss. It is considered a change to the plan in compliance with the Sri Lanka Accounting Standard' LKAS 19 - "Employee Benefits".

Core product	2021/22 LKR Mn	2020/21 LKR Mn	Growth percentage (%)
Leasing	3,274	1,804	81.5
Loans	1,671	709	135.7
Gold loans	1,165	585	99.1
Margin trading	952	472	101.7
Total	7,062	3,570	

Analysis of the Statement of Financial Position

Assets

Total assets of the Company grew by a healthy 76% during the year to reach LKR 8.27 Bn from LKR 4.7 Bn at the previous financial year end. This growth is well over the industry growth of 14.28%. This was due to the growth in loans and advances portfolio and the excess liquidity invested in Government Securities and term deposits with banks.

Loans and advances to customers

Having adopted a cautious approach towards credit growth over the financial year, the Company has witnessed solid credit growth during the financial year under review.

Company's net loans and advances increased by 111.5% to LKR 6.67 Bn in 2021/22. Loan growth was primarily funded by customer deposits, equity and external borrowings. Accordingly, loans and advances portfolio accounted for 80.64% of total assets compared to 67.11% in 2020/21. During the financial year 2021/22, the growth was seen across all core product categories of the Company, viz. leasing, loans, gold loans, and margin trading.

Financial Capital

Asset quality

Asset quality has remained a key focus for the Company and is a crucial determinant of the sustainability of the Company's operations. Despite challenges within the economy, the robust risk management framework helped the Company end the year with improvements in gross and net NPL ratios at 6.10% and 0.81%, respectively, in 2021/22, compared to 13.87% and 2.19% in the previous year. The industry averages of gross and net NPL ratios remained at 8.99% and 1.81%, respectively, as of March 2022. Cumulative impairment provisions for loans and advances as a percentage of the total loans and advances portfolio at the end of the year was 5.45% compared to 11.58% in the previous year.

Deposits and liabilities

Customer deposits continued to be the single most significant source of funding for the Company, accounting for 38.99% of the total assets as of 31 March 2022. Company's deposit book reported LKR 3.22 Bn as of 31 March 2022, with a year-on-year growth of 41.03%, driven mainly by term deposits.

Core product	2021/22 LKR Mn	2020/21 LKR Mn	Growth percentage (%)
Fixed deposits	3,197,961	2,261,451	41.4
Savings accounts	30,905	28,041	10.2
Total	3,228,866	2,289,492	

Capital

The Company is guided by its Internal Capital Management Plan in maintaining capital corresponding to its current and projected business volumes. The Company has met the minimum capital requirement stipulated by the Central Bank of Sri Lanka of LKR 2,500 Mn.

The Company maintained all its capital ratios well above the regulatory requirements throughout the year. As of 31 March 2022, the Company's core capital ratio and total capital ratio were at 37.71% and 37.71%, compared to 44.39% and 44.38%, respectively, at the end of 31 March 2021.

Indicator	2022		2021
	Minimum requirement percentage	Percentage	Percentage
Core capital adequacy ratio	7	37.71	44.39
Total capital adequacy ratio	11	37.71	44.38

Liquidity

At a time of unprecedented volatility such as what we currently experience, excess liquidity provides a high level of comfort to the Company. It enables the Company to benefit from the upturn envisaged in credit demand in the years ahead. Given its importance, a review of liquidity is a permanent item on the agenda in the ALCO meetings of the Company. Liquid assets ratio of the Company was maintained well above the statutory minimum required throughout the year with sufficient liquidity buffers.

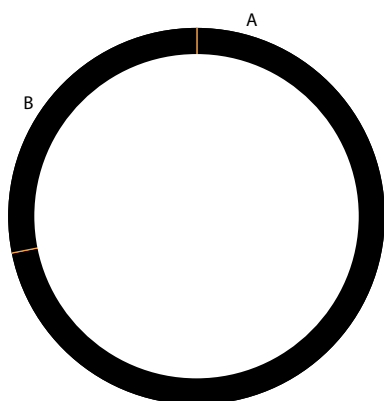
Human Capital

Highlights

- Health and Safety of employees prioritised
- Digitalisation and adaptable work-practices introduced
- 294 man-days of training provided
- Highly motivated staff

Given the nature of our industry, we are highly dependent on the quality of our human resources. In the year under review our staff had to face the lingering effects of the COVID-19 pandemic as well as the consequences of the economic crisis. Our HR services had the challenge of maintaining staff morale through these vicissitudes, while maintaining expected levels of productivity and efficiency.

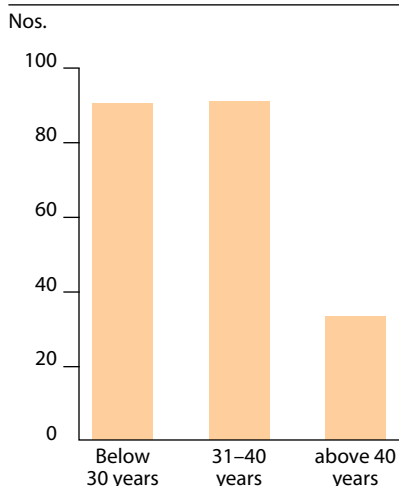
Employees by Gender



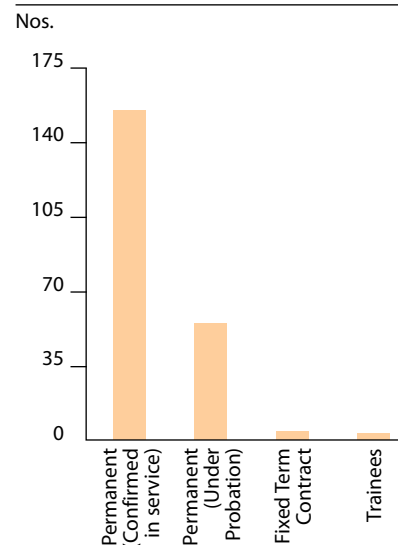
2021/22

A – Male	156
B – Female	61
Total	217

Employees by age



Employees by employment type

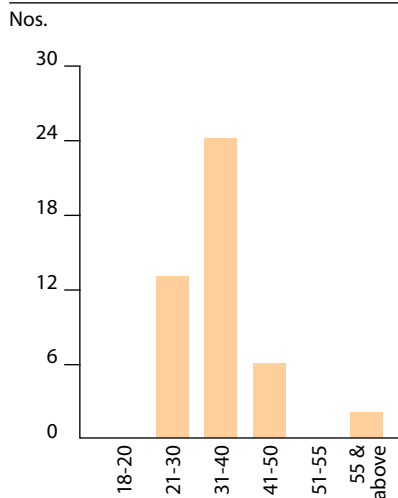


Employees by region and grade

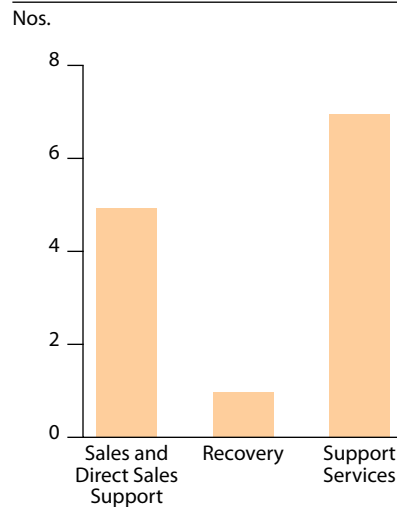
	Senior Management	Middle Management	Executive	Non-Executive	Trainees
Central Province	1	5	16	3	1
Eastern Province		1	8		1
North Central Province		1	8	3	
North Western Province		7	8	2	
Sabaragamuwa Province		1	2	1	
Southern Province		6	15	2	
Western Province	11	36	62	14	
Uva Province			1		1
Total	12	57	120	25	3

Human Capital

Employee turnover by age



Promotions by employee category



Service period analysis as at 31 March 2022

Number of years	Number of staff in each category		
	Senior Management	Manager/ Executive Level	Others
15 & Above		6	1
10-15	2	14	2
5-10		6	8
1-5	9	101	11
Below 1 year	1	51	5
Total	12	178	27

Talent acquisition and retention – Key indicators

Indicator	2021/22
Number of external recruitments	99
Number of internal recruitments (Transfers)	10
Number of promotions	13

Health and safety

A number of measures were taken to safeguard health and safety through the pandemic. The primary focus was on building a culture of health and safety in the Company. In compliance with guidelines issued by the Ministry of Health, a focal point was appointed from every Branch to spearhead health and safety measures. Awareness programmes were conducted for the focal points through a designated partner and safety measures were disseminated across the Company through appropriate channels. The focal point person is responsible for monitoring the effectiveness of the Health and Safety protocols of the branch or office they are attached to and tasked with updating records and checklists periodically, in consultation with the HR Department.

Increased investments were made in personal protective equipment such as gloves, face masks, sanitiser, which were distributed to staff free of charge. Health and safety protocols such as social distancing, hand-hygiene, and mandatory masks were enforced throughout the Company.

Free PCR tests were conducted, or related costs reimbursed, for all staff with cooperation of the Ministry of Health and other healthcare providers. Further, mobile PCR tests were also organised for staff members and their families from time to time, as necessary.

Work practices

The pandemic brought about changes in work practices and patterns that are likely to last even in the post-pandemic period. “Work from Home”, “roster-based work arrangements”, and “flexi-working” concepts were put in place during the pandemic situation. With staff getting accustomed to these work arrangements a new work culture has been instilled. All necessary facilities and hardware, such as laptops, internet connectivity, corporate mobile SIMs, system logins, and remote access necessary to facilitate “work from home” were provided.

The use of technology was greatly encouraged both among customers and staff, which reduced the risks arising from personal contact and physical interactions. As far as possible, internal communications were conducted electronically, and customers were steered towards using technology to execute transactions and communicate with the Company.

Another significant development was internalising of health and safety practices by staff, who were encouraged maintain clean stations; including cleaning workstations, tea cups, and cutlery. Although this was a voluntary exercise, staff responded well.

HR initiatives and developments

Several important HR initiatives were implemented during the year. PMF’s recruitment function was strengthened through contacts with external resources and partnerships with

universities and professional bodies. Different strategies were adopted for talent sourcing and in response to industry competition. A policy of filling vacancies internally as far as possible, promoted career progression of staff and enhanced morale. The “work from home” concept that is gaining ground, helped staff to overcome difficulties posed by both the pandemic situation and the country’s economic crisis.

Staff retention strategies were put in place to retain valued employees, while also enhancing staff cadre of the Company overall. A generous training budget of LKR 1.2 Mn was allocated to upgrade the skills of the our employees. Training programmes were executed using internal and external trainers.

However, several challenges had to be faced when implementing the above programmes and initiatives. Retaining employees was an uphill struggle due to competition for talent in the NBFi sector. Organising physical training programmes was hampered by the COVID-19 pandemic with some programmes having to be repeatedly

rescheduled. While some programmes were conducted virtually, it proved difficult to ensure their quality and results.

We are conscious of the fact that when staff perform the same tasks repetitively, boredom can set in. We therefore sought to promote job rotation within the Company. Staff were given the opportunity to gain exposure to different functions and broaden their experience within PMF. Job enrichment and job enlargement were also practised, giving wider opportunities for staff and increasing job satisfaction.

Despite the challenges faced, positive factors within the HR Department helped mitigate the effects of the crises. Sound understanding among team members helped the Department’s work to flow smoothly even during the COVID-19 pandemic. Strong team bonding that developed helped maintain efficiency of operations, and a growing learning culture within the Department helped foster continuous improvement.

Key HR indicators

	2021/22
Employee Head Count	217
New Recruitments (Including replacements)	100
Internal Transfers	10
Promotions	13
Number of training programmes	69
Number of training hours	2,355.25
Investment in training*	906,885.00
Total Income per employee*	4,467,599.00
Net profit after tax per employee*	883,869.00
Staff costs per employee*	1,201,395.00

Human Capital

People development – Key indicators

Indicator	2021/22
No. of Training Programmes	69
No. of Training Hours	2,355.25
Investments In Training	906,885.00

Employee engagement

Sinhala and Tamil New Year Celebrations were organised for all employees with the participation of staff across all levels. Avurudu tables were organised for staff at each branch and office, and key members of management participated. The head office relocation was celebrated with the participation of all staff and outside invitees. A “*Waru Pirith*” was also organised at the head office before the relocation, and closely attended by staff.



Annual Christmas party, complete with carols and Secret Santa

Diversity and inclusion

At PMF, a cornerstone of our culture is to promote diversity and equal treatment regardless of ethnicity, gender, religion, community, and disability. We ensure that all employees are treated fairly and equitably. Our non-discriminatory policies are also applied to our recruitment process. Gender parity is also enforced through an anti-sexual harassment policy. Employees are encouraged to express their thoughts and ideas regardless of gender, religion, or ethnicity, with open lines of communication between staff and across seniority and reporting lines. Our decision-making process is transparent without special treatment given to any employees or groups.

Gender sensitivity

The Company celebrated International Women’s Day on 8 March 2022. The keynote address was delivered by Mrs Stephanie Siriwardhane, a former Miss Sri Lanka for Miss Universe and ambassador for several civil society institutions in the country. The keynote speech highlighted how women can overcome barriers and lead in society, hone their skills, and deal with challenges in the workplace. The programme included motivational techniques, and sought to inspire staff to exercise the unique strengths women have to offer.



Celebration of International Women’s Day in March 2022 under the theme “*Break the Bias*”

Work-life balance

A key component of PMF’s HR management is ensuring that official and organisational duties of staff do not intrude in their personal lives. We encourage our employees to manage their office work during the working hours as far as possible.

Talent management

Despite difficulties, we continue to invest in the training and development of our employees. A significant budgetary allocation was made in 2021/22 to this end. All staff members

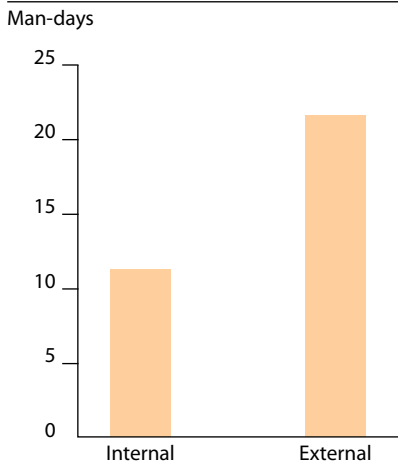
were issued a job description and KPIs to ensure the Company's expectations were conveyed to all employees. This in turn facilitates achieving corporate goals and aligning the same with individual career goals.

We fervently believe in a performance based reward system. Employee performance is tracked and managed using a balance scorecard. Input from this system helps determine bonuses and increments which are distributed according to merit.

Types of training programmes conducted

Type of training programme	Number of programmes 2021/22
External	40
Internal	29
Total	69

Staff training provided



Institutional Capital

Highlights

- Digital innovation to reach beyond our branch network
- Establishment of an in-house Research Unit

Our institutional capital reaches beyond the technical expertise, systems and processes of the Company. It is also the foundation on which our company culture and corporate values are built; and the strength of

our brand that culminates in a system of value creation for our stakeholders. We are committed to continuously developing our institutional capital, through investments in technology, training, improvements to systems and processes, and development of strategic partnerships. In leveraging these intangible assets as a collective, we have been able to gain a competitive advantage and embark

on our journey of transformation and sustainable growth.

Institutional capital management

PMF incorporates controls, systems, and frameworks related to the Company's institutional capital, including Information Security Management (ISM), Business Continuity Planning (BCP), Data Privacy, and IT Governance and training programmes.

Inputs →

- Prioritising and strengthening BCP framework
- Revamping system implementation and system audit

Managing outcomes →

- Enhance the brand value of PMF
- Maintain digitalised technology infrastructure
- Ensuring adequate control systems in place and effective investments made

Strategic drive →

- Move to the latest technological advancements with accepted best practices
- Continuous improvement and space for innovation capabilities
- Improving internal efficiency

Opportunities for development →

- Implementation of ATM/cash machines
- Move to a cloud-based environment to maintain more effective BCP control

Trade-offs →

- No significant trade-off except implementation costs

Challenges and future

Institutional capital plays a critical role in the Company's strategic transformation plan and future success. As such, PMF continually monitors and maps potential challenges and opportunities in the financial space.

Challenges



Cybersecurity threats



Risk associated with system and connectivity failures



Competitive pressure in the digital finance space

Future



ATM/Cash machines



Focus on digital financial products and services



Incorporation of user-friendly data analysis tools

Institutional Capital

Corporate culture

Inclusivity, performance, development, sound risk management, and strong compliance are all at the heart of the corporate culture at PMF. The Senior Management, leading by example, sets the tone for the Company. An environment of awareness and continuous improvement is fostered through training and development, along with investments in systems and technology. Professionalism and respect for all individuals are strictly maintained, which supports inclusivity and upholds a zero-tolerance policy for discrimination and corruption. Our culture aims to drive integrity, discipline, efficiency and robust performance by inspiring employees to innovate and strive for excellence as one united team.

Digital transformation

In working towards our goal of becoming an industry leader, the paramount importance of digital innovation cannot be ignored. The future of PMF lies in the digitalisation of operations, which will give us the capability to reach beyond our branch network. We have commenced efforts to digitally connect our customer-base with the products and services offered by PMF and aim to operate a diversified platform that will cater to a range of industries and emerging customer segments.

As part of the Company's digitalisation efforts and expansion of its digital footprint, the existing branch network is being upgraded to better integrate with a virtual agent network and digital platform. These efforts will equip customer service points with the ability to conduct operations digitally and streamline operations such as customer onboarding, loan and lease recoveries, and handling of customer inquiries.

Recognising the importance of data analysis, market research, and FinTech, the Company's newly instated Research Unit is mandated to gather and evaluate market and sectoral information. They provide vital, actionable, and up-to-date business information to Senior Management and the Board, thereby allowing the Company to stay abreast of trends and exploit opportunities. The Research Unit is also invaluable in both carrying out groundwork prior to launch of products and to track progress of new products.

Building our brand

We placed a strong focus on promoting our corporate image by executing a digital marketing plan that consisted of a series of brand building exercises carried out during the year. A digital marketing strategy, that included a comprehensive social media strategy geared to reach all customer segments, was implemented in tandem with

our overall transformation trajectory. Several CSR initiatives were also launched by the Company, with the aim of giving back to the community while cementing our brand as one that is socially responsible, environmentally friendly, and sustainable. These actions are detailed in the Social and Relationship Capital section of the Annual Report, on page 44.

Milestones and recognitions

PMF strives to create value for its stakeholders, at every level, by achieving excellence in all areas of operation. Using this value creation approach, we are able to further the interests of our customers, while simultaneously strengthening the sustainability of the business.

The successes achieved on our journey are testament to the strength of our five-year strategy as well as the Management approach. They are also strong motivators for our dedicated team. During the year, we reached key milestones including an exceptional performance of LKR 191.80 Mn (Audited) profit after tax for the period ended 31 March 2022, this was a 183% growth during the period. PMF also recorded the highest ever operating profit of LKR 201.43 Mn. Fixed deposits saw an increase of 41%, while total assets increased by 76% in the year under review.

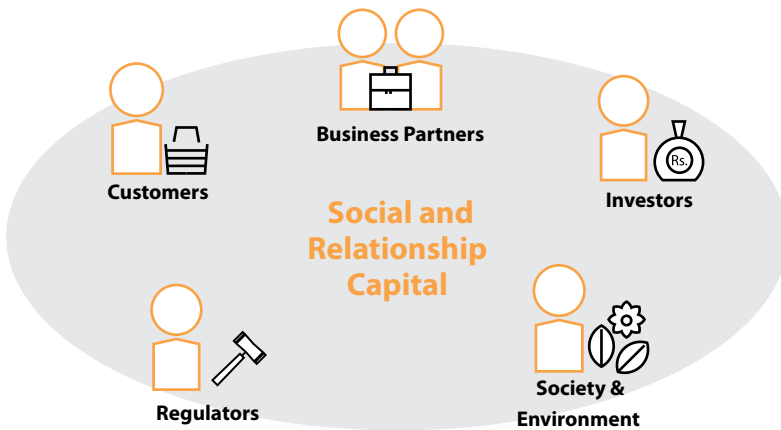
Social and Relationship Capital

Highlights

- 57% increase in total lending customer base
- Debt moratoria extended to 756 customers during FY 2021/22
- Mainstreaming of entrepreneur and community development

The continued success of our business relies on the relationships we foster with our customers, partners, investors, regulators, as well as our community and the environment. In other words, social and relationship capital is built up through the strong links we form between the business and our stakeholders.

Creating value for our stakeholders



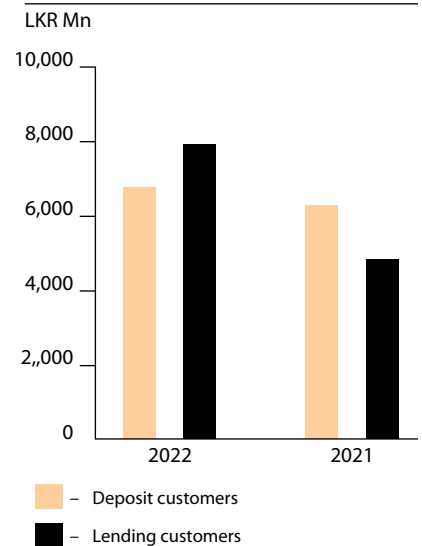
Customer capital

Our customers have always been the core around which our business centres. We are resolute in our dedication to understanding and meeting the needs of our clients and uplifting their financial well-being. PMF applies a unique Customer Acquisition Strategy, which is threefold: Cross-selling our financial products, converting wholesale business to retail business, and launching products that are innovative and cater to untapped segments of the market. Through the introduction of our new core banking solution, digital banking solution and the Customer Relationship Management (CRM) solution, we aim to significantly grow our customer base in the coming years.

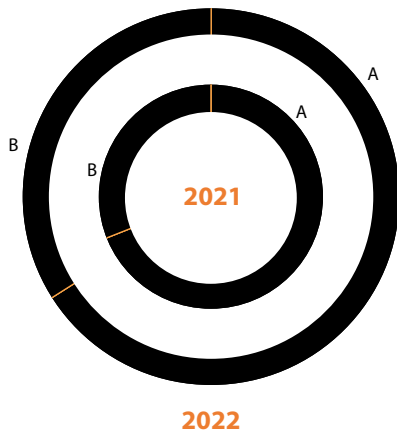
Drivers of Customer Capital



Growth in our customer base



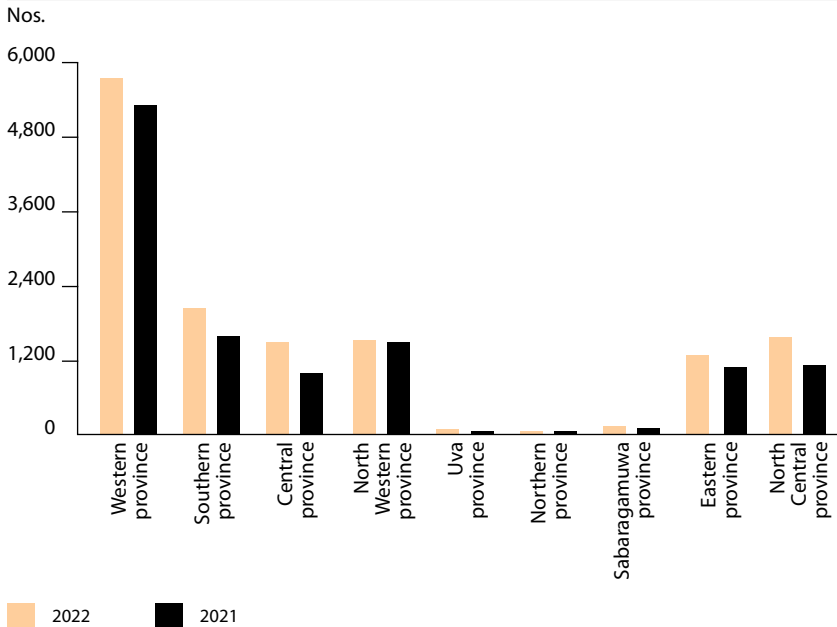
Gender analysis of customers



	2021	2022
A – Male	69	66
B – Female	31	34

The above excludes minor savings accounts customers.

Geographic distribution of customer base



Elevating customer experience

At PMF, our goal is to gain a keen understanding of our customers’ needs and thereby create financial products that fulfil those needs. Using customer knowledge coupled with our considerable financial acumen, we strive to deliver a rewarding customer experience. During the year under review, we invested in increasing the efficiency and capability of our team, improving and streamlining our processes and operations, and growing our digital capabilities. Steps were taken to place industry experts in key leadership roles. A scanning system was implemented to simplify and expedite the process of authorising customer agreements. Additionally, we introduced a system to enable the payment of loan/lease instalments through the 408 Cargills supermarket outlets islandwide.

We have observed the results of our efforts in better, speedier service delivery and greater convenience offered to our clients. Implementation of our core banking system, scheduled for completion by December 2022, will give customers 24/7 access to financial services through internet and mobile banking platforms. By offering future-ready, innovative and cost-effective solutions, we expect to expand our customer base and strengthen existing customer relationships.

Social and Relationship Capital

Supporting customers through the pandemic

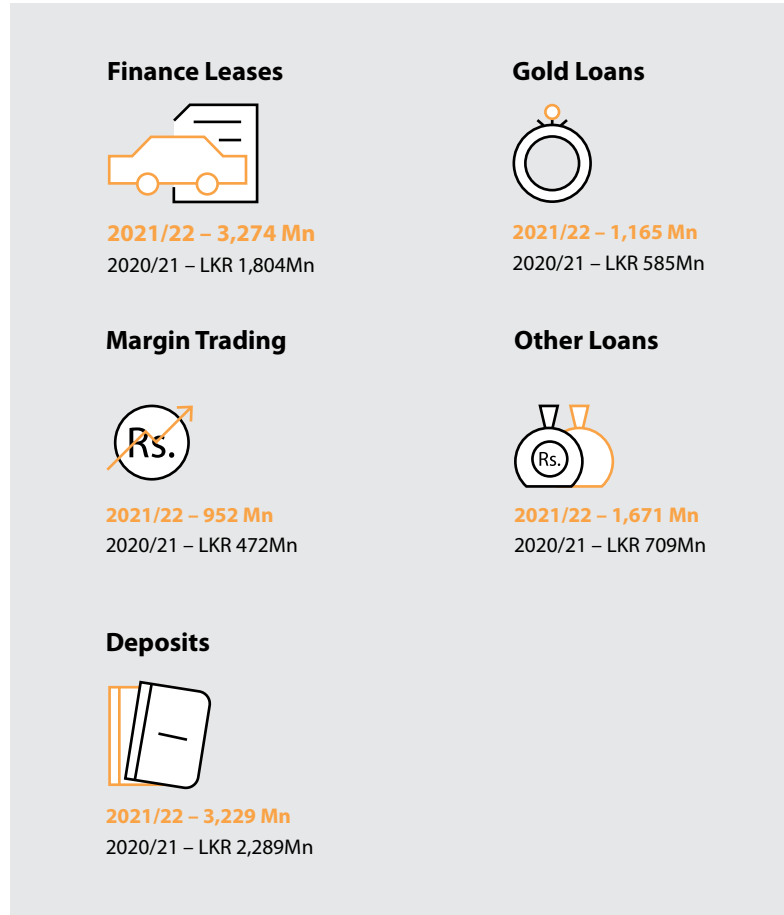
Offering support to our clients during the COVID-19 pandemic became a key focus for the Board of PMF. The decisions and actions taken by the Board and Management, to ensure the safety of our customers, was evident throughout the Organisation. Stringently following safety guidelines and protocols, the PMF team was able to keep our branches open and safely accessible to walk-in customers.

The Board of Directors, together with the Management, also made the necessary adjustments in order to support customers in a financial capacity. Debt moratoria were offered to customers who requested the concession, in accordance with the recommendations of the Central Bank of Sri Lanka. Interest due to fixed deposit holders was paid at the beginning of the month, providing additional relief during a challenging period.

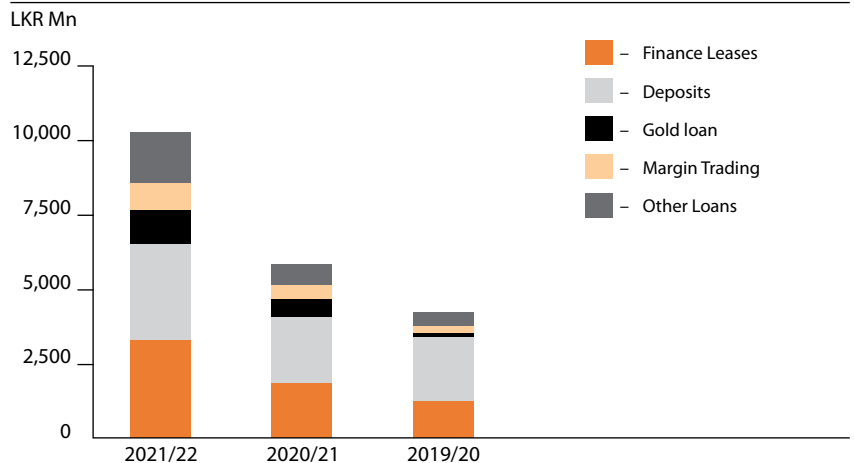
Our product and service offering

Our aim is to continuously grow our knowledge of an evolving market and gain insight into the diverse needs of different segments. We strive to address these needs and provide necessary solutions by building a portfolio of innovative financial products that match the changing economic climate. PMF recently launched the Navodaya Entrepreneurship Loan Scheme that provides support to the SME sector, which is the backbone of our economy. As a responsible corporate citizen, we are proud to support the Government and the Nation's efforts for economic development.

Our product portfolio consists of advances, deposits, and other products as shown below,



Performance of product portfolio



Geographic presence



Our branch network consists of 11 strategic locations across the island. Financial inclusion remains one of our key values, exemplified by 59% of our customer base residing outside the Western Province. To better serve our clientele across the country, we have relocated and upgraded a number of existing branches. Further, we have obtained CBSL approval to upgrade our service centre located

in Wellawatte to a branch and grow our reach by a further six branches in 2022. Additionally, our Head Office was relocated to Duplication Road and the main Colombo branch was relocated to a central location on Dharmapala Mawatha. Our focus going forward is to augment our presence through digital centres and open future branches in key locations in line with our strategic plan.

Customer privacy

Maintaining customer privacy as a top priority, we have implemented stringent processes and protocols, which are regularly evaluated and improved to uphold a high standard of confidentiality at all times. The implementation of our new core banking system will further strengthen our IT and cybersecurity frameworks, ensuring customer data remains confidential across all operations. During the year under review, our data centre was moved to the main SLT data centre and a new filing system was introduced for scanning documents, of which vital information is stored offsite. These measures were taken to improve data safety and customer privacy. There were no incidents of non-compliance reported due to breach of customer privacy during the year ending 31 March 2022.

Business partner capital

Our business partners play an integral role in the smooth flow of operations. They provide the Company with market access, digital platforms, and other products and services. Our business operations have led to partnerships with a wide range of organisations, Small and Medium Enterprises (SMEs) and individuals who provide support services. Our suppliers form an important link in the value chain; their services ensure the smooth running of day-to-day operations. We maintain a large and diversified pool of support service providers to minimise risk and dependence on any specific organisation or individual.

Social and Relationship Capital

Maintaining strong, professional relationships with all our business partners enables PMF to reach goals, reduce costs, meet sustainability goals, maintain supply security, reduce business risk, and create value for a diverse variety of stakeholders. Managing these partnerships with the aim of yielding mutual benefit and trust is part of our Business Continuity Risk Management Strategy.

Our business partners

People's Merchant Finance PLC is a proud member of the following institutions:

- Financial Ombudsman Sri Lanka (Guarantee) Limited
- Leasing Association of Sri Lanka
- The Credit Information Bureau of Sri Lanka
- The Finance Houses Association of Sri Lanka
- The Ceylon Chamber of Commerce
- The Employers' Federation of Ceylon
- The Department for Registration of Persons

Community capital

PMF places immense value on maintaining and growing trust and respect of the wider community, whilst building our Community Capital. We consider our standing in the community a measure of our success and prioritise conducting business in a socially responsible manner. We have the greatest impact on the community through our core business activities that focus on the development of micro entrepreneurs

and SMEs who have limited financial options. In particular, the newly launched Navodaya Entrepreneurship Loan Scheme is part of PMF's efforts to mainstream community development with our core business. As part of these efforts, the Company is pleased to report that around 34% of PMF's customer base is female, in addition to around 37% of the Company's lender base. Improving access to essential capital helps promote financial inclusion and empowerment of women; strengthening communities, and contributing to development.

The majority of our customers belong to the SME sector and through our commitment to inclusivity, we strive to empower society and enhance quality of life for a wider slice of society. With an islandwide network of branches, PMF's efforts to support community development also extend to hiring and creation of employment opportunities. While ensuring inclusivity and equal opportunity, the Company attempts to fill vacant positions in the branch network from the local communities.

Additionally, PMF has developed a robust CSR strategy that targets the main causes of widespread socio-economic disparities across the country. We aim to provide support and solutions that facilitate the socio-economic progress of less privileged communities. Focusing on uplifting the communities in which we operate, our aim is to invest in their well-being, growth, and resilience. The Company partnered state institutions such as the Health Ministry and local authorities such as the Police, in implementing CSR programmes during the year

under review. Of particular note was a campaign to provide free PCR testing for staff and community, in response to escalation of the pandemic. PMF staff were closely involved in organising and assisting during the programme.

Investor capital

As a Publicly Listed Company (PLC) in Sri Lanka, PMF's investor capital consists of a mix of institutional and retail investors who provide the impetus and the financial capital for the Company's strategic transformation and expansion plans. These investors shape the direction of PMF, and in turn the Company upholds stringent corporate governance and risk management practices, meets all compliance requirements, and practices transparency and accountability in its disclosure. These measures create the framework for sustainable business operations that provides returns to investors, which is a key component in PMF's pathway to sustainable growth.

In December 2021, the Company was buoyed by the backing of a fresh capital infusion from its majority investor, Sterling Capital Investments (Pvt) Ltd. (SCIL), by way of a rights issue. This has not only enabled PMF to meet all prudential requirements from the regulator, but also spurred the strategic change and dynamism that are part of the Company's new transformational trajectory. Hailing back to its roots, PMF's second and third largest shareholders are People's Bank and People's Leasing and Finance PLC. These investors play a significant role in shaping the DNA of the Company.

Social and Relationship Capital

During the period under review, PMF reported a stellar performance for the second year running. Despite severe challenges, the Company posted a 63.79% increase in net operating income, a 182.89% growth in profit after tax and a 76% growth in asset portfolio as at 31 March 2022. The Company's investor performance metrics are highlighted below:

	2021/22	2020/21	2019/20
Price-earnings ratio (Times)	9.81	22.50	N/A
Price to book value (Times)	0.77	1.10	1.18
Return on equity (%)	7.84	3.68	(9.45)
Earnings yield (%)	10.20	4.44	N/A
Net interest margin (%)	8.05	6.60	8.9
Operating profit margin (%)	21	21	(12)
Return on assets (%)	3.00	1.59	(2.39)
Debt/Equity ratio (Times)	1.92	1.08	1.36
Quick assets ratio (Times)	35.13	24.27	51.32
Interest cover (Times)	1.64	1.29	0.73
PAT growth rate (%)	183	185	14.5

Regulator capital

As a responsible financial institution, PMF works closely with a number of regulatory bodies and maintains proactive relationships with all relevant government institutions. Compliance with government statutes and regulations is a key focus area for the Company, and is put into practice at every level from the Board to branch staff. Practicing a culture of compliance and maintaining strong relationships with regulators contributes to not only the stability of the country's financial system, but also the economy and national development.

In order to develop a strong and transparent culture of compliance whilst promoting ethical conduct across the Company, PMF continued staff training on the Company Code of Conduct; streamlined communications procedures and systems; increased accountability of managerial staff while empowering employees across the Company; and instituted systems for evaluation of ethical conduct.

Key regulators with oversight on PMF's operations:

- Department of Supervision of Non-Banking Financial Institutions (DSNBFI), Central Bank of Sri Lanka (CBSL)
- Colombo Stock Exchange (CSE)
- Registrar of Companies
- Securities and Exchange Commission of Sri Lanka (SEC)
- Inland Revenue Department

Sri Lanka's Non-Bank Financial Institutions (NBFI) sector comprises 36 Licensed Finance Companies (LFCs), which contribute to the economy by providing enhanced financial products and services to customers while expanding their branch network and reach, thereby promoting financial inclusion in the country. The Department of Supervision of Non-Banking Financial Institutions (DSNBFI) of Central Bank of Sri Lanka (CBSL) functions as the main regulator of NBFIs in Sri Lanka. Monitoring and supervision is conducted through examinations, continuous surveillance, granting of regulatory approvals, issuance of directions and prudential requirements, and carrying out of investigations.

In line with CBSL's stance and directives to support and relieve businesses and individuals affected by the pandemic, PMF extended the debt moratorium granted to eligible customers. Furthermore, the Company provided additional concessions for severely affected industries such as tourism.

PMF also took necessary steps to continually align with CBSL's ongoing Financial Sector Consolidation Masterplan, which aims to build strong and stable NBFI sector. In compliance with directives issued by CBSL, PMF has estimated additional impairment provisions for the Company's Leases/Loans portfolio. In addition, PMF has taken a number of proactive steps to mitigate credit risk and exposure due to deterioration of asset quality that may arise from the current economic conditions of the country.

Social and Relationship Capital

Further efforts are also underway to strengthen PMF's governance and risk management frameworks in line with new corporate governance directives issued by CBSL.

During the year under review, PMF took required actions to rectify identified deficiencies and institute improvements to the sanctions screening process of the Company, in response to the administrative penalty of LKR 1 Mn imposed in August 2021 by the Financial Intelligence Unit of CBSL for non-compliance with the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 (CDD Rules) with regard to procedures of United Nation's sanctions screening.

Distribution of shareholdings as at 31 March 2022

Range of shareholding	Residents			Non-residents			Total		
	Number of Share-holders	Number of shares	Percentage of share-holding	Number of share-holders	Number of shares	Percentage of share-holding	Number of share-holders	Number of shares	Percentage of share-holding
1 – 1,000	9,192	1,353,806	0.35	8	1,660	0.00	9,200	1,355,466	0.35
1,001 – 10,000	696	2,275,731	0.56	5	14,500	0.00	701	2,290,231	0.56
10,001 – 100,000	175	5,393,216	1.33	1	16,500	0.00	176	5,409,716	1.33
100,001 – 1,000,000	21	6,538,037	1.61	1	124,000	0.03	22	6,662,037	1.64
1,000,001 & above	3	389,584,300	96.12	0	0	0.00	3	389,584,300	96.12
	10,087	405,145,090	99.97	15	156,660	0.03	10,102	405,301,750	100.00

Categories of shareholdings - Individuals/institutions

Range of shareholding	31 March 2022			31 March 2021		
	Number of shareholders	Number of shares	Percentage of shareholding	Number of shareholders	Number of shares	Percentage of shareholding
Individual	9,954	12,961,847	3.20	9,856	9,591,613	2.93
Institutions	148	392,339,903	96.80	137	317,264,637	97.07
Total	10,102	405,301,750	100.00	9,993	326,856,250	100.00

Categories of Shareholdings - Resident/Non-resident

Range of shareholding	31 March 2022			31 March 2021		
	Number of shareholders	Number of shares	Percentage of shareholding	Number of shareholders	Number of shares	Percentage of shareholding
Resident	10,087	405,145,090	99.96	9,977	326,654,689	99.94
Non-resident	15	156,660	0.04	16	201,561	0.06
Total	10,102	405,301,750	100.00	9,993	326,856,250	100.00

Share information

Financial year ended 31 March	2022	2021	2020	2019	2018	2017
Market value of shares						
Highest price during the year (LKR)	10.20	10.70	11.40	13.50	21.00	24.00
Lowest price during the year (LKR)	5.10	6.90	7.40	8.20	11.00	9.40
Closing price (LKR)	5.40	7.20	8.70	9.20	11.00	13.90
Investor ratios						
Price earnings ratio	9.82	22.50	-	-	-	-
Net asset value per share (LKR)	6.99	6.52	7.36	1.69	3.20	5.38
Share trading						
Number of transactions	7,002	853	611	1,105	1,411	1,645
Number of shares traded	17,484,833	640,499	258,972	658,569	1,136,896	1,659,566
Value of shares traded (LKR '000)	146,940	5,849	2,583	7,108	18,254	32,798
Market capitalisation (LKR '000)	2,188,629	2,353,363	1,834,613	776,020	742,500	938,250

Twenty largest ordinary shareholders

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

	Name of the Shareholder	Number of shares 31 March 2022	Percentage
1	Sterling Capital Investments (Private) Limited	330,714,052	81.60
2	People's Bank	33,856,246	8.35
3	People's Leasing & Finance PLC	25,014,002	6.17
4	Mr L De Fonseka	1,000,000	0.25
5	Merchant Bank of Sri Lanka & Finance PLC/M A Wijayasinghe	845,000	0.21
6	Mr Z G Carimjee	600,000	0.15
7	People's Leasing & Finance PLC/ Dr H S D Soysa & Mrs G Soysa	599,064	0.15
8	Mr H V Pakianathan	370,143	0.09
9	De H S D Soysa	348,000	0.09
10	Mr H BERUWALAGE	344,088	0.08
11	Mr D Selvaraj	290,244	0.07
12	Mr A N Handunpathirana	210,000	0.05
13	Mr D T Beruwalage	202,480	0.05
14	Mrs P D A S K Beruwalage	200,348	0.05
15	Miss H J K U Wijerame	200,000	0.05
16	Mr T A S Dilshan	187,500	0.05
17	Mr D P Nadaraja	184,774	0.05
18	LOLC Finance PLC/ A D M Dharmasena	176,640	0.04
19	Mr S Ramachandra	174,093	0.04
20	DFCC Bank PLC/Mr W G Herath	166,353	0.04
	Total	395,683,027	97.63

Directors'/CEO's Holding in shares as at 31 March	Position	Number of shares 31 March 2022
Mr C P Abeywickrama	Chairman	Nil
Mr C S Manoharan	Director	1,000
Mr K R P Madusanka	Director	Nil
Mr Travis Waas	Director	Nil
Mr Ranjith Kodituwakku	Director	Nil
		1,000

Public holding

The percentage of ordinary shares held by the public as at 31 March 2022 was 18.402% and number of shareholders representing the public holding was 10,100. The float adjusted market capitalisation as at 31 March 2022 was LKR 402,778,969/-.

The Company is compliant with the minimum public holding requirement stipulated in CSE Rule 7.13.1 (b).

Natural Capital

Highlights

- Partner of the UN Global Week of Action
- Recognition from G17 University Ambassador Consortium and Road to Rights International
- Responsible energy, water, and waste management initiatives

As a responsible corporate citizen, PMF is committed to efforts that are responsive to global and local challenges facing our natural environment. With the rapid pace of development, climate change and environmental degradation have grown to become some of the most significant challenges of our generation. PMF takes efforts to minimise the impact of the Company's operations on the natural environment in which we do business. At the same time, we strive to make a positive effect in remedying and improving the environment and enhancing natural capital stocks. Working to minimise the Company's environmental footprint, we maximise the use of sustainable and renewable resource, while promoting sustainable business practices among our stakeholders. Some of our focus areas include promoting sustainable business practices, supporting green initiatives, and working to preserve the environment and natural resources, for future generations.

Contributing towards a sustainable world through digitalisation

As part of the PMF's digitalisation transformation journey, we strive to reduce our environmental footprint and contribute toward a sustainable world by maximising the use of technology and digitalisation of operations. We encourage a paperless working environment and promote reduction of printing and paper use to support a sustainable environment. Where possible, in line with our digitalisation efforts, our customers are encouraged to migrate to online or digital transacting channels and use our digital products that save time and resources.

Promoting environmental literacy among staff

We have continued to motivate our staff to adopt simple changes in their lifestyles that are healthier for both people and planet. Whilst encouraging staff to adhere to green concepts implemented across the Company, we continually raise awareness amongst staff via eflyers, and posters and publishing related materials on our notice boards. During the year under review, a company-branded reusable bag for grocery shopping was introduced to promote reuse while minimising prevalence of single-use plastic. The campaign titled

#DitchThePlasticAndSwitchToSustainability was a success amongst staff.

Energy management

Every effort is made to responsibly manage the Company's energy consumption. As an institution in the service sector, our primary source of energy is electricity from the national grid. PMF has implemented several initiatives to facilitate efficient consumption of energy throughout the Company, including nurturing a sustainability-conscious culture through ongoing communication on the importance of saving energy and adopting energy conservation measures. Our staff are encouraged to reduce electricity usage by switching off air conditioners, lights, chargers, and other electronic items when they leave the office premises. Furthermore, we use energy-efficient hybrid vehicles for official travel wherever possible.

Water consumption

Conservation of water is a practice that goes in line with PMF's sustainability culture. We make every effort to optimise the consumption of water, display notices to inculcate the importance of water conservation, and encourage staff to adopt sustainable practices whilst continuously improving current practices of managing water-use.

Waste management

We understand the severity of irresponsible disposal of solid waste and its repercussions on biodiversity and human health.

Therefore, waste management best-practices have been implemented for the responsible disposal of waste. We continue to raise awareness amongst staff and encourage responsible waste disposal alongside provision of colour-coded bins for segregation of waste at all our offices and branches.

Collaborating to conserve

Being a responsible corporate entity, we conducted several CSR activities that align with a number of United Nation Sustainable Development Goals. We received the full support of Management and staff who contributed to initiatives aimed at enhancing sustainability of our operations.

Three large-scale CSR initiatives were undertaken during the year under review:

- Aligning with UN SDG 14: Life Below Water and UN SDG 15: Life on Land; PMF assisted the Police CSR Unit of Mattakkuliya with a clean-up effort at Crow Island Beach. This location is prone to excessive pollution due to its proximity to Colombo Harbour and the Kelani River mouth. The PMF team participated in collecting, segregating, and disposing of garbage.



- Programmes were conducted for employees of the Company, to create awareness on UN SDGs and the impact of the UN Global Week of Action Campaign. As a contribution to the campaign, PMF carried out 300 actions under three themes: “A Tree for Life”, “Un-plastic Week” and “Save a Life”. With the support of Management and staff, PMF contributed to the overall goal of achieving one million actions from Sri Lanka. All employees were awarded a UN certificate of accreditation for their contribution towards a better planet. These initiatives aligned with UN SDG 1: No Poverty, UN SDG 2: Zero Hunger, UN SDG 13: Climate Action, and UN SDG 14: Life Below Water.



- PMF is a corporate stakeholder of the G17 University Ambassador Consortium (www.g17.roadtorights.org), a fellowship programme created to enhance SDG literacy among Sri Lankan university graduates. The Company successfully conducted a number of virtual seminars for public and university students Islandwide. Seminars were aimed at improving work ethics in Sri Lanka in line with UN SDG 4:

Quality Education, and UN SDG 8: Decent Work and Economic Growth. The programmes were well received by both state and private universities.



Recognition

In appreciation of the contribution made toward a better planet, the company received recognition from the G17 University Ambassador Consortium and Road to Rights International. In particular, our efforts were recognised and mentioned in the impact report submitted to United Nations by the “Road to Right” Organisation, a well-known NGO supporting implementation of the UN SDGs in Sri Lanka. Appreciation was also received from the career guidance unit of the Sri Lanka Institute of Information Technology (SLIIT) for the virtual seminar conducted for their graduates to enhance work ethics in Sri Lanka.



Photography By Kristina Schmid / unsplash.com

Leadership, Governance, and Risk Management

Board of Directors

01. Mr Chandula Abeywickrema

Chairman/Non-Executive
Independent Director

03. Mr Channa Manoharan

Independent
Non-Executive Director

05. Mr Ranjith Kodituwakku

Non-Executive
Non-Independent Director

02. Mr Rangana Koralage

Non-Executive
Non-Independent Director

04. Mr Travis Waas

Non-Executive
Non-Independent Director



05

04

01

02

03

01. Mr Chandula Abeywickrema

Chairman/Non-Executive Independent Director

Mr Abeywickrema was appointed as Non Executive Independent Director with effect from 26 June 2019 and is the Chairman of Peoples 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 ecosystem 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 35 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 the 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 is a global expert on Financial inclusion, Social Entrepreneurship and Impact Investing. He is the current Chairman of the Banking with The Poor Network (BWTP), Asia's Largest Micro Finance Network and also an advisor on financial inclusion to the Asian Bankers Association (ABA). Mr Abeywickrama is a leader representing Asia for Global Steering Group (GSG) for Impact Investing and he is regularly invited to major international forums and conferences to speak as a keynote speaker in the areas of development banking, financial inclusion and impact investing and has served on a number of Boards of Financial Institutions, both locally and internationally. He is the Chairman of CSR Sri Lanka the national apex body for Corporate Social Responsibility, representing the largest number of private sector companies, and the Chairman of Lanka Financial Services for Underserved Settlements, a public and private sector collaborated credit guarantee fund to support low-income housing finance and serves as a board member of World Vision Lanka and the member of the Board of Continental Insurance Lanka Limited.

02. Mr Rangana Koralage

Non-Executive Non-Independent Director

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

He counts over 10 years of experience in the corporate world, having held leadership positions in leading, local and overseas entities, at senior and strategic level. Having started his career at Ernst & Young as an Audit Trainee, he became a Senior Manager of BDO Partners, with expertise in business valuations, due diligence, forensic audits, internal audits, project proposal formulation, business process outsourcing and financial advisory services. His expertise covers a range of sectors from banking and finance, insurance, microfinance, plantations, manufacturing, general trading, apparel, not-for-profit organisations and service-oriented organisations.

Mr Koralage was Group Accountant and Senior Accountant at Durdans Hospital and Asiri Surgical Hospital PLC respectively. Further, he augmented his senior managerial 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 Koralage is an Associate Member of The Institute of Chartered Accountants of Sri Lanka and holds an 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.

Board of Directors

03. Mr Channa Manoharan

Independent Non-Executive Director

Mr Manoharan was appointed as an Independent Non-Executive Director with effect from 26 June 2019. He counts over 25 years of extensive experience in public accounting practice and management consulting and is at present the Advisory and Consulting Leader/ Chief Operating Officer of PricewaterhouseCoopers (PwC) Sri Lanka and Maldives. He is also the Chairman/Director of the Sri Lanka Association of Software and Service Companies (SLASSCOM).

He was a General Council Member at SLASSCOM, Member of Council at The Institute of Chartered Accountants of Sri Lanka, Honorary Treasurer of the Organisation of Professional Associations of Sri Lanka and Committee member of the Taxation Steering Committee of the Ceylon Chamber of Commerce.

Mr Manoharan 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.

04. Mr Travis Waas

Non-Executive Non-Independent Director

Mr Waas was appointed as a Non-Independent Non-Executive Director with effect from 22 June 2020. He counts over three decades of experience in the financial services sector, having commenced his career at Lanka Orient Leasing Company Ltd., in 1987.

Mr Waas was involved in the restructuring of People's Merchant Finance PLC and 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 as Senior Manager Leasing, Senior Vice-President and Managing Director respectively.

Mr Waas was a one-time Director of the Leasing Association of Sri Lanka, an Executive Director of the financial services cluster of the David Pieris Group, Director/CEO of Orient Financial Services Corporation Ltd., and a Non-Executive Director in diverse companies in varied sectors including Capital Alliance Finance Ltd., People's Merchant Bank, and LB Finance Ltd.

He is an Alumnus of the University of Colombo, holding a BSc and an MBA from the University of North Texas, USA.

05. Mr Ranjith Kodituwakku

Non-Executive Non-Independent Director

Mr Kodituwakku was appointed as Non-Executive Non-Independent Director with effect from 10 September 2020. He is the Chief Executive Officer/ General Manager of People's Bank since June 2020. A veteran banker, serving People's Bank since 1982, he counts nearly four decades of multifaceted experience in local as well as cross-border operations. Mr Kodituwakku is a key figure in driving People's Bank towards digitalisation on mapping business requirements to a digital platform by adopting best practices in the industry and re-engineering business processes for which the Bank received high acclamation both internationally and locally.

He also serves as the Chairperson of Financial Ombudsman Sri Lanka (Guarantee) Ltd. and is a Board member of People's Leasing & Finance PLC, People's Insurance PLC, People's Travels Ltd., Lankan Alliance Finance Ltd., Bangladesh, Credit Information Bureau of Sri Lanka, Lanka Clear (Pvt) Ltd., National Payments Council, Sri Lanka Banks' Association (Guarantee) Ltd., Lanka Financial Services Bureau, and Institute of Bankers of Sri Lanka.

Mr Kodituwakku holds a Master's Degree in Business Administration specialised in Finance from the University of Colombo and a Bachelor of Laws (Honours) from the University of New Buckinghamshire, United Kingdom. He is also an Associate Member of the Institute of Bankers of Sri Lanka and a Certified Member of Sri Lanka Institute of Marketing.

Corporate Management Team



01. Mr Nalin Wijekoon

Chief Executive Officer

Mr Wijekoon counts over 40 years of experience in the financial sector. He was the Chairman of the Finance Houses Association of Sri Lanka (FHA) from 2013/14 to 2014/15. He also served as a Board member of the Credit Information Bureau of Sri Lanka from 2015 to 2017 and was the CEO of Softlogic Finance PLC from February 2013 to March 2020.

He commenced his career at People's Bank as a Finance Officer in 1978 before joining KMPG Ford, Rhodes, Thornton & Co., as a Branch Manager in 1990. Thereafter, he joined DFCC Bank in 1992 as a Project Officer prior to joining Vanik Incorporation Ltd., as the Asst. Vice President – Finance and where he resigned as Senior Vice President in 2003. He has

undergone numerous training programmes in Sri Lanka and overseas, including at Harvard University, Boston, USA.

Mr Wijekoon is a Fellow of The Institute of Chartered Accountants of Sri Lanka, Fellow of the Chartered Institute of Management Accountants, UK, Fellow of Sri Lanka Institute of Credit Management and a Finalist of the Institute of Bankers (Sri Lanka).

02. Mr Yasar Ariyaratne

Deputy General Manager – Fixed Deposits and Gold Loans

Mr Ariyaratne joined PMF in 2011 as DGM – Business Promotions and is currently responsible for Fixed Deposits and Gold Loan business products. He counts over 25 years of experience in marketing, sales, banking and insurance and has undergone extensive local and overseas training. He started his career at Bank of Ceylon and has held key positions in AIA Insurance PLC.

Mr Ariyaratne is a Certified Member of Sri Lanka Institute of Marketing (SLIM) and holds an MBA from the Buckinghamshire New University, UK, a Professional Graduate Diploma in Strategic Management in EDhat International, UK, a 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 the AMTC Programme conducted by LIMRA International USA.

Corporate Management Team

03. Mr Amila Katuwawala

Deputy General Manager – Credit and Operations

Mr Katuwawala is responsible for the Credit Department, Entrepreneur Financing Unit, Three-Wheeler Unit and the Operations Units of lending, fixed deposits, and margin trading. He counts over 19 years of experience in the banking and finance sector and is a specialist in credit approval, credit administration and recoveries, credit risk, product development, strategic planning, lending operations, and training and development. He commenced his career at DFCC Bank and held leadership positions in credit and operations at Orient Finance PLC, ICICI Bank, and Softlogic Finance PLC.

He holds an MBA from the Cardiff Metropolitan University, UK and a Diploma in Credit Management from the Institute of Bankers of Sri Lanka (IBSL).

04. Mr Bharatha Manjula

Deputy General Manager – HR and Administration

Mr Bharatha counts over 20 years of experience in leadership and Senior Management positions in local and international organisations with expertise in information technology, quality management, administration, human resources and dispute resolution. He commenced his career in the hospitality sector in 1992 with the Taj Group of Hotels and held diverse positions in Lotus Hospitality Group, Dubai, Reed Lanka Holdings (Pvt) Ltd., Bartleet Finance PLC, and Softlogic Finance PLC. He is the First Sri Lankan qualified as an Internal Assessor of TATA Quality Management Services (TQMS), India.

He is an Associate member of the CHSGA, an Affiliate member of the CIPM and a Certified Internal Assessor of TQMS (India).

05. Mr Dinil Perera

Head of Digitalisation

Mr Dinil Perera is an experienced and results-driven professional in Technology Management with over 30 years of experience in Banking; with exposure to areas such as IT Service Management, Operations Management, Project/Portfolio Management, Data Centre Management, Consumer Banking Operations and Digital Products.

Mr Perera commenced his career at the Standard Chartered Bank, Sri Lanka in 1989 and held different senior positions in IT at the Commercial Bank of Qatar and the Standard Chartered Bank, UAE. Prior to joining PMF, he served as the Chief Digital Officer at SDB Bank. Mr Perera has completed the Intermediate Banking Diploma from the Institute of Bankers of Sri Lanka and is a Certified Project Management Professional (PMP) and a member of the Project Management Institute(PMI).

Senior Management Team



Mr Sahan Rodrigo
Assistant General Manager
– Recoveries, Legal and Real Estate

Mr Rodrigo provides oversight to the entire recovery and legal operations of PMF. He counts over 17 years of extensive experience in the finance industry, particularly in recovery and legal operations. He commenced his career at Seylan Merchant Leasing Ltd., as a Banking Assistant. He has worked at Central Finance PLC and held diverse positions in Softlogic Finance PLC over the past 12 years.

He holds an MBA from the Cardiff Metropolitan University, UK, a Diploma in Credit Management from the Institute of Credit Management, and an NCC International Diploma from the University of Cambridge. He is an Associate member of the Sri Lanka Institute of Credit Management.



Mr Athula Bandaranayake
Chief Manager – Risk and Management Information System (MIS)

Mr Bandaranayake counts 18 years of experience in finance, strategic planning and MIS. He started his career at Sun Match Company Ltd. and held key positions at Earl's Court Group of Companies, Assetline Leasing PLC, and Orient Finance PLC.

He holds an MBA specialisation in Finance from the University of Southern Queensland, Australia, a Postgraduate Diploma in Business and Finance (CA Sri Lanka), an Executive Diploma in Business and Accounting (CA Sri Lanka), and a Diploma in Credit Management (IBSL). He holds a Certificate Course in Leasing and Hire Purchase (IBSL) and Certificate Level of Chartered Tax Advisor (CA Sri Lanka). He is a Member of the Institute of Certified Management Accountants (CMA – Australia).



Mr Bandara Chandrasekara
Chief Manager – Regional Business Development

Mr Bandara Chandrasekara joined PMF in 2021 as Chief Manager – Regional Business Development. He counts over 19 years of experience in sales, marketing, business development, recovery, planning, execution, and branch operations. His career journey starts in the year 2003 at Assetline Leasing Co. Ltd. and held key positions throughout the service.

His local and overseas training experiences offer him to build a strong team environment, formulating multichannel marketing initiatives to support business growth. He holds an MBA from the University of Wales Trinity Saint David, United Kingdom, a Certificate in Leadership Development Programme, National University of Singapore and a Certificate in Developing Managers for the Future, Postgraduate Institute of Management Alumni.



Mr Charith Dias
Chief Manager – Trade Finance

Mr Charith counts 17 years of experience in banking and finance. He joined the Bank of Ceylon in 2004, as System Operator (IBCS) and has worked at Orient Finance PLC and Frintex Finance Ltd. He holds a Diploma in Credit Management from the Institute of Bankers of Sri Lanka (IBSL).

Senior Management Team



Ms Kokila Perera
Senior Manager – Finance

Ms Kokila Perera counts 27 years of experience in both the Audit and the Non- Audit sector companies with over 11 years of experience in Finance Companies in Sri Lanka in the Finance Department. She commenced her career at M/s Ernst and Young Chartered Accountants and had worked in other audit firms such as KPMG and PwC Sri Lanka. Ms Perera has held various positions in Finance Companies such as the Mercantile Merchant Bank Limited Group, The Finance Company PLC, Sanasa Development Bank and LCB Finance PLC.

She is a graduate from The University of Colombo with a Bachelor of Business Administration (Special) degree. She is also a Fellow member of the Institute of Chartered Accountants of Sri Lanka and an Associate member of the Institute of Certified Management Accountants of Sri Lanka. She holds a Master of Business Administration from the University of Wales Trinity and Saint David in the United Kingdom.



Ms Shyamali Pamarathna
Compliance Officer

Ms Pamarathna counts over 7 years of experience in risk and compliance. She commenced her career at Kreston MNS & Co., as an Audit Trainee. She had worked at Swarnamahahal Financial Services PLC and Orient Finance PLC in the capacities of Compliance and Risk Officer and Assistant Manager Risk and Compliance respectively.

Ms Pamarathna holds a BCom Special Degree from the University of Sri Jayawardenepura, a Diploma in Bank Integrated Risk Management at IBSL and a Certificate in Accounting and Business of the Institute of the Chartered Accountants of Sri Lanka



Mr Prabath Jayakody
Head of Internal Audit

Mr Jayakody counts over 15 years of experience in audit, internal controls, and risk management. He joined PwC as a Trainee Accountant and has held key managerial positions in large organisations in diverse industries including audit and consulting services, apparel, healthcare services and financial services. He was a consultant to the Board Audit Committee at People's Merchant Finance PLC prior to being appointed as the Head of Internal Audit.

He is an Associate member of the Chartered Institute of Management Accountants, UK.

Corporate Governance Report

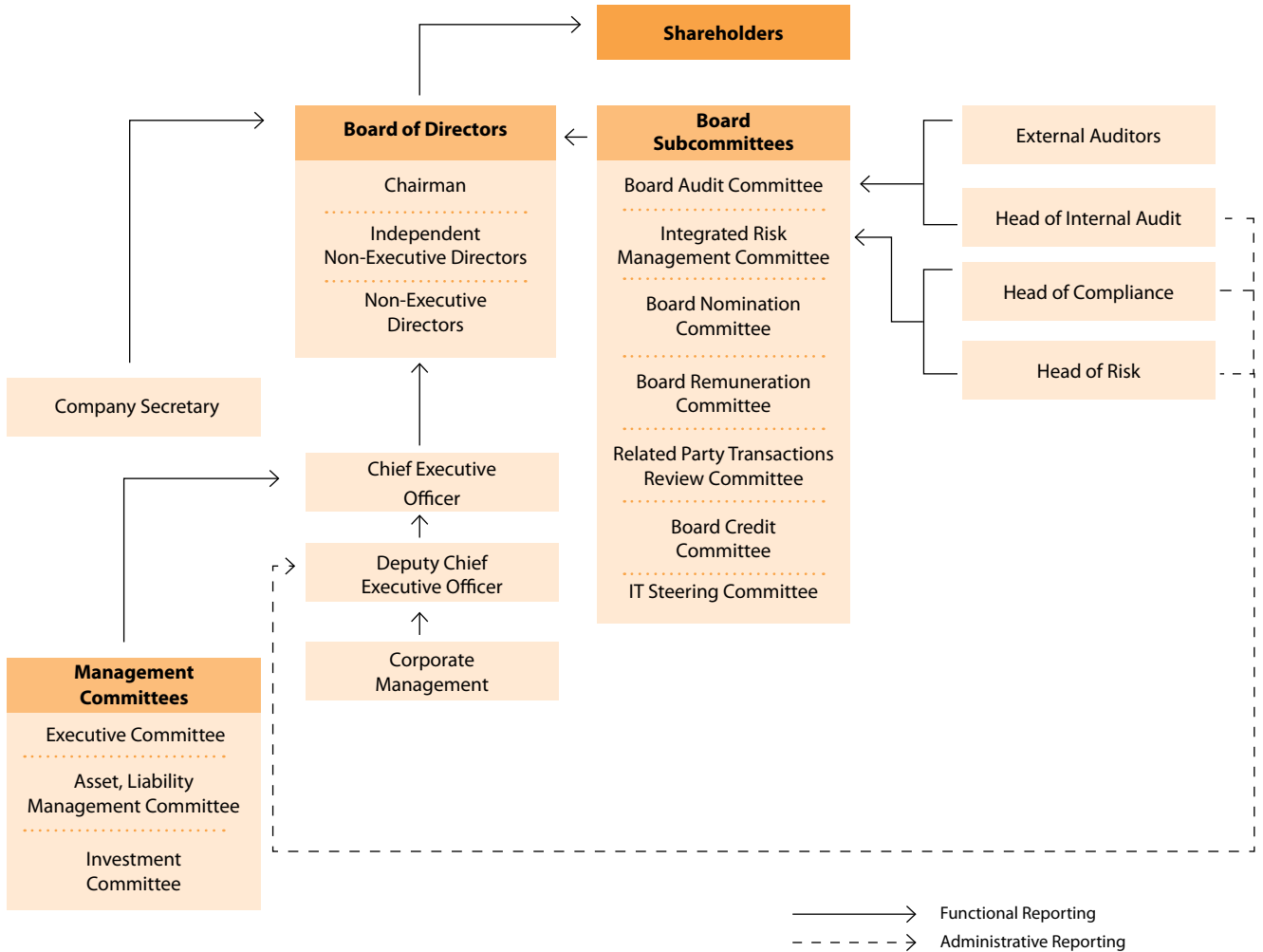
Corporate governance provides the structure through which the objectives of the Company are set, and the means of attaining those objectives and monitoring performance are determined. Essentially, progress and prosperity of People's Merchant Finance PLC (PMF), as a finance company depends on trust and confidence placed by the public in the affairs of the Company. Therefore, the Company has put in place the best corporate governance practices to achieve its vision, while complying with all regulatory requirements.

Governance framework

The Board of Directors of People's Merchant Finance PLC holds apex responsibility for implementing sound governance structures and formulating policy frameworks, thereby effectively setting the tone at the top. Governance practices are reviewed and updated regularly to reflect regulatory changes, emerging risks and opportunities, and internal changes. The Governance Framework of PMF has been developed to comply with external and internal benchmarks, as listed below:

Regulatory benchmarks on corporate governance	Internal benchmarks on corporate governance
Companies Act No. 07 of 2007	Articles of Association of the Company
Finance Business Act No. 42 of 2011 and all directions/guidelines issued by the Monetary Board of the Central Bank of Sri Lanka including Corporate Governance Direction No. 03 of 2008 (as amended)	Charters/Terms of Reference of Board, Subcommittees and Management Committees
Listing Rules of the Colombo Stock Exchange (CSE)	Board approved Corporate Governance Charter
The Code of Best Practice on Corporate Governance as published by The Institute of Chartered Accountants of Sri Lanka (voluntary)	Board approved Policies and Procedures
Securities and Exchange Commission of Sri Lanka Act No. 36 of 1987 and amendments thereto including the new Act No. 19 of 2021.	Operational Circulars
Anti-Money Laundering (AML) and Convention of Financial Terrorism (CFT) legislations and relevant rules and regulations issued by the Financial Intelligence Unit (FIU) including Customer Due Diligence Rule 01 of 2016 and Financial Transactions Reporting Act No. 6 of 2006	Policy on Anti-Money Laundering and Suppression of Terrorist Financing
Inland Revenue Act No. 24 of 2017	

Governance structure



Board of Directors

Information on the Board of Directors has been published in the Annual Report under “Profiles of Directors” (pages 56 to 58)

Developments during the year

Board oversight for the management of the Company	Key highlights for 2021/22
Strategic oversight	<ul style="list-style-type: none"> Board approved the revised Strategic Plan – 2021/22 to 2025/26.
Financial control	<ul style="list-style-type: none"> Reviewed the Interim Financial Statements for the year ended 31 March 2022.
Compliance oversight	<ul style="list-style-type: none"> All Directors participated on a web conference on key aspects of AML/CFT obligations for Board of Directors and Senior Management of the Licensed Finance Companies. AML compliance reports were submitted to the Board as per CDD rule No. 1 of 2016 and updated, monthly compliance checklists were also presented. Gap analysis on Finance Business Act (Corporate Governance) Direction No. 5 of 2021 was presented to the Board.
Risk oversight	<ul style="list-style-type: none"> Risk dashboard assessing all key risk areas was presented to the Board on a monthly basis. ML/TF Risk Assessment was presented to the Integrated Risk Management Committee on a biannual basis. Risk Assessment report was submitted within a week of each BIRMC meeting to the Board seeking the Board's views, concurrence and/or specific directions.
IT Governance	<ul style="list-style-type: none"> Ensured IT Steering Committee meetings are held as per the schedule and key IT governance matters are presented at the Board/Board Subcommittee level for strategic oversight. Commenced first phase of the core banking implementation process, strengthening the Company's core IT infrastructure. Restructured existing data centre into a secured environment at Sri Lanka Telecom, National Data Centre to help scale our IT operations.

Extent of compliance with Corporate Governance Regulations

The level of compliance with the regulations on corporate governance is presented under the two sections given below:

Section 1

The level of compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance 2017, issued by 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 that provides direction and leadership to the Company and guides its activities.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
Responsibilities of the Board			
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 Organisation.	Compliant	A sound business strategy and corporate values have been put in place by the Board, which guides the Company to success in all its endeavours. 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 an 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. Furthermore, 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.
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: <ul style="list-style-type: none"> 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	A Board Nominations Committee is in operation for the nomination and selection of Directors and Key Management Personnel. Directors' interests (if any) are disclosed to the Board and any Director who has a particular interest in matters set before the Board abstains from participating and voting. The effectiveness of the Internal Control Framework is assessed through the internal audit and risk functions and changes are made where necessary.
CBSL 2.1 (j)	Ensuring that the finance company has an appropriate succession plan for Key Management Personnel;	Non-Compliant	The Company has recruited and 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 a Succession Plan for Key Management Personnel is being developed.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 exercising 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 Chief Executive Officer to People's Merchant Finance PLC and the responsibilities of the Chairman, CEO and the Board has been clearly defined in the Board approved Corporate Governance Charter to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.
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.
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 a 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-making 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 to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the Finance Company prior to taking any decision or action.	Not applicable	No such situation has arisen during the year under review.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 records on the same are maintained.
Meetings of the Board			
Code A.1.1 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 18 times during the year under review.
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 meetings 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 Subcommittee meetings to ensure that their duties and responsibilities are satisfactorily discharged.
CBSL 3.3 Code A.6.2	A notice of at least seven days shall be given for a regular Board meeting, to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice shall be given.	Compliant	Sufficient notice was given to the Board members, to ensure all Directors had 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 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an alternate Director shall however, be acceptable as attendance.	Compliant	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 a function.	Compliant	The Company Secretary has been delegated 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 with.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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, with 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, policies and adherence to relevant laws and regulations.
Composition of the Board			
Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect to Directors.	Compliant	Required information on Board of Directors has been published in the Annual Report under "Profiles of Directors" (pages 56 to 58)
CBSL 4.1	Subject to the transitional provisions contained herein, number of Directors should not be less than 5 and more than 13.	Compliant	The Board comprised five Directors during the period under review.
CBSL 4.2	Subject to the transitional provisions contained herein and subject to paragraph 5 (1) 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 have been a Director of the Company for more than nine 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	All Directors on the Board are Non-Executive Directors.
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	Two out of five Directors are Independent Non-Executive Directors. The composition of the Board is set out on page 108 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 on page 108 of this Annual Report.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 judgement 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 judgement to bear on issues of strategy, performance and resources. The profiles of the Directors are given on pages 56 to 58 of this Report.
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 2021/22, 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 56 to 58 of 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 on page 108 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	Appointment of new Directors to the Board are reviewed and recommended by the Nominations Committee, which consists of a majority of Independent Directors. The existing Directors collectively decide on new members. Board approved procedure for the appointment of new Directors to the Board is in place.
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 were appointed to the Board 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 Institutions of 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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
Criteria to assess the fitness and propriety of Directors			
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.
Delegation of functions			
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.
Chairman and Chief Executive Officer			
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 on pages 56 and 59 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"> • provide leadership to the Board; • ensure that the Board works effectively and discharges its responsibilities; and • Ensure that all key issues are discussed in a timely manner 	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.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 is prepared in consultation with the Chairman and circulated to the Board in advance.
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 seven 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 Extraordinary 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.	Compliant	At the commencement of each financial year the Board, in consultation with the CEO, sets financial and non-financial targets that should be met by the CEO during the year. The performance of the CEO was evaluated by the Board at the end of the fiscal year against the targets that had been set at the beginning.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
Board Appointed Committees			
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.
Audit Committee			
CBSL 8.2 (a)	The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Compliant	The Chairman of the Audit Committee is a Non-Executive Director and his qualifications and experience are disclosed on page 58 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: <ol style="list-style-type: none"> i. the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; ii. the implementation of the Central Bank guidelines issued to Auditors from time to time; iii. the application of the relevant accounting standards; and iv. the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of an Audit Partner shall not exceed five years, and that the particular Audit Partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Compliant	The Audit Committee makes recommendations on the stated matters. A summary of the functions has been disclosed in the Audit Committee Report on page 83 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 been developed and approved by the Board.

Corporate Governance Report

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"> i. an assessment of the Company's compliance with the relevant Directions – the Management's internal controls over financial reporting; ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and iii. the coordination between firms where more than one Auditor is involved 	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 judgements 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"> i. major judgemental areas; ii. any changes in accounting policies and practices; iii. significant adjustments arising from the audit; iv. the going concern assumption; and v. the compliance with relevant Accounting Standards and other legal requirements. 	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)	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.	Compliant	The Committee reviewed the financial information of the Company as appropriate.
CBSL 8.2 (i)	The Committee shall review the External Auditor's Management Letter and the Management's response thereto.	Compliant	The Committee has reviewed the External Auditor's Management Letter and the Management's 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"> i. Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the Department has the necessary authority to carry out its work; ii. Review the Internal Audit Programme and results of the Internal Audit Process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department; iii. review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department; iv. recommend any appointment or termination of the head, senior staff member and outsourced service providers to the Internal Audit Function. v. Ensure that the Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; vi. Ensure that the Internal Audit Function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care. 	Compliant	<p>The Internal Audit Plan is reviewed and approved by the Audit Committee at the beginning of the year. Internal Audit Reports are discussed with the Audit Committee and necessary actions are taken.</p> <ul style="list-style-type: none"> i. The Internal Audit Plan is reviewed and approved by the Audit Committee at the beginning of each financial year. ii. Audit Reports are circulated to the Audit Committee members and the relevant items are discussed in detail with suitable actions agreed upon. Where required, the Corporate Management is invited to attend the meeting to provide clarifications. iii. Performance of Internal Auditors is reviewed by the Audit Committee. iv., v. and 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.
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.
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 2021/22 at the Board Audit Committee meetings without Executive Directors being present.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
CBSL 8.2 (m)	<p>The Committee shall have:</p> <ul style="list-style-type: none"> i. explicit authority to investigate 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	<p>The Terms of Reference of the Board Audit Committee includes the scope and responsibilities of the Committee.</p> <p>The Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary.</p> <p>The Committee also has full access to information in order to investigate into matters relating to any matters within its Terms of Reference.</p>
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 had met eight times during the financial year 2021/22. Minutes of such meetings have been recorded accordingly.
CBSL 8.2 (o)	<p>The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> 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 and member attendance are disclosed on page 83 of this Annual Report.
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.	Compliant	Board approved Whistleblowing Policy is in place, enabling employees to voice their concerns over possible improprieties in financial reporting, internal control and any other matters.
Integrated Risk Management Committee			
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 four 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 its duties in line with its Terms of Reference and works closely with the Key Management Personnel with regard to identified risks.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 risks 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	The Committee meets on a quarterly basis to assess all aspects of risk management, including updated business continuity plans. The Committee has met four times during the financial year 2021/22.
CBSL 8.3 (f)	The Committee shall take appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action 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 recommends and initiates action as appropriate in relation to such findings. Process improvements were recommended by the Committee in instances where such issues were observed.
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.	Compliant	A Risk Assessment Report is submitted to the Board within a week of each meeting seeking the Board's views, concurrence and/or specific directions.
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. The Compliance Officer carries out the compliance function and reports to the Committee periodically.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Level of compliance
Related Party Transactions			
CBSL 9.2	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transactions of the 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 on page 180 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 transactions with related party.	Compliant	All such related party transactions are reviewed by the Board Related Party Transaction Review Committee.
CBSL 9.4	The Board shall ensure that the Finance Company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents.	Compliant	The Company treats all related parties on the same basis as they would treat unrelated counterparties for all transactions.
Disclosures			
CBSL 10.1	The Board shall ensure that: <ul style="list-style-type: none"> 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 Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English languages. 	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 the 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 have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Compliant	Relevant disclosures are included on page 112 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 on page 113 of the Annual Report under “Directors’ Statement of Internal Controls over Financial Reporting”.

Section reference	Corporate governance principle	Status of compliance	Level of compliance												
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 31 March 2010.	Compliant	A certification from the External Auditors on the effectiveness of the Internal Control Mechanism has been published on page 116 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 on page 180 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 on page 180 under "Related Party Disclosures"												
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>Category of related party</th> <th>Balance (LKR Mn)</th> <th>Percentage of capital fund</th> </tr> </thead> <tbody> <tr> <td>Board of Directors</td> <td>-</td> <td>-</td> </tr> <tr> <td>KMPs</td> <td>3.2</td> <td>0.11%</td> </tr> <tr> <td>Related companies</td> <td>404.3</td> <td>14.3%</td> </tr> </tbody> </table>	Category of related party	Balance (LKR Mn)	Percentage of capital fund	Board of Directors	-	-	KMPs	3.2	0.11%	Related companies	404.3	14.3%
Category of related party	Balance (LKR Mn)	Percentage of capital fund													
Board of Directors	-	-													
KMPs	3.2	0.11%													
Related companies	404.3	14.3%													
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	<table border="1"> <thead> <tr> <th>category of KMP</th> <th>Short-term employment benefits (LKR Mn)</th> <th>Term deposits Savings deposits (LKR Mn)</th> <th>Total accommodation granted (LKR Mn)</th> </tr> </thead> <tbody> <tr> <td>Directors</td> <td>15.4</td> <td>11.54</td> <td>-</td> </tr> <tr> <td>Other KMPs</td> <td>53.1</td> <td>0.255</td> <td>3.2</td> </tr> </tbody> </table>	category of KMP	Short-term employment benefits (LKR Mn)	Term deposits Savings deposits (LKR Mn)	Total accommodation granted (LKR Mn)	Directors	15.4	11.54	-	Other KMPs	53.1	0.255	3.2
category of KMP	Short-term employment benefits (LKR Mn)	Term deposits Savings deposits (LKR Mn)	Total accommodation granted (LKR Mn)												
Directors	15.4	11.54	-												
Other KMPs	53.1	0.255	3.2												
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" on pages 63 to 82 and "Annual Report of the Board of Directors on the Affairs of the Company" on pages 106 to 111 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. However, an administrative penalty of LKR 1 Mn was imposed in August 2021 by the Financial Intelligence Unit of CBSL for the non-compliance with the Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 (CDD Rules) in relation to procedures of United Nation's sanctions screening. The Company adopted rectification measures and now compliant with the regulation.												
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 certificate 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 on page 112 of this Annual Report while the Auditors' responsibilities have been enumerated in the Auditors' Report on page 122.												
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Compliant	Refer pages 34 to 53 for the "Management Discussion and Analysis".												

Corporate Governance Report

Section 2

The level of compliance with the Continuing Listing Requirements as per Section 7 and Related Party Transactions as per Section 9 of the Listing Rules of the Colombo Stock Exchange.

Section reference	Corporate governance principle	Status of compliance	Extent of compliance
7.10 Corporate Governance			
7.10.a	Statement confirming that as at the date of the Annual Report that the Company is in compliance with these rules.	Compliant	The Company is compliant with the corporate governance requirements of the Listing Rules of the Colombo Stock Exchange.
7.10.1 Non-Executive Directors			
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.
7.10.2 Independent Directors			
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.
7.10.3 Disclosure relating to Directors			
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 108 of the Annual Report.
7.10.3 (b)	In the event 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 résumé of each Director should be published in the Annual Report including the areas of expertise.	Compliant	Please refer pages 57 and 58 of the Annual Report
7.10.3 (d)	A brief résumé of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public.	Compliant	There were no appointments of Directors to the Board during the year 2021/22.
7.10.4 Criteria for determination of independence of Directors			
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
7.10.5 Remuneration Committee			
7.10.5 (a)	A listed company shall have a Remuneration Committee. The Remuneration Committee shall comprise 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 the 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 87 of the Annual Report.
7.10.5 (c)	The Annual Report shall set out; <ol style="list-style-type: none"> i. The names of the Directors that comprise the Remuneration Committee; ii. A statement of Remuneration Policy; iii. Aggregate remuneration paid to Executive and Non-Executive Directors. 	Compliant	Please refer page 87 of Remuneration Committee Report.
7.10.6 Audit Committee			
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.	Compliant	Majority of the Audit Committee members are Independent Non-Executive Directors.
	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.		Chairman of the Committee is a Non-Executive Director.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.		Both Chief Executive Officer and Chief Financial Officer attend the meeting by invitation.
	Chairman or one member of the Committee should be a member of a recognised professional accounting body.		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 83 of the Annual Report.
7.10.6 (c)	Annual Report shall set out; <ol style="list-style-type: none"> i. The names of the Directors who comprise the Audit Committee. ii. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. iii. 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 83 for the required disclosure.

Corporate Governance Report

Section reference	Corporate governance principle	Status of compliance	Extent of compliance
9.2 Related Party Transactions Review Committee			
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. The Independent Director is the Committee Chairman. For further details, please refer the Committee Report on page 89.
9.3 Related Party Transactions – disclosures in the Annual Report			
9.3.2 (a)	Non-recurrent Related Party Transactions	Compliant	Please refer Related Party Disclosures on page 180.
9.3.2 (b)	Recurrent Related Party Transactions	Not applicable	There were no recurrent Related Party Transactions exceeding 10% of the gross income during the year.
9.3.2 (c)	Report of the Related Party Transactions Review Committee	Compliant	Please refer the Committee Report on page 89.
9.3.2 (d)	A declaration by the Board of Directors in the Annual Report	Compliant	Please refer the Committee Report on page 89.

Directors' attendance at Board Meetings and Board Subcommittee Meetings

Name of the Director	Status of Directorship		Board		Integrated Risk Management Committee (IRMC)		Audit Committee		Related Party Transactions Review Committee		Remuneration Committee		Nomination Committee		Board Credit Committee	
	Independent Non-Executive	Non Independent Non-Executive	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance	C/M	Attendance
Mr Chandula Abeywickrema	√		C	18/18	C	4/4	M	8/8			C	4/4	C	2/2	C	5/5
Mr Channa Manoharan	√		M	18/18	M	4/4	C	8/8	C	4/4	M	4/4	M	2/2		
Mr Rangana Koralage		√	M	18/18	M	4/4	M	8/8	M	4/4	M	4/4	M	2/2		
Mr Travis Waas (i)		√	M	18/18	M	4/4	M	2/2	M	2/2					M	5/5
Mr Ranjith Kodituwakku		√	M	18/18												
Mr Duleep Daluwatte (ii)		√	M	6/6	M	2/2			M	2/2						

C indicates the Chairman of the Board/Committee and M indicates Member of the Board/Committee.

- i. Mr Travis Waas was appointed to the Board Audit Committee and Related Party Transactions Review Committee as a member w.e.f. 24 February 2022 and 23 September 2021 respectively.
- ii. Mr Duleep Daluwatte ceased to be a Director upon his demise on 23 August 2021.

Board Audit Committee Report

Audit Committee Charter

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 April 2022.

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 57 and 58 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
Mr M J T Waas *	Non-Independent Non-Executive Director

- Mr M J T Waas was appointed to the Committee w.e.f. 24 February 2022.

Board Audit Committee Meetings

The Committee meets quarterly and additional meetings are held based on the requirements. The Committee held eight meetings during the financial year ended 31 March 2022. The proceedings of the Audit Committee meetings are recorded with adequate details and reported to the Board of Directors. The details of attendance of the Committee members are given below:

Name of the Director	Attendance
Mr C S Manoharan	8/8
Mr K R P Madusanka	8/8
Mr C P Abeywickrema	8/8
Mr M J T Waas	2/2

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

Members of Senior Management including the CEO, Head of Internal Audit, Head of Finance, DGM – HR and Administration, DGM – Deposits and Gold Loan, DGM – Credit and Operations and the Compliance Officer participated in Committee

meetings by invitation. Representatives of Messrs SJMS Associates, which provided outsourced IT internal audit services, and Messrs KPMG, the External Auditor of the Company, were invited to participate at 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 and Internal Auditors.

Activities during the Year

Financial reporting

The Committee reviewed the Financial Statements for the year ended 31 March 2022. The Committee also reviewed all the interim financial statements starting from the quarter ended 30 June 2021 prior to their release, to ensure compliance with

Board Audit Committee Report

statutory and regulatory requirements including Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, the requirements of the Listing Rules of Colombo Stock Exchange, Finance Business Act No. 42 of 2011 and other relevant financial reporting related regulations and requirements.

Internal Audit

The Company has its own internal audit function, which performed internal audits based on an annual internal audit plan approved by the Board Audit Committee. 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 staff present their reports at the Board Audit Committee meetings on a quarterly basis.

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 the financial year 2021/22.

The Committee conducted two meetings with the External Auditor without the members of the Executive Management being present during the financial year.

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.

Whistle-blowing Policy

A Board approved whistle-blowing policy is in place for all employees to raise concerns about illegal, unethical or questionable practices in a confident manner, without the risk of reprisal.

Committee Evaluation

The Committee performed a self-evaluation of its performance, which was subsequently presented to the Board. The Board evaluated the performance of the Committee during the financial year 2021/22.

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.



Rangana Koralage

Member

29 June 2022

Colombo

Report of the Integrated Risk Management Committee

The 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) comprises the following members:

Name of the Director	Status	Membership
Mr C P Abeywickrema	Independent Non-Executive Director	Committee Chairman
Mr K R P Madusanka	Non-Independent Non-Executive Director	Member
Mr M J T Waas	Non-Independent Non-Executive Director	Member
Mr C S Manoharan	Independent Non-Executive Director	Member
Mr Duleep Daluwatte*	Non-Independent Non-Executive Director	Member

*Mr Duleep Daluwatte ceased to be a member upon his demise on 23 August 2021.

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 the meetings and recommendations when necessary were referred to the Board on a quarterly basis.

Attendance

The Committee held four meetings in relation to the financial year under review. The details of attendance of the Committee members are given below:

Name of the Director	Status	Attendance
Mr C P Abeywickrema	Independent Non-Executive Director	4/4
Mr K R P Madusanka	Non-Independent Non-Executive Director	4/4
Mr M J T Waas	Non-Independent Non-Executive Director	4/4
Mr C S Manoharan	Independent Non-Executive Director	4/4
Mr Duleep Daluwatte	Non-Independent Non-Executive Director	2/2

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 companies' 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 Section of Central Bank of Sri Lanka.
- Reviewed the liquidity management strategies of the Company.
- Review and oversee the management's plan for mitigating of the material risks faced by the various business units of the Company.

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

Committee Evaluation

The Committee performed a self-evaluation of its performance, which was subsequently presented to the Board. The Board evaluated the performance of the Committee during the financial year 2021/22.

On behalf of the Board Integrated Risk Management Committee



C P Abeywickrema
Chairman
Integrated Risk Management Committee

29 June 2022
Colombo

Remuneration Committee Report

The Remuneration Committee was established to assist the Board in developing human resource strategies which would enable the Company to attract and retain the required talent.

Composition of Committee Meetings

The Committee comprises three Directors, all of whom are Non-Executive Directors. Two Directors including the Chairman to the Committee are independent Directors.

The Committee met four times during the year under review and the extensive deliberations on matters relating to human resources have contributed to formalise the human resource management of the Company while enhancing employee satisfaction.

The members of the Committee have contributed their professional expertise and experience in diversified sectors to create value additions to the matters falling within the purview of this vital Committee.

Attendance of the Committee Members:

Name of the Director	Status	Membership	Attendance
Mr C P Abeywickrema	Independent, Non-Executive Director	Chairman	4/4
Mr C S Manoharan	Independent, Non-Executive Director	Member	4/4
Mr K R P Madusanka	Non- Independent, Non-Executive Director	Member	4/4

Brief profiles of the members of the Remuneration Committee as at 31 March 2022 are given on pages 57 and 58 of this Annual Report.

Terms of Reference

- The Committee shall recommend remuneration and incentive framework including any equity incentive awards, terminal benefits relating to the Chief Executive Officer (CEO) and any other Executive Directors and the Key Management Personnel (KMP).
- The Committee shall periodically evaluate the performance of the CEO and KMP against set targets and goals and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.
- To make recommendations on other related matters referred to the Committee by the Board of Directors.

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 organization, 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 were 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.

Remuneration Committee Report

- 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 35.2.1 to the Financial Statements.

Evaluation of the Committee Performance

The performance and effectiveness of the Committee was assessed by the Board as a whole as part of the annual self-assessment of the Directors, the details of which can be found on page 68 of this Annual Report

On behalf of the Remuneration
Committee



C P Abeywickrema
Chairman
Remuneration Committee

29 June 2022
Colombo

Related Party Transactions Review Committee Report

Purpose of the Committee

Board Related Party Transaction Review Committee (RPTRC) was established by the Board in accordance with the Code of Best Practice on Related Party Transactions (RPTs) 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 RPTs 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 RPTs 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 31 March 2022 is as follows.

Name of the Director	Directorship status	Membership status
Mr C S Manoharan	Non-Executive Independent Director	Chairman
Mr K R Madusanka	Non-Executive Non-Independent Director	Member
Mr Duleep Daluwatte (Ceased to be a Director upon his demise on 23 August 2021)	Non-Executive Non-Independent Director	Member
Mr M J T Waas (Appointed w.e.f. 23 September 2021)	Non-Executive Non-Independent Director	Member

Brief profiles of the members of the RPTRC as at 31 March 2022 are given on pages 57 and 58 of this Annual Report.

Meetings of the Committee

The Committee meets quarterly and additional meetings are held based on the requirements. The Committee held four meetings during the financial year 2021/22. The details of the attendance of the committee members are given below.

Name of the Director	Attendance
Mr C S Manoharan	4/4
Mr K R Madusanka	4/4
Mr D N Daluwatte	2/2
Mr M J T Waas	2/2

The Company Secretary functions as the secretary to the RPTRC.

Scope of the Committee

- Adopting policies and procedures to review RPTs of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed RPTs of the Company except those explicitly exempted in the Code under Rule 27 and Section 9.5 of the CSE Listing Rules.
- Determining whether RPTs 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 RPTs 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 RPTs 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 RPTRC
- 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 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 favourable” treatment.

- In accordance with the RPT Policy, self-declarations are obtained from each Director and each Key Management Personnel on quarterly basis for the purpose of identifying parties related to them.
- The Company identifies the RPT transactions through the core banking system of the Company and table at the RPT Committee meeting.
- In relation to the RPTs the Committee considers the values of the transactions, the terms and conditions of RPTs and will compare the other quoted prices from the market, and will decide whether such transactions are carried out in an arm’s length basis. Also, the Committee ensures whether such transactions are in line with the Listing Rules of the Colombo Stock Exchange whilst ensuring that such RPTs are in the best interest of the Company’s operations and is in compliance with the applicable CBSL directions applicable to all finance companies.

- The RPTs are approved at the Committee meeting with the majority of the Committee members with the quorum in place or by circulation with approvals from all Committee Directors.
- 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.

Reporting to the Board of Directors

The minutes of the Committee meetings are tabled quarterly at Board meetings, to communicate the views and activities of the Committee.

Related Party Transactions for the Year 2021/22

Details of all transactions with the related parties during the year 2021/22 were reviewed by the Committee and have communicated comments, observations to the Board of Directors.

The details of the recurrent and non-recurrent transactions that exceeded the threshold during the financial year 2021/22 are disclosed under “Note 35 – Related Party Disclosures” 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 31 March 2022 is given in the Annual Report of the Board of Directors on the Affairs of the Company on page 106 of this Annual Report.

On behalf of the Board Related Party Transactions Review Committee



M J T Waas
Member
Board Related Party Transactions Review Committee

29 June 2022
Colombo

Board Credit Committee Report

Composition of the Committee

During the year under review, the Board Credit Committee (BCC) comprised the following members.

Name of the Director	Status	Membership
Mr C P Abeywickrema	Independent, Non-Executive Director	Chairman
Mr M J T Waas	Non- Independent, Non-Executive Director	Member
Mr Nalin Wijekoon	Chief Executive Officer	Member
Mr Amila Katuwawala	Deputy General Manager – Credit and Operations	Member
Mr Athula Bandaranayake	Chief Manager – Risk and Management Information System	Member

Corporate Services (Pvt) Ltd. (Secretary to the Committee) Profiles of the members as at 31 March 2022, are indicated on pages 56 to 62.

Charter of the Committee

The Committee shall assist the Board in effectively fulfilling its responsibilities relating to Credit Direction, Credit Policy and Lending Guidelines of the Company in order to inculcate healthy lending culture, standards and practices and ensure relevant rules, regulations and directions issued by the appropriate authorities are complied with.

The Committee is empowered to:

- The Committee shall oversee the credit management process of the Company, including reviewing and recommending internal credit policies, credit related procedure manuals and lending products and papers for the approval of the Board of Directors.
- The Committee shall review the quality and performance of the Company's credit portfolio, specifically disbursements, non-performing loans and collection efficiencies.
- The committee shall approve credit facilities recommended by DGM – Credit and Operations jointly with Chief Executive Officer within the delegated authority limits. (All required information including Credit Appraisal, reports, updates, analysis in respect of all proposed credit facilities shall forward to the Committee by the Credit Division enabling the Committee to evaluate and approve the same).
- Identification, monitoring, and administration over problematic credit facilities including watch listed and non-performing advances.
- Provide guidance and directives for credit origination.
- Ensure adequate measurement and controls over credit and sector risk exposures.
- Proper evaluation and managing of new lending opportunities and threats in the operating environment.
- Monitor changes in the economic and the operating environment of

the Company so that the Company can have adequate controls in the lending book.

- Review changes to the credit policy and product papers initiated by the Management of the Company and recommend them for the approval of the Board of Directors.
- Ensure compliance of lending activities with approved credit policies, statutory and regulatory requirements and guidelines.
- Ensure adequate level of credit growth without compromising the credit quality of the lending portfolio.

In a challenging environment due to the COVID-19 pandemic affecting the global and local business environment, the Committee set the lending directions of the Company for prudent management of credit growth, while aiming at maintaining and improving credit quality.

Committee meetings

Five Board Credit Committee meetings were held during the year under review. Proceedings of the Committee meetings are regularly reported to the Board of Directors.

On behalf of the Board Credit Committee.



C P Abeywickrama
Chairman
Board Credit Committee

29 June 2022
Colombo

Nomination Committee Report

The Nomination Committee operates within the Board approved Terms of Reference in conformity with the Finance Companies (Corporate Governance) Direction No. 03 of 2008 (as amended) issued by Central Bank of Sri Lanka and the Code of Best Practice on Corporate Governance (2017) jointly issued by Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

Composition and committee meetings

The Committee comprises three Directors, all of whom are Non-Executive Directors. Two Directors including the Chairman to the Committee are independent Directors.

The Committee met two times during the year under review and the extensive deliberations on matters relating to Board and Key Management Personnel's appointments.

Attendance of the members

Name of the Director	Status	Membership	Attendance
Mr C P Abeywickrema	Independent, Non-Executive Director	Chairman	2/2
Mr C S Manoharan	Independent, Non-Executive Director	Member	2/2
Mr K R P Madusanka	Non-Independent, Non-Executive Director	Member	2/2

Brief profiles of the members of the Nomination Committee as at 31 March 2022 are given on pages 57 and 58 of this Annual Report.

Terms of Reference

- Propose a suitable charter for the appointment and reappointment of Directors to the Board and act in accordance with such Charter in proposing appointments and reappointments.
- Regularly review the structure, size, composition including gender representation and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.
- To consider the making of any appointments to the Board and to provide advice and recommendations to the Board on such appointments.

- To ensure that Directors are fit and proper persons to hold office as per the criteria set out in the Directions issued by the Central Bank of Sri Lanka and the relevant statutes.
- To consider the succession plan for the Chief Executive Officer and ensure that there's a succession plan for all Key Management Personnel.

Evaluation of the committee performance

The performance and effectiveness of the Committee were assessed by the Board as a whole as part of the annual self-assessment of the Directors, the details of which can be found on page 68 of this Annual Report.

On behalf of the Nomination Committee



C P Abeywickrema
Chairman
Nomination Committee

29 June 2022
Colombo

Risk Management Report

Being resilient during the post COVID-19 pandemic and developing economic turbulences being experienced, People's Merchant Finance PLC's (PMF) integrated risk management approach ensures the effective management of all the risks the Company is exposed to, in order to achieve strategic objectives while safeguarding the Company's stability and reputation and protecting the interests of all the stakeholders at all times.

We strive for zero or minimal residual risk by ensuring to have effective governance and risk management framework whilst managing risks associated with our evolving external environment. PMF's risk universe and risk management focus broadened to a level allowing to include emerging risks such as cybersecurity, data security, data confidentiality and fraud risk by strengthening the risk

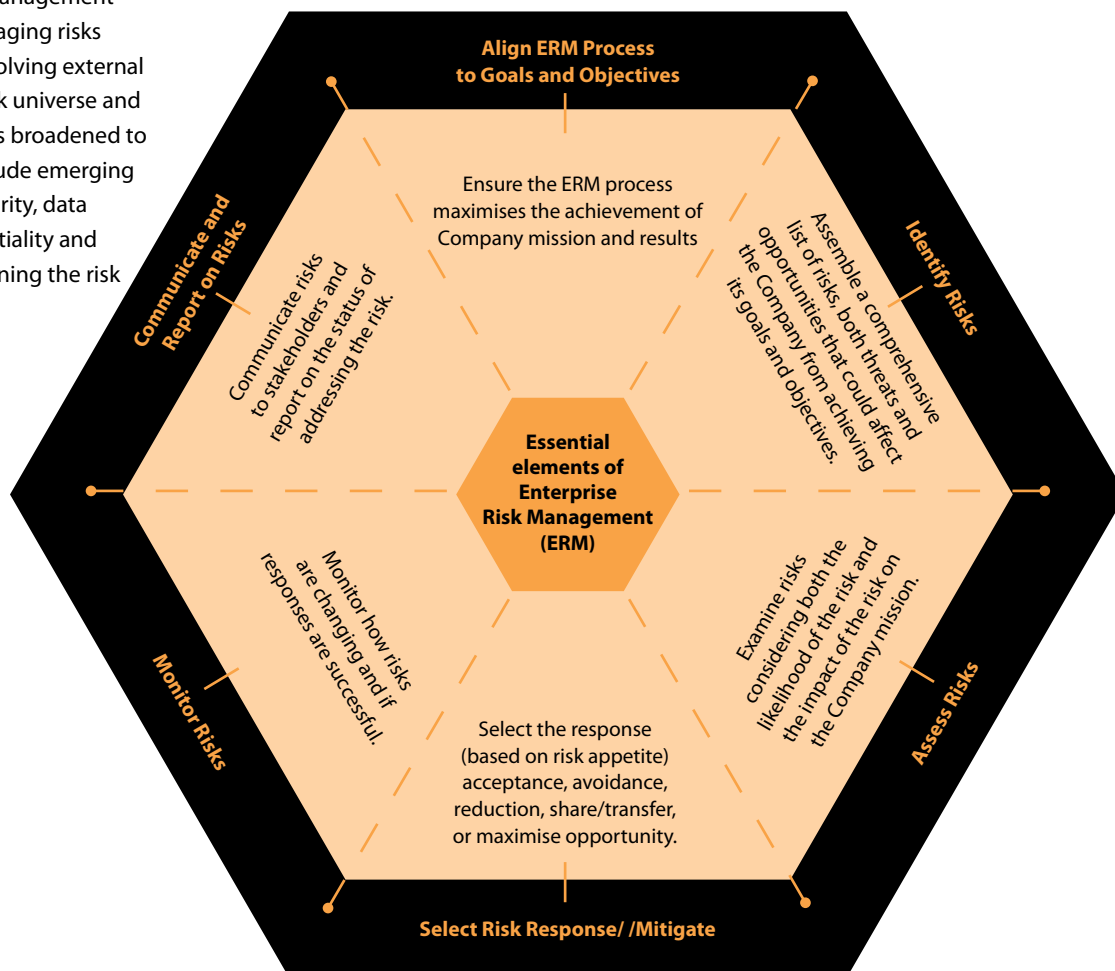
management framework and having controls as mentioned in the risk appetite statement which is reviewed periodically based on the current requirement.

In terms of tech initiatives and investments as per the strategic plan, the Company has made the strategic move towards a new core application of a new service provider with the intention of providing a greater value and a return in terms of efficiency and reliability without exposing to any severe risk. Further, while achieving our strategic objectives, it was pivotal to

have stringent adherence to evolving regulatory requirements and the status of this is reflected in our Corporate Governance Report of the Annual report.

The evolution of the major risks during the financial year under consideration

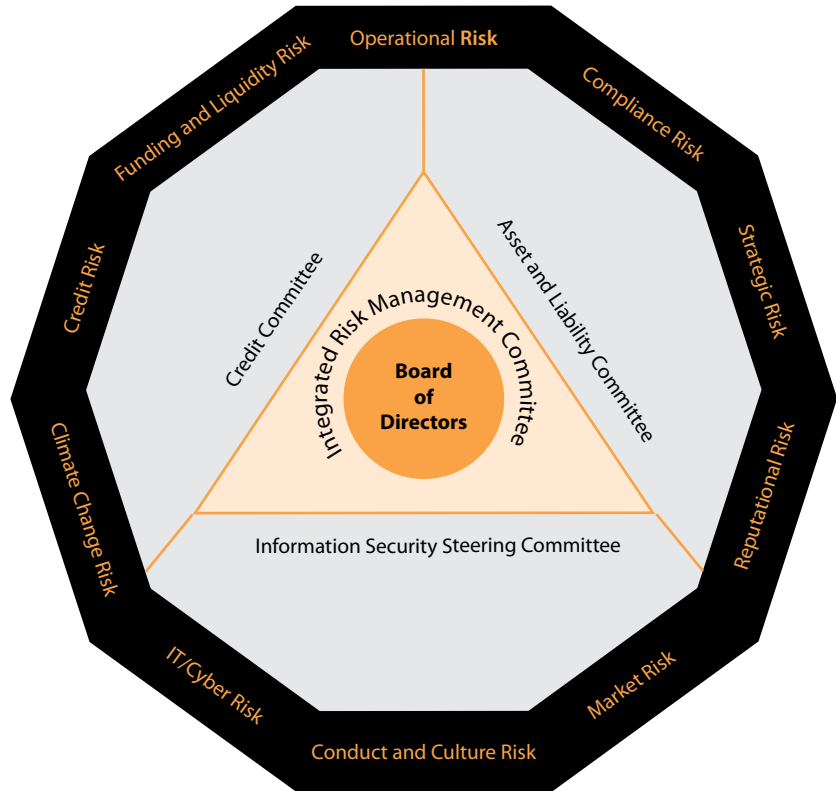
The turbulence of the external environment created through factors such as COVID-19 pandemic, domestic macroeconomic and political risks, continuous ban or restriction on



Risk Management Report

importation of automobiles and its related accessories, was significant exposing the Company predominantly towards elevated level of business risk. However, the Company was able to thrive well ahead of the external risk events and well managed within our risk appetite ensuring the PMF's resilience and sustainable growth reflected in Company's main performance indicators. The periodical review of the Risk Management Policy Framework and Appetite Statements assisted to have better controls and well assessed limits capturing the main risk events with better controls reflected and measured in assessing the exposure on the main risk types of the Company including emerging risks within which providing early warning signals was immensely important than ever to have aforesaid resilient and sustainable growth.

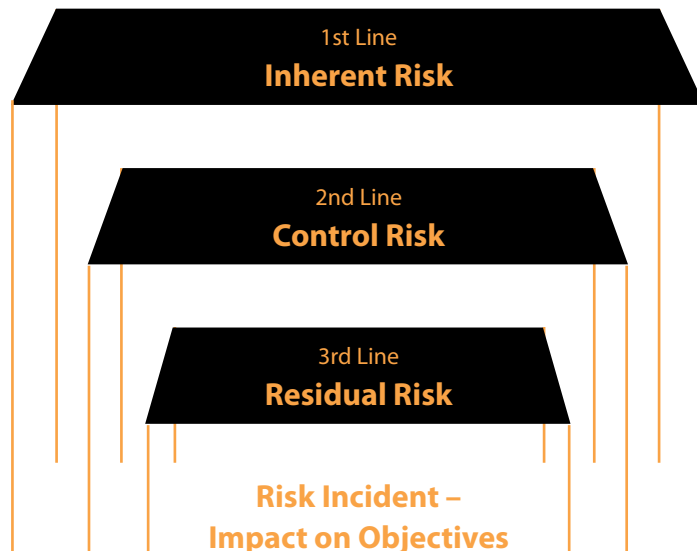
register while recording new risk events along with time bound risk responses from the risk owners creating higher levels of assurance and visibility about potential risks and providing clarity on risk identification and mitigation.



Integrated Risk Management Framework (IRMF) and governance culture

The IRMF provides the governance structure and approach for our risk management disciplines and guides us to embed a sound risk culture. The Company reviewed the IRMF and the Risk Appetite Statement (RAS) incorporating aspects of the current environment including emerging risks while being committed to ensure compliance to them across the organisation.

The PMF keeps maintaining a risk-based culture across all staff in all mechanisms and update the risk



The overall responsibility for the establishment and oversight of the risk management framework lies with the Board of Directors of the Company. The Board Subcommittee, Integrated Risk Management Committee (IRMC) is responsible for developing and monitoring the Company's risk management policies which are established to identify and analyse the risks faced by the Company, 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 activities of the Company. The Company, 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 responsibilities in growing business and managing risk.

The main focused risk types of the Company are credit risk, liquidity risk, market risk, capital risk, and operational risk (IT risk, strategic risk, reputational risk, and compliance risk).

Credit risk

Credit risk is the possible financial loss to the Company due to the failure on the part of its counterparties to honour their contractual obligations, and arises principally from the Company's loans and receivables to customers and other financial institutions, and investments in debt securities.

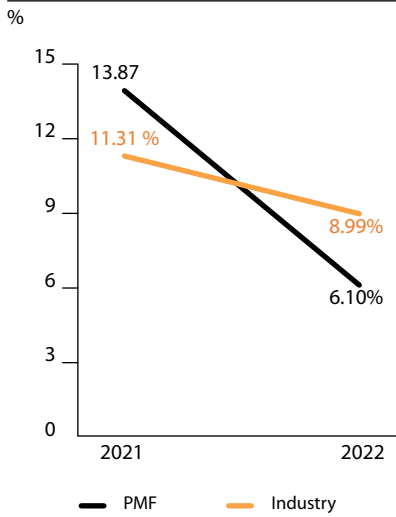
Credit Risk Profile

Risk appetite criteria	Status			
	Appetite (PMF)	Regulatory limits	As at 31 March 2022	As at 31 March 2021
Credit risk				
Loans and advances				
Non-performing loans ratio – Gross	8.99%	N/A	6.10%	13.87%
Non-performing loans ratio – Net	2.80%	N/A	0.63%	2.19%
Maximum exposure to single borrower – secured-Individual		15% of capital funds	10.87%	4.37%
Maximum exposure to single borrower – secured-Group		20% of capital funds	14.56%	5.15%
Maximum exposure to single borrower – unsecured-Individual		1% of capital funds	Nil	Nil
Maximum exposure to unsecured financing in aggregate		5% of capital funds	Nil	Nil
Non-performing loan provision coverage ratio	69.63%	N/A	89.75%	84.21%
Sector Concentration Highest Exposure to sector (Lease/Loan)	20% of portfolio	N/A	18.98% (industry and manufacturing)	19.25% (Industry and manufacturing)

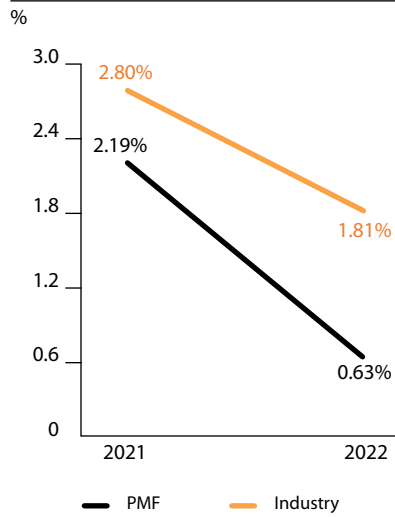
Risk Department monitors the credit disbursements to clients and progress of collections on a daily basis and reports the above exposure levels on a monthly basis to the Board comparing with the industry/regulatory standards.

Risk Management Report

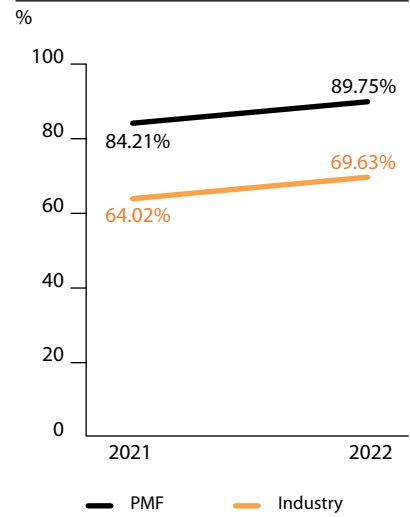
Gross NPL Ratio



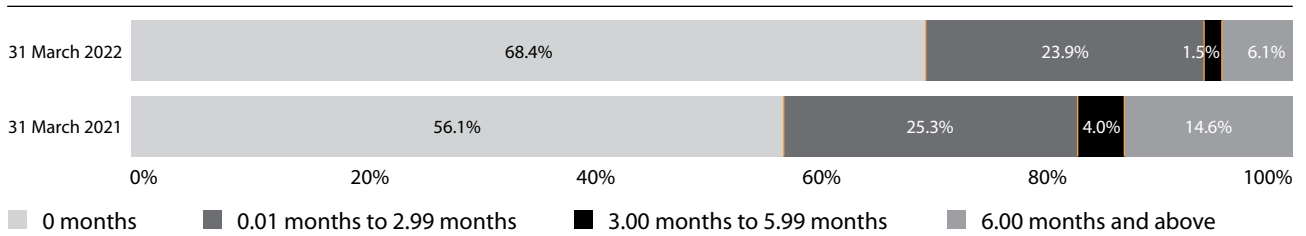
Net NPL Ratio



Provision Coverage



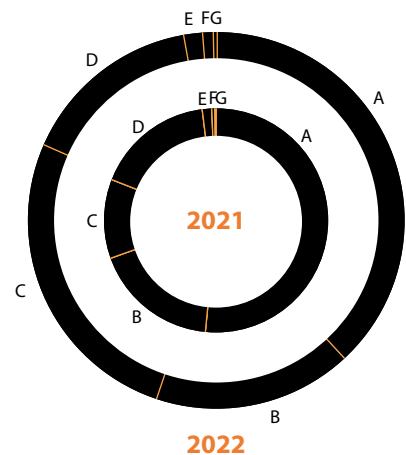
Ageing of the portfolio (Lease/Loans)



Assessing the concentration risk

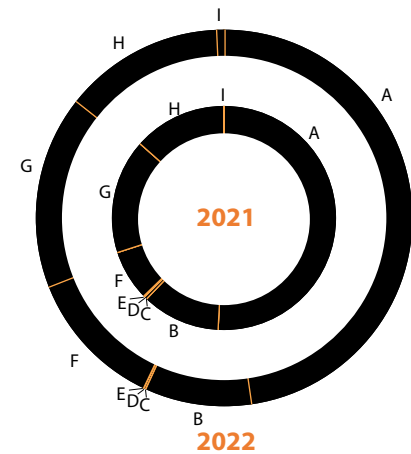
Exposure by customer

	2022	2021
	%	%
A - 0 - 200,000	38.13	51.53
B - 200,000 - 500,000	17.06	17.98
C - 500,000 - 1,000,000	26.44	11.43
D - 1,000,000 - 5,000,000	15.65	17.08
E - 5,000,000 - 10,000,000	1.62	1.37
F - 10,000,000 - 25,000,000	0.91	0.46
G - Above 25,000,000	0.18	0.15
	100.00	100.00



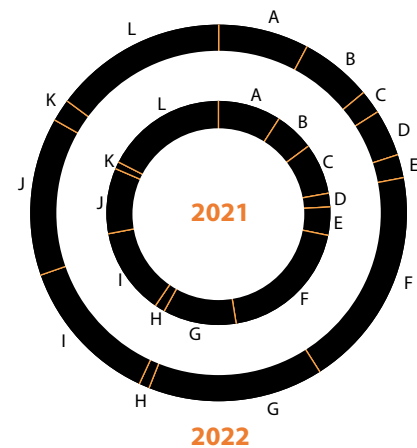
Product concentration

	2022	2021
A – Lease	47.73	50.84
B – Term Loan	9.10	11.29
C – Pledge Loan	0.18	0.42
D – Group Loan	0.02	0.05
E – Hire Purchase	0.05	0.11
F – <i>Ikman</i> Loan	11.98	7.29
G – Gold Loans	16.61	16.54
H – Margin Trading	13.77	13.46
I – Entrepreneur loans	0.57	0.00
	100.00	100.00



Industry concentration

	2022 %	2021 %
A – Agriculture forestry and fishing	7.77	9.09
B – Construction and infrastructure development	6.19	5.74
C – Financial services	2.02	7.34
D – Government institutions	4.01	1.97
E – Hotel and restaurants	2.00	4.08
F – Industry and manufacturing	18.98	19.25
G – Consumption	15.03	10.56
H – Tourism	0.89	1.46
I – Wholesale and retail	12.74	12.54
J – Transportation and storage	13.58	9.46
K – Information Technology and Communication	1.92	1.03
L – Health Care, Social Services and Support Services	14.85	17.48
	100.00	100.00



Liquidity risk

The Company kept a healthy amount of liquidity throughout the year in order to meet the unforeseen funding requirements that may arise through significant withdrawals of client deposits. However, withdrawals were not high as envisaged, evidencing the trust placed on the PMF's unblemished stability. The liquidity buffer maintained by the Company was notable even under a pandemic situation. The Risk Management Department prepared a comprehensive cash flow analysis to assess the impact on cash flows under stressed conditions based on several plausible scenarios. The key observations made on the scenario analysis were presented to the IRMC.

Risk Management Report

Risk appetite criteria	Regulatory limits	
Liquidity Risk	FY 2021/22	FY 2020/21
Liquid assets ratio	<ul style="list-style-type: none"> Fixed deposits – 10% Savings deposits – 15% Unsecured borrowings – 10% 	<ul style="list-style-type: none"> Fixed deposits – 6% Savings deposits – 10% Unsecured borrowings – 5%

As per the risk appetite of the Company and the Finance Companies (Liquid assets) Direction No. 4 of 2013 of the Central

Bank of Sri Lanka, the Company is required to maintain a minimum holding of liquid assets in the above manner. Accordingly, the required amount and available amount of liquid assets were as follows:

Status as at 31 March

	2022 LKR '000	2021 LKR '000
Required minimum amount of liquid assets	330,052	138,682
Total liquid assets	1,071,829	739,867
Excess liquidity	741,777	601,185

PMF maintained a total Liquid Assets to total Deposit Liabilities ratio of 33.20% for the FY ended 31 March 2022.

Stress testing Scenario analysis

	LKR Mn				
	31 March 2022	Scenario I	Scenario II	Scenario III	Breakeven
Deposit base, March 2022	3,229				
Shock on the deposit base (outflow)		5.00%	10.00%	15.00%	25.52%
		161	323	484	824
Current liquidity (as per CBSL definition)	1,072				
Liquidity position with the impact of the scenarios		910	749	587	248
Required minimum amount of liquid assets (CBSL requirement)	330	314	298	282	248
Excess liquidity	742	596	451	305	-
Unit Trust Investment	3				
Actual liquidity (including the unit trust investments)	1,075				
Actual liquidity position with the impact of the scenarios		913	751	590	
Actual Excess liquidity		599	454	308	

	LKR Mn				
	31 March 2021	Scenario 1	Scenario II	Scenario III	Breakeven
Deposit base, March 2021	2,289				
Shock on the deposit base (outflow)		5.00%	10.00%	15.00%	28.26%
Shock on the deposit base (outflow, in value terms)		114	229	343	637
Current liquidity (as per CBSL reporting)	740				
Liquidity position with the impact of the scenarios		625	511	396	102
Required Minimum Amount of Liquid Assets (CBSL requirement)	139	134	127	120	102
Excess liquidity	601	491	384	276	-

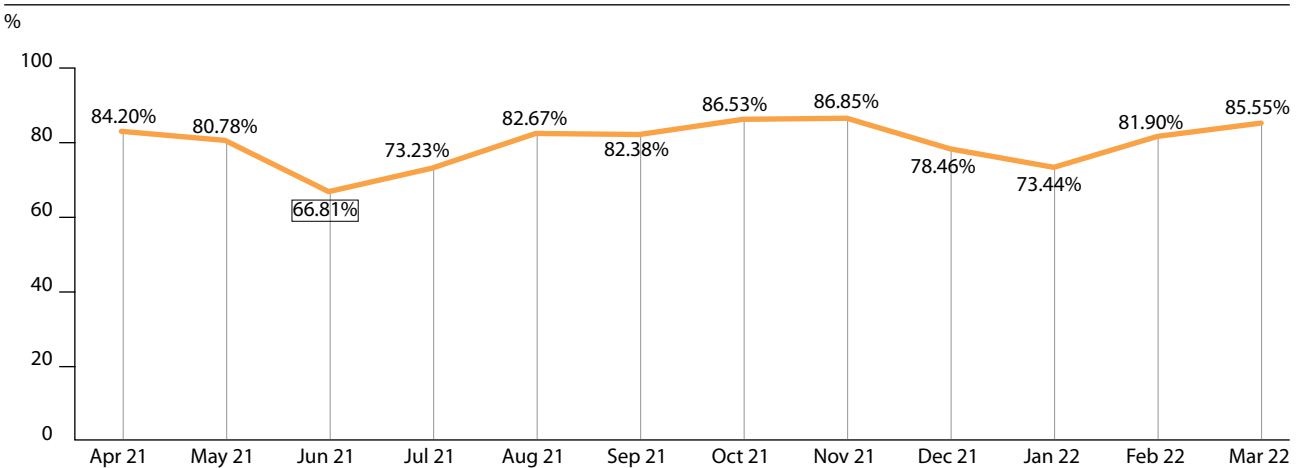
Regulatory liquidity [As per the Finance Companies (Liquid assets) Direction No. 04 of 2013]

- 10% of the total outstanding value of the time deposits (including the accrued interest) and face value of the non-transferable certificates of deposits.
- 15% of the total outstanding value of the savings deposits (including the accrued interest)
- 10% of the total outstanding borrowings and any other payables determined by the Director – NBF1

Assumptions

- Zero withdrawal from the savings base
- Renewal ratio is maintained to the same level
- All withdrawals are facilitated by the existing liquid assets

Deposit renewal ratio



The Company was able to maintain a monthly Average deposit renewal ratio of over 73% at all times during the FY 2021/22 except in June 2021 which recorded 66.81%.

Market risk

Market risk stems from the possible losses due to market related variables like interest rates, exchange rates, equity prices and commodity prices, out of which interest rate risk and commodity prices risk are significant to the PMF. More on the market risk of the PMF has been addressed under

the caption “Summary of key risks and mitigation strategies with forward looking approach”.

Interest rate risk

The ceiling rates on deposits pegged with the one-year weighted auction Treasury Bill rate moved to higher interest rates regimes during the FY 2021/22. These changes impacted the Net Interest Income (NII) during the financial year. ALCO is responsible for asset and liability management including assessing the interest rate maintenance of the Company.

Commodity price risk

The global price for gold faced wide fluctuations during the year under review owing to factors such as world economic downturn due to COVID-19, the US presidential elections, success rate of COVID-19 vaccines, trade war between the US and China, changes in the US Treasury yields etc. However, with the ban of the importations, the price fluctuations are dependent on the local market movements. The Company expects to change its strategies to move from short-term concentration to long-term tenors and have products with attractive features in order to mitigate this risk.

Risk Management Report

PMF has assessed the market value of the gold loan portfolio and identified potential losses incurred/gains secured that might have occurred with a 10% possible shock on the market value at the end of the financial years and depicted below are the values assessed accordingly.

As at 31 March	2022	2021
Shock Levels	Impact on market value LKR '000	Impact on market value LKR '000
10% shock (Increase)	235,681.59	79,179.52
10% shock (Decrease)	(235,681.59)	(79,179.52)

Note: Prices of 24 carat gold were considered as LKR 200,000/- and LKR 105,000/- at the financial years 2021/22 and 2020/21 respectively.

Equity price risk

Equity price risk arises due to the fluctuations in market prices of individual stocks and management performs mark-to-market analysis on a weekly basis for its trading portfolio and trading is done at right times and assess the impact accordingly. Further, the economic fallout of the share market due to economic turbulences and post COVID-19 pandemic resulted in significant but dynamic momentums in share market indexes and management is monitoring the equity price movements on a regular basis.

	2022 LKR '000	2021 LKR '000
Market value of quoted equity instruments as at 31 March	6,698.11	2,320.29

Equity price sensitivity

The Company has assessed the market value of the equity portfolio and identified potential losses/gains that might have occurred with a 10% possible shock on the market value at the end of the financial years and depicted below are the values assessed accordingly.

As at 31 March	2022	2021
Shock levels	Impact on market value LKR '000	Impact on market value LKR '000
10% shock (Increase)	669.81	232.03
10% shock (Decrease)	(669.81)	(232.03)

Further the Company is engaged in the margin trading business and the client positions are assessed against the regulatory (SEC and CBSL) and internal limits in which positions are sensitive to the equity price movements.

Capital risk

The core capital represents the permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses and the total capital includes the revaluation reserves, general provisions/impairment allowances and unsecured subordinated debts, in addition to the core capital. The risk-weighted assets have been calculated by multiplying the value of each category of asset using the respective risk weight specified by the Central Bank of Sri Lanka for credit risk while the basic indicator approach is used for operational risk.

Stress testing (Impact of NPL)

Based on 31 March 2022

LKR Mn

Position of core capital

	Scenario I	Scenario II	Scenario III	Breakeven
Impact of NPL position (%)	10.00	20.00	30.00	194.46
	42.90	85.80	128.70	834.24
Actual NPL	429.01			
Forecasted NPL value	471.91	514.81	557.71	1,263.25
Forecasted NPL percentage (%)	6.73	7.34	7.95	18.02
Estimated impact on the impairment from the NPL	10:4			
Ordinary Share Capital	3,762	3,762.05	3,762.05	3,762.05
Statutory Reserve Fund	20.24	20.24	20.24	20.24
Accumulated losses	(948.60)	(965.76)	(982.92)	(1,282.29)
Core capital	2,833.69	2,816.53	2,799.37	2,500.00

Based on 31 March 2021

LKR Mn

Position of core capital

	Scenario I	Scenario II	Scenario III	Breakeven
Impact of NPL position	10.00%	20.00%	30.00%	66.71%
Impact of NPL position (in value terms)	49.17	98.34	147.51	328.00
Actual NPL	491.71			
Forecasted NPL value	540.88	590.05	639.22	819.71
Forecasted NPL percentage	15.39%	16.79%	18.19%	23.32%
Estimated impact on the impairment from the NPL	10 : 4			
Ordinary Share Capital	3,252.16	3,252.16	3,252.16	3,252.16
Statutory reserve fund	10.65	10.65	10.65	10.65
Accumulated losses	(1,131.61)	(1,151.38)	(1,170.94)	(1,262.81)
Core Capital	2,131.20	2,111.53	2,091.86	2,000.00

Assumptions

- No portfolio growth due to the impact
- Income and expenses are constant
- The Company assumes a worst case scenario of an increase of NPL by 30% for the entire portfolio

Risk appetite criteria	Status		
	Regulatory limit %	As at 31 March 2022 %	As at 31 March 2021 %
Capital adequacy			
Core capital ratio (CCR)	7.0	37.71	44.39
Total risk-weighted capital ratio (TRWCR)	11.0	37.71	44.38

As of 31 March 2022, the regulatory requirement for CCR and TRWCR were 7% and 11% respectively.

The above statutory ratios are in line with capital adequacy requirements as per the Finance Business Act Direction 3 of 2018 and its subsequently deferment of the applicability for the LFCs with assets less than LKR 100 Bn.

Operational risk

“Operational risk” is the possible direct or indirect losses due to the failures of processes, personnel, technology and infrastructure, and from external factors. Operational risks arise from all of the Company’s operations:

The Company has taken measures to mitigate the operational risk in the following manner.

- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Development of contingency plans
- Training and professional development
- Risk mitigation, including insurance where this is cost effective

The Company is highly focused on managing credit, liquidity, market, reputational, and operational risks. IT risks and cybersecurity are high priorities specially during this period where the PMF has taken long strides in addressing growing digitalisation approach while making sure to strengthen systems and controls in order to manage cyber risks. Concerns over money laundering, terrorism financing, fraud, and corruption are growing and PMF has subscribed for World-check name screening solution which is a fully-fledged automated system managed by Thomson Reuters. Every on-boarded client is screened with this effective from 1 July 2021 in addition to batchwise screening process made to the existing client base. Our compliance team has ensured that all our regulatory obligations in this regard too are complied with.

Company has taken a lot of initiatives for maintaining the health of the new portfolio disbursed from the calendar year 2020 during which a new management started steering the journey of PMF. In addition to a skilled force of internal employees engaged in collection and recovery efforts, the Company has outsourced external parties backed with properly signed NDAs to optimise operational

efficiency in collection and recovery with a target of zero NPL contribution from the new portfolio.

The impact of developing economic turbulence and post-COVID-19 pandemic

The most significant risk event faced by all the corporates in the FY 2021/22, was the economic and social impact of the developing economic turbulence and post-COVID-19 pandemic. The pandemic-induced global economic downturn had a cascading effect on the Sri Lankan economy too causing some major challenges amidst dwindling export markets and severe disruptions in global trade activity. This has led to muted loan growth. With the uncertainty that arose from the COVID-19 pandemic, PMF keeps vigilance continuously to monitor the behaviour of its clients and stakeholders in responding to the challenges over the coming months. The Management is focused on maintaining the integrity of the balance sheet through continuous oversight of credit, liquidity, interest rate, and capital risk while performing periodical stress testing and scenario analysis.

Summary of key risks and mitigation strategies with forward-looking approach:

Credit risk

Losses arising from the failure of obligors to meet their financial or contractual obligations when due.

During the FY 2021/22

Focus points

PMF managed to significantly reduce the NPL position to 6.10% from 13.87% reported in FY 2020/21 through a combination of the reversal of NPL (conversion) and a growth of the lending portfolio, against the industry ratio of 8.99% as at 31 March. Despite the turbulent and challenging environmental conditions arising from the stressful situations following the developing economic turbulences and post COVID-19 pandemic, many strategies were implemented by the recovery team to maintain healthy collection ratios. PMF honoured all moratorium requests abiding to the CBSL stipulated guidelines. NPL ratios were monitored giving high priority and a daily/monthly monitoring mechanism was put in place by the risk and MIS team in order to provide early warning signals to the Management and to the Board. Collections were monitored under different buckets and different perspectives.

PMF expects to continue with the initiated strategies to manage NPL ratios within acceptable levels and to minimise their potential impact while adhering to the SLFRS 9. RAS would be reviewed in a more frequent manner considering the prevailing and future industry economic conditions.

Further, PMF is in the process of implementation of the digitalisation platform for a forward-looking perspective before giving special consideration on products, sector, underlying security etc. which are prone to high NPLs.

Market risk

The risk of losses arising from a change caused by adverse movements in market interest rates, commodity prices, equity prices, and currency exchange rates.

PMF was able to maintain adequate margins throughout the year by having optimum balance in the asset mix. Reviewing maturity mismatches, concentration on customer segments and stress testing was conducted and the outcomes were presented at monthly Board meetings, ALCO and quarterly IRMC meetings. Further at monthly ALCO meetings, interest rates predictions (budgeted rates), variance analysis, margins, asset liability composition, weighted average rates etc. were reviewed. Gold prices were monitored on a daily basis and achievements considering the budgeted versus net achievements were assessed.

Conducting portfolio analysis specially in terms of interest rates which would be challenging in the future with the upcoming market conditions.

Setting optimum advances (Gold) to minimise market risk.

Monitoring and managing possible elements of the market risk in the market environment.

Gold price movements, trends, tenor exposures were tabled for monthly Board meetings in addition to quarterly revaluations at IRMC.

Monitoring future market momentum in the macro environment.

Liquidity risk

Failure to maintain or generate sufficient cash resources to meet day-to-day obligations

The company has always maintained the liquidity amounts adequately well above the required amounts at all times as specified. PMF honoured all obligatory payments on time even during the pandemic.

Maintaining healthy cash flows and additional buffers early while identifying early warning signals and meeting liquidity requirements.

Liquidity stress testing was performed under different scenarios from lower to the worst-case scenarios and breakeven positions were identified. The Company has liquidity contingency plans too in place.

Investing in high yielding marketable assets while meeting required liquidity level and meeting appropriate diversification strategies, tenor of funding and liquidity.

Periodical ALCO meetings were conducted focusing mainly on cash flow predictions to assess the Company's overall positions.

Conducting cash flow predictions/liquidity stress testing in order to meet unforeseen events.

Risk Management Report

Operational risk

The risk of losses resulting from inadequacy of, or failure in internal processes or events including internal frauds, processes or events including internal fraud, external fraud, employment practices and workplace safety, clients, products, business practices, damage to physical assets, business disruption and systems failures, execution, delivery, and process management.

Onboarding customers with proper client identification requirements (KYC) in line with Financial Transactions Reporting Act (FTRA).

Placing more emphasis on the IT security with the digitalisation framework.

Conducting and assessing clients using a credit risk score card (CRSC) in terms of 5Cs (Character, Capacity, Capital, Condition, and Collateral) and rate the clients based on the score achieved in CRSC. Making proper induction programmes for new recruits with special emphasis on the cybersecurity.

Enhancing IT governance framework.

Keeping well planned Business Continuity Planning (BCP) infrastructure arrangements and performing periodic BCP drills to check the adequacy of contingency arrangements.

Further, PMF was able to identify the gaps and the processes were re-engineered by formulating numerous policies and procedures including but not limited to the credit risk, market risk, compliance risk, reputational risk.

Conducting frequent vulnerability assessments and penetration testing to ensure that the systems are resilient to cyberattacks.

Further, PMF has taken several measures for maintaining the gold quality standards.

As specified in the early part of the Risk Management Report, PMF has reviewed the Risk Appetite Statement (RAS), meeting the current requirements and market norms in order to generate early warning signals.

Operational risk – IT risk

Any threat to the business data, critical systems and business processes. It is the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organisation

PMF is in the process of implementing the core application and other supporting systems for all products.

Under digitisation platform of the strategic plan, the PMF is in the process of implementing a new core application system making special emphasis on the future trends in the cybersecurity.

Enabled work from home arrangements with the pandemic and carried out work successfully without any interruptions to the business.

The PMF would develop a new BCP framework with the physical move to the new business place considering all infrastructure and layout arrangements.

Users were allowed to connect to the system only through secured VPN connection to ensure the information security.

With the new technological advancements, PMF would focus on a more secured environment for working from home conditions to ensure better customer service even under pandemic situation.

IT security policy was reviewed and growing trends and concerns in the cybersecurity environment were incorporated.

Operational risk – Strategic risk

This is the risk that the future business plans and strategies are inadequate to prevent financial losses or protect the Company's competitive position and shareholder returns.

PMF has prepared a strategic plan spanning up to calendar year 2024 (4 year) and the budget reflecting the current environment.

The Company is focusing on the recent developments happening in the market environment and reflected same in the budgetary adjustments.

Variance analysis was performed with the actual achievements versus budgeted values.

The Company would focus on the principles and procedures of the code to develop a sustainable business environment and other sustainability reporting aspects for qualitative reporting.

Operational risk – Reputational risk

Damage to the Company's image due to potential or actual events which may impair the profitability and/or sustainability of business.

Adhered to "Work from Home" contingency plan with the current environmental changes and post COVID-19 pandemic outbreak.

Client complaint handling mechanism would be digitalised.

All moratorium requests which were under consideration as per the CBSL criteria were taken into consideration by the Management during the post COVID-19 pandemic period too.

Company has a Board approved complaints handling policy updating due requirements.

Operational risk – Compliance risk

The risk of legal or regulatory sanction, financial losses, or damage to reputation the Company may suffer as a result of its failure to comply with laws, regulations, codes of conduct, and standards

Maintained the Compliance manual by updating the same with new and subsequent changes to the register.

PMF has subscribed for World-check name screening solution which is a fully-fledged automated system managed by Thomson Reuters. Every onboarding client is screened with this effective from 1 July 2021 in addition to batchwise screening process made to the existing client base.

All staff members have been made aware of Compliance including Anti-Money Laundering aspects.

Continuous transaction monitoring was carried out in order to identify unusual and suspicious transactions.

Corporate governance framework was strengthened.

Formulated policies and procedures in order to maintain a compliance culture.

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 31 March 2022 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 26 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 361, 361 1/1, R A De Mel Mawatha, Colombo 3

Principal Business Activities of the Company

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

Subsidiaries – The Company has a fully owned subsidiary company (PMB Services Limited). The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection therewith. 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 31 March 2022 was 11 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 8. 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, profitability, assets and liabilities are disclosed in the Notes to the Financial Statements on (page 131) of this Annual Report.

Financial Statements of the Group and the Company

The financial statements of the Group and the Company 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 126 of this Annual Report.

Auditor's Report

The Company's Auditors, Messrs KPMG, Chartered Accountants performed the audit on the Consolidated Financial Statements for the year ended

31 March 2022 and the Auditor's Report issued thereon is given on pages 120 to 123 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 page 133. 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 pages 131 to 206. These Financial Statements comply with the requirements of Sri Lanka Accounting Standard 1 on "Presentation of Financial Statements" (LKAS 1) 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 1 April 2021 to 31 March 2022.

Financial Results and Appropriations

Financial Results

The Group and the Company recorded a net profit of LKR 191.63 Mn and LKR 191.80 Mn respectively for the financial year 2021/22 (LKR 67.72 Mn and LKR 67.79 Mn in 2020/21). Details of the Company's performance and appropriation are tabulated as follows:

Company	2021/22 LKR '000	2020/21 LKR '000
Loss brought forward from previous year	(1,131,607)	(1,195,047)
Profit after taxation	191,800	67,799
Other comprehensive income	2,861	1,259
Transfers to reserve fund	(9,590)	(3,390)
Transaction cost related to rights issue	(2,062)	(2,228)
Loss carried forward from previous year	(948,598)	(1,131,607)

Provision for Taxation

The income tax rate applicable on the profits earned during the year is 24%. Rate of VAT on financial services is 18%. Accordingly, the current year income tax charge of the Company is LKR 61.2 Mn 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 31 March 2022 (FY 2020/21 - Nil).

Preference Shares and Preference Dividend

Outstanding balance of the preference shares as at 31 March 2022 amounted to LKR 10 Mn.

Intangible Assets, Property, Plant and Equipment

The details of property, plant and equipment are presented in Notes 21 and 22 on (on pages 165 to 168) to the Financial Statements.

The Directors confirms 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 Notes 16, 17 and 18 on pages 153 and 154 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 Group and the Company as at 31 March 2022 amounted to LKR 3,762 Mn (LKR 3,252 Mn as at 31 March 2021).

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

Reserves

A summary of reserves of the Group and the Company as at year ended 31 March 2022 as follows.

	Company		Group	
	2021/22 LKR '000	2020/21 LKR '000	2021/22 LKR '000	2020/21 LKR '000
Statutory reserve fund	20,239	10,649	20,239	10,649
Retained earnings	(948,598)	(1,131,607)	(948,957)	(1,131,793)
Total	(928,359)	(1,120,958)	(928,718)	(1,121,144)

Share Information

Shareholder information and information on trading are provided on pages 48 to 51 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 "Share Information" on page 51 .

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 31 March 2022 and subsequently;

Name of Director	Status of Directorship	Date of Appointment
Mr Chandula Abeywickrema	Chairman/Non-Executive Independent Director	Appointed on 26 June 2019
Mr Duleep Daluwatte	Non-Executive Non-Independent Director	Deceased on 23 August 2021
Mr Channa Manoharan	Non-Executive Independent Director	Appointed on 26 June 2019
Mr K Rangana Koralage	Non-Executive Non-Independent Director	Appointed on 26 June 2019
Mr M J Travis Waas	Non-Executive Non-Independent Director	Appointed on 22 June 2020
Mr Ranjith Kodituwakku	Non-Executive Non-Independent Director	Appointed on 10 September 2020

Interests Register

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

Directors' Interest in Transactions

The Directors of the Company have made general declarations as provided in Section 192 (2) of the Companies Act No. 07 of 2007 of their interests in transactions of the Company. Details of the transactions disclosed therein are given on page 180 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	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Directors' Fees & Emoluments	15,402	9,102	15,402	9,102

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 31 March 2022 and 31 March 2021 are given on page 51 of this Annual Report.

Chief Executive Officer's interest in Shares

The Chief Executive Officer's individual shareholdings in the Company as at 31 March 2022 and 31 March 2021 are given on page 51 of this annual report.

Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on page 82 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 subcommittees 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 are presented on pages 83 to 92.

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 31 March 2022 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 112 forms an integral part of this report.

Donations

During the year, the Company has not made any donations. The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168(1) (g) of the Companies Act No. 07 of 2007.

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

Related Party Transactions

There are no related party transactions which exceed 10% of the Equity or 5% of the total assets whichever is lower, other than the transaction disclosed under the Note 35 on page 180 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 35 on page 180 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 83 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 63 to 82.

Human Resources

The number of employees as at 31 March 2022 was 217 (31 March 2021 – 168).

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 Board of Directors confirm that the Company is compliant with prudential requirements, regulations, laws and internal controls while measures have been taken to rectify any material non-compliances.

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 34 to the Financial Statements on page 179.

Events after the Reporting Date

Details of events after the reporting date are reflected in Note 42 Page 204 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 reappoint 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 2022 will be proposed at the Annual General Meeting.

The Auditors were paid LKR 1.45 Mn as audit fee and expenses by the Company. Further they were paid LKR 0.9 Mn 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

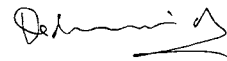
Notice of the meeting relating to the Annual General Meeting is provided on page 216 of this Annual Report.



M J T Waas
Director



C P Abeywickrema
Chairman



Corporate Services (Private) Limited
Company Secretary

29 June 2022
Colombo

Directors' Responsibility for Financial Reporting

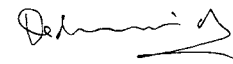
The Directors of People's Merchant Finance PLC (the "Company") are responsible for the preparation and presentation of the Financial Statements which shall give a true and fair view of the state of affairs of the Company to the shareholders in accordance with the relevant provisions of the Companies 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 the Statement of Financial Position as at 31 March 2022, 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 judgements and estimates.

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

To the best of knowledge and belief of the Directors, the Company's External Auditor Messrs 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 120 to 123 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
Company Secretaries

29 June 2022
Colombo

Directors' Statement on Internal Control over Financial Reporting

Regulatory Requirement

In accordance with the requirements of the Section 10(2)(b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013, the Board of Directors presents this report on the system of Internal Controls over financial reporting of People's Merchant Finance PLC.

Responsibility

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. Therefore, the system of internal controls cannot be expected to provide absolute assurance against material misstatement of management and financial information and records or against financial losses or frauds.

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 in response to changes in the business and regulatory environment. This risk management process is regularly reviewed for effectiveness by the Board and Board appointed sub committees including the Integrated Risk Management Committee.

The Internal Audit Department of the Company verifies for compliance with policies and procedures and the effectiveness of the internal control systems in an ongoing basis through the application of Risk Based Audit Procedures. Audits are carried out on Head Office functions and branches under the Annual Audit Plan approved by the Board Audit Committee (BAC). The frequency is determined by the level of risk assessed to provide an independent and objective report. Findings of the Internal Audit Department are submitted to the BAC for review at their periodic meetings. The BAC also reviews and updates the scope and adequacy of the internal audit function against the approved audit plan. The BAC examines internal control issues identified by the Internal Audit

Department, the External Auditors, and regulatory authorities, including Key Audit Matters (KAM) given by the External Auditors, and evaluates the adequacy and effectiveness of the risk management and internal control systems. The minutes of the BAC meetings are forwarded to the Board periodically. Further, details of the activities undertaken by the BAC are set out in the Board Audit Committee Report (BAC).

During the financial year 2021/22, the finance function of the Company 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 and the financial statements. Additionally, with a view to enhancing the reliability of financial statements published by the Company, there was a process in place to get the interim financial statements to be independently 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 reviewed by the Board Audit Committee and appropriate

Directors' Statement on Internal Control over Financial Reporting

actions were taken to implement the recommendations. The Board Audit Committee reviews the management letter, discusses the same with external auditors and the management and periodically reviews the progress of implementation of the recommendations made by the external auditor.

As an additional initiative to strengthen and enhance the mechanisms in place to monitor the effectiveness of the internal controls over financial reporting, an external professional accounting firm performed a special review to identify and assess the internal controls over financial reporting of the Company. The management is taking steps to implement the recommendations made by the external firm to improve the internal controls and thereby enhance the overall financial reporting system of the Company.

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 independent professional accounting firm during the financial year.

The management assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks facing the Company, and in the design, operation and monitoring

of appropriate internal controls to mitigate and control these risks.

Key elements of the process adopted for the effectiveness of the system of Internal Controls over Financial Reporting

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 several sub 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 internal 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 to the Board Audit Committee. Internal audit reviews are

conducted in accordance with the annual internal 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 units or the branches. The annual audit plan is reviewed and approved by the Board Audit Committee. The significant findings of the internal audit reports and the progress of implementation of internal auditor's recommendations are reviewed by the Board Audit Committee at its periodic meetings.

- The Board Audit Committee of the Company reviews internal control deficiencies identified by the internal auditors and the management and evaluates the adequacy and effectiveness of the internal control system of the Company including financial reporting controls. The Committee also reviews the effectiveness and efficiency of the internal audit function with particular emphasis on the independence of the function, resources and competencies, annual internal audit plan and the scope of 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 83 and 84.

- 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 design effectiveness
- of the internal controls embedded in the processes. The Company implemented documented Standard Operating Procedures (SOPs) for all significant processes and operations of the Company during the financial year with the approval of the Board.

The Company has adopted SLFRS 9 – “Financial Instruments” which was issued in 2014 with the date of initial application of 1 April 2017. Since adoption of this standard, the Company made progressive improvements on processes to comply with new requirements of classification, estimation of expected credit losses and disclosures on an ongoing basis, whilst further strengthening of processes will

take place pertaining to expected credit loss estimation and financial statement disclosures. During the financial year, existing processes were further refined to incorporate the potential implications of the prevailing uncertain and volatile macroeconomic environment. Accordingly, the ECL model has been revalidated with conservative assumptions regarding the macroeconomic outlook. The Board Audit Committee reviewed the changes made to the ECL model, including underlying assumptions on macroeconomic outlook, considering the potential implications to the financial results.

Review of the statement by the External Auditor

The External Auditors of the Company, Messrs KPMG, have reviewed the Directors' Statement on Internal Controls included in this Annual Report of the Company for the year ended 31 March 2022 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 pages 116 and 117 of this Annual Report.

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 the applicable regulatory requirements including the Companies Act No. 7 of 2007, the Finance Business Act No. 42 of 2011 and the requirements of the Central Bank of Sri Lanka. However, as given in this report, the management is taking steps to implement the recommendations made by the external firm engaged by the Company, to improve the internal controls and enhance the overall financial reporting system of the Company.



Rangana Koralage
Director



C P Abeywickrema
Chairman

30 August 2022
Colombo

Auditor's Assurance Report on the Directors' Statement on Internal Control over Financial Reporting



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To the Board of Directors of People's Merchant Finance PLC

Report on the Directors' Statement on Internal Control Over Financial Reporting

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") for the year ended 31 March 2022 as set out on pages 113 to 115 of the Annual Report.

Management responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of License

Finance Company and Finance Leasing Company on the Directors' Statements on Internal Control" issued in compliance with the Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and amendments thereto, 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 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.

Auditor'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 Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company and Finance Leasing

P.Y.S. Perera FCA
W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel FCA
Ms. P.M.K. Sumanasekara FCA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA

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Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA, W.A.A. Weerasekara CFA, ACMA, MRICS

Auditor's Assurance Report on the Directors' Statement on Internal Control over Financial Reporting

Company on Directors' Statement on Internal Control, issued by The Institute of Chartered Accountants of Sri Lanka.

This standard requires that the auditor plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement 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 engagement, performed an audit or review of the financial information.

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:

- (a) 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.
- (b) Reviewed the documentation prepared by the Management to support their Statement made.
- (c) Related the Statement made by the Directors to our knowledge of the Company obtained during the audit of the Financial Statements.
- (d) 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 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 Auditor's judgement, having regard to the auditor's understanding of the nature of the 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.

Auditor's conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement 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 over financial reporting of the Company.



Chartered Accountants

30 August 2022

Colombo



Financial Reports

Independent Auditor's Report



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(Chartered Accountants)
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TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at 31 March 2022, 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 124 to 206.

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 31 March 2022, and of their financial performance and their 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 judgement, were of most significance in our audit of the Company and consolidated financial statements of the current year. 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.

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W.A.A. Weerasekara CFA, ACMA, MRICS

Allowance for impairment losses of loans and lease rental receivable

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

Risk description	Our response
<p>As at the reporting date 31 March 2022, 81% of total assets of the Group consisted of loans and lease rental receivables. As disclosed in Note 19 to the financial statements, the Group and the Company has recorded LKR 6,677 Mn as loans and lease rental receivable.</p> <p>The Group uses the expected credit loss (ECL) model to calculate the loss allowance in accordance with SLFRS 9 – Financial Instruments (SLFRS 9). High degree of complexity and judgement are involved in estimating ECL of LKR 385 Mn against loans and lease rental receivables from customers as at the reporting date.</p> <p>SLFRS 9 “Financial Instruments” requires the application of the 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. This model is reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).</p> <p>The prevailing uncertain and volatile macroeconomic environment meant that assumptions regarding the economic outlook are more uncertain which, combined with varying government responses, increases the level of judgement required by the Company in calculating the ECL, and the associated audit risk.</p> <p>Therefore, allowance for expected credit losses is a key audit matter due to the significance of the loans and rental receivables balances to these financial statements and the inherent complexity of the Group’s ECL models used to measure ECL allowances</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> • Assessment of the methodology of the models against the requirements of SLFRS 9 • Assessing the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management’s key judgements and estimates; • Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios; • Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; • Assessing how management had assessed the impact of changes in macroeconomic environment, 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 the prevailing uncertain and volatile macroeconomic environment as at the reporting date with reference to the reasonable and supportable information available to management at that date; • Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development. • Assessing the appropriateness of the Group’s disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting standards.

Independent Auditor's Report

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. The annual report is expected to be made available to us after the date of this auditor's report.

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 identified above when it becomes available 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

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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 judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
 - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this Independent Auditor's report is 3544.



CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

29 June 2022

Statement of Profit or Loss

For the year ended 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross income	6	969,469	629,491	969,469	629,491
Interest income	7.1	794,219	470,977	794,219	470,977
Interest expense	7.2	(300,022)	(237,591)	(300,022)	(237,591)
Net interest income	7	494,197	233,386	494,197	233,386
Fee and commission income	8	19,238	11,001	19,238	11,001
Net income from financial assets at FVTPL	9	28,367	43,995	28,367	43,995
Other operating income	10	127,645	103,518	127,645	103,518
Total operating income		669,447	391,900	669,447	391,900
Impairment reversal and other losses	11	40,914	41,803	40,914	41,803
Net operating income		710,361	433,703	710,361	433,703
Expenses					
Personnel expenses	12	(260,703)	(174,111)	(260,703)	(174,111)
Depreciation of property, plant and equipment		(9,731)	(4,267)	(9,731)	(4,267)
Amortisation of intangible assets		(501)	(392)	(501)	(392)
Amortisation of right-of-use assets	23	(42,897)	(35,085)	(42,897)	(35,085)
Other operating expenses	13	(195,103)	(119,297)	(195,276)	(119,374)
Operating profit before taxes on financial services		201,426	100,550	201,253	100,473
Taxes on financial services		(61,252)	(33,148)	(61,252)	(33,148)
Profit before income tax		140,174	67,402	140,001	67,325
Income tax reversal	14	51,626	397	51,626	397
Profit attributable to the owners of the Company		191,800	67,799	191,627	67,722
Basic earnings per share (LKR)	15	0.55	0.32	0.55	0.32
Diluted earnings per share (LKR)	15	0.55	0.32	0.55	0.32

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

Figures in brackets indicate deductions.

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Profit/(loss) for the year		191,800	67,799	191,627	67,722
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss</i>					
Actuarial gain/(loss) on retirement benefit obligation	29	3,764	1,656	3,764	1,656
Deferred tax effect on actuarial gain/ (loss)		(903)	(397)	(903)	(397)
Other comprehensive income/(loss) for the year, net of tax		2,861	1,259	2,861	1,259
Total comprehensive income/(loss) for the year attributable to the owners of the Company		194,661	69,058	194,488	68,981

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

Figures in brackets indicate deductions.

Statement of Financial Position

As at 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Assets					
Cash and cash equivalents	16	660,873	707,190	661,116	707,437
Placements with banks and financial institutions	17	410,942	5,126	410,942	5,126
Financial assets measured at fair value	18	9,245	647,840	9,245	647,840
Financial assets measured at amortised cost – loans and lease rentals receivable	19	6,676,608	3,156,568	6,676,608	3,156,568
Investments in subsidiary	20	–	–	–	–
Property, plant and equipment	21	82,027	24,879	82,027	24,879
Intangible assets	22	9,760	6,590	9,760	6,590
Right-of-use assets	23.1	123,822	68,787	123,822	68,787
Deferred tax assets	28	50,722	–	50,722	–
Other assets	24	255,817	86,872	255,817	86,872
Total assets		8,279,816	4,703,852	8,280,059	4,704,099
Liabilities					
Due to banks	25	1,842,767	–	1,842,767	–
Financial liabilities at amortised cost - Deposits due to customers	26	3,228,866	2,289,491	3,228,866	2,289,491
Debt securities issued	27	17,200	16,600	17,200	16,600
Lease liabilities	23.2	136,450	80,424	136,450	80,424
Employee benefit obligation	29	13,378	18,360	13,378	18,360
Other liabilities	30	207,460	167,776	208,062	168,209
Total liabilities		5,446,121	2,572,651	5,446,723	2,573,084
Equity					
Ordinary share capital	31	3,762,054	3,252,159	3,762,054	3,252,159
Statutory reserve fund	32	20,239	10,649	20,239	10,649
Accumulated losses	33	(948,598)	(1,131,607)	(948,957)	(1,131,793)
Total equity attributable to the owners of the Company		2,833,695	2,131,201	2,833,336	2,131,015
Total liabilities and equity		8,279,816	4,703,852	8,280,059	4,704,099
Commitments and contingencies	34	131,700	81,260	131,700	81,260
Net assets value per share (LKR)		6.99	6.52	6.99	6.52

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

Figures in brackets indicate deductions.

We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.



Kokila Perera
Senior Manager - Finance



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



Rangana Koralage
Director

29 June 2022
Colombo, Sri Lanka

Statement of Changes in Equity – Company

	Ordinary share capital LKR '000	Advances against stated Capital LKR '000	Reserve fund LKR '000	Accumulated losses LKR '000	Total equity LKR '000
Balance at 1 April 2020	2,440,290	300,000	7,259	(1,195,047)	1,552,502
Total comprehensive income for the year					
Profit for the year	-	-	-	67,799	67,799
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	1,656	1,656
Tax on other comprehensive income	-	-	-	(397)	(397)
Total other comprehensive income	-	-	-	1,259	1,259
Total comprehensive income	-	-	-	69,058	69,058
Transfers to the reserve fund	-	-	3,390	(3,390)	-
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	811,869	(300,000)	-	-	511,869
Transaction cost related to rights issue	-	-	-	(2,228)	(2,228)
Total contribution and distribution	811,869	(300,000)	-	(2,228)	509,641
Total transactions with owners of the Company	811,869	(300,000)	-	(2,228)	509,641
Balance at 31 March 2021	3,252,159	-	10,649	(1,131,607)	2,131,201
Balance at 31 March 2021	3,252,159	-	10,649	(1,131,607)	2,131,201
Total comprehensive income					
Profit for the year	-	-	-	191,800	191,800
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	3,764	3,764
Tax on other comprehensive income	-	-	-	(903)	(903)
Total other comprehensive income	-	-	-	2,861	2,861
Total comprehensive income	-	-	-	194,660	194,660
Transfers to the reserve fund	-	-	9,590	(9,590)	-
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	509,895	-	-	-	509,895
Transaction cost related to rights issue	-	-	-	(2,062)	(2,062)
Total contribution and distribution	509,895	-	-	(2,062)	507,834
Total transactions with owners of the Company	509,895	-	-	(2,062)	507,834
Balance at 31 March 2022	3,762,054	-	20,239	(948,598)	2,833,695

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

Figures in brackets indicate deductions.

Statement of Changes in Equity – Group

	Ordinary share capital LKR '000	Advances against stated Capital LKR '000	Reserve fund LKR '000	Accumulated losses LKR '000	Total equity LKR '000
Balance at 1 April 2020	2,440,290	300,000	7,259	(1,195,047)	1,552,393
Total comprehensive income for the year					
Profit for the year	-	-	-	67,722	67,722
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	1,656	1,656
Tax on other comprehensive income	-	-	-	(397)	(397)
Total other comprehensive income	-	-	-	1,259	1,259
Total comprehensive income	-	-	-	68,981	68,981
Transfers to the reserve fund	-	-	3,390	(3,390)	-
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	811,869	(300,000)	-	-	511,869
Advance against stated capital	-	-	-	-	-
Transaction cost related to rights issue	-	-	-	(2,228)	(2,228)
Total contribution and distribution	811,869	(300,000)	-	(2,228)	509,641
Total transactions with owners of the Company	811,869	(300,000)	-	(2,228)	509,641
Balance at 31 March 2021	3,252,159	-	10,649	(1,131,793)	2,131,015
Balance at 31 March 2021	3,252,159	-	10,649	(1,131,793)	2,131,015
Total comprehensive income					
Profit for the year	-	-	-	191,627	191,627
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	3,764	3,764
Tax on other comprehensive income	-	-	-	(903)	(903)
Total other comprehensive income	-	-	-	2,861	2,861
Total comprehensive income	-	-	-	194,488	194,488
Transfers to the reserve fund	-	-	9,590	(9,590)	-
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	509,895	-	-	-	509,895
Transaction cost related to rights issue	-	-	-	(2,062)	(2,062)
Total contribution and distribution	509,895	-	-	(2,062)	507,834
Total transactions with owners of the Company	509,895	-	-	(2,062)	507,834
Balance at 31 March 2022	3,762,054	-	20,239	(948,957)	2,833,336

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

Figures in brackets indicate deductions.

Statement of Cash Flows

For the year ended 31 March,		Company		Group		
		Note	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cash flows from operating activities						
Profit/(loss) before tax			140,174	67,402	140,001	67,325
Adjustment for:						
- Depreciation and amortisation	21&23	53,129	39,744	53,129	39,743	
- Profit on real estate sales	10	(37,729)	(26,984)	(37,729)	(26,984)	
- Gain on derecognition of right-of-use assets	23	(1,584)	(874)	(1,584)	(874)	
- Net gain on investment securities at FVPTL	9	(28,367)	(43,995)	(27,973)	(43,995)	
- Net impairment loss on loans and advances	11	(40,914)	(41,802)	(40,914)	(41,802)	
- Interest expense on preference shares	7.2	600	600	600	600	
- Interest expense due to banks	7.2	77,707	-	77,707	-	
- Interest expense on leases	23.2	10,415	13,635	10,415	13,635	
- Dividend on equity securities at FVPTL	9	(393)	(342)	(393)	(342)	
- Interest income	7.1	(16,031)	(77,774)	(16,031)	(77,774)	
- Provision for retirement benefit obligation	29	3,288	4,216	3,288	4,216	
- Gain on disposal of property, plant and equipment	29	(690)	(17,526)	(690)	(17,526)	
Net cash used in operating activities			159,605	(83,698)	159,824	(83,777)
Changes in						
Financial assets measured at amortised cost - loans and lease rentals receivable			(3,479,127)	(1,456,456)	(3,479,127)	(1,456,456)
Other assets			(131,215)	27,352	(131,215)	27,352
Due to customers			939,374	188,555	939,374	188,555
Other liabilities			39,685	121,830	39,462	121,902
			(2,471,678)	(1,202,419)	(2,471,682)	(1,202,423)
Retiring gratuity paid	29	(4,506)	(7,656)	(4,506)	(7,656)	
Interest paid due to banks		(49,109)	-	(49,109)	-	
Income tax paid		-	-	-	-	
			(2,525,293)	(1,210,075)	(2,525,295)	(1,210,079)

Statement of Cash Flows

For the year ended 31 March,		Company		Group	
		Note	2022 LKR '000	2021 LKR '000	2022 LKR '000
Cash flows from investing activities					
Interest income on short term investment	7.1	16,031	77,774	16,031	77,774
Investment/upliftment of fixed deposits	17	(405,816)	1,208,971	(405,816)	1,208,971
Investments in securities	18	666,961	(117,657)	666,961	(117,657)
Acquisition of property, plant and equipment	21	(66,879)	(17,627)	(66,879)	(17,627)
Acquisition of intangible assets	22	(3,671)	(4,499)	(3,671)	(4,499)
Proceeds from disposal of property, plant and equipment	21	690	17,547	690	17,547
Dividends received from investments	9	393	342	393	342
Net cash from investing activities		207,709	1,164,851	207,709	1,164,851
Cash flows from financing activities					
Proceeds from rights issue of shares	31	509,895	511,869	509,895	511,869
Transaction cost related to rights issue	33	(2,062)	(2,228)	(2,062)	(2,228)
Proceeds from borrowing from due to banks	25.1	1,850,000	-	1,850,000	-
Repayments of borrowings from due to banks	25.1	(35,831)	-	(35,831)	-
Lease rental payments	23.2	(50,736)	(46,953)	(50,736)	(46,953)
Net cash from financing activities		2,271,266	462,688	2,271,266	462,688
Net (decrease)/increase in cash and cash equivalents		(46,317)	417,465	(46,321)	417,462
Cash and cash equivalents at beginning of the year		707,190	289,725	707,437	289,975
Cash and cash equivalents at the end of the year	16	660,873	707,190	661,116	707,437

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

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. CORPORATE AND GROUP INFORMATION

1.1 Corporate Information

People's Merchant Finance PLC ("the Company") is a Licensed Finance Company registered under the Finance Business Act No. 42 of 2011 and listed on the Colombo Stock Exchange. The Company was incorporated on 26 January 1983 and is domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. The Company was listed on the Main Board of Colombo Stock Exchange on 11 July 1994.

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

The registered office of the Company and the principal place of the business is situated at No. 361,361/1, R A De Mel Mawatha, Colombo 03.

Consolidated Financial Statements

The Consolidated Financial Statements of the Group for the year ended 31 March 2022 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, Sterling Capital Investments (Private) Limited, is incorporated in Sri Lanka and the ultimate parent entity, Rush Japan Corporation, is incorporated in Japan.

Number of Employees

The staff strength of the Group as at 31 March 2022 was 217 (168 as at 31 March 2021).

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, gold loans, term loans, 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. 07 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 31 March 2022 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 (CA Sri Lanka). 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 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 31 March 2022 (including comparatives) were approved and authorised for issue by the Management on 29 June 2022.

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 FVTPL	Fair value
Financial assets at FVOCI	Fair value
Defined benefit obligations	Present value of the defined benefit obligations

Notes to the Financial Statements

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 1 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 1 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 recognised. Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows comprise those items as explained in Note 16.

2.9 Use of Estimates and Judgements

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs and LKASs requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

- Fair value 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 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Consolidated Financial Statements is included in the following Notes.

- **Note 4.1:** Determination of control over investees
- **Note 4.17:** Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. 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 31 March 2022 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/Current economic conditions : 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. For this purpose, the Management evaluated the resilience of the business considering a wide range of factors under different scenarios relating to profitability, liquidity and cash flows.

Furthermore, On 23 December 2021 the Company raised capital of LKR 509,895,750/- through a rights issue by issuing 78,445,500 ordinary shares at an exercise price of LKR 6.50 per share which resulted in the Company having a net equity position of LKR 2.78 Bn as at 31 March 2022.

Therefore, after due consideration of the range and likelihood of outcomes, the Management is satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and has continued to adopt the going concern basis in preparing and presenting these Financial Statements.

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, as there had been no changes during the year.

4. SIGNIFICANT ACCOUNTING POLICIES

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 on "Consolidated Financial Statements".

Business Combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meet the definition of a business and control is transferred to the Group. When determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce inputs.

The Group has an option to apply a "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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 are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

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

4.1.2 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and

Notes to the Financial Statements

the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised 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 unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised 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 Lankan Rupees at the exchange rate ruling at the dates that the value were determined.

Foreign exchange differences arising on translation are generally recognised 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 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 is probable that they will lead to future economic benefits, are included in the statement of financial position under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

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

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

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

4.4.2.3 Derecognition

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

4.4.3 Inventory – Real Estate

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

Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realisable 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

Notes to the Financial Statements

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 on "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 recognised 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 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 36.

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 SFRS 9 and partially in the scope of SLFRS 15. If this is the case, then the Group first applies SLFRS 9 to separate and measure the part of the contract that is in the scope of SLFRS 9 and then applies SLFRS 15 to the residual.

4.8 Profit on Real Estate Sales

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

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

date of revenue recognition are included in the statement of financial position under contract liabilities.

4.9 Other Income

4.9.1 Dividend Income

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

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 and 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 and equipment

Notes to the Financial Statements

Personnel expenses

Personnel expenses include salaries, bonus, terminal benefit charges, and other related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation. Employees are eligible for Employees' Provident Fund (EPF) contribution and Employees' Trust Fund (ETF) contributions in accordance with the respective statutes and regulations. Retirement benefit obligation is recognised in the statement of profit or loss based on an actuarial valuation carried out for the gratuity liability in accordance with Sri Lanka Accounting Standard – LKAS 19 on "Employee Benefits".

4.11 Income Tax

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

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under LKAS 37 on "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 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 Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of VAT on Financial Services is the accounting profit before VAT on Financial Services and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits, non-cash benefits and provisions relating to terminal benefits. VAT on Financial Services was charged at 15% from 1 April 2021 to 31 December 2021 and 18% with effect from 1 January 2022.

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 1 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%

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.

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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. 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 judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- 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 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

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plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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

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

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it

is presented as interest income calculated using the effective interest rate method.

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 IFRS, 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.

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.

Fair Value Hierarchy

The Group measures the fair values of financial instruments using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1

When available, the fair values of financial instruments are determined using quoted market prices (unadjusted) in active markets for identical instruments. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market

transactions on an arm's length basis. Quoted equities are valued under Level 1 by referring to published market prices.

Level 2 – Fair value measurement using significant observable inputs

In the absence of an active market for a financial instrument, the fair value is determined using valuation techniques. These include discounted cash flow analysis, effective interest rate calculations and forecasted future cash flow calculations using recent arm's length transactions between knowledgeable and willing parties. These valuation techniques make maximum use of market inputs, incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Investments in Unit Trusts are valued under Level 2 by referring to prices published by the Unit Trusts managers.

Level 3 – Fair value measurement using significant unobservable inputs

Financial instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. Fair value of such instruments are determined using a valuation model that has been tested against prices or inputs to actual market transactions and best estimates of the most appropriate model assumptions. Fair value of unquoted equity securities are determined using net assets value as an approximation of its fair value.

The determination of fair values of financial assets and financial liabilities recorded in the statement of financial position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable

market data where possible, but if this is not available, judgement is required to establish their fair values. The Group measures fair value using the fair value hierarchy that reflects the significance of inputs used in making measurements.

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.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group 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 Group's historical experience and informed credit assessment and including forward-looking information.

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The Company assumes that the credit risk on a financial asset has increased significantly if it is exceeding the relevant credit period.

The Group considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligation to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The financial asset is more than 180 days past due

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 180 days or more is considered credit-impaired even when the regulatory definition of default is different. Hence, the Group has rebutted the presumption that a financial asset is credit impaired when it is 90 days past due.

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 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 amortisation. The EAD of a financial asset is its gross carrying amount.

The 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 six months and the outstanding receivable value is more than LKR 5 Mn.

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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 judgements 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 Group as hedge accounting is not applied currently

4.19 Leases

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.

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 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.

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 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 sublease separately. It assesses the lease classification of a sublease 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 sublease 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"

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these Financial Statements. The following amended standards and interpretations are not expected to have a significant impact on the Group's Financial Statements:

- Onerous Contracts - Cost of fulfilling a contract (Amendments to LKAS 37);
- Other standards
 - COVID-19 Related Rent Concessions (Amendments to SLFRS 16)
 - Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16)
 - Reference to Conceptual Framework (Amendments to SLFRS 3)
 - Classification of Liabilities as Current or Non-current (Amendments to LKAS 1)
 - Annual improvements to SLFRS standards 2018-2020, which are not effective as at reporting date
 - Deferred tax related to Assets and Liabilities arising from a single transaction (Amendments to LKAS 12)
 - Disclosure of Accounting Policies (Amendments to LKAS 1)
 - Definition of Accounting Estimates (Amendments to LKAS 8)

Notes to the Financial Statements

6. GROSS INCOME

For the year ended 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest income	7.1	794,219	470,977	794,219	470,977
Fee and commission income	8	19,238	11,001	19,238	11,001
Net income from financial assets at FVTPL	9	28,367	43,995	28,367	43,995
Other operating income	10	127,645	103,518	127,645	103,518
		969,469	629,491	969,469	629,491

7. NET INTEREST INCOME

7.1 Interest income calculated using effective interest method

For the year ended 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Loans receivable	392,357	152,191	392,357	152,191
Lease rentals receivable and hire purchase	351,081	214,978	351,081	214,978
Total interest income calculated using the effective interest method	743,439	367,169	743,439	367,169
Other interest income				
Interest from securities under repurchase agreements	13,402	15,628	13,402	15,628
Placements with banks and financial institutions	2,629	62,146	2,629	62,146
Overdue rentals	34,749	26,034	34,749	26,034
Total other interest income	50,780	103,808	50,780	103,808
Total interest income	794,219	470,977	794,219	470,977

7.2 Interest expense

For the year ended 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Interest on overdrafts and borrowings	77,707	–	77,707	–
Interest on fixed and savings deposits	211,300	223,356	211,300	223,356
Interest on preference shares	600	600	600	600
Interest on lease liabilities	10,415	13,635	10,415	13,635
Total interest expenses	300,022	237,591	300,022	237,591
Net interest income	494,197	233,386	494,197	233,386

8. FEE AND COMMISSION INCOME

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

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Fee and commission income	19,238	11,001	19,238	11,001
Comprising				
Guarantee fees	27	27	27	27
Insurance commission	8,898	6,623	8,898	6,623
Service charges	10,313	4,351	10,313	4,351
Total fee and commission income from contracts with customers	19,238	11,001	19,238	11,001

9. NET INCOME FROM FINANCIAL ASSETS AT FVTPL

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March					
Equity investments – Quoted					
Dividend on equity securities measured at FVTPL		393	342	393	342
Fair value gain/(loss) on financial assets at FVTPL	18.1.1	(2,357)	502	(2,357)	502
		(1,964)	843	(1,964)	843
Unit trusts					
Fair value gain on financial assets at FVTPL	18.2	30,331	43,151	30,331	43,151
Net fair value gains/(losses) from financial assets at FVTPL		28,367	43,995	28,367	43,995

10. OTHER OPERATING INCOME

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Net gain from foreign exchange	560	76	560	76
Profit on real estate sales	37,729	26,984	37,729	26,984
Staff loan income	739	591	739	591
Recovery of bad debts written off	59,214	46,398	59,214	46,398
Gain on disposal of property, plant and equipment	690	17,526	690	17,526
Gain on de-recognition of right-of-use assets	1,584	874	1,584	874
Other operating income	27,129	11,069	27,129	11,069
Total other operating income	127,645	103,518	127,645	103,518

Notes to the Financial Statements

11. IMPAIRMENT REVERSAL AND OTHER LOSSES

For the year ended 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Lease receivables	(59,511)	(21,328)	(59,511)	(21,328)
Loans and advances	12,410	(55,764)	12,410	(55,764)
Hire purchase receivables	(1,563)	(876)	(1,563)	(876)
Margin trading	1,636	1,530	1,636	1,530
Gold loans	-	114	-	114
Loss on disposal of collaterals	6,099	34,521	6,099	34,521
Other financial assets	15	-	15	-
Net impairment charges and loss on disposal of collaterals	(40,914)	(41,803)	(40,914)	(41,803)

The Company recorded a loss on disposal of collaterals amounting to LKR 6 Mn, out of facilities totalling up to an outstanding value of LKR 17.7 Mn during the year.

12. PERSONNEL EXPENSES

For the year ended 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Salaries and other related expenses		232,427	152,106	232,427	152,106
Employee benefit – Retirement benefit obligation	29	3,390	4,216	3,390	4,216
Employee benefit – Defined contribution plans (EPF/ETF)		24,147	17,198	24,147	17,198
Amortisation of prepaid staff loans		739	591	739	591
Total personnel expense		260,703	174,111	260,703	174,111

13. OTHER OPERATING EXPENSES

For the year ended 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Directors' fees and emoluments	15,402	9,102	15,402	9,102
Auditor's remunerations				
Statutory audit fees	1,450	1,175	1,450	1,175
Audit related services	500	550	590	550
Non-audit services	900	750	900	750
Professional and legal fees	8,431	10,862	8,511	10,862
Office administrative and establishment expenses	168,420	96,858	168,423	96,935
Total other operating expenses	195,103	119,297	195,276	119,374

14. INCOME TAX EXPENSE/(REVERSAL)

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March					
Current tax expense		-	-	-	-
Deferred tax expense	14.1	(51,626)	(397)	(51,626)	(397)
Total tax expenses		(51,626)	(397)	(51,626)	(397)

14.1 Deferred tax expense

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Deferred tax recognised in other comprehensive income	903	(397)	903	(397)
Deferred tax recognised in profit or loss	(51,626)	397	(51,626)	397
Total deferred tax expense	(50,723)	-	(50,723)	-

14.2 Reconciliation of tax expense

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Profit/(loss) before tax	140,174	67,402	140,001	67,325
Tax at rate of 24%	33,642	16,176	33,600	16,158
Tax effect on exempted income	(5)	(5)	(5)	(5)
Tax effect on disallowable expenses	100,653	93,270	100,653	93,270
Tax effect on capital allowances	(20,183)	(26,608)	(20,183)	(26,608)
Tax effect on other allowable expenses	(38,381)	(71,948)	(38,381)	(71,948)
Effect of taxable losses	(75,725)	(10,886)	(75,683)	(10,867)
Income tax expenses	-	-	-	-
Effective tax rate	0%	0%	0%	0%

The income tax rate for the year ended 31 March 2022 was at 24% (2021 – 24%).

Notes to the Financial Statements

14.3 Analysis of tax losses

	Company	
	2022 LKR '000	2021 LKR '000
For the year ended 31 March		
Balance at 1 April	1,189,982	1,108,571
Adjustments on over/under provision	(90,197)	126,770
Adjustments on tax assessments	-	-
Loss utilised during the year	(315,521)	(45,359)
Closing tax loss	784,265	1,189,982

14.4 Income tax assessments

The Company received an Income Tax Assessment for a sum of LKR 9.7 Mn from the Department of Inland Revenue for the Year of Assessment 2017/18. The Company recorded a tax loss of LKR 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. As at 31 March 2022, the tax assessment and the appeal thereto is currently under discussion and the matter is yet to be settled.

The Board of Directors of the Company has made an assessment on the implications of IFRIC 23 – Uncertainty over income tax treatments on the above assessment. Accordingly, the Directors of the Company based on the view of the tax consultant is confident that the outcome of the appeal would be positive to the Company once settled and determined that a tax liability on the above mentioned tax assessment will not arise hence no additional provision is made in these Financial Statements.

15. EARNINGS PER SHARE

Basic earnings per ordinary share has been calculated based on the profit 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 earnings per share is equal to the basic earnings per share.

	Company		Group	
	2022	2021	2022	2021
For the year ended 31 March				
Profit for the year attributable to ordinary shareholders (LKR '000)	191,800	67,799	191,627	67,722
Weighted average number of shares at 31 March ('000)	348,348	214,614	348,348	214,614
Basic and diluted earnings per share	0.55	0.32	0.55	0.32

15.1 Weighted average number of shares

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Brought forward number of shares	326,856	210,875	326,856	210,875
Effect of rights issue	21,492	3,121	21,492	3,121
Effect of shares issued during the year	-	618	-	618
Weighted average number of shares	348,348	214,614	348,348	214,614

16. CASH AND CASH EQUIVALENTS

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Cash in hand	30,403	16,941	30,403	16,941
Cash and cash equivalents with other financial institutions	424,621	26,961	424,865	27,208
Securities under repurchase agreements	205,859	663,288	205,859	663,288
Less: Allowance for Impairment	(11)	-	(11)	-
Cash and cash equivalents in the statement of financial position	660,873	707,190	661,116	707,437
Cash and cash equivalents in the statement of cash flows	660,873	707,190	661,116	707,437

There were no cash and cash equivalents held by the Company that were not available for use by the Company.

17. PLACEMENTS WITH BANKS AND FINANCIAL INSTITUTIONS

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Investment in fixed deposits	410,945	5,126	410,945	5,126
Less: Allowance for Impairment	(3)	-	(3)	-
	410,942	5,126	410,942	5,126

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Financial assets measured at FVTPL – Quoted investments	18.1	6,698	2,320	6,698	2,320
Financial assets measured at FVTPL – Unit trust	18.2	2,524	645,496	2,524	645,496
Financial assets measured at FVOCI – Debt instruments		48	48	48	48
Financial assets measured at FVOCI – Equity instruments		23	23	23	23
		9,293	647,888	9,293	647,888
Less: Impairment charges on debt securities	18.3	(48)	(48)	(48)	(48)
		9,245	647,840	9,245	647,840

18.1 Financial assets measured at FVTPL

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Investment in equity securities					
Cost	18.1.2	10,121	3,386	10,121	3,386
Fair value changes	18.1.1	(3,423)	(1,066)	(3,423)	(1,066)
Total		6,698	2,320	6,698	2,320

18.1.1 Movements in fair value changes

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance at 1 April	(1,066)	(1,567)	(1,066)	(1,567)
Gain/(reversal) during the year	(2,357)	501	(2,357)	501
Balance at 31 March	(3,423)	(1,066)	(3,423)	(1,066)

18.1.2 Quoted equity securities held by the – Company/Group

As at 31 March	2022			2021		
Sector	Number of shares	Total cost LKR '000	Market value LKR '000	Number of shares	Total cost LKR '000	Market value LKR '000
Bank, finance and insurance						
Nations Trust Bank PLC	-	-	-	3,143	214	174
Vanik Incorporation PLC	61	3	0	61	3	-
People's Leasing & Finance PLC	-	-	-	74,447	1,242	878
Sampath Bank PLC	-	-	-	78	6	4
LOLC Holdings PLC	1,700	1,873	1,016	-	-	-
First Capital Treasuries PLC	7,000	273	217	-	-	-
		2,149	1,233		1,465	1,056
Sector Percentage			18%			46%
Hotel and travels						
Keells Hotels PLC	-	-	-	7,085	150	67
Hotel Services Ceylon PLC	-	-	-	87,000	1,320	522
		-	-		1,470	589
Sector Percentage			0%			25%
Manufacturing						
ACL Cables PLC	15,000	1,334	863	18,800	450	675
Browns Investments PLC	250,000	3,541	1,875			
Hayleys PLC	8,000	622	615			
Royal Ceramics Lanka PLC	30,000	1,201	1,221			
Hela Apparel Holdings PLC	10,000	174	129			
		6,873	4,703		450	675
Sector Percentage			70%			29%
Transportation						
Expolanka Holdings PLC	3,500	1,075	727	-	-	-
		1,075	727		-	-
Sector Percentage			11%			0%
Software and Services						
Hsenid Business Solutions PLC	2,000	24	36	-	-	-
		24	36		-	-
Sector Percentage			1%			0%
Total		10,121	6,698		3,386	2,320

Notes to the Financial Statements

18.2 Financial assets measured at FVTPL – Unit trust

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance at 1 April				
Opening balance	645,496	484,346	645,496	484,346
Purchases	2,774,197	1,118,000	2,774,197	1,118,000
Sales	(3,447,500)	(1,000,000)	(3,447,500)	(1,000,000)
Fair value changes	30,331	43,151	30,331	43,151
Balance at 31 March	2,524	645,496	2,524	645,496

18.3 Movements in impairment charges during the year

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance at 1 April	48	48	48	48
Charge/(write back) to statement of profit or loss	-	-	-	-
Balance at 31 March	48	48	48	48

19. FINANCIAL ASSETS MEASURED AT AMORTISED COST – LOANS AND LEASE RENTALS RECEIVABLE

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Loans	3,787,489	1,765,449	3,787,489	1,765,449
Finance leases	3,274,177	1,804,480	3,274,177	1,804,480
Gross loans and receivables	7,061,666	3,569,929	7,061,666	3,569,929
Less: Impairment loss allowance	(385,058)	(413,361)	(385,058)	(413,361)
Net loans and advances	6,676,608	3,156,568	6,676,608	3,156,568

19.1 Analysis by product

As at 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Finance lease receivable	3,274,177	1,804,480	3,274,177	1,804,480
Hire purchase receivable	3,337	3,962	3,337	3,962
Vehicle loans	924,603	358,363	924,603	358,363
Gold loans	1,164,639	585,167	1,164,639	585,167
Margin trading receivable	951,541	471,570	951,541	471,570
Loans against fixed deposits	15,341	25,055	15,341	25,055
Other loans	728,029	321,332	728,029	321,332
Gross total	7,061,666	3,569,929	7,061,666	3,569,929
Analysis by currency				
Sri Lankan rupees	7,061,666	3,569,929	7,061,666	3,569,929
Gross total	7,061,666	3,569,929	7,061,666	3,569,929

19.2 Impairment loss allowance

As at 31 March		2022			2021		
Note	Gross carrying amount LKR '000	ECL allowance LKR '000	Carrying amount LKR '000	Gross amount LKR '000	ECL allowance LKR '000	Carrying amount LKR '000	
Hire purchase	19.2.1	3,337	827	2,510	3,962	2,390	1,572
Vehicle loans	19.2.2	924,603	15,397	909,206	358,363	21,266	337,098
Other loans	19.2.3	743,369	109,793	633,577	346,387	91,513	254,874
Margin trading	19.2.4	951,541	129,318	822,223	471,570	109,940	361,630
Gold loans	19.2.5	1,164,639	1,902	1,162,737	585,167	919	584,248
Lease	19.2.6	3,274,177	127,822	3,146,355	1,804,480	187,333	1,617,147
		7,061,666	385,058	6,676,608	3,569,929	413,361	3,156,569

Notes to the Financial Statements

19.2.1 Hire purchase

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in hire purchase		
Less than one year	460	751
Between one and five years	3,325	3,659
More than five years	-	-
	3,785	4,410
Unearned income	(448)	(448)
	3,337	3,962
Impairment allowance for hire purchase – individual	-	-
Impairment allowance for hire purchase – collective	(827)	(2,390)
Net investment in hire purchase	2,510	1,572

19.2.2 Vehicle loans

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in loan receivables		
Less than one year	18,501	231,767
Between one and five years	923,162	145,581
More than five years	-	-
	941,663	377,348
Unearned income	(17,061)	(18,985)
	924,603	358,363
Impairment allowance for loan receivables – individual	(1,586)	(5,041)
Impairment allowance for loan receivables – collective	(13,811)	(16,224)
Net investment in loan receivables	909,206	337,097

19.2.3 Other loans

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in loan receivables		
Less than one year	121,042	159,061
Between one and five years	286,897	184,689
More than five years	402,974	68,255
	810,913	412,005
Unearned income	(67,543)	(65,618)
	743,369	346,387
Impairment allowance for loan receivables – individual	(32,543)	(35,315)
Impairment allowance for loan receivables – collective	(77,249)	(56,199)
Net investment in loan receivables	633,577	254,874

19.2.4 Margin trading receivables

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in margin trading receivables		
Less than one year	951,541	471,570
Between one and five years	-	-
More than five years	-	-
	951,541	471,570
Unearned income	-	-
	951,541	471,570
Impairment allowance for margin trading receivables – individual	(129,318)	(109,940)
Impairment allowance for margin trading receivables – collective	-	-
Net investment in margin trading receivables	822,223	361,630

Notes to the Financial Statements

19.2.5 Gold loans

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in pawning and other receivables		
Less than one year	1,164,639	585,167
Between one and five years	-	-
More than five years	-	-
	1,164,639	585,167
Unearned income	-	-
	1,164,639	585,167
Impairment allowance for pawning and other receivables - individual	(1,902)	(919)
Impairment allowance for pawning and other receivables - collective	-	-
Net investment in pawning receivables	1,162,737	584,248

19.2.6 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.

As at 31 March	2022 LKR '000	2021 LKR '000
Gross investment in finance lease receivables		
Less than one year	239,508	239,508
Between one and five years	3,380,593	1,910,896
More than five years	115,391	115,391
	3,735,491	2,265,795
Unearned finance income	(461,314)	(461,314)
	3,274,177	1,804,480
Impairment allowance for finance lease receivables - individual	(52,996)	(105,450)
Impairment allowance for finance lease receivables - collective	(74,826)	(81,883)
Net investment in finance lease receivables	3,146,355	1,617,147

19.3 The table below shows the ECL charges on the financial instruments recorded in the statements of profit or loss

	2022			2021		
	Individual LKR '000	Collective LKR '000	Total LKR '000	Individual LKR '000	Collective LKR '000	Total LKR '000
Financial assets at amortised cost – Hire purchase receivables						
Stage 1	-	368	368	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	-	(1,930)	(1,930)	-	(876)	(876)
Total	-	(1,563)	(1,563)	-	(876)	(875)
Financial assets at amortised cost – Finance lease receivables						
Stage 1	-	3,387	3,387	-	15,947	15,947
Stage 2	-	(4,980)	(4,980)	-	(21,171)	(21,171)
Stage 3	(52,454)	(5,465)	(57,918)	(51,345)	35,242	(16,103)
Total	(52,454)	(7,058)	(59,511)	(51,345)	30,018	(21,328)
Financial assets at amortised cost – Vehicle loans						
Stage 1	-	8,699	8,699	-	3,816	3,816
Stage 2	-	(858)	(858)	-	(581)	(581)
Stage 3	(3,456)	(10,255)	(13,711)	(10,324)	9,181	(1,142)
Total	(3,456)	(2,413)	(5,869)	(10,324)	12,417	2,093
Financial assets at amortised cost – Other loans						
Stage 1	-	4,871	4,871	-	(1,060)	(1,060)
Stage 2	-	(603)	(603)	-	(16,013)	(16,013)
Stage 3	(2,771)	16,783	14,012	(85,245)	44,461	(40,783)
Total	(2,771)	21,050	18,279	(85,245)	27,388	(57,856)
Financial assets at amortised cost – Margin trading						
Stage 1	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	1,636	-	1,636	1,530	-	1,530
Total	1,636	-	1,636	1,530	-	1,530

Notes to the Financial Statements

	2022			2021		
	Individual LKR '000	Collective LKR '000	Total LKR '000	Individual LKR '000	Collective LKR '000	Total LKR '000
Financial assets at amortised cost – Gold loans						
Stage 1	-	1,902	-	-	-	-
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	114	-	114
Total	-	1,902	-	114	-	114
Financial assets at amortised cost – Total						
Stage 1	-	16,701	17,325	-	18,703	18,703
Stage 2	-	(6,441)	(6,441)	-	(37,765)	(37,765)
Stage 3	(56,875)	(413)	(57,912)	(145,269)	88,009	(57,261)
Total	(56,875)	9,847	(47,028)	(145,269)	68,947	(76,322)

19.4 Credit exposure movement by class of financial assets – ECL stage wise

	12-Month ECL (Stage 1) LKR '000	Life time ECL – Not credit impaired (Stage 2) LKR '000	Life time ECL – Credit impaired (Stage 3) LKR '000	Total LKR '000
Hire purchase				
Amortised cost as at 1 April 2021			3,962	3,962
Transfer to stage			-	-
New assets originated or purchased			-	-
Financial assets derecognised and repaid			(625)	(625)
Amortised cost as at 31 March 2022	-	-	3,337	3,337
Vehicle Loans				
Amortised cost as at 1 April 2021	322,217	11,454	24,692	358,363
Transfer to stage	(1,542)	1,542	-	-
New assets originated or purchased	792,999	15,825	104,480	913,305
Financial assets derecognised and repaid	(310,874)	(11,499)	(24,691)	(347,064)
Amortised cost as at 31 March 2022	802,800	17,322	104,481	924,603
Other Loans				
Amortised cost as at 1 April 2021	177,191	21,972	147,223	346,386
Transfer to stage	(12,785)	(971)	13,756	-
New assets originated or purchased	120,544	-	318,133	438,677
Financial assets derecognised and repaid	(67,512)	4,313	21,505	(41,694)
Amortised cost as at 31 March 2022	217,438	25,314	500,617	743,370

	12-Month ECL (Stage 1) LKR '000	Life time ECL – Not credit impaired (Stage 2) LKR '000	Life time ECL – Credit impaired (Stage 3) LKR '000	Total LKR '000
Lease receivable				
Amortised cost as at 1 April 2021	1,351,842	184,137	268,502	1,804,481
Transfer to stage	(65,081)	57,352	7,729	–
New assets originated or purchased	2,136,507	129,079	3,976	2,269,562
Financial assets derecognised and repaid	(626,131)	(82,752)	(90,983)	(799,866)
Amortised cost as at 31 March 2022	2,797,137	287,815	189,224	3,274,177

19.5 Provision for total impairment (ECL) movement

	2022 LKR '000	2021 LKR '000
Stage 1		
Opening balance as at 1 April	102,847	86,920
Net impairment charge for the year	16,701	15,927
Closing balance as at 31 March	119,547	102,847
Stage 2		
Opening balance as at 1 April	62,680	95,656
Net impairment charge/(reversal) for the year	(6,441)	(32,976)
Closing balance as at 31 March	56,239	62,680
Stage 3		
Opening balance as at 1 April	247,836	294,011
Net impairment charge/(reversal) for the year	(57,287)	(46,175)
Closing balance as at 31 March	190,549	247,836
Total		
Opening balance as at 1 April	413,362	476,587
Net impairment charge/(reversal) for the year	(47,028)	(76,324)
Adjustment in recognising interest income on net basis for credit impaired loans advances	18,723	13,098
Closing balance as at 31 March	385,058	413,361

Notes to the Financial Statements

19.6 Provision for impairment (ECL) movement by class of financial assets

	12-Month ECL (Stage 1) LKR '000	Life time ECL – Not credit impaired (Stage 2) LKR '000	Life time ECL – Credit impaired (Stage 3) LKR '000	Total LKR '000
Hire purchase				
Impairment as at 1 April 2021			2,390	2,390
Transfer to stage			–	–
New assets originated or purchased			–	–
Net remeasurement of impairment and repaid			–	–
Financial assets derecognised			(1,563)	(1,563)
Impairment as at 31 March 2022	–	–	(1,563)	(1,563)
Vehicle loans				
Impairment as at 1 April 2021	4,841	1,721	14,704	21,266
Transfer to stage	–	–	–	–
New assets originated or purchased	12,918	893	1,585	15,396
Net remeasurement of impairment and repaid	17,759	2,614	16,289	36,662
Financial assets derecognised	(4,841)	(1,721)	(14,703)	(21,266)
Impairment as at 31 March 2022	12,918	893	1,586	15,397
Other loans				
Impairment as at 1 April 2021	954	3,475	87,084	91,513
Transfer to stage	224	(5,860)	5,636	–
New assets originated or purchased	2,206	–	311	2,517
Net remeasurement of impairment and repaid	3,384	(2,385)	93,031	94,030
Financial assets derecognised	2,269	5,227	8,267	15,763
Impairment as at 31 March 2022	5,653	2,842	101,298	109,793
Lease receivable				
Impairment as at 1 April 2021	23,722	12,526	151,085	187,333
Transfer to stage	(1,464)	(1,038)	2,502	–
New assets originated or purchased	21,113	3,468	177	24,758
Net remeasurement of impairment and repaid	43,371	14,956	153,764	212,091
Financial assets derecognised	(16,262)	(7,410)	(60,597)	(84,269)
Impairment as at 31 March 2022	27,109	7,546	93,166	127,822

20. INVESTMENTS IN SUBSIDIARY

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Investments in subsidiary					
Unquoted equity share	20.1	175,000	175,000	-	-
Less: Impairment charges		(175,000)	(175,000)	-	-
Net total		-	-	-	-

20.1 Unquoted equity shares

	2022		2021	
	LKR '000	Holding %	LKR '000	Holding %
As at 31 March				
PMB Services Limited	175,000	100	175,000	100
Closing balance	175,000	100	175,000	100

The investment on equity shares of PMB Services Ltd. was fully impaired due to the continuous losses incurred by the subsidiary. The subsidiary does not have any operations currently. PMB Services Ltd. incurred a loss of LKR 142,418/- on financial year 2022/21 (2021/20 – LKR 76,608).

21. PROPERTY, PLANT AND EQUIPMENT – GROUP/COMPANY

21.1 Reconciliation of carrying amounts

Property, plant and equipment	Motor vehicles LKR '000	Furniture and fittings LKR '000	Computer LKR '000	Office equipment LKR '000	Work-in-progress LKR '000	Total LKR '000
Cost						
Balance at 1 April 2020	26,525	20,009	37,158	25,968	-	109,660
Additions	-	8,733	4,724	3,900	270	17,627
Disposals	(26,525)	(13)	-	(394)	-	(26,932)
Balance at 31 March 2021	-	28,729	41,882	29,474	270	100,355
Balance at 1 April 2021	-	28,729	41,882	29,474	270	100,355
Additions	-	46,651	9,871	10,357	-	66,879
Transfers	-	1,835	(4,643)	3,077	(270)	-
Disposals	-	(4,242)	(14,689)	(1,049)	-	(19,980)
Balance as at 31 March 2022	-	72,974	32,421	41,860	-	147,255

Notes to the Financial Statements

Property, plant and equipment	Motor vehicles LKR '000	Furniture and fittings LKR '000	Computer LKR '000	Office equipment LKR '000	Work-in-progress LKR '000	Total LKR '000
Accumulated depreciation and impairment losses						
Balance at 1 April 2020	26,525	17,408	32,772	21,416	–	98,121
Depreciation for the year	–	972	1,747	1,548	–	4,267
Disposals	(26,525)	(13)	–	(374)	–	(26,912)
Balance at 31 March 2021	–	18,367	34,519	22,590	–	75,476
Balance at 1 April 2021	–	18,367	34,519	22,590	–	75,476
Depreciation for the year	–	4,940	2,713	2,078	–	9,731
Transfers	–	1,565	(3,948)	2,383	–	–
Disposals	–	(4,241)	(14,689)	(1,049)	–	(19,979)
Balance at 31 March 2022	–	20,631	18,595	26,002	–	65,228
Carrying amount						
Balance at 31 March 2021	–	10,362	7,363	6,884	270	24,879
Balance at 31 March 2022	–	52,344	13,826	15,858	–	82,027

Carrying amount of Property, Plant and Equipment (PPE) of the Company and Group are the same. PPE assets of PMB services Limited are fully depreciated and the cost of the assets are disclosed in Note 21.4 to the Financial Statements.

Work-in-progress

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Head office renovation cost	–	270	–	270

The Group/Company has no work-in-progress as at 31 March 2022. (2021- LKR 270,000).

21.2 There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 31 March 2022 (31 March 2021- 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:

	Company		PMB Services Ltd.		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March						
Motor vehicle	-	-	-	-	-	-
Computers	13,588	29,150	5,940	5,940	19,528	35,090
Furniture and fitting	12,787	15,677	2,266	2,266	15,053	17,943
Office equipment	15,727	16,506	5,060	5,060	20,787	21,566
Total	42,102	61,333	13,266	13,266	55,368	74,599

22. INTANGIBLE ASSETS – COMPANY/GROUP

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

22.1 Reconciliation of carrying amount

	Intangible assets LKR '000	Work-in-progress LKR '000	Total LKR '000
Cost			
Balance at 1 April 2020	31,562	-	31,562
Additions	1,236	3,263	4,499
Balance at 31 March 2021	32,799	3,263	36,061
Balance at 1 April 2021	32,799	3,263	36,061
Additions	946	2,725	3,671
Balance at 31 March 2022	33,745	5,988	39,733
Accumulated amortisation			
Balance at 1 April 2020	29,080	-	29,080
Amortisation	392	-	392
Balance at 31 March 2021	29,472	-	29,472
Balance at 1 April 2021	29,472	-	29,472
Amortisation	501	-	501
Balance at 31 March 2022	29,973	-	29,973
Carrying amount			
Balance at 31 March 2021	3,327	3,263	6,590
Balance at 31 March 2022	3,772	5,988	9,760

Notes to the Financial Statements

22.2 Fully depreciated intangible assets

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

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Computer software	20,840	20,840	20,840	20,840

22.3 Work-in-progress

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Software	5,988	3,263	5,988	3,263

Included in the work-in-progress as at 31 March 2022 is an amount of LKR 5,639,500/- related to the development of the Core Banking System and amount of LKR 348,190/- related to Gold Loan system.

23. RIGHT-OF-USE ASSETS

23.1 Right-of-use assets

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Cost				
Balance as at the beginning of the year	129,784	92,573	129,784	92,573
Additions during the year	111,287	19,331	111,287	19,331
Adjustment on remeasurement of right-of-use asset	-	29,088	-	29,088
Derecognition of right-of-use assets	(13,356)	(11,208)	(13,356)	(11,208)
Balance as at the end of the year	227,716	129,784	227,716	129,784
Accumulated depreciation				
Balance as at the beginning of the year	60,997	28,930	60,997	28,930
Charge for the year	42,897	35,085	42,897	35,085
Derecognition of right-of-use assets	-	(3,018)	-	(3,018)
Balance as at the end of the year	103,894	60,997	103,894	60,997
Carrying value as at the end of the year	123,822	68,787	123,822	68,787

23.2 Lease liabilities

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Current liabilities	27,816	40,466	27,816	40,466
Non-current liabilities	108,634	39,958	108,634	39,958
Total	136,450	80,424	136,450	80,424
Maturity analysis – Contractual undiscounted cash flows				
Not later than one year	38,631	41,289	38,631	41,289
Later than one year and not later than five years	125,660	43,886	125,660	43,886
Later than five years	–	1,525	–	1,525

Movement of lease liability

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Balance as at the beginning of the year		80,424	74,386	80,424	74,386
Adjustment on remeasurement of lease liability	23.3	–	29,088	–	29,088
Additions during the year		111,287	19,331	111,287	19,331
Derecognition of lease liability	23.4	(14,940)	(9,063)	(14,940)	(9,063)
Interest expense on leases		10,415	13,635	10,415	13,635
Lease rental payments		(50,736)	(46,953)	(50,736)	(46,953)
Lease liability as at the end of the year		136,450	80,424	136,450	80,424

Amounts recognised in profit or loss

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Interest on lease liabilities	10,415	13,635	10,415	13,635
Amortisation charge for the year	42,897	35,085	42,897	35,085

Amounts recognised in statement of cash flows

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Lease rental payments	(50,736)	(46,953)	(50,736)	(46,953)

Notes to the Financial Statements

23.3 Remeasurement of lease liability

During the year the Company has relocated the head office and corporate branch and lease liability has calculated as per the new agreement of the parties.

23.4 Derecognition of lease liability

During the year the Company derecognised one lease at Colombo as they moved to different location.

23.5 Details of leases

Leasehold property	Asset type	Repayment terms	Interest rate %	Balance as at 31 March 2022
Colombo (HO)	Building	60 months	8	54,121
Colombo (Corporate)	Building	60 months	8	33,888
Wellawatta	Building	60 months	12	465
Awissawella	Building	60 months	12	1,375
Gampaha	Building	83 months	12	2,055
Mathugama	Building	60 months	12	963
Kandy	Building	36 months	12	5,497
Kandy – 1st Floor	Building	36 months	8	1,985
Kurunegala	Building	72 months	8	12,540
Elpitiya	Building	60 months	12	1,910
Matara	Building	60 months	12	860
Negombo	Building	60 months	12	5,486
Anuradhapura	Building	60 months	10	10,792
Trincomalee	Building	72 months	8	4,514
Total				136,450

24. OTHER ASSETS

As at 31 March	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Financial assets					
Security deposits		24,278	15,281	24,278	15,281
Advance introducer commission		45,196	11,340	45,196	11,340
Other financial assets		91,052	10,340	91,052	10,340
Total other financial assets		160,526	36,961	160,526	36,961
Non-financial assets					
Advance payments		69,265	9,827	69,265	9,827
Real estate inventories	24.1	13,311	11,878	13,311	11,878
Prepaid staff cost		4,070	1,086	4,070	1,086
Stationary stock		1,901	2,093	1,901	2,093
ESC recoverable		2,457	5,575	2,457	5,575
Other non-financial assets		4,286	19,453	4,286	19,453
Total other non-financial assets		95,291	49,912	95,291	49,912
Total		255,817	86,872	255,817	86,872

24.1 Real estate inventories

As at 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Balance at 1 April	11,878	36,407	11,878	36,407
Disposals during the year	(11,878)	(24,529)	(11,878)	(24,529)
Additions during the year	13,311	-	13,311	-
Balance as at 31 March	13,311	11,878	13,311	11,878

25. DUE TO BANKS

As at 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Due to banks	1,842,767	-	1,842,767	-
Total	1,842,767	-	1,842,767	-

Notes to the Financial Statements

As at 31 March	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
25.1 Due to banks				
Balance at the beginning of the year	-	-	-	-
Borrowed during the year	1,850,000	-	1,850,000	-
Capital repayments during the year	(35,831)	-	(35,831)	-
Amortised interest	28,598	-	28,598	-
Balance at the end of the year	1,842,767	-	1,842,767	-

Lending institution	Security	Interest rate	Repayment terms	Maturity	Capital amount LKR '000
Cargills Bank Term Loans	Lease receivables	AWPLR+ 2.5%	48 months	28/07/2025	100,000
NDB-Tranche-01-Loan A	Lease receivables	AWPLR+ 2%	48 months	31/07/2025	125,000
NDB-Tranche-01-Loan B	Lease receivables	7.65%	12 months	31/07/2022	12,500
NDB-Tranche-01-Loan C	Lease receivables	8.60%	24 months	31/07/2023	31,250
NDB-Tranche-01-Loan D	Lease receivables	9.45%	36 months	31/07/2024	31,250
NDB-Tranche-01-Loan E	Lease receivables	9.75%	48 months	31/07/2025	50,000
NDB-Tranche-02-Loan A	Lease receivables	AWPLR+ 2%	48 months	31/08/2025	125,000
NDB-Tranche-02-Loan B	Lease receivables	7.65%	12 months	31/08/2022	12,500
NDB-Tranche-02-Loan C	Lease receivables	8.60%	24 months	31/08/2023	31,250
NDB-Tranche-02-Loan D	Lease receivables	9.45%	36 months	31/08/2024	31,250
NDB-Tranche-02-Loan E	Lease receivables	9.75%	48 months	31/08/2025	50,000
First Capital Securitisation-Tranche-01	Lease receivables	Not exceed IRR 12.34%	May 2022 – Feb. 2023 (except Sep., Oct., Nov. 22) 7 month	28/02/2023	141,500
First Capital Securitisation-Tranche-02	Lease receivables	Not exceed IRR 12.34%	July 2022 – Feb. 2023 (Except Jan. 23) 7 months	19/02/2023	195,000
First Capital Securitisation-Tranche-03	Lease receivables	Not exceed IRR 12.34%	3 months	25/11/2022	63,500
M-Power Capital Securitisation-Tranche-01	Lease and vehicle loan receivables	Not exceed IRR 12.19%	10 months with grace period at middle	01/05/2023	207,000
M-Power Capital Securitisation-Tranche-02	Lease and vehicle loan receivables	Not exceed IRR 12.19%	08 months with grace period at middle	01/05/2023	123,000
M-Power Capital Securitisation-Tranche-03	Lease and vehicle loan receivables	Not exceed IRR 12.19%	6 months with grace period at middle	01/05/2023	82,000
M-Power Capital Securitisation-Tranche-04	Lease and vehicle loan receivables	Not exceed IRR 12.19%	8 months with grace period at middle	01/05/2023	88,000
Sanasa Development Bank Term Loans	Un-secured	AWPLR+ 4.25%	24 months	20/03/2024	50,000
NDB Securitised Term Loan-Gold Loans Backed	Gold loan receivables	AWPLR+ 2%	48 months	31/03/2026	300,000

26. FINANCIAL LIABILITIES AT AMORTISED COST – DEPOSITS DUE TO CUSTOMERS

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Fixed deposits	3,197,961	2,261,451	3,197,961	2,261,451
Savings deposits	30,905	28,041	30,905	28,041
Total	3,228,866	2,289,491	3,228,866	2,289,491
26.1 Analysis by currency				
Sri Lankan rupees	3,228,866	2,289,491	3,228,866	2,289,491
Total	3,228,866	2,289,491	3,228,866	2,289,491

27. DEBT SECURITIES ISSUED

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Cumulative preference shares	27.1	17,200	16,600	17,200	16,600
Total		17,200	16,600	17,200	16,600
Due within 1 year		-	-	-	-
Due after 1 year		17,200	16,600	17,200	16,600
Total		17,200	16,600	17,200	16,600

27.1 Details of debt securities issued – Company/Group

As at 31 March	Face value	2022 LKR '000	2021 LKR '000
Issued by the Company			
6% cumulative non redeemable preference shares	10,000	10,000	10,000
Interest payable	-	7,200	6,600
Total	10,000	17,200	16,600

28. DEFERRED TAX

	Note	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Deferred tax assets	28.1	(121,440)	(32,856)	(121,440)	(32,856)
Deferred tax liabilities	28.2	70,718	32,856	70,718	32,856
Net deferred tax liabilities/(assets)		(50,722)	0	(50,722)	0

Notes to the Financial Statements

28.1 Deferred tax assets

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance at 1 April	32,856	76,060	32,856	76,060
Origination/(reversal) of temporary difference	88,584	(43,204)	88,584	(43,204)
Balance at 31 March	121,440	32,856	121,440	32,856

	Temporary difference		Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March						
Retiring gratuity	13,378	18,360	3,211	4,407	3,211	4,407
Impairment on loans and advances	12,705	9,513	3,049	2,283	3,049	2,283
Lease liability	136,450	80,424	32,748	19,302	32,748	19,302
Tax losses	343,469	28,604	82,433	6,865	82,433	6,865
Balance at 31 March			121,440	32,856	121,440	32,856

28.2 Deferred tax liabilities

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance at 1 April	32,856	76,060	32,856	76,060
Origination/(reversal) of temporary difference – Profit and loss	38,765	(42,806)	38,765	(42,806)
Origination/(reversal) of temporary difference – Other comprehensive income	(903)	(397)	(903)	(397)
Balance at 31 March	70,718	32,856	70,718	32,856

	Temporary difference		Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March						
Property, plant and equipment	15,761	2,567	3,783	616	3,783	616
Intangible assets	2,902	5,180	696	1,243	696	1,243
Leased assets	152,174	60,367	36,522	14,488	36,522	14,488
Right of use assets	123,822	68,787	29,717	16,509	29,717	16,509
Balance at 31 March			70,718	32,856	70,718	32,856

28.3 Unrecognised deferred tax assets

Deferred tax asset is recognised on the unused tax losses of which, the amount in the opinion of the Directors, will be available to allow the benefit of the loss to be realised in accordance with LKAS 12 and provisions of Inland Revenue Act No. 24 of 2017 and amendments thereto. The Deferred tax have not been recognised 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.

	Temporary difference (Company/Group)		Tax effect (Company/Group)	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Tax losses	440,796	1,154,188	105,791	277,005

29. EMPLOYEE BENEFIT OBLIGATION

	Temporary difference (Company/Group)		Tax effect (Company/Group)	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
For the year ended 31 March				
Movement in the present value of defined benefit obligation				
Balance at the beginning of the year	18,360	23,457	18,360	23,457
Amount recognised in profit or loss				
– Interest cost	1,285	2,111	1,285	2,111
– Current service cost	2,210	2,105	2,210	2,105
– Past service cost	(207)	–	(207)	–
Amount recognised in the other comprehensive income				
– Actuarial gain	(3,764)	(1,656)	(3,764)	(1,656)
Payment made during the year	(4,506)	(7,656)	(4,506)	(7,656)
Balance at the end of the year	13,378	18,360	13,378	18,360

Company provides gratuity benefits to its employees in compliance with Payment of Gratuity Act No. 12 of 1983 by setting up an unfunded defined benefit scheme. The unfunded defined benefit scheme has been valued in accordance with Sri Lanka Accounting Standards (LKAS 19). Minimum funding requirement does not apply as the Company operates an unfunded defined benefit scheme.

The Company carried out an actuarial valuation of the gratuity liability as at 31 March 2022 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.

Notes to the Financial Statements

	Company/Group	
	2022	2021
Actuarial assumption		
Discount rate	14.50%	7.00%
Future salary increment rate	10.00%	10.00%
Staff turn over	23.00%	24.00%
Retirement age	60 Years	55 Years

LKAS 19 requires the risk discount rate to be based on the market yield of high quality Corporate bonds/Govt bonds of similar duration to the liability.

Duration of the liability (Expected future working life) as at 31 March 2022 is 4.21 years and yield of the matching Government bonds for the given duration is approximately 14.5%. Duration of the liability (Expected future working life) as at 31 March 2021 was 3.92 years and the yields of the matching Government bonds for the given duration was approximately 7%. Hence the reason for the change is the discount rate from 7% to 14.5%.

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 such as mortality, withdrawal and disability and retirement age were considered for the actuarial valuations.

During the year ended 2022, the gratuity arrangement for employees was adjusted to reflect new legal requirements as per the minimum retirement age of Workers Act No. 28 of 2021 regarding the retirement age. As a result of the plan amendment, the Company's defined benefit obligation decreased by LKR 206,860/- (2021 – Nil). The corresponding past service cost was recognised in profit or loss.

29.1 Sensitivity analysis

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

Discount rate	Salary escalation rate	Present value of defined benefit obligation (LKR '000)
1% point Increase	10.0%	13,889
1% point Decrease	10.0%	12,894
14.5%	1% point Increase	12,941
14.5%	1% point Decrease	13,847

30. OTHER LIABILITIES

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Financial liabilities				
Sterling Capital Investments (Private) Limited - Current balance	-	131	-	131
Amounts payable to suppliers	132,156	105,873	132,156	105,873
Insurance payables	14,103	10,460	14,103	10,460
Accruals and other payables	20,020	13,669	20,622	14,102
Total other financial liabilities	166,279	130,132	166,881	130,565
Non-financial liabilities				
Real estate advance	-	5,108	-	5,108
Overpayments	15,935	12,740	15,935	12,740
Other non-financial liabilities	25,246	19,795	25,246	19,795
Total other non-financial liabilities	41,181	37,644	41,181	37,644
Total	207,460	167,776	208,062	168,209

31. ORDINARY SHARE CAPITAL

	Number of shares (thousands)	Company		Group	
		2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March					
Issued and fully paid ordinary shares	326,856	3,252,159	2,440,290	3,252,159	2,440,290
Rights issue - shares	78,446	509,895	811,869	509,895	811,869
Total	405,302	3,762,054	3,252,159	3,762,054	3,252,159

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Ordinary shares	3,762,054	3,252,159	3,762,054	3,252,159
Cumulative preference shares	17,200	16,600	17,200	16,600
Stated capital as per Co. Act No. 07 of 2007	3,779,254	3,268,759	3,779,254	3,268,759
Less: Cumulative preference shares	(17,200)	(16,600)	(17,200)	(16,600)
Add: Other reserves	(928,359)	(1,120,958)	(928,718)	(1,121,144)
Total Equity	2,833,695	2,131,201	2,833,336	2,131,015

Notes to the Financial Statements

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 23 December 2021 the Company raised capital of LKR 509,895,750 through a rights issue by issuing 78,445,500 ordinary shares at an exercise price of LKR 6.50/- per share. On 29 March 2021 the Company raised capital of LKR 811,868,750 through a rights issue by issuing 115,981,250 shares at an exercise price of LKR 7.0/- per share.

Utilisation of rights issue proceeds

The utilisation of the rights issue amounting to LKR 509,895,750 is as follows:

Objective as per circular	Proposed date of utilisation	Amount allocated (‘000)	% of total proceeds	Amounts utilised against allocation (‘000)	Clarification if not utilised
To expand the Loans and Advances portfolio	23 December 2021	509,896	100%	509,896	N/A

32. 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	Percentage of transfer to Reserve Fund
Not less than 25%	5
Less than 25% and not less than 10%	20
Less than 10%	50

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance as at the beginning of the year	10,649	7,259	10,649	7,259
Transfer during the year	9,590	3,390	9,590	3,390
Balance as at the end of the year	20,239	10,649	20,239	10,649

33. ACCUMULATED LOSSES

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Balance as at the beginning of the year	(1,131,607)	(1,195,047)	(1,131,793)	(1,195,156)
Adjusted balance as at the beginning of the year	(1,131,607)	(1,195,047)	(1,131,793)	(1,195,156)
Profit/(loss) for the year	191,800	67,799	191,627	67,721
Other comprehensive income	2,861	1,259	2,861	1,259
Transfers to reserve fund	(9,590)	(3,390)	(9,590)	(3,390)
Transaction cost related to rights issue	(2,062)	(2,228)	(2,062)	(2,228)
Balance as at the end of the year	(948,598)	(1,131,607)	(948,957)	(1,131,793)

34. CONTINGENT LIABILITIES AND COMMITMENTS

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

34.1 Composition of contingent liabilities and commitments

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
Contingent liabilities	1,098	1,098	1,098	1,098
Commitments	130,602	80,162	130,602	80,162
Total	131,700	81,260	131,700	81,260
Contingent liabilities				
– Guarantees	1,098	1,098	1,098	1,098
Commitments				
– Un-utilised facilities (Margin trading)	130,602	80,162	130,602	80,162
	131,700	81,260	131,700	81,260

34.2 Income tax assessments

The Company received an Income Tax Assessment from the Department of Inland Revenue for the Year of Assessment 2017/2018. The details of the assessment are given under Note 14.4.

34.3 Litigation and claims

The Group has contingent liabilities arising in the ordinary course of business and in respect of litigation filed by former employees of the Group. Based on the information currently available, the Directors are of the opinion that the ultimate resolution of the litigation would not likely to have a material impact on the results of operations and financial position of the Group.

Notes to the Financial Statements

35. RELATED PARTY DISCLOSURES

35.1 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.

During the current financial year ended on 31 March 2022, in the rights issue conducted on 23rd December 2021 SCIL subscribed for ordinary shares to bring up the total number of shares of SCIL to 330.7Mn to have a holding of 81.60%. Hence, the Company's immediate controlling entity is SCIL.

35.2 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 - Sterling Capital Investments (Private) Limited and its affiliate Companies, Sterling Automobiles Lanka (Pvt) Limited and the Sterling Holdings (Private) Limited 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.

	Company		Group	
	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
As at 31 March				
35.2.1 Remuneration to Board of Directors				
Short-term Employee Benefits	15,402	9,102	15,402	9,102
35.2.2 Share transactions with KMP				
No. of Ordinary Shares held at the end of the financial period;				
The Parent Company (Sterling Capital Investments (Pvt) Ltd)	330,714	256,735	330,714	256,735
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	1	5,375	1	5,375

35.3 Transactions with related entities

The Group carried out transactions in the ordinary course of its business with the related entities on the arms length basis at commercial rates.

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

People's bank, which is a government owned entity, holds 8.35% shares of the 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 contribution plans - EPF/ETF
- Payment of incidentals such as RMV charges and CRIB fees that are paid based on standard rates.

35.3.1 Company

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

	Sterling Capital Investments (Private) Limited (Parent Company)		Sterling Holdings (Private) Limited (Affiliate Company)		Sterling Automobiles Lanka (Private) Limited (Affiliate Company)		People's Bank (Common directors)		PMB Services Limited (Subsidiary of People's merchant Finance PLC)		Pricewaterhouse Coopers Digital Technology Services (Pvt) Ltd. (Common Control)"	
As at 31st March	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
(a) Items in statement of profit or loss												
Interest income	-	-	12,121	-	3,542	-	-	14,211	-	-	-	-
Interest expense	-	-	-	-	-	-	-	225	-	-	-	-
Other operating expenses	-	-	8,000	-	92	-	-	26,058	-	-	1,092	2,430
Expenses incurred on behalf	-	-	-	-	-	-	-	-	170	73	-	-
Provisions made during the year	-	-	-	-	-	-	-	-	(170)	(73)	-	-
(b) Items in statement of financial position												
Assets												
Cash and cash equivalents	-	-	-	-	-	-	-	25,625	-	-	-	-
Investments in Fixed Deposits/ Repos	-	-	-	-	-	-	-	542,627	-	-	-	-
Investments in subsidiaries/ affiliates	-	-	-	-	-	-	-	-	175,000	175,000	-	-
loans and lease rentals receivable	300,000	-	104,376	-	-	-	-	-	-	-	-	-
Other assets	-	-	6,000	-	-	-	-	-	19,362	19,294	-	-
Provisions made	-	-	-	-	-	-	-	(194,362)	(194,294)	-	-	-
(b) Items in statement of financial position (continued)												
Liabilities												
Due to banks	-	-	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	-	-	10,000	-	-	-	-
Preference shares dividend payable	-	-	-	-	-	-	-	6,600	-	-	-	-
(c) Transactions												
Advances in lieu of rights issue of shares	-	-	-	-	-	-	-	-	-	-	-	-
Transfers to stated capital from advances in lieu of rights issue of shares	-	300,000	-	-	-	-	-	-	-	-	-	-
Utilization of funds raised in rights issue	509,895	490,481	-	-	-	-	-	-	-	-	-	-
Excess funds received from rights issue	(131)	131	-	-	-	-	-	-	-	-	-	-

The above related party balances does not require any security or guarantee to be given or received.

Notes to the Financial Statements

35.3.2 Group

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

	Sterling Capital Investments (Private) Limited (Parent Company)		Sterling Holdings (Private) Limited (Affiliate Company)		Sterling Automobiles Lanka (Private) Limited (Affiliate Company)		People's Bank (Common directors)		Pricewaterhouse Coopers Digital Technology Services (Pvt) Ltd. (Common Control)"	
As at 31st March	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
(a) Items in statement of profit or loss										
Interest income	-	-	12,121	-	3,542	-	-	14,211	-	-
Interest expense	-	-	-	-	-	-	-	225	-	-
Other operating expenses	-	-	8,000	-	92	-	-	26,058	1,092	2,430
(b) Items in statement of financial position										
Assets										
Cash and cash equivalents	-	-	-	-	25,625	-	-	-	-	-
Investments in Fixed Deposits/Repos	-	-	-	-	413,502	-	-	-	-	-
Liabilities										
Due to banks	-	-	-	-	-	-	-	-	-	-
Debt securities issued	-	-	-	-	-	10,000	-	-	-	-
Preference shares dividend payable	-	-	-	-	-	6,000	-	-	-	-
(c) Transactions										
Advances in lieu of rights issue of shares	-	-	-	-	-	-	-	-	-	-
Transfers to stated capital from advances in lieu of rights issue of shares	-	300,000	-	-	-	-	-	-	-	-
Funds received for the rights issue	509,895	490,481	-	-	-	-	-	-	-	-
Excess funds received from rights issue	(131)	131	-	-	-	-	-	-	-	-

Non-recurrent transactions

Non-recurrent transactions which exceeds 10% of the equity or 5% of the total assets, whichever is lower, as per the Colombo Stock Exchange Section Listing rule 9.3.2. is given below.

Name of the Related Party	Relationship	Value	Value as a % of Equity and as a % of Total Assets	Terms and Conditions of the Related Party Transactions	The rationale for entering to the transaction
Sterling Capital Investments (Private) Limited	Parent	509,895	Assets	6%	To be transferred to stated capital of PMF.
			Equity	18%	

The above related party balances does not require any security or guarantee to be given or received.

36. FINANCIAL INSTRUMENT - FAIR VALUES AND RISK MANAGEMENT

36.1 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 31 March 2022	Carrying amount		Fair value					
	Company	Group	Company			Group		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	9,222	9,222	6,698	2,524	-	6,698	2,524	-
Investment securities measured at FVOCI (Note b)	23	23	-	-	23	-	-	23
	9,245	9,245	6,698	2,524	23	6,698	2,524	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	6,676,608	6,676,608	-	-	-	-	-	-
Cash and cash equivalents (Note d)	660,873	661,116	-	-	-	-	-	-
Placements with banks and financial institutions (Note e)	410,942	410,942	-	-	-	-	-	-
Other financial assets	160,526	160,526	-	-	-	-	-	-
	7,908,948	7,909,192	-	-	-	-	-	-
	7,918,193	7,918,437	6,698	2,524	23	6,698	2,524	23
Financial liabilities not measured at fair value								
Deposits from customers (Note g)	3,228,866	3,228,866	-	-	-	-	-	-
Debt securities issued (Note h)	17,200	17,200	-	-	-	-	-	-
Financial liabilities (Note i)	166,279	166,279	-	-	-	-	-	-
Lease liabilities (Note j)	136,450	136,450	-	-	-	-	-	-
Due to banks (Note f)	1,842,767	1,842,767	-	-	-	-	-	-
	5,391,561	5,391,561	-	-	-	-	-	-

Notes to the Financial Statements

As at 31 March 2021	Carrying amount		Fair value					
	Company	Group	Company			Group		
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	647,817	647,817	2,320	645,496	–	2,320	645,496	–
Investment securities measured at FVOCI (Note b)	23	23	–	–	23	–	–	23
	647,840	647,840	2,320	645,496	23	2,320	645,496	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	3,156,568	3,156,568	–	–	–	–	–	–
Cash and cash equivalents (Note d)	707,190	707,437	–	–	–	–	–	–
Placements with banks and financial institutions (Note e)	5,126	5,126	–	–	–	–	–	–
	3,868,884	3,869,131	–	–	–	–	–	–
	4,516,723	4,516,970	2,320	645,496	23	2,320	645,496	23
Financial liabilities not measured at fair value								
Due to banks (Note f)	–	–	–	–	–	–	–	–
Deposits due to customers (Note g)	2,289,491	2,289,491	–	–	–	–	–	–
Debt securities issued (Note h)	16,600	16,600	–	–	–	–	–	–
Financial liabilities (Note i)	130,132	130,132	–	–	–	–	–	–
Lease liabilities (Note j)	80,424	80,424	–	–	–	–	–	–
	2,516,648	2,516,648	–	–	–	–	–	–

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 and NDB Wealth Money Plus daily reports.
- (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) Placements with 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 due to 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.

There were no transfer between Level 1 and Level 2 during the year 2021 and 2022.

36.2 Risk management Introduction and overview

The forecasting and evaluation of financial risk together with the identification of procedures to eliminate or minimise the business impact to the Company is the key objective of the financial risk management framework of the Group.

Structure of the risk management framework The Board of Directors

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

role of the Board of Directors in Risk Management is,

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

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

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

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

The IRMC has the overall responsibility for developing and monitoring the risk management strategy and

implementing principal 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,

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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, the 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).

Loan to value ratio

	Company	
	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
LTV Ratio		
Less than 50%	692,054	338,015
51%-70%	5,072,548	2,879,798
71%-90%	1,180,522	216,362
91%-100%	39,813	39,548
More than 100%	76,730	96,207
	7,061,666	3,569,929

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

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

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

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

Exposure to credit risk

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

	Company	
	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Cash and cash equivalents	630,469	690,249
Placements with banks and financial institutions	410,942	5,126
Investment securities measured at FVTPL	9,222	647,817
Loans and advances to customers	6,676,608	3,156,568
Investment securities measured at FVOCI	23	23
Security deposits	24,278	15,281
	7,751,543	4,515,064

Loans and lease rentals 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.

	Company	
	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Gross carrying amount at amortised cost		
Individually significant portfolio	2,746,474	1,326,813
Individually non-significant portfolio	4,315,192	2,243,116
	7,061,666	3,569,929

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.

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. Where the modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics which includes; instrument type, credit risk type and collateral type.

Determining whether credit risk has increased significantly

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

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

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

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

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the assessment of the external rating agencies indicates a default grading of the borrower; or

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

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

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

Impact on Credit risk due to the current uncertain economic condition

The impact of current uncertain economic condition on the credit risk of loans and advances customers are given under Note 43.1.

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Movement between the stages

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

Incorporation of forward-looking Information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and Worst Case) of other possible forecast scenarios.

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

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

Unemployment rate	Base case scenario along with two
Interest rate	other scenarios has
GDP growth rate	been used (Best
Inflation rate	Case and Worst Case)

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 increase in the gross carrying value for impairment in the Group is not inline with the change in the impairment in the current year. This was mainly due to the settlements of the non-performing assets, improved rates of probability defaults and loss given defaults based on collection improvements and staging assets improvements during the year backed by the increased collections.

Individually significant impairment

	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Gross receivable	2,746,474	1,326,813
Less: Allowance for impairment	218,345	256,665
	2,528,129	1,070,148

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 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Gross receivable	4,315,192	2,243,116
Less: Allowance for impairment	166,713	156,696
	4,148,479	2,086,419

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

The Company constantly monitors credit concentration risk. The management determines this by referring to the degree of credit exposure by product types, various sectors and geographical area.

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Product concentration

	As at 31 March 2022 LKR '000	%	As at 31 March 2021 LKR '000	%
Product category				
Leasing and hire purchase	3,277,514	46	1,808,442	51
Vehicle loans	924,603	13	358,363	10
Other loans	743,369	11	346,387	10
Margin trading receivable	951,541	13	471,570	13
Gold loans	1,164,639	16	585,167	16
	7,061,666	100	3,569,930	100

Sector wise concentration

	As at 31 March 2022 LKR '000	%	As at 31 March 2021 LKR '000	%
Sector				
Agriculture, forestry and fishing	383,316	5	226,508	6
Construction and infrastructure development	306,811	4	144,832	4
Consumption	742,301	11	253,355	7
Financial services	2,226,240	32	1,135,645	32
Health care, social services and support services	930,933	13	483,094	14
Information technology and communication	95,031	1	38,603	1
Manufacturing	936,772	13	476,657	13
Tourism	142,727	2	137,966	4
Transportation and storage	669,817	9	335,518	9
Wholesale and retail trade	627,718	9	337,751	9
	7,061,666	100	3,569,929	100

Geographical area concentration

	As at 31 March 2022 LKR '000	%
Province		
Central	923,390	13
Eastern	394,195	6
North Central	560,136	8
North Western	832,252	12
Southern	835,386	12
Western	3,516,308	50
	7,061,666	100

Securities against loans and lease rentals

Given below is a summary of the outstanding balances of loans and advances based on the securities held in respect of the loan.

	As at 3 March 2022 LKR '000	As at 31 March 2021 LKR '000
Immovable assets	685,099	253,977
Movable assets	4,198,780	2,159,411
Corporate guarantor/personal guarantor	46,268	74,750
Fixed deposit securities	15,341	25,055
Market securities	951,541	471,570
Gold securities	1,164,639	585,167
	7,061,666	3,569,929

Reconciliation of credit impaired financial assets

Reconciliation of changes in the net carrying amount of life time ECL credit impaired (Stage 3) of leases, vehicle loans and other loans are detailed below:

	Company/Group			
	Vehicle loans LKR '000	Other loans LKR '000	Lease receivable LKR '000	Total LKR '000
Amortised cost as at 1 April 2021	24,692	147,223	268,502	440,417
Transfer to stage	–	13,756	7,729	21,485
New assets originated or purchased	104,480	318,133	3,976	
Financial Assets derecognised and repaid	(24,692)	21,505	(90,983)	(94,170)
Amortised cost as at 31 March 2022	104,480	500,617	189,224	794,321

Credit quality by class of financial assets

Credit quality categorisation has been done based on the class of financial assets. The table below sets out information about the maximum exposure to credit risk, measured at amortised cost, and Fair Value through Other Comprehensive Income (FVOCI) as at the end of the financial year 2021/22.

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Financial Assets

	Not subject to ECL	12-Month ECL (Stage 1)	Life time ECL - Not credit impaired (Stage 2)	Life time ECL - Credit impaired (Stage 3)	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Cash and cash equivalents	660,873	–	–	–	660,873
Placements with banks and financial institutions	410,942	–	–	–	410,942
Financial assets measured at fair value	9,245	–	–	–	9,245
Vehicle loan receivable	–	802,800	17,322	104,481	924,603
Other loan receivable	–	217,438	25,314	500,617	743,370
Lease receivable	–	2,797,137	287,815	189,224	3,274,177
Hire purchase	–	–	–	3,337	3,337
Total	1,081,059	3,817,376	330,452	797,659	6,026,546

Sensitivity of impairment provision on loans and lease rentals receivable

The impairment provision on loans and lease rental receivable as at 31 March 2022 is subject to various assumptions. The below table demonstrates the sensitivity of the impairment provision of the Company as at 31 March 2022 to a reasonably possible change in PDs, LGDs and forward looking information.

Assumption

	Stage 1	Stage 2	Stage 3	Total	Sensitivity effect from income statement
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
PD 1% increase	9,659	993	–	10,651	10,651
PD 1% decrease	(9,659)	(1,012)	–	(10,671)	(10,671)
LGD 5% increase	21,215	4,718	4,283	30,216	30,216
LGD 5% decrease	(20,284)	(4,532)	(4,126)	(28,943)	(28,943)
Base case 10% increase, worst case 5% decrease, best case 5% decrease	–	–	–	–	–
Base case 10% decrease, worst case 5% increase, best case 5% increase	–	–	–	–	–

Cash at bank	Credit rating	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Peoples' Bank	AA-	61,877	25,832
HNB Bank	BBB+	3,325	–
Pan Asia Bank	BBB-	–	9
SDB Bank	BB+	759	–
Cargils Bank	AA-	15,358	1,120
NDB Bank	AA+	343,303	–
		424,621	26,961

Placements with banks and financial institutions

Institution	Credit rating	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Cargils Bank	AA-	5,227	5,126
NDB Bank	AA+	360,552	–
SDB Bank	BB+	45,167	–
		410,946	5,126

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

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Exposure to liquidity risk

	As at 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Net loans/Total assets	0.81	0.67
Gross loans/Customer deposits	2.19	1.56

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

	Company/Group				Total as at 31 March 2022 LKR '000
	Carrying value	Up to 3 months	03-12 months	Over 1 year	
	LKR '000	LKR '000	LKR '000	LKR '000	
Due to banks	1,842,767	167,204	902,418	744,548	1,814,169
Financial liabilities at amortised cost - Deposits due to customers	3,228,866	842,800	2,033,597	272,590	3,148,988
Debt securities issued	17,200	-	-	17,200	17,200
Financial liabilities	166,279	146,260	-	-	146,260
Lease liabilities	136,450	9,499	30,044	124,023	163,566
Un-utilised facilities (Margin trading)	130,602	130,602	-	-	130,602
Guarantees	1,098	1,098	-	-	1,098
	5,523,261	1,297,462	2,966,059	1,158,361	5,421,883

Impact of current uncertain economic condition on the liquidity risk

The maturity analysis of assets is given in Note 38.1. Refer Note 43.1.2 for further details of the implications of current uncertain economic condition 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 repricing bands. ALCO of the Company regularly reviews the current interest structure with the market rates, and responsible for setting the overall interest risk management strategy of the Company which is implemented by the treasury unit. The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations ranging from one month to five (05) years and bank borrowing bearing both fixed and variable interest rates.

Sensitivity analysis of lease liability

The following table illustrates the impact arising from the possible changes in the incremental borrowing rate on the lease liability of the Company as at 31 March 2022.

Increase/(decrease) in incremental borrowing rate	Company/Group 2022	
	Sensitivity effect on lease liability - increase/(reduction) in the liability LKR '000	Sensitivity effect on interest expense increase/(reduction) in profit for the year LKR '000
7bp Up	(17,625)	(6,062)
7bp Down	21,542	7,921

Currency risk (Foreign exchange risk)

The Company has a minimum exposure to foreign currency transactions and hence, fluctuations in the currency doesn't have significant direct impact on the operations

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.

Interest rate risk exposure on financial assets and liabilities

Company	Up to 3 months LKR '000	03-12 months LKR '000	01-05 years LKR '000	Non-interest bearing LKR '000	Total as at 31 March 2022 LKR '000
Assets					
Cash and cash equivalents	660,873	-	-	-	660,873
Placements with banks and financial institutions	405,000	5,946	-	-	410,946
Financial assets measured at amortised cost - loans and lease rentals receivable	1,512,344	1,246,080	3,918,184	-	6,676,608
Financial assets measured at FVTPL - Quoted investments	-	-	6,698	-	6,698
Financial assets measured at FVTPL - Unit trust	2,524	-	-	-	2,524
Financial assets measured at FVOCI - Equity instruments	-	-	23	-	23
	2,580,740	1,252,026	3,924,905	-	7,757,671
Liabilities					
Due to banks	443,699	1,074,771	324,296	-	1,842,766
Financial liabilities at amortised cost - Deposits due to customers	922,678	2,033,597	272,590	-	3,228,866
Debt securities issued	-	-	17,200	-	17,200
Financial Liabilities	155,267	11,013	-	-	166,280
Lease liabilities	6,954	20,862	108,634	-	136,450
	1,528,598	3,140,243	722,720	-	5,391,562

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Group	Up to 3 months LKR '000	03-12 months LKR '000	01-05 years LKR '000	Non-interest bearing LKR '000	Total as at 31 March 2022 LKR '000
Assets					
Cash and cash equivalents	661,116	–	–	–	661,116
Placements with banks and financial institutions	405,000	5,946	–	–	410,946
Financial assets measured at amortised cost – loans and lease rentals receivable	1,512,344	1,246,080	3,918,184	–	6,676,609
Financial assets measured at FVTPL - Quoted investments	–	–	6,698	–	6,698
Financial assets measured at FVTPL - Unit trust	2,524	–	–	–	2,524
Financial assets measured at FVOCI - Equity instruments	–	–	23	–	23
	2,580,983	1,252,026	3,924,905	–	7,757,916
Liabilities					
Due to banks	443,699	1,074,771	324,296	–	1,842,766
Financial liabilities at amortised cost - Deposits due to customers	922,678	2,033,597	272,590	–	3,228,866
Debt securities issued	–	–	17,200	–	17,200
Financial Liabilities	155,267	11,013	–	–	166,280
Lease liabilities	6,954	20,862	108,634	–	136,450
	1,528,598	3,140,243	722,720	–	5,391,561

D. Operational risk

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

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

- Appropriate segregation of duties on requirements, including the independent authorisation 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 standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

37. 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 and retained earnings of the Company. The Board of Directors monitor the return on capital as well as the level of dividends to ordinary shareholders.

The Company's main objective is when managing capital are:

- (1) 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.
- (2) 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 31 March 2022 LKR '000	As at 31 March 2021 LKR '000
Total liabilities	5,446,121	2,572,651
Less: Cash and cash equivalents	660,873	707,190
Net debt	4,785,248	1,865,461
Total equity	2,833,695	2,131,201
Net debt to adjusted equity ratio at 31 March	1.69	0.88

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka.

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37.1 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 31 March	2022			2021		
	Amount LKR '000	Risk weight factor %	Risk weighted balance LKR '000	Amount LKR '000	Risk weight factor %	Risk weighted balance LKR '000
Claims on Government of Sri Lanka, Public Sector Entities and Central Bank of Sri Lanka						
Central Bank of Sri Lanka	-	0	-	-	0	-
Claims on financial institutions						
Banks						
AAA to BBB-	643,972	20	128,794	574,714	20	114,943
Financial institutions	-	-	-	-	0	-
AAA to AA-	-	20	-	-	20	-
A+ to A-	205,859	50	102,929	120,868	50	60,434
Unrated	2,524	100	2,524	645,496	100	645,496
Retail claims						
Retail claims in respect of motor vehicles and machinery	4,070,382	100	4,070,382	1,914,112	100	1,914,112
Claims secured by gold						
Outstanding claim portion up to 70% of the market value	1,068,853	-	-	39,623	-	-
Remaining outstanding claim portion over 70% of the market value	107,991	100	107,991	544,794	100	544,794
Retail claims secured by immovable property						
Retail claims that do not qualify for regulatory capital purposes	509,919	100	509,919	189,958	100	189,958
Other retail claims	927,898	125	1,159,873	410,816	125	513,520
Non-performing retail claims secured by immovable property						
Specific provisions are equal or more than 20%	22,635	50	11,317	16,978	50	8,489
Specific provisions are less than 20%	622	100	622	1,422	100	1,422
Non-Performing Assets (NPAs)						
Specific provisions are equal or more than 20%	19,336	100	19,336	45,859	100	45,859
Other non-performing assets						
Specific provisions are equal or more than 20%	1,790	150	2,685	8,032	150	12,048
Other claims/assets						
Notes and coins	30,403	0	-	16,941	0	-
Cash Items in the process of collection	-	20	-	-	20	-
Fixed assets	82,027	100	82,027	24,877	100	24,877
Other assets/exposures	763,005	100	763,005	286,761	100	286,761
Risk weighted amount for operational risk			524,538			
Total risk weighted amount			7,485,942	4,784,561		

37.2 Total capital base computation

As at 31 March		2022 Amount LKR '000	2021 Amount LKR '000
Tier I capital			
Stated capital		3,762,054	3,252,159
Reserve fund		20,239	10,649
Audited retained earnings/(losses)		(1,131,607)	(1,195,048)
Transaction cost related to rights issue		(2,062)	(2,228)
Other comprehensive income		2,861	1,259
Transfers to reserve fund		(9,590)	(3,390)
(Less) revaluation gains/surplus of investment property		-	-
General and other disclosed reserves		-	-
Current year's profit (losses)		191,800	67,799
Tier I capital		2,833,695	2,131,201
Adjustments to Tier I capital		(10,376)	(7,118)
Other intangible assets (net)		(9,760)	(6,590)
50% of investment in other banking and financial institutions		(616)	(528)
Tier I capital (after adjustments)		2,823,319	2,124,083
Tier 2 capital		-	-
Instruments qualified as Tier 2 capital		-	-
Revaluation gains (50% of eligible revaluation gains)		-	-
Eligible Tier 2 capital		-	-
Total adjustments to eligible Tier 2 capital		616	528
Eligible Tier 2 capital after adjustments		(616)	(528)
Total capital		2,822,703	2,123,555
As at 31 March			
Core capital ratio (Minimum 7.0%)	=	$\frac{\text{Core Capital} \times 100}{\text{Risk Weighted Assets}}$	
Core capital ratio		37.71%	44.39%
Total risk weighted capital ratio (Minimum 11.0%)	=	$\frac{\text{Capital Base} \times 100}{\text{Risk Weighted Assets}}$	
Total risk weighted capital ratio		37.71%	44.38%

37.3 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.

Notes to the Financial Statements

As at 31 March		Based on Direction No. 03 of 2018	
		2022 %	2021 %
Core capital ratio	Based on Direction No. 03 of 2018	37.71	44.39
Total capital ratio	Based on Direction No. 03 of 2018	37.71	44.38

38. 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.

38.1 (a) Group

As at 31 March	2022			2021		
	Less than 1 year LKR '000	More than 1 year LKR '000	Total LKR '000	Less than 1 year LKR '000	More than 1 year LKR '000	Total LKR '000
Interest bearing assets						
Cash and cash equivalents	661,116	-	661,116	707,437	-	707,437
Investment in fixed deposits	410,942	-	410,942	5,126	-	5,126
Financial assets measured at fair value	9,222	23	9,245	647,817	23	647,840
Financial assets measured at amortised cost - loans and lease rental receivables	2,758,424	3,918,184	6,676,608	1,657,775	1,498,793	3,156,568
Total interest bearing assets	3,839,703	3,918,207	7,757,911	3,018,156	1,498,816	4,516,972
Total non-interest bearing assets	251,507	218,198	469,705	60,392	129,997	190,388
Total assets	4,091,210	4,136,405	8,227,616	3,078,548	1,628,812	4,707,360
Percentage (%)	49.73	50.27	100.00	65.40	34.60	100.00
Interest bearing liabilities						
Due to banks	1,518,470	324,296	1,842,766	-	-	-
Financial liabilities at amortised cost - Deposits due to customers	2,956,275	272,590	3,228,866	2,037,232	252,259	2,289,491
Debt securities issued	-	17,200	17,200	-	16,600	16,600
Lease liabilities	27,816	108,634	136,450	40,489	39,935	80,424
Total interest bearing liabilities	4,502,562	722,720	5,225,282	2,077,721	308,794	2,386,515
Total non-interest bearing liabilities	147,624	73,442	221,066	160,550	26,397	186,947
Equity	-	2,833,336	2,833,336	-	2,133,898	2,133,898
Total liabilities and equity	4,650,186	3,629,499	8,279,685	2,238,271	2,469,089	4,707,360
Percentage (%)	56.16	43.84	100.00	47.55	52.45	100.00

38.1 (b) Company

As at 31 March	2022			2021		
	Less than 1 year LKR '000	More than 1 year LKR '000	Total LKR '000	Less than 1 year LKR '000	More than 1 year LKR '000	Total LKR '000
Interest bearing assets						
Cash and cash equivalents	660,873	–	660,873	707,190	–	707,190
Investment in fixed deposits	410,942	–	410,942	5,126	–	5,126
Financial assets measured at fair value	9,222	23	9,245	647,817	23	647,840
Financial assets measured at amortised cost - loans and lease rental receivables	2,758,424	3,918,184	6,676,608	1,657,775	1,498,793	3,156,568
Total interest bearing assets	3,839,460	3,918,207	7,757,667	3,017,907	1,498,816	4,516,723
Total non-interest bearing assets	251,507	218,198	469,705	60,392	129,997	190,388
Total assets	4,090,967	4,136,405	8,227,372	3,078,299	1,628,812	4,707,111
Percentage (%)	49.72	50.28	100.00	65.40	34.60	100.00
Interest bearing liabilities						
Due to banks	1,518,470	324,296	1,842,766	–	–	–
Financial liabilities at amortised cost - Deposits due to customers	2,956,275	272,590	3,228,866	2,037,232	252,259	2,289,491
Debt securities issued	–	17,200	17,200	–	16,600	16,600
Lease liabilities	27,816	108,634	136,450	40,489	39,935	80,424
Total interest bearing liabilities	4,502,562	722,720	5,225,282	2,077,721	308,794	2,386,515
Total non-interest bearing liabilities	147,624	72,838	220,462	160,550	25,964	186,514
Equity	–	2,833,695	2,833,695	–	2,134,081	2,134,081
Total liabilities and equity	4,650,186	3,629,254	8,279,439	2,238,271	2,468,840	4,707,111
Percentage (%)	56.17	43.83	100.00	47.55	52.45	100.00

39. 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.

Notes to the Financial Statements

For the year ended 31 March 2022	Leasing and hire purchases	Trade bills, loans and pawning	Margin trading	Other	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	382,376	290,023	105,755	16,065	794,219
Fee and commission income	19,235	3	-	-	19,238
Net income from other financial instruments at FVTPL	-	-	-	28,367	28,367
Other operating income	20,165	55,763	-	51,717	127,645
Gross revenue	421,775	345,789	105,755	96,149	969,469
Interest expenses	(113,596)	(97,602)	(29,662)	(59,162)	(300,022)
Total operating income	308,179	248,187	76,094	36,987	669,447
Impairment charges for loans, advances and other receivables	54,975	(13,853)	(193)	(15)	40,914
Net operating income	363,154	234,334	75,901	36,972	710,361
Depreciation and amortisation	(4,070)	(3,527)	(1,175)	(1,461)	(10,232)
Amortisation of right of use assets	(17,061)	(14,785)	(4,925)	(6,125)	(42,897)
Staff and other expenses	(173,407)	(148,992)	(45,279)	(88,301)	(455,979)
Segment results	168,617	67,030	24,521	(58,915)	201,253
Taxes on financial services					(61,252)
Net tax expense					51,626
Profit for the year					191,627
As at 31 March					
Segment assets	3,148,865	2,705,520	822,223	1,603,451	8,280,059
Segment liabilities	2,071,362	1,779,724	540,868	1,054,769	5,446,723

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.

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.

For the year ended 31 March 2021	Leasing and hire purchases	Trade bills, loans and pawning	Margin trading	Other	Total
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	232,993	130,577	29,633	77,774	470,977
Fee and commission income	10,448	553	–	–	11,001
Net income from other financial instruments at FVTPL	–	–	–	43,653	43,653
Other operating income	12,183	37,200	–	54,478	103,860
Gross revenue	255,624	168,330	29,633	175,906	629,491
Interest expenses	(81,700)	(59,366)	(18,252)	(78,272)	(237,591)
Total operating income	173,924	108,963	11,381	97,634	391,900
Impairment charges for loans, advances and other receivables	5,065	(48,397)	1,530	–	41,803
Net operating income	178,989	60,437	12,911	97,634	433,703
Depreciation and amortisation	(1,602)	(1,164)	(358)	(1,535)	(4,659)
Amortisation of right of use assets	(12,065)	(8,767)	(2,695)	(11,558)	(35,085)
Staff and other expenses	(100,921)	(73,332)	(22,546)	(96,686)	(293,485)
Segment results	64,401	(22,697)	(12,688)	(12,146)	100,473
Taxes on financial services					(33,148)
Net tax expense					397
Loss for the year					67,722
As at 31 March					
Segment assets	1,617,598	1,175,403	361,379	1,549,719	4,704,099
Segment liabilities	884,806	642,931	197,670	847,677	2,573,084

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.

40. DIRECTORS RESPONSIBILITY STATEMENT

The Board of Directors are responsible for the preparation and presentation of the Financial Statement.

Notes to the Financial Statements

41. CAP IMPOSED BY THE CENTRAL BANK

The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the Company under Section 12 of the Finance Business Act No. 42 of 2011 to cap the total deposits (with accrued interest) at LKR 3,500 Mn until such time the Company meets the required minimum core capital of LKR 2.5 Bn on or before 31 December 2021 as per the Finance Business Act Direction No. 02 of 2017 – Minimum Core Capital.

The cap of LKR 3,500 Mn imposed on deposits has been removed by CBSL on 19 January 2022 in terms of Section 2.2 of Finance Business Act (Minimum Core Capital) Direction No. 02 of 2017, considering the level of compliance with the cited direction, subsequent to the successful completion of the rights issue in December 2021.

42. 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.

Surcharge Tax

The Group/Company made an assessment on the implications by the Surcharge Tax as per the requirements of the Surcharge Tax Act No. 14 of 2022 and concluded that the Group/Company do not meet the taxable income threshold criteria and thereby no surcharge tax liability arises accordingly.

43. IMPACT DUE TO CURRENT UNCERTAIN ECONOMIC ENVIRONMENT

43.1. The impact due to current uncertain economic environment of Sri Lanka on the operations of the Company and the Group

The operations of the Company and the Group is currently being affected by the ongoing uncertain economic condition in Sri Lanka. However, Company has taken necessary steps to mitigate these adverse effects to a minimum level.

The sharp rise in the interest rates have impacted the lending portfolios as well as the funding through short term borrowings have become more expensive. However, The Company's deposits and Borrowing Cap imposed by CBSL was removed from 19 January 2022 and since then the Company has been able to improve its funding through Fixed and Savings Deposits and maintain its deposit base at LKR 3.2 Bn. The Company concentrated more on recovery of its dues with a dedicated team and due to this concentrated effort, the non-performing loan ratio which was around 30% range two years back was brought back to the single digit level and remained at approximately 6.26% as at the financial year end. This provides evidence on the portfolio quality and the recovery strength of the Company. All these efforts aptly supported the Company to manage its working capital needs prudently.

Furthermore, as shown in the Note 19.1 the Company's product mix consists of a diversified product portfolio, consisting with more shorter tenor products. Due to prevailing volatile market rates, although there would be a possibility of re-pricing of liabilities, the interest rate risk and the credit risk will be mitigated through the diversified product mix which the Company is having. When the Company's product concentration is looked at, it can be concluded that the Company is not exposed to risk elevated sectors. Further, the Company has zero exposure to foreign currency risks.

The Company adopts a liquidity policy whose objective is to ensure that it has at all times sufficient liquidity to meet all its financial obligations. Neither borrowers nor lenders have indicated the withdrawal of financial support available to the Company and as of today LKR 250 Mn worth approved unutilised credit facilities are available with the Company. Further, the Company has sufficient liquid assets to continue with its business operations smoothly as excess funds received from rights issues, borrowings and through deposit holders have been invested in government securities and fixed deposits in state banks with a view to obtain the best returns capitalising on the interest rate increases under this current economic situation. The Company has a securitised borrowing portfolio of LKR 1.8 Bn only. As the Company's gearing ratio is low the Company can attract more funding through borrowings despite the interest rate increases.

Despite several challenges from COVID-19 new normal situation and with this economic recession, the Company has been able to achieve its budgeted monthly profits and also to comply with the capital adequacy ratios at 37.71% which is more than the regulatory requirements which has the capacity to absorb unexpected shocks which could occur due to prevailing economic stresses. It is expected that the adverse effects from this economic crisis could be overcome when the country has been able to successfully reach to an agreement with IMF and other funding agencies towards the end of the year 2022.

With the Company's five-year strategic plan and also with the Company's strong governance structure the Company has taken all necessary measures to review its ECL on the lending portfolio, the carrying value of the total assets and monitor the debt covenants, liquidity and the capital adequacy as at the reporting date with a special emphasis on the impact the current economic situation could have on the assets and had determined to have no material adverse effect on Company's ability to continue as a going concern.

43.1.1 Impact of current uncertain economic environment 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 2022.

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 current uncertain economic condition.

-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 current uncertain economic condition.
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 31 March 2022.

During the year, the Group has granted moratorium facilities to some customers as per the guidance of the Central Bank of Sri Lanka. Accordingly, the respective financial assets have been modified to incorporate the changes to the repayment terms of the moratorium customers. The Group has assessed the implication of such adjustment in the expected credit loss model through a staging analysis to determine the impact on the expected credit loss. The following characteristics were considered in determining if the modification has resulted in a significant increase in credit risk.

- The sector the customer operates
- Post moratorium payments made by the customers
- Sector wise percentage of customers applied for the moratorium
- Increase in non-performing loans in non-moratorium customers

Based on the above characteristics the customers repayment capacity under the current uncertain economic condition is evaluated and a staging change (significant changes in credit risk or default status) was considered in order to factor the same in the ECL

Notes to the Financial Statements

model. There was no material change to the ECL model due to the granting of moratoriums.

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 current uncertain economic condition and how government, 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.

43.1.2 Sensitivity analysis of the expected credit loss model

The uncertainty on the impact of current uncertain economic condition introduced significant estimation uncertainty in relation to the measurement of the Group's allowance for expected credit losses. The rapidly evolving consequences of current uncertain economic condition 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:

ECL sensitivity – Weightings applied to forecast scenarios

	As at 31 March 2022	
	Total collective impairment	Impact to the statement of profit or loss
	LKR '000	LKR '000
100% best case scenario	158,546	8,167
100% base case scenario	165,976	738
100% worst case scenario	173,315	(6,602)

43.1.3 Impact of current uncertain economic environment on the liquidity of the Company

The current uncertain economic environment has negatively impacted the liquidity position of Banks and Finance Institutions in the industry due to reasons that include;

- 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.

43.1.4 Impact of current uncertain economic condition on fair value measurement of financial instruments

The Group has invested in securities and accounted for under fair value through profit or loss. The fair value of these financial assets are obtained from observable market data and hence, has not changed as a result of current uncertain economic condition. 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.

44. COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

Supplementary Information



Photography By Clarence E. Hsu/unsplash.com

Summary of Quarterly Financials

	1st Quarter April - June		2nd Quarter July - September		3rd Quarter October - December		4th Quarter January - March		Total For the year ended 31 March	
	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000	2022 LKR '000	2021 LKR '000	2022 LKR '000	2021 LKR '000
Gross income	183,559	124,383	199,230	143,785	264,068	193,569	322,612	167,755	969,469	629,492
Interest income	135,568	104,040	163,378	103,758	223,597	130,331	271,676	132,848	794,219	470,977
Less: Interest expense	52,674	59,620	55,045	57,121	77,422	53,239	114,881	67,611	300,022	237,591
Net interest income	82,894	44,420	108,333	46,637	146,175	77,092	156,795	65,237	494,197	233,386
Fee and commission income	2,281	1,225	3,921	3,200	6,746	3,105	6,290	3,472	19,238	11,001
Net fair value gain from financial assets at FVTPL	15,436	12,581	9,560	13,209	6,542	13,645	(3,171)	4,218	28,367	43,653
Other operating income	30,274	6,537	22,371	23,618	27,183	46,488	47,817	27,217	127,645	103,860
Total operating income	130,885	64,763	144,185	86,664	186,646	140,330	207,731	100,144	669,448	391,900
Less: Impairment charges for loans and receivables and other losses	16,753	33,337	(2,456)	(26,908)	11,360	545	(66,571)	(48,776)	(40,914)	(41,802)
Net operating income	114,132	31,426	146,641	113,572	175,286	139,785	274,300	148,920	710,361	433,702
Less: Personnel Expenses	64,421	28,454	64,741	43,248	65,830	48,770	65,711	53,640	260,703	174,111
Depreciation of property, plant and equipment	1,633	1,228	1,410	1,536	3,383	1,701	3,806	194	10,232	4,659
Amortisation of right-of-use assets	10,699	7,233	12,670	7,233	10,347	13,581	9,181	7,039	42,897	35,086
Other expenses	31,054	22,712	51,440	29,678	49,096	34,137	63,513	32,772	195,103	119,297
Operating profit before tax on financial services	6,325	(28,201)	16,380	31,877	46,630	41,597	132,089	55,276	201,426	100,550
Less: Tax on financial services	9,272	-	10,435	9,526	14,920	10,452	26,625	13,170	61,252	33,148
Profit before income tax	(2,947)	(28,201)	5,945	22,351	31,710	31,146	105,464	42,106	140,174	67,402
Less: Income tax expense	-	-	-	-	-	-	(51,626)	(397)	(51,626)	(397)
Profit for the period	(2,947)	(28,201)	5,945	22,351	31,710	31,146	157,090	42,503	191,800	67,799
Basic earnings per share - (LKR)	(0.01)	(0.13)	0.02	0.11	0.09	0.15	0.45	0.20	0.55	0.32

Figures in brackets indicate deductions.

Ten Year Summary

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FINANCIAL CAPITAL										
Operating results (LKR '000)										
Income	969,469	629,491	629,527	616,671	467,004	375,535	381,358	664,827	757,861	661,236
Interest income	794,219	470,977	563,581	546,759	431,790	365,433	377,193	659,707	750,661	640,259
Interest expenses	300,022	237,591	292,067	357,067	339,682	342,347	281,622	475,897	591,995	425,598
Net interest income	494,197	233,386	271,514	189,692	92,108	23,086	95,571	183,810	158,666	214,661
Impairment charges/(reversal) for loans and receivables and other losses	(40,914)	(41,803)	122,535	85,389	94,900	40,428	68,842	264,238	229,171	66,776
Other operating expenses	195,103	119,297	116,999	122,794	79,364	88,189	74,451	149,702	104,757	177,045
Profit/Loss before tax	140,174	67,402	(79,954)	(91,942)	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)	(89,740)
Profit/Loss for the year	191,800	67,799	(80,086)	(93,684)	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)	(90,894)
Return on assets (ROA) (%)	7.73	1.59	-2.39	-3.22	-4.64	-5.65	-2.19	-6.99	-5.14	-2.41
Cost to income ratio (%)	83	85	86	100	111	143	118	108	106	111
Financial position (LKR '000)										
Cash, balance with banks and reverse repo	1,081,059	707,190	291,440	226,281	289,945	313,065	477,313	399,141	231,787	168,791
Loans and Receivables	6,676,608	3,156,568	1,658,310	2,504,264	2,488,467	2,005,094	1,692,502	2,105,619	3,433,408	3,041,401
Investments in subsidiaries	-	-	-	-	-	-	-	-	-	-
Total assets	8,279,816	4,703,852	3,814,942	2,893,383	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101	4,608,633
Borrowings	1,842,767	-	-	-	-	350,000	-	24,940	49,960	227,143
Deposits from customers	3,228,866	2,289,491	2,100,936	2,434,733	2,455,586	2,396,177	2,841,104	3,546,680	4,237,340	2,675,424
Total equity	2,833,695	2,131,201	1,552,501	142,959	215,691	363,454	553,339	642,894	880,008	1,268,155
Total liabilities and shareholders' funds	8,279,816	4,703,852	3,814,942	2,893,383	2,927,939	3,462,512	3,595,887	4,352,441	5,310,101	4,608,633
Financial cash flows (LKR '000)										
Cash flows from operating activities	159,605	(83,698)	319,178	(351,023)	(621,006)	(977,734)	(386,341)	289,680	899,854	161,375
Cash flows from investing activities	207,709	1,164,851	(1,498,614)	4,697	1,063,789	290,362	457,008	(96,929)	(317,793)	(8,235)
Cash flows from financing activities	2,271,266	462,688	1,462,024	160,075	(354,465)	354,465	(24,940)	(25,020)	(177,183)	(224,594)
Total net cash inflows/outflows	(46,317)	417,465	282,588	(186,252)	88,318	(332,907)	45,726	167,730	404,878	(71,453)
Statutory ratio										
Capital adequacy ratio										
Core capital ratio (required min -7%)(%)	37.71	44.39	49.09	4.85	8.69	-6.84	-0.73	2.26	9.54	19.31
Total risk weighted capital ratio (required min -11%)(%)	37.71	44.38	49.07	4.82	8.68	-6.85	-0.74	2.25	9.53	31.67

Ten Year Summary

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
HUMAN CAPITAL										
Number of employees	217	168	118	123	124	118	110	96	117	155
Profit before tax per employee (LKR '000)	928.23	401.20	(677.58)	(747.50)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)	(579)
Employees' salaries and benefits (LKR '000)	260,703	174,111	129,607	127,248	96,543	92,499	79,487	79,135	88,926	117,442
RELATIONSHIP CAPITAL										
Number of branches	11	11	10	10	10	10	10	10	10	10
Number of shareholders	10,102	9,993	9,911	10,086	10,133	10,182	10,345	10,530	11,335	11,824
Number of ordinary shares (LKR '000)	405,302	326,856	210,875	84,350	67,500	67,500	67,500	67,500	67,500	67,500
Earnings per share – Company (LKR)	0.55	0.32	(0.41)	(1.38)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)	(1.35)
Net assets value per share (LKR)	6.99	6.52	7.36	1.69	3.20	5.38	8.22	9.52	13.03	18.79
Market price per share (LKR)										
Highest	10.20	10.70	11.40	13.50	21.00	24.0	30	29.3	17.1	17.9
Lowest	5.10	6.90	7.40	8.20	11.00	9.4	11.4	16	10.4	11.6
Closing	5.40	7.20	8.70	9.20	11.00	13.9	12	23.9	16.9	13.5
Market capitalisation (LKR '000)	2,188,629	2,353,365	1,834,613	776,020	742,500	938,250	810,000	1,613,250	1,140,750	911,250
Price earning ratio (PE) (Times)	9.81	22.79	(21.22)	(6.67)	(5.00)	(4.71)	(9.30)	(4.78)	(4.47)	(10.00)
Dividend per share (DPS) (LKR)	-	-	-	-	-	-	-	-	-	-
Dividend paid (LKR '000)	-	-	-	-	-	-	-	-	-	-
Gross ordinary dividend (LKR '000)	-	-	-	-	-	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-	-	-	-	-	-
Dividend cover (Times)	-	-	-	-	-	-	-	-	-	-
Dividend payout (%)	-	-	-	-	-	-	-	-	-	-
Debt equity (Times)	1.82	1.08	1.36	19.24	12.57	8.53	5.50	5.77	5.03	2.63
Return on equity (ROE) (%)	7.73	3.68	-9.45	-52.24	-51.22	-43.49	-14.52	-44.32	-23.73	-8.41

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 of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation 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 utilised 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.

$$\frac{\text{Total operating cost without VAT on financial services}}{\text{Operating income}} \times 100$$

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 maximise 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 recognised financial asset or financial liability from an entity's statement of financial position.

Dividend per share (LKR)

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

$$\frac{\text{Profit/Loss attributable to ordinary share}}{\text{Number of ordinary shares}}$$

Glossary

Dividend yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend per ordinary share}}{\text{Market price per share}} \times 100$$

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.

$$\frac{\text{Earnings per share}}{\text{Market price per share}} \times 100$$

Earnings per ordinary share (EPS) (EPS – LKR)

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

$$\frac{\text{Profit/Loss attributable to ordinary shareholders}}{\text{Average number of shares}}$$

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 organisation over a period as a percentage of average employees during the period.

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

Tri-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.

$$\frac{\text{Profit before interest and tax}}{\text{Interest expenses}}$$

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 Treasury 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.

From mortgage loan 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.

Total shareholders equity
Number of shares

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.

Net interest income	x 100
Average interest earnings assets	

Non-performing ratio

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

Gross non-performing portfolio	x 100
Gross loans and receivables	

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 counterparty has failed to make a payment when contractually due.

Glossary

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 judgement 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.

$$\frac{\text{Profit after tax}}{\text{Total assets}} \times 100$$

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 The Institute of Chartered Accountants of Sri Lanka.

They comprise the followings. Sri Lanka Accounting Standards (SLFRS and LKAS); and interpretations adopted by the Council of The Institute of Chartered Accountants of Sri Lanka.

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

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

$$\frac{\text{Total capital}}{\text{Total risk weighted amount}} \times 100$$

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.

$$\frac{\text{Tier II capital}}{\text{Total risk weighted amount}} \times 100$$

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.

$$\frac{(\text{Closing market price} - \text{Opening market price}) + \text{Dividend per share}}{\text{Opening market price}} \times 100$$

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

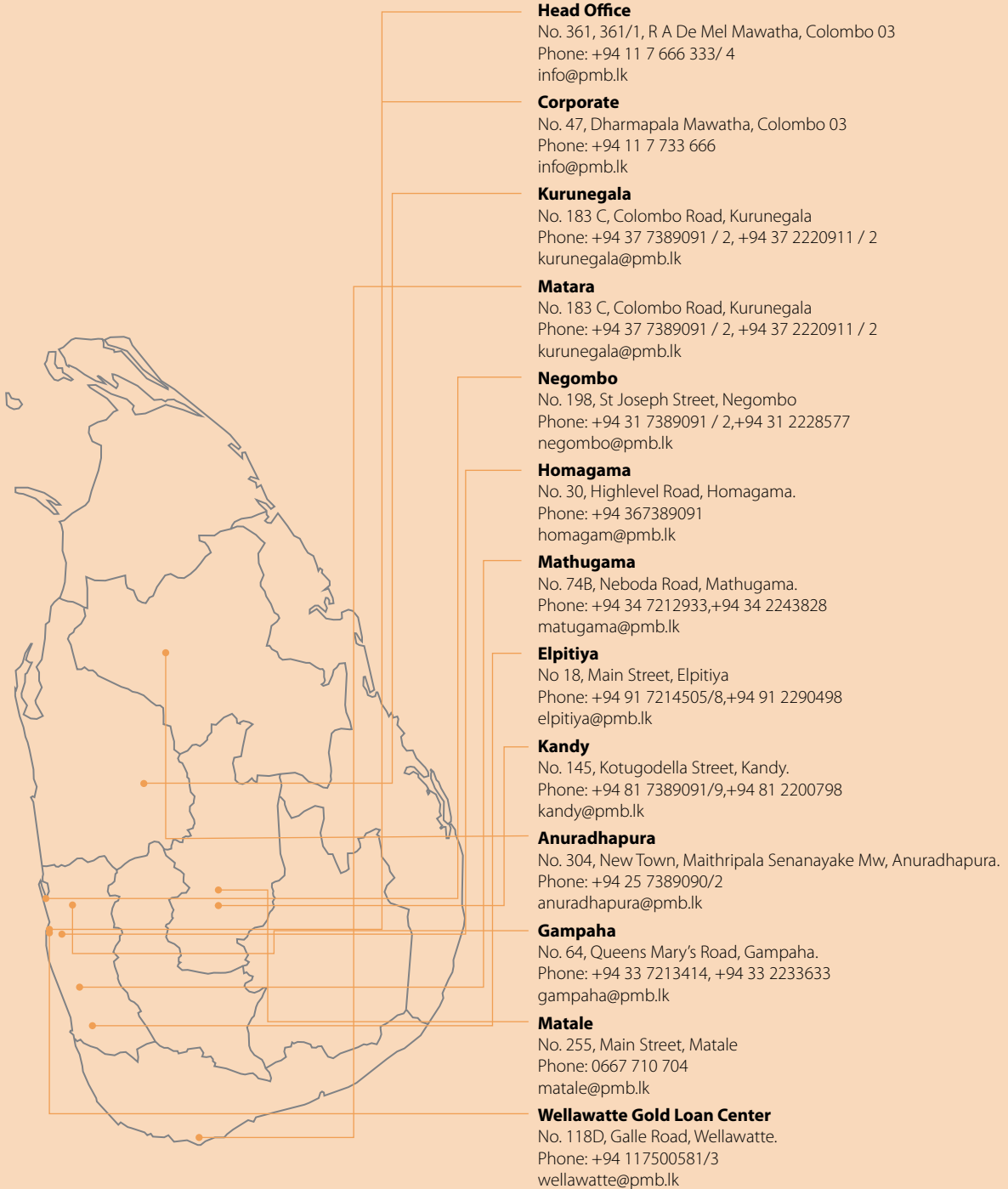
Yield

Return of an investment in percentage terms, taking into 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.

Branch Network



Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty-Eighth (38th) Annual General Meeting (“AGM”) of PEOPLE’S MERCHANT FINANCE PLC (the “Company”) will be held on Friday, the 30th day of September 2022 at 9.00 am online via the virtual platform 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 31 March 2022 together with the Report of the Auditors thereon.
2. To reappoint Messrs KPMG, Chartered Accountants of No. 32A, Mohamed Macan Markar Mawatha, Colombo 02, who are deemed to be reappointed as Auditors of the Company until the conclusion of the next AGM of the Company in terms of Section 158 (1) of the Companies Act No. 07 of 2007, to audit the Financial Statements of the Company for the financial year ending 31 March 2023 and to authorise the Directors to determine their remuneration therefor.
3. To re-elect Ms Krystle Reid Wijesuriya as a Director in terms of Section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
4. To authorise the Directors to determine contributions to charities for the ensuing year.
5. To pass as a special resolution, to resolve to change the name of the Company from “People’s Merchant Finance PLC” to **“PMF Finance PLC”**.

By order of the Board,



CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries

PEOPLE’S MERCHANT FINANCE PLC

31 August 2022

Colombo

Note: Any shareholder entitled to attend and vote at this Meeting is entitled to appoint a proxy to attend and vote/speak in his/her stead and a Form of Proxy is sent herewith for this purpose. A proxy need not be a shareholder of the Company. A completed Form of Proxy must be deposited at the Head Office of the Company, No 361, 361/1 R A De Mel Mawatha, Colombo 03, or forwarded to nadeeka@pmb.lk not less than 48 hours before the time appointed for the holding of the Meeting.

Meeting guidelines –

- (A) The Meeting is to be held in line with the guidelines given by the Colombo Stock Exchange and the health authorities and as per the applicable laws.
- (B) In the interest of protecting public health and facilitating social distancing in line with the guidelines issued by the Ministry of Health, Nutrition and Indigenous Medicine, the Annual General Meeting will be held in the manner set out below:
- (i) The shareholders who wish to participate at the Meeting will be able to join the Meeting through audio or audio and visual means via virtual platform. In order for us to forward the access information necessary for participation at the Meeting, which shall include the Meeting identification number, access password, and access phone number, please forward the duly completed Registration Form including your email address and contact number to the registered address of the Company not less than 48 hours before the time appointed for the holding of the Meeting, so that the log in information could be forwarded to the email addresses so provided. These measures have been adopted to observe social distancing regulations/requirements to mitigate the dangers of the spread of the virus.
 - (ii) If the Company is unable to post this Notice due to any situation beyond its control, then this Notice will be published in one issue of a daily newspaper in the Sinhala, Tamil, and English languages and if the circumstances permit, in one issue of the Gazette. The Annual Report, Notice of Meeting, Form of Proxy, and Registration Form will also be published on the website of the Colombo Stock Exchange (<https://www.cse.lk/pages/company-profile/company-profile.component.html?symbol=PMB.N0000>) and the website of the Company (<http://peoplesmerchant.lk/>).
 - (iii) Proxy Forms are forwarded to the shareholders together with the Notice of Meeting and Registration Form. Proxy Forms have been uploaded to the Company's website (<http://peoplesmerchant.lk/>) and should be duly completed as per the instructions given therein and sent to the registered address of the Company or emailed to pmfagm@pmb.lk not less than 48 hours before the time appointed for the holding of the Meeting and the Proxy so appointed shall participate at the Meeting through audio or audio visual means only.
 - a. The shareholders who are unable to participate at the Annual General Meeting via virtual platform could send their queries, if any, to the email address nadeeka@pmb.lk at any time before the Meeting time and the responses to the same will be included in the minutes of the Meeting.
 - b. Voting in respect of the items specified in the agenda to be passed will be registered by using the audio or audio and visual means (Zoom) or a designated ancillary online application. All of such procedures will be explained to the shareholders prior to the commencement of the Meeting.
 - c. Shareholders can use the "Q&A Forum" to communicate their questions/concerns as and when required.
 - d. For any questions please contact Ms Nadeeka Jayawickrama of People's Merchant Finance PLC on +94 11 766 6333 (Ext. 352) during office hours.

Form of Proxy

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

- 1. Mr Chandula Abeywickrema or failing him
- 2. Mr K Rangana Pubudu Madusanka or failing him
- 3. Mr Travis Waas or failing him
- 4. Ms Krystle Reid Wijesuriya

as my/our proxy to attend and vote/speak at the Thirty-Eighth Annual General Meeting of the Company to be held on the 30th day of September 2022 at 9.00 am online via the virtual platform and at any adjournment thereof and at every poll which may be taken in consequence thereof to vote.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the Affairs of the Company and the Financial Statements for the year ended 31 March 2022 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 31 March 2023.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Ms Krystle Reid Wijesuriya as a Director in terms of Section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.	<input type="checkbox"/>	<input type="checkbox"/>
4. To authorise the Directors to determine contributions to charities for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
5. To change the name of the Company from "People's Merchant Finance PLC" to "PMF Finance PLC".	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2022.

.....
 Signature/s

.....
 Shareholder's NIC/PP/Company Registration Number

Notes:

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

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 17(3) 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.
 - (d) 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 361, 361/1 R A De Mel Mawatha, Colombo 03 or email to pmfagm@pmb.lk not less than forty-eight (48) hours before the time appointed for the holding of the Meeting.
 - (e) 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 the Company

People's Merchant Finance PLC

Legal Form

Public limited liability company
(Incorporated and domiciled in Sri Lanka)

Date of Incorporation

26 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 11 July 1994. Ordinary shares has been transferred to Diri Savi Board with effect from 2 July 2018

Accounting Year-End

March 31

Registered Office and Principal Place of Business

No. 361,
361/1, R A De Mel Mawatha,
Colombo 03,
Sri Lanka
Phone: +94 11 766 6333/4
Fax: +94 11 230 0190
Email: info@pmb.lk
Web: www.peoplesmerchant.lk

Registrars

SSP Corporate Services (Pvt) Ltd.,
No. 101, Inner Flower Road,
Colombo 03,
Sri Lanka
Phone: +94 11 257 3894,
+94 11 257 6871
Fax: +94 11 257 3609
Email: sspsec@sitnet.lk

Auditors

Messrs KPMG Chartered Accountants
32A, Sir Mohomed Macan Markar
Mawatha, Colombo 03, Sri Lanka

Branch Offices

- Corporate Branch
- Anuradhapura
- Kurunegala
- Negombo
- Trincomalee
- Kandy
- Matara
- Homagama
- Mathugama
- Elpitiya
- Gampaha
- Matale
- Wellawatta Pawning Centre

Board of Directors

- Mr C P Abeywickrama – Chairman
- Mr K R P Madusanka
- Mr C S Manoharan
- Mr T Waas
- Mr R Kodithuwakku

Bankers

People's Bank
Cargills Bank
National Development Bank

Subsidiary Company

PMB Services Limited

Vehicle Yards

No 49, Wellawa, Kurunegala

Tax Payer Identity Number (TIN)

134000228

VAT Registration Number

134000228 7000

Central Bank Registration Number

LFC/O43 (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.



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