Catalyst

PEOPLE'S MERCHANT FINANCE PLC

ANNUAL REPORT 2020/21

Catalyst

We needed a spark to ignite a brighter flame.

That spark came in the form of our new strategic investor and principal shareholder, Sterling Capital Investments (Pvt) Ltd. (SCIL), a regional powerhouse. SCIL's strengths have a natural affinity with PMF's own main business streams, making this an exemplary best-fit partnership.

Via a visionary strategic plan, which envisages up-skilling our human resources, restructuring and strengthening our key business areas, leveraging our digital technology platforms, and expanding our footprint both locally and overseas, this partnership ushers in an unprecedented transformation that will renew, revitalise and reposition the Company.

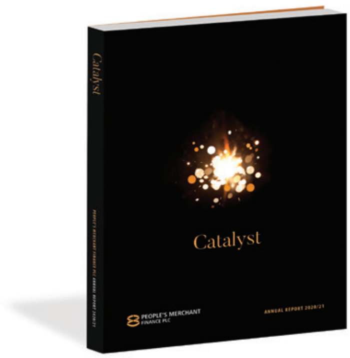
CONTENTS

The Report covers the performance of People's Merchant Finance PLC (PMF) during the financial year ended 31 March 2021 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 2020/21 covers the 12-month period from 1 April 2020 to 31 March 2021, 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 2020 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:

Executive Secretary
People's Merchant Finance PLC
No. 21, Nawam Mawatha, Colombo 2
Phone: +94 11 766 6333
Email: pmfagm@pmb.lk

ABOUT US

People's Merchant Finance PLC (PMF) is a public limited liability company 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.

The Company has been navigating the challenges of Sri Lanka's banking, finance, and leasing industries for the past 38 years. We began a new transformational journey in 2019 to renew, revitalise, and reposition our business paradigm to fulfil the uncharted potential of our Company. The development of the cohesive five-year strategic plan, along with the capital infusion by our majority shareholder, Sterling Capital Investments (Pvt) Ltd. (SCIL), and the appointment of a Board of Directors with significant banking and finance industry expertise and a dynamic management team to lead key business functions have enabled us to focus on our next phase of business.

The success of this journey is reflected by the turnaround of an eight-year loss-making streak in a financial year fraught with challenges across nations, economies, and people following the COVID-19 pandemic. 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.

OUR VISION

"SERVICE EXCELLENCE IN FINANCIAL SERVICES WHENEVER WHEREVER"

OUR MISSION

"ENRICH THE LIVES OF MORE PEOPLE IN MORE PLACES THROUGH INSPIRED PEOPLE"

OUR 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 as our responsibility, to recognise and respect all good practices of local communities.

Pursue Excellence

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

OUR RANGE OF FINANCIAL SOLUTIONS

As a financial service provider, we offer a range of financial solutions to our customers.

- Leasing/Loans
- Gold Loans
- Mortgage Loans
- Working Capital Loans
- Margin Trading
- Fixed Deposits and Savings Accounts
- Special Foreign Investment Deposit Account (SFIDA)
- Real Estate Development

OUR GROUP STRUCTURE

Provided below is the group structure of People's Merchant Finance PLC.

PARENT COMPANY – STERLING CAPITAL INVESTMENTS (PVT) LTD.

↓

PEOPLE'S MERCHANT FINANCE PLC

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PMB SERVICES LIMITED

KEY MILESTONES

2021

- Following the rights issue in March 2021, Sterling Capital Investments (Pvt) Ltd. increased their shareholding to 78.55% of PMF.

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 major shareholder of PMF representing 68.20% of the shares of the Company.

2018

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

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%.

2012

- The name of 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.

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.

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.

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 Accepter 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 1993.

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 (75.00%) and Guinness Mahon & Company Ltd., of UK (25.00%).
- 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.

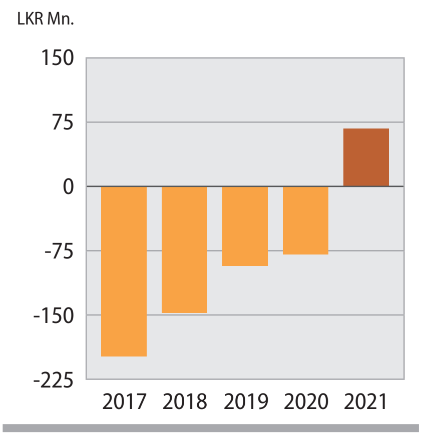
YEAR IN REVIEW

HIGHLIGHTS

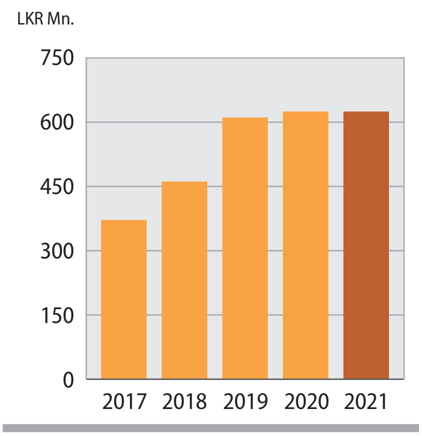
For the year ended 31 March	COMPANY 2021	COMPANY 2020	COMPANY Change (%)	GROUP 2021	GROUP 2020	GROUP Change (%)
Gross income (LKR '000)	629,491	629,528	(0.01)	629,491	629,528	(0.01)
Profit/(Loss) before income tax (LKR '000)	67,402	(79,954)	184.30	67,325	(80,041)	184.11
Profit/(Loss) for the year (LKR '000)	67,799	(80,086)	184.66	67,722	(80,173)	184.47
Profit/(Loss) per share (LKR)	0.32	(0.40)	178.98	0.32	(0.40)	178.98
Return on assets (%)	1.59	(2.39)	166.67	1.59	(2.39)	166.52
Return on equity (%)	3.68	(9.45)	138.96	3.68	(9.46)	138.88

As at 31 March	COMPANY 2021	COMPANY 2020	COMPANY Change (%)	GROUP 2021	GROUP 2020	GROUP Change (%)
Total assets (LKR '000)	4,703,852	3,814,942	23.30	4,704,099	3,815,192	23.30
Equity (LKR '000)	2,131,201	1,552,502	37.28	2,131,015	1,552,393	37.27

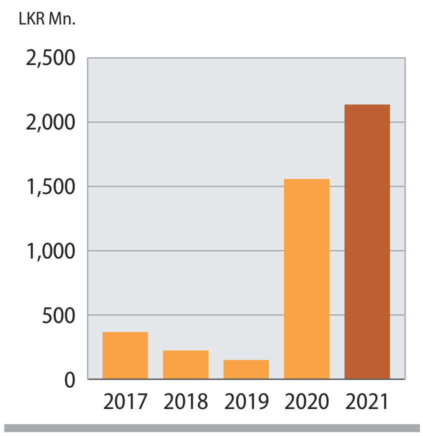
PROFIT AFTER TAX



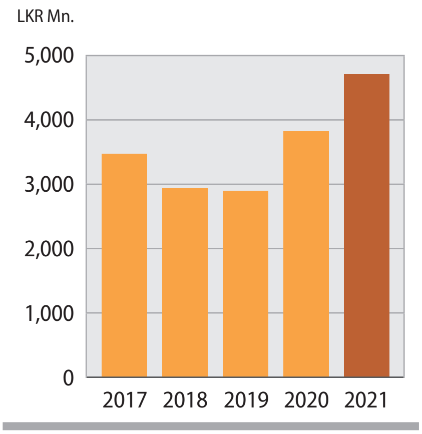
GROSS INCOME



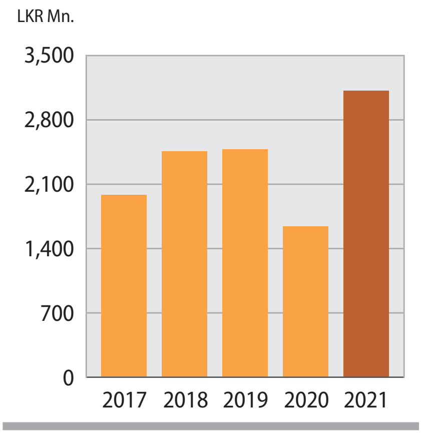
EQUITY



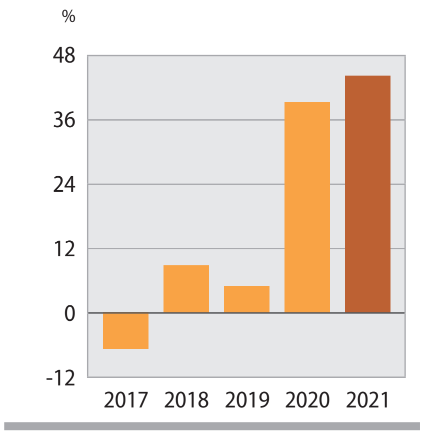
TOTAL ASSETS



LENDING PORTFOLIO



TOTAL CAPITAL ADEQUACY



All above graphs are drawn for Company figures.

CHAIRMAN'S MESSAGE

We made investments in our people, giving them the skills they need to succeed, brought in expertise in critical areas and evolved to a more innovative and agile operating model.

It is my pleasure, on behalf of the Board of Directors, to present to you the Annual Report of People's Merchant Finance PLC (PMF) for the financial year 2020/21.

A WINNING STRATEGY

2020/21 was an exceptional year for our Company. The transformational journey we embarked on in 2019 to renew, revitalise, and reposition PMF's business paradigm to fulfil the uncharted potential of the Company has begun to show results. Despite the prevailing economic and industry challenges, our Company achieved a profit before income tax and tax on financial services of LKR 100 Mn., breaking an eight-year loss-making streak. Today, we are well on our way to fulfilling our mission of serving the financial needs of small and medium-sized businesses and individuals across the Nation while emerging as a leading player in the financial industry landscape.

With the intended turnaround in our Company's performance, the pace of our journey of transformation to date has been exceptional, aligned to the five-year strategy roadmap. The capital infusion by Sterling Capital Investments (Pvt) Ltd. (SCIL), our majority shareholder, together with the appointment of a Board of Directors with significant banking and finance industry acumen and a dynamic management team to lead key business functions have enabled us to focus on the next phase of business growth.

Despite the unprecedented challenges faced during the year, our visionary leadership remained focused on implementing the strategic plan, which was continuously reevaluated in tandem with the dynamic changes in the operating context. We made investments in our people, giving them the skills they need to succeed, brought in expertise in critical areas and evolved to a more innovative and agile operating model. We changed the way we work, increased our productivity to drive an excellent customer experience and enhanced our operational efficiency to seize new market opportunities. Partnerships are fundamental to our business model; we built new relationships and collaborations with key strategic partners, while deepening our engagement with our existing business partners.

The LKR 811.87 Mn. rights issue was oversubscribed and has fortified the internal funds position of our Company enabling us to satisfy the core capital requirements of the CBSL.

Performance targets were assigned based on three key areas – what is possible, what is practical and what is affordable - by taking into consideration the limiting factors of our Company. Along with the many changes brought about to the management team and internal processes, the entire PMF team worked tirelessly on its implementation. All three layers of the Company - the Board, SCIL and the Management team were aligned to achieving the strategic goals through a strong compliance culture and by nurturing a collaborative environment. The results highlight the dedicated efforts of the Board of Directors, the effectiveness of the operational enhancements and the commitment of the PMF team in the first full year of operations.

A POSITIVE SUSTAINABLE PERFORMANCE IN A CHALLENGING YEAR

The external challenges, stemming mainly from the rapid spread of the COVID-19 pandemic, were unprecedented during the financial year under review. The sudden halt in economic activity, inaccessibility in reaching customers, regulatory changes and Government's restrictions on the importation of vehicles impacted our operations. Against this backdrop, we delivered commendable results, with all financial indications pointing toward greater and better times ahead for our Company. This was achieved through focused leadership, dynamism and dedication of the management team and the staff members and by leveraging our internal and external strengths. Profit after tax swelled by 185%, the lending portfolio increased by 90% and non-performing loans declined by 16% YoY during the financial year 2020/21.

The LKR 811.87 Mn. rights issue was oversubscribed and has fortified the internal funds position of our Company enabling us to satisfy the core capital requirements of the CBSL. This is also a strong indication of the enhanced stakeholder confidence, improved financial stability and our ability to move steadily forward with the five-year transformational strategic plan, delivering increased value to our stakeholders.

STRENGTHENED GOVERNANCE AND RISK

We strengthened our governance and risk management frameworks by appointing a new Board of Directors and augmenting risk and governance procedures to meet increasing industry compliance requirements while safeguarding stakeholder interests. Leading professionals with extensive expertise in their fields were appointed to lead all our service offerings. Apart from helping the Company meet the regulatory capital requirements, the rights issue concluded in March 2021 created leeway for growth and strengthened the internal funds position. Whilst implementing regret minimisation dynamics to mitigate risk effectively, an expert was brought in to head the Risk Management function and the necessary structures were implemented for efficient management of risk.

OUR SUSTAINABILITY FOCUS

Sustainability through prudent and profitable growth with the best interest of all our stakeholders at heart is an inherent element of our business strategy. It is based on the quadruple line dynamics where we make a positive impact on the planet and people, comprising customers, employees, shareholders and the society, using the profits equally for the progress of the planet and the people without sacrificing one for another.

LOOKING AHEAD

Our strategic intent is to maintain a diversified business model, which would effectively contribute to the economic needs and development goals of the country. Simultaneously, we will explore opportunities to expand market presence regionally to become a regionally focused financial institution. Our aim is to enrich the lives of more people more often in more places by providing financial services whenever and wherever they are needed. We will implement our digital vision to expand our digital footprint to take forward our business on a diversified platform to cater to a range of industries and emerging customer segments. An Entrepreneurial Loan Scheme will be launched in the ensuing year to support Sri Lanka's small and medium-sized entrepreneurs with a vision to succeed and grow in the future. We will continue to enhance our governance and risk management frameworks and proactively meet regulatory requirements as mandated by the CBSL.

GRATEFUL THANKS

It is with deep sadness that we acknowledge the passing of our colleague, Mr Daluwatte, in August this year. He joined the PMF Board as a non-executive non-independent director in April 2019.

As the first director to be appointed to the PMF Board following the ownership change in 2019, he played a crucial role in restructuring the Company and appointing the new management.

We pass on our sincere condolences to his family and friends.

I am very grateful for the support and hard work of my Board colleagues during 2020/21. I extend my deep appreciation to all our stakeholders – customers, partners, shareholders, regulators and employees. Over the past year, we evolved our corporate strategy to lend greater focus, direction and agility to our culture to pursue growth. I am proud of the PMF team and the results we delivered. However, I challenge myself, and the entire organisation, to think and work differently every day, to reach greater heights. I strongly believe we are well placed to respond to the challenges and deliver increased value to our stakeholders.

Chandula Abeywickrema
Chairman

26 August 2021
Colombo

CHIEF EXECUTIVE OFFICER'S REVIEW

Achieving our most significant milestone to date and financial triumph by turning around a loss-making streak of eight years, amidst the pandemic related challenges, showcases the potential of our Company, the dedicated efforts of the Board of Directors, Management and the PMF team, and the precision of our strategic direction.

The year 2020/21 represents a year of turnaround for People's Merchant Finance PLC (PMF). With a blueprint for the future and a five-year strategic plan to guide us, we are building a dynamic, efficient and agile financial institution capable of delivering increased value to our stakeholders. Achieving our most significant milestone to date and financial triumph by turning around a loss-making streak of eight years, amidst the pandemic related challenges, showcases the potential of our Company, the dedicated efforts of the Board of Directors, Management and the PMF team, and the precision of our strategic direction.

TRANSFORMATIONAL JOURNEY TO REALISE OUR TRUE POTENTIAL

Our transformational journey commenced in 2019 when Sterling Capital Investments (Pvt) Ltd. (SCIL), a company owned by the largest exporter of reconditioned Japanese vehicles to Sri Lanka, obtained the major shareholding of our Company. SCIL infused the much-needed capital and provided strong a backing to pursue innovative and lucrative business opportunities and make our Company future ready.

We put the right people in the right place to drive future business growth, improved our internal processes and systems and developed new products, which was the basis of improving our key performance indicators. Whilst implementing stringent review and monitoring methods for diligent performance management of the deposit base and the loan portfolio, we strengthened our customer-facing activities to deliver an exceptional customer experience. Product development and innovation were given high emphasis to meet changing consumer needs and market conditions. We geared ourselves to serve a new target customer base, support domestic businesses to develop local industries and the national economy.

Technology plays a vital role in our commitment to enriching the lives of more people in more places by providing financial services whenever and wherever. Our technology evaluation to implement a state-of-the-art core banking system is nearing completion. The new system will open new ways of doing business, delivering increased convenience to customers through mobile and internet banking facilities.

A TURNAROUND PERFORMANCE

Amidst the prevailing challenges in the operating environment, the financial year ended 31 March 2021 has proved to be a focal point, showcasing the potential of our Company and the success achieved by the newly-implemented five-year transformational strategies. we recorded a profit before income tax and tax on financial services of LKR 100 Mn. for the FY 2020/21, ending an eight-year period of losses. Our fixed deposit base swelled to LKR 2.28 Bn. exceeding the budgeted target by 136% and the renewal ratio was maintained above 80% for the FY 2020/21. This is attributed to the dedication of the PMF team, and the show of confidence in our creditworthiness by the customers and other stakeholders.

During a period when economic activity was sluggish, we expanded our gold loan portfolio and total lending portfolio by 339% and 90% respectively, YoY. This was largely due to the perseverance of our employees, together with the tireless efforts of the marketing team. The focused loan recovery strategies enabled the Company to increase the monthly collections from LKR 50 Mn. to LKR 190 Mn. and reduce the absolute non-performing assets (NPA) by 20% from last year to LKR 490 Mn. as of 31 March 2021. The improvement in gross NPA ratios in FY 2021 displays our continued efforts on recoveries and quality of new credit generation.

Following the rights issue, our Company recorded a core capital of LKR 2,124 Mn. which was above the regulatory requirement of LKR 2,000 Mn. We continued to maintain high capital adequacy ratios (CAR), with a core and total capital adequacy ratio of 44.39% and 44.38% respectively as at 31 March 2021 compared to the regulatory requirement for core and total CAR of 6.50% and 10.50% respectively.

Our portfolio was diversified by launching margin trading and growing the margin portfolio to LKR 472 Mn. by end March 2021. We also expanded our channel business by signing memoranda of understanding (MOUs) with new strategic partners. Dealer advances were given to vehicle dealers to purchase registered vehicles, which contributed to increasing our lease portfolio.

A total of 887 customers were granted the debt moratorium as stipulated by the Central Bank of Sri Lanka (CBSL) during the financial year. Some of the customers who were impacted by the pandemic were given working capital loans to tide over the difficulties.

SCIL infused the much-needed capital and provided a strong backing to pursue innovative and lucrative business opportunities and make our Company future ready.

THE JOURNEY AHEAD

The future of our Company remains uncharted with a myriad emerging opportunities and possibilities for evolution within a dynamic business landscape. Our Company has gained many strengths and synergies from the Sterling Group, leading to a turnaround situation within a relatively short period of time. The new leadership and the openness to embracing digital technology will help redefine our business processes further, enabling us to become a renowned financial services company in our Nation. We will further develop our strategy to deliver value to our stakeholders within a governance framework that provides stability, prudence, and effective oversight. We will increase the financial inclusion of rural communities, women, and youth by supporting and empowering them to achieve financial independence and prosper to become economically viable individuals. Our aim is to finance environmentally friendly products and businesses that are sustainable, and profitable, in an environment of financial inclusivity.

We will continue to collaborate with organisations who share similar goals to facilitate innovative technological development and utilisation in a sustainable manner. Our human resource productivity will be enhanced while simultaneously increasing retention through investment in learning and development and upskilling initiatives, fair treatment, fair compensation and effective recognition. A strong compliance culture will be embedded across the Company with right tone at the top and via continuous awareness and training programs along with investments in systems and technology. We are planning to expand the market reach through a virtual agent network in the medium term.

THANK YOU

I am confident the foundations we have laid in line with our strategic direction have set us on the right course to deliver solid, sustainable returns, while positioning us well for the future. We will continue to leverage our strengths to serve our customers, and all our stakeholders, delivering increased value. I am grateful for the stewardship, support and guidance from our Chairman and the Board. I extend my appreciation to our customers, investors, business partners, and the regulator for their support and trust. My deep gratitude is extended to the Management and the PMF team for their dedication and indomitable spirit that has been a credit to themselves and to the Company.

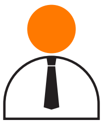
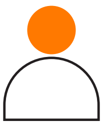
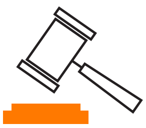
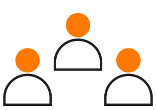
Nalin Wijekoon
Chief Executive Officer

26 August 2021
Colombo

OUR MODEL

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.	• Structural changes • Health and safety • Skills development • Work-life balance • Employee grievances and suggestions • Equal opportunity	• 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.	• Debt moratoriums • Convenience • Interest rates • Customer service and experience	• 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.	• Fair transactions • Transparency in the bidding process • Timely settlements • 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.	• Compliance with directions • Relief program for customers • Good governance practices	• Ethically-driven business model • Transparency
Investors 	Investors provide the needed capital for business growth and help meet regulatory requirements.	• Return on investment • The goodwill of the Company • Financial strength and resilience • Risk management	• 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.	• Societal health and well-being • Social investment • Community development • Employment generation	• Conservation practices • Resource efficiency • Energy conservation • Environmental protection • Reducing our carbon footprint

Our response		Method and frequency of engagement
• 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 • 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
• Enabling the online transfer platform • Providing assistance to obtain the debt moratorium	• Increasing the level of engagement on social media platforms	• Call centre – Ongoing • Customer visits – Regularly • Branch network – Regularly • Social media – Ongoing • Corporate website – Ongoing
• Annual registration of suppliers • Maintaining systematic and transparent procurement processes • Maintaining healthy, mutually beneficial relationships with suppliers and service providers	• 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
• Complying with regulatory directions • Embracing sustainable practices and regulatory compliance that enable a safe and stable financial services system	• 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
• Profit making culture, strengthening of core capital and transparency • Ensuring optimal return on investment • Strengthening risk assessment and mitigation	• 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
• Uplifting the quality of life of communities • Supporting community health and well-being • Supporting entrepreneurs	• Supporting economic empowerment of females • Adopting environmentally friendly initiatives	• Media publications – Ongoing • Internet, brochures, leaflets and advertisements – Ongoing • Employee volunteering activities – Annually

OPERATING ENVIRONMENT

Paying close attention to the environment in which we operate, we scan the horizon for risks and opportunities, and adapt our strategy accordingly. By monitoring the trends in the behaviour of our customers, we strive to meet their evolving needs effectively.

UNEVEN GROWTH IN THE GLOBAL ECONOMY

A year into the pandemic, the global prospects remain highly uncertain. Although the growing vaccine coverage lifts sentiment, the new virus mutations and the accumulating human toll raise concerns. Since disruptions induced by the pandemic vary across the globe, and governments take different approaches to policy support and relief mechanisms, economic recoveries are divergent and uneven across countries and sectors.

According to the Global Economic Prospects of June 2021, the global economy is estimated to expand 5.6% in 2021; its strongest post-recession pace in 80 years. In many emerging market and developing economies (EMDEs), the benefits of strengthening external demand and elevated commodity prices are offset by high COVID-19 caseloads, obstacles to vaccination, and a partial withdrawal of macroeconomic support. On account of the ongoing pandemic and its legacies, which include higher debt loads and damage to many of the drivers of potential output, the output in all EMDE regions is expected to remain below pre-pandemic projections by 2022. In particular, the recovery in small, tourism-dependent economies is expected to be weak due to travel restrictions, which will remain in place until the pandemic is brought under control. The pace of the vaccine rollout is lagging considerably in low-income countries. The recovery is expected to be strongest in East Asia and the Pacific due to strength of China. In South Asia, India's recovery is hampered by the largest outbreak of any country since the beginning of the pandemic.

As the global economy rebounds from the COVID-19 induced global recession, there is opportunity for EMDEs to jump start recovery through the accompanying strength in global trade. Lowering cross-border trade costs could help revive trade growth. Exacerbating food insecurity, low-income countries may experience rising overall food price and inflation for the rest of this year. Attempts by many countries to control food prices through price subsidies or the re-emergence of protectionist policies can prove to be self-inflicted and self defeating globally. The International Monetary Fund cites that prolonged global economic downturn resulted in approximately 95 million more people across the globe falling below the threshold of extreme poverty in 2020, compared to pre-pandemic estimates.

Global GDP growth

	2019	2020e	2021f	2022f
	Percentage (%)	Percentage (%)	Percentage (%)	Percentage (%)
World	2.5	-3.5	5.6	4.3
Advanced economies	1.6	-4.7	5.4	4.0
Emerging market and developing economies	3.8	-1.7	6.0	4.7
East Asia and the Pacific	5.8	1.2	7.7	5.3
Europe and Central Asia	2.7	-2.1	3.9	3.9
Latin America and the Caribbean	0.9	-6.5	5.2	2.9
Middle East and North Africa	0.6	-3.9	2.4	3.5
South Asia	4.4	-5.4	6.8	6.8
Sub-Saharan Africa	2.5	-2.4	2.8	3.3

Source: Global Economic Prospects – June 2021
Note: e = estimate, f = forecast

SRI LANKAN ECONOMY CONTRACTS BUT OUTLOOK IS POSITIVE

The Sri Lankan economy contracted by 3.6% in 2020, compared to the 2.3% growth recorded in the preceding year, reflecting the effects of the COVID-19 pandemic. All sectors of the economy contracted during 2020; agriculture by 2.4%, industry by 6.9%, and services by 1.5% compared to the previous year. The depreciation of the Sri Lankan rupee contracted the overall size of the economy to USD 80.7 Bn. in 2020 from USD 84.0 Bn. in 2019. The depreciation of the rupee against the USD was contained at 2.6% in 2020 and gross official reserves of USD 5.7 Bn. at end 2020, provided an import cover of 4.2 months. Sri Lanka's sovereign rating was downgraded by the sovereign rating agencies amidst limited access to foreign financing in 2020.

According to the World Bank's Sri Lanka Development Update, Sri Lanka is on the path to recovery, having suffered an unprecedented economic downturn due to the pandemic. Accordingly, Sri Lanka's economic growth is expected to recover to 3.4% by 2021 on account of investment as well as tourism and other economic activities. However, with the slow global recovery, continued trade deficits, the economic scars caused by the slowdown and the high debt burden continue to weigh on growth.

The adverse effects of COVID-19 on businesses were mitigated by the debt moratorium introduced by the Central Bank and other measures to encourage lending. At the same time, rising spending and lower revenues in the midst of the pandemic led to a deteriorating fiscal position whilst the Government and publicly guaranteed debt is estimated to have risen to 109.7% of GDP. In February 2021, foreign reserves fell to an 11-year low and the exchange rate fell by 6.5%.

Whilst Sri Lanka's very creditable health response to COVID-19 gives it an early advantage to tackle the economic fallout of the pandemic, all indicators suggest an economic contraction in 2020, albeit with a very real possibility of a sharp V-shaped recovery thereafter. Sri Lanka has a real opportunity to reshape its economic policy choices and to determine policies beyond COVID-19, once the immediate crisis of the pandemic is over. This will greatly help mitigate the disruptive effects of similar crises in the future.

NON-BANK FINANCIAL INSTITUTION (NBFI) SECTOR RECORDS A DETERIORATION

The non-bank financial sector which accounts for 5.9% of Sri Lanka's financial system at end December 2020, deteriorated during the year, with negative credit growth, declining profitability and increase in NPLs. The slowdown in the sector is attributed to pandemic related impediments and the deterioration in public confidence. To avoid further deterioration of the financial position of Licensed Finance Companies (LFCs), maintain the stability of the sector and safeguard the interest of depositors, the Central Bank initiated several regulatory actions along with the introduction of the Financial Sector Consolidation Master Plan (FSCMP). The FSCMP is aimed at addressing non-compliance with the minimum core capital requirement and/or the minimum capital adequacy ratios by several LFCs.

The NBFI sector, which comprised of 40 LFCs and 3 Specialised Leasing Companies (SLCs) at end 2020, comprised of 1,517 branches and 460 other outlets, of which 1,001 branches (66%) were concentrated outside the Western Province.

According to First Capital Research, Sri Lanka's NBFI sector may record a substantial loss in FY21E; the weakest performance in the current decade. The sector-wise net interest margins (NIMs) and spread may further narrow to 6.3% in FY21E which is the lowest in the recent past. Post moratorium, NPLs could reach an astronomical high of 20% at its peak as at FY21E.

Despite the expected recovery in private sector credit growth, NBFIs credit growth may remain subdued resulting in total private credit being captured by Licensed Commercial Banks (LCBs), which would ultimately, negatively impact the NBFI market share.

The asset quality of Sri Lanka's NBFI sector deteriorated in 2020, with the sector's non-performing loans (NPLs) ratio reaching 13.9% end December 2020 from 10.6% reported as at end December 2019.

Performance of the NBFI sector

	2020 LKR Bn.	2019 LKR Bn.	Change percentage (%)
Assets			
Loans and advances (Net)	1,040	1,103	-5.7
Investments	159	132	20.1
Other	203	198	2.6
Total assets	1,402	1,433	-2.2
Liabilities			
Total deposits	749	757	-1.1
Total borrowings	328	406	-19.1
Capital base	248	203	22.0
Other	77	67	14.6
Total assets/liabilities	1,402	1,433	-2.2

Source: Central Bank of Sri Lanka, Annual Report 2020

Composition of deposits of the NBFI sector

	Amount		Composition		
	2020	2019	2020	2019	YoY Growth
	LKR Bn.	LKR Bn.	Percentage (%)	Percentage (%)	Percentage (%)
Time deposits	711	722	95	95	-2
Savings accounts	37	34	5	4	11
Certificates of deposit	1	1	0	0	-11
Total deposits	749	757	100	100	-1

Source: Central Bank of Sri Lanka, Annual Report 2020

YoY growth in loans and advances → -5.7%

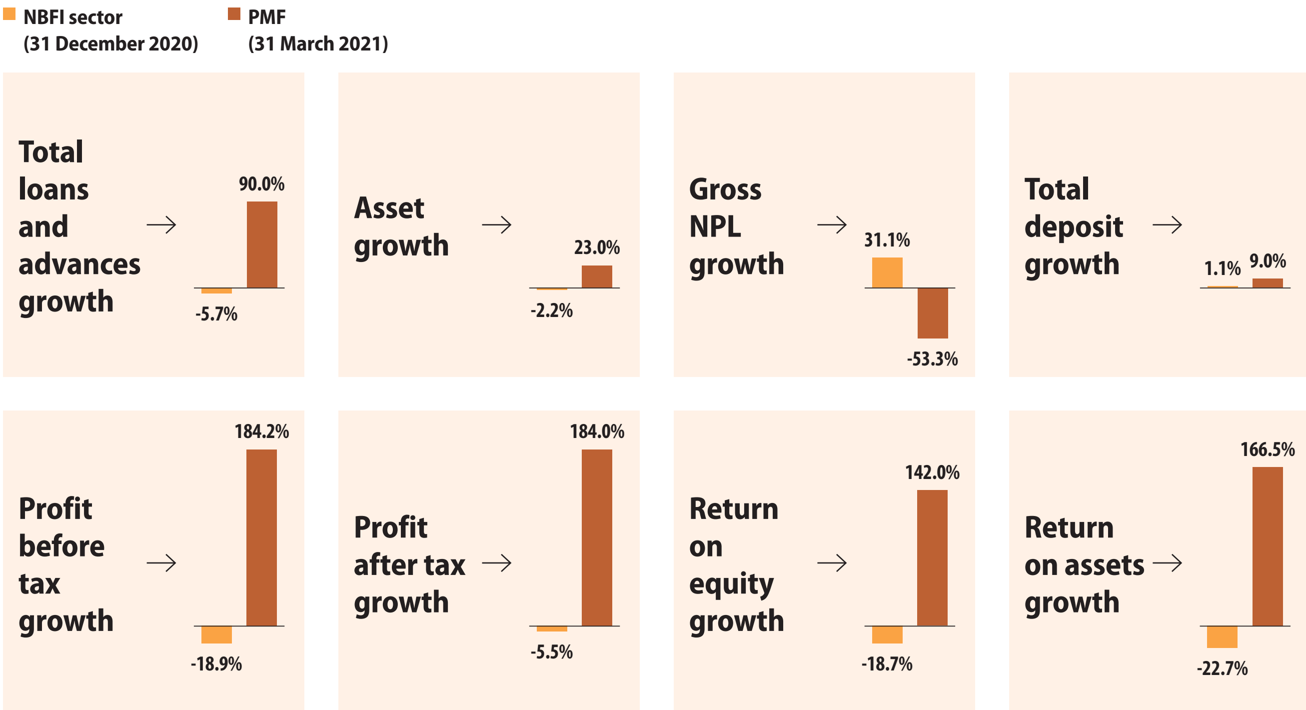
YoY growth in total assets → -2.20%

Capital adequacy ratio → 15.7%

Gross NPL ratio → 13.9%

Return on assets → 1.7%

Comparison of the performance of PMF against the NBFI sector (YoY)



SWOT ANALYSIS OF PMF

Strengths	Weaknesses
38 years of expertise in the NBFI sector	Underutilised employees and legacy systems and processes
Strong brand image backed by the goodwill of People's Bank in the past and Sterling Group at present	Non-compatible IT infrastructure
A team of eminent Board members with industry expertise	Poor brand visibility and customer accessibility
Competent management team with required industry experience and expertise	Low island-wide coverage
Flexibility and adaptability of the Company to changing market dynamics	Absence of investment grade credit rating
Dedicated Research and Development Unit focused on capitalising new market opportunities	Lack of a strong branch network or digitalisation strategy for customer reach
Strong social media engagement	
Over 200 Sterling motor vehicle dealer network island-wide	

Opportunities	Threats
Leasing being the main financing option for movable assets is reinforced by the demand for registered vehicles which is expected to pick up due to the restriction of imports	Import restrictions on vehicles and other non-essential products
Opportunities available in the country's development plan outlined by the Government • Micro, small and Medium Enterprises (MSME) sector • Renewable energy sector • Construction and real estate sector	Negative growth in certain important sectors due to COVID-19
Emergence of technologies that can transform the way business is conducted	Impact on exports due to global constraints as a result of COVID-19
Stable political environment	High industry competition
Consistency and continuity of Government policies as reflected in the Budget 2021	Low-cost funding and refinance schemes available to other financial institutions (especially for banks)
Availability of low-cost foreign funds through our strategic partnership	Dilution of financial intermediation due to FinTech solutions
Limited competition in the NBFI sector for specific products such as entrepreneur financing and renewable energy	
Unutilised bank borrowing capacity	

HOW WE CREATE VALUE

OUR VALUE CREATION MODEL

INPUTS

- Investor capital
- Regulator capital
- Customer capital
- Environmental capital
- Business partner capital
- Social capital
- Human capital

EXTERNAL ENVIRONMENT

VISION AND PURPOSE

GOVERNANCE STRUCTURE

CORPORATE STRATEGY

PRIMARY AND SUPPORT ACTIVITIES

- Recording sustainable profits
- Regulatory compliance
- Service excellence
- Transparency
- Diversity and inclusion
- Minimising adverse effects to the environment
- Human resource management
- Risk management
- Financial accounting
- Marketing and sales
- Product management
- Relationship management
- Support services
- Technology development

OUR STRATEGY

OUTPUTS

- Consistent performance
- Good governance
- Satisfied customers
- Healthy environment
- Process reinforcement
- Uplift in community well-being
- Employee satisfaction

We embarked on a journey of transformation in 2019 to renew, revitalise, and reposition our Company to engage on a level playing field with today's consumers and industry competitors with the development of our cohesive five-year strategic plan that charts our course from 2020/21 – 2025/26.

Our strategic intent is 10 fold

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

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

03 Identify sectors where we can market our core products profitably in an environment of financial inclusivity.

04 Maintain a diversified business model which will effectively contribute to the economic needs of our country.

05 Create a new threshold to comply with the Master Plan of the Central Bank of Sri Lanka (CBSL) for the non-bank financial institutions (NBFI) sector.

06 Proactively contribute towards the achievement of the development goals of the Government.

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

08 Enhance our human resource productivity while simultaneously increasing retention through investment in learning and development, and upskilling initiatives, fair treatment, fair compensation, and effective recognition.

09 Embed a strong compliance culture across the Organisation with the right tone at the top and via continuous awareness and training programs along with investments in systems and technology.

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

Based on the above strategic intents we have formulated four integrated goals to establish a holistic way forward for the next five years of our 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.

STRATEGIC OBJECTIVES

Our two main strategic objective pillars are:

Growth →

- **Grow our asset base to above LKR 20 billion by FY 2025/26.**
- **Revamp our branch structure, including the physical facilities, locations and human resources to drive new volumes.**
- **Elevate existing product lines to new heights.**
- **Focus on a new strategic alliance with the parent company to grow our operations via leasing.**
- **Introduce new product lines to maintain a diversified portfolio whilst being aligned with the development plans of the Government.**
- **Open six new branches in strategic locations across the country to optimise business performance and support the business portfolio and growth of business lines.**
- **Infuse fresh capital to meet future minimum capital requirements as directed by the CBSL.**
- **Investment in a core banking system and in IT infrastructure.**

Profitability →

- **Achieve a profit after tax exceeding LKR 1,000 Mn. by FY 2025/26.**
- **Reduce gross NPL from 29.7% in FY 2019/20 to less than 7.0% by FY 2025/26 on a staggered basis over the five-year period.**
- **Achieve a ROA of 4.0-5.0% and ROE of above 20.0-24.0% (post tax) by FY 2025/26.**

OUR IMPACT

FINANCIAL CAPITAL

A review of the financial performance of People's Merchant Finance PLC for the year ended 31 March 2021 is given below. This has to be read in the context of the operating environment detailed on pages 18 to 21 and the detailed Financial Statements given on pages 108 to 184. Further, this review is based on the Financial Statements of the Company since the Company accounts for almost 100% of the Group performance as well (the subsidiary, PMB Service Limited was not involved in any operations during the year under review nor during the immediately preceding year).

Despite the country experiencing more than its fair share of problems during the year under review and the financial year immediately preceding, People's Merchant Finance PLC managed to record a significant growth in both assets and results of operations. It must be noted, however, that the growth in 2020/21 was in comparison to the relatively lower base of 2019/20. Total assets grew by 23% with the lending portfolio growing by 90%, and in contrast to the loss after tax of LKR 80 Mn. for 2019/20, the course was reversed into a profit after tax of LKR 68 Mn. for 2020/21 with all the profitability ratios bouncing back to positive terrain. Similar improvements were recorded in asset quality, operational efficiency and solvency as well. This is a reflection of the robustness of governance, risk management, pricing and recovery strategies implemented consequent to the investment by Sterling Capital Investments (Pvt) Ltd., all leading to enhanced customer trust in the Company.

LOANS AND RECEIVABLES

The total loans and receivables portfolio of LKR 1,658 Mn. as at 31 March 2020 grew by 90.23% during the year to LKR 3,157 Mn. as at 31 March 2021. Consequently, the lending portfolio as a percentage of total assets improved to 67.11% as at 31 March 2021 compared to 43.47% a year ago. This enabled the Company to move funds lying in low-yielding assets to high-yielding assets, leading to a substantial reduction in placements with banks and financial institutions.

As seen in the table below, growth was seen across all four core product categories of the Company, viz. leasing, loans, gold loans and margin trading.

Core product	As at 31.03.2021 LKR Mn.	As at 31.03.2020 LKR Mn.	Growth Percentage (%)
Leasing	1,619	1,055	53
Loans	592	323	83
Gold loans	584	133	339
Margin trading	362	147	146
Total	**3,157**	**1,658**	**90**

Gold loans, which recorded the highest growth in percentage terms and the second highest growth in absolute terms, warrants special mention. This was made possible due to the implementation of proper recruitment strategies to identify the best to support the business goals, introduction of a staff incentive scheme to motivate staff members to achieve allocated targets, conducting of special branch competitions and product promotional campaigns.

DEPOSITS FROM CUSTOMERS

The total deposit base of LKR 2,101 Mn. as at 31 March 2020 grew by 8.97% during the year to LKR 2,289 Mn. as at 31 March 2021. As seen in the table below, growth came primarily from fixed deposits. The Company was able to maintain a fixed deposit renewal ratio above 80% during the year which is on a par with the industry average, a clear indication of the trust customers place in the Company.

As at 31 March Core product	2021 LKR Mn.	2020 LKR Mn.	Growth Percentage (%)
Fixed deposits	2,261	2,074	9.01
Savings accounts	28	27	3.70
Total	**2,289**	**2,101**	**8.97**

It is noteworthy that the growth in fixed deposits was achieved with the existing staff members and without the support of any professional marketing staff. The Company launched an initiative titled "Deposits Month" that mustered the support of all the staff members to boost the fixed deposits base. A special competition with a reward scheme was initiated among the branches and supporting departments to achieve the fixed deposit targets.

TOTAL ASSETS

Total assets grew by 23.30% to LKR 4,704 Mn. as at 31 March 2021 from LKR 3,815 Mn. as at 31 March 2020, primarily as a result of the growth in the loans and receivables. Growth was funded by the proceeds of the rights issue of shares and the growth in deposits from customers.

FUND-BASED INCOME

Despite the growth in the underlying business volumes, both interest income and interest expense for the year under review recorded decreases compared to 2019/20, reflecting the impact of the low interest rate regime prevailing in the country. However, due to the drop in interest expenses being less pronounced than the drop in interest income, net interest income decreased by LKR 30.156 Mn., or 11.44% for the year. The net interest margin decreased from 8.9% in 2019/20 to 6.6% in 2020/21. Further, due to the substantial growth recorded in other operating income, the contribution of fund-based income to total operating income decreased from 80% in 2019/20 to 60% in 2020/21.

FEE-BASED INCOME

Fee-based income recorded a substantial growth of 140.37% from LKR 65.946 Mn., in 2019/20 to LKR 158.515 Mn., in 2020/21, contributed by all three major sources viz. fee and commission income, net income from financial assets at Fair Value Through Profits and Loss (FVTPL) and other operating income. The Company made a profit of LKR 26.984 Mn., on the sale of one of the two real estate assets, a gain of LKR 17.526 Mn., on the disposal of property, plant and equipment and recoveries of LKR 46.398 Mn., from bad debts written off, which boosted other operating income for the year to LKR 103.518 Mn., from LKR 30.159 Mn., in the previous year.

Substantial growth in fee-based income helped the Company maintain the gross income for the year at the same level of 2019/20 of LKR 629 Mn., despite a drop of 11.44% in net interest income.

IMPAIRMENT PROVISIONING

The Company managed to record a reversal of impairment provisions and other losses of LKR 41.802 Mn., net of a loss on disposal of collaterals amounting to LKR 35 Mn., for the year compared to the provision of LKR 122.535 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 21.07% to LKR 333 Mn., from LKR 275 Mn., in 2019/20. The main contributory factors for the increase were the increase in personnel expenses to LKR 174 Mn., from LKR 129 Mn., in 2019/20 as a result of recruitment of new staff for strengthening some of the functional areas, such as recovery and collections, and the increase in amortisation of right-of-use assets. Consequently, the cost to income ratio increased marginally from 83.53% in 2019/20 to 85.01% in 2020/21.

ASSET QUALITY

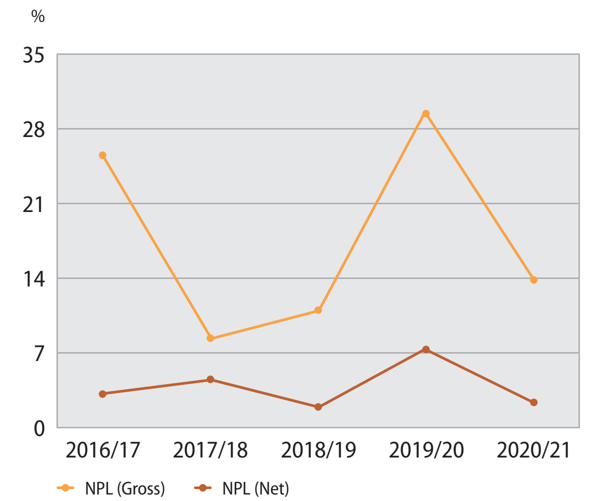
Strengthening of credit appraisals, post sanction monitoring, collections and legal recoveries helped the Company record a significant improvement in its asset quality. The gross non-performing loans (NPL) ratio improved to 13.90% as at 31 March 2021 from 29.72% a year ago while the net NPL ratio improved from 13.00% to 2.19% respectively. Monthly collections increased from LKR 50 Mn., to LKR 190 Mn., during the year under review, which led to improvements in bucket movements of loans and advances in terms of Days Past Due (DPD) and reduction in impairment provisions in terms of IFRS 9. The portfolio of loans with three instalments in arrears decreased from LKR 839 Mn., as at 30 June 2020 to LKR 374 Mn., as at 31 March 2021. The Company also managed to dispose of 21 repossessed vehicles during the year.

The stage-wise breakdown of the lending portfolio and the impairment provision is given below:

Indicator	Stage 1 (LKR Mn.)	Stage 2 (LKR Mn.)	Stage 3 (LKR Mn.)	Total (LKR Mn.)
Lending portfolio	2,795	218	557	3,570
Impairment provision	29.52	17.72	366.12	413.36

The provision cover and the open credit exposure ratio stood at 84% and 4% as at 31 March 2021 compared to 78% and 10% as at 31 March 2020, respectively.

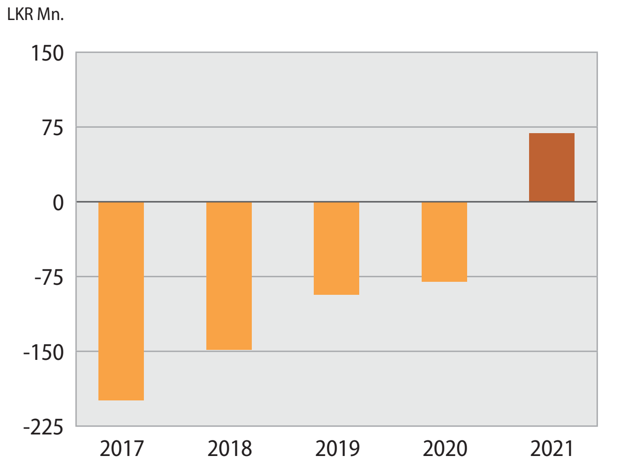
NPL



PROFITABILITY

Growth in total operating income and the drop in impairment provisions more than offset the increase in operating expenses to record a profit before taxes of LKR 100.550 Mn., for the year under review compared to the loss of LKR 68.273 Mn., in 2019/20. Taxes on financial services increased as a result of the increase in the profit before taxes. Accordingly, profit before income tax for the year was LKR 67.402 Mn., compared to the loss of LKR 79.954 Mn., in 2019/20. There was no income tax liability for the year due to the availability of brought forward tax losses. Consequently, the Company reported a profit after tax of LKR 67.799 Mn., for the year after a reversal of deferred tax of LKR 0.397 Mn., compared to a loss of LKR 80.086 Mn., in 2019/20. Earnings per share for 2020/21 improved to LKR 0.32 while it was LKR 0.40 negative in 2019/20.

PROFIT/(LOSS) AFTER TAX FOR THE PAST FIVE YEARS



Profitability in terms of both Return on Assets (ROA) and Return on Equity (ROE) too improved as a result of positive results of operations. ROA and ROE were 1.59% and 3.68% compared to 2.39% and 9.45% negative, respectively for the previous year.

FUNDING AND LIQUIDITY

Despite certain concerns with regard to the liquidity and funding capabilities of the non-banking financial institutions sector at the beginning of the year, the Company managed to maintain comfortable levels of liquidity throughout the year. By way of funding, the Company raised LKR 511.87 Mn., (net of the LKR 300 Mn., received earlier as an advance against stated capital from the Sterling Capital Investments (Pvt) Ltd. in February 2020 and capitalised during the year) through a rights issue of shares and LKR 188 Mn. through the growth in the deposit base.

The holdings of liquid assets of the Company as at 31 March 2021 and 31 March 2020 were as follows:

As at 31 March	2021		2020
Indicator	Minimum requirement Percentage (%)	Percentage (%)	Percentage (%)
Government Securities to average deposits and borrowings	5	28	10
Liquid assets to time deposits	6	33	69
Liquid assets to total borrowings	5	73	144

CAPITAL

Capital infusion of LKR 811.87 Mn., by way of a rights issue increased the stated capital of the Company to LKR 3,252 Mn., as at 31 March 2021 compared to LKR 2,440 Mn., the previous year. With accumulated losses of LKR 1,131.6 Mn., total equity was LKR 2,131 Mn., as at 31 March 2021 (LKR 1,552 Mn., as at 31 March 2020). Capital infusion also improved the interest bearing liabilities to non-interest bearing liabilities (including equity) to 49.03%: 50.97% as at 31 March 2021 from 55.54%: 44.46% as at 31 March 2020.

The Company met the minimum capital requirements stipulated by the Central Bank of Sri Lanka of LKR 2,000 Mn., for the year 2021 while plans have already been made to increase it to meet the minimum capital requirement of LKR 2,500 Mn., as at 1 January 2022. As shown in the table, the Company also maintained the capital adequacy ratios comfortably above the minimum requirements.

As at 31 March	2021		2020
Indicator	Minimum requirement Percentage (%)	Percentage (%)	Percentage (%)
Core capital adequacy ratio	6.5	44.39	39.58
Total capital adequacy ratio	10.5	44.38	39.56

2021/22 AND BEYOND

Guided by an elaborate strategic plan covering the next five years that includes plans for capital augmentation, automation and digitalisation to enhance both operational efficiency and customer experience, and organic growth through unconventional delivery channels, the Company is confident of becoming a force to be reckoned with in the NBFI industry in the near future. The Company also has set its sights on the South-East Asian region for expansion beyond the shores of Sri Lanka. These measures will undoubtedly enhance the overall performance of the Company and shareholder returns.

HUMAN CAPITAL

Our success is underpinned by our team of highly talented and dedicated workforce. In a year faced with an unprecedented external challenge of a global pandemic, we provided effective employee communication, continuous employee engagement and delivery of HR services for smooth functioning of our Company. Effective health and safety protocols were established for our employees and we implemented new measures to adapt to the new dynamics presented following the pandemic.

We gave emphasis to attracting, developing and retaining top talent, adding value to our core HR functions including learning and development, employee engagement, talent acquisition and compensation and benefits, to deliver a high value proposition to our employees.

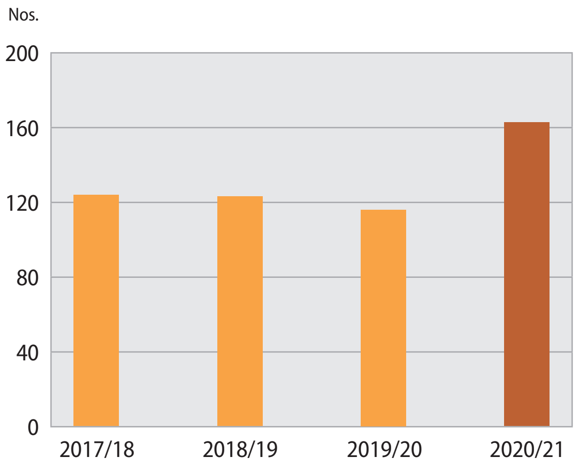
HIGHLIGHTS

- **40% increase in human capital strength**
- **36% female employees**
- **39% of workforce under 30 years of age**
- **1,881 training hours**

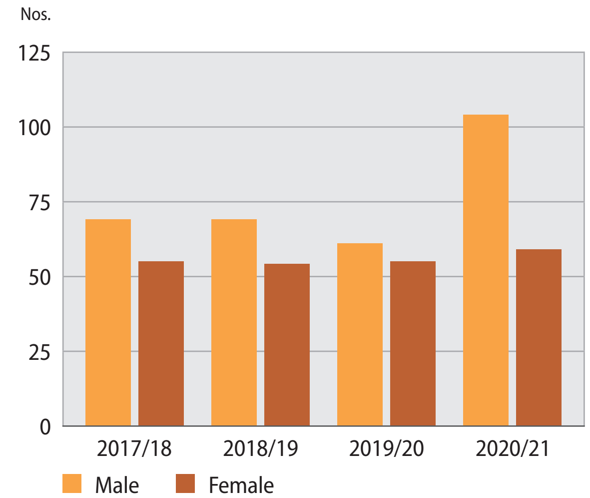
THE PMF TEAM

Our total workforce strength stood at 168 as of 31 March 2021. We have a diverse and inclusive workforce, reflecting the diversity of our customers, representing different ethnicities from all geographical regions. Following is a detailed statistical representation of our workforce in 2020/21:

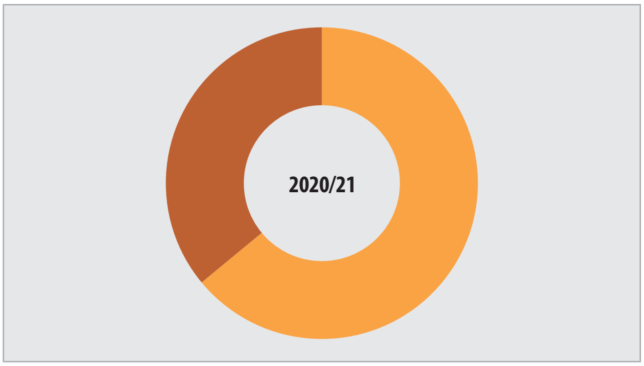
NUMBER OF EMPLOYEES



GENDER ANALYSIS OF EMPLOYEES

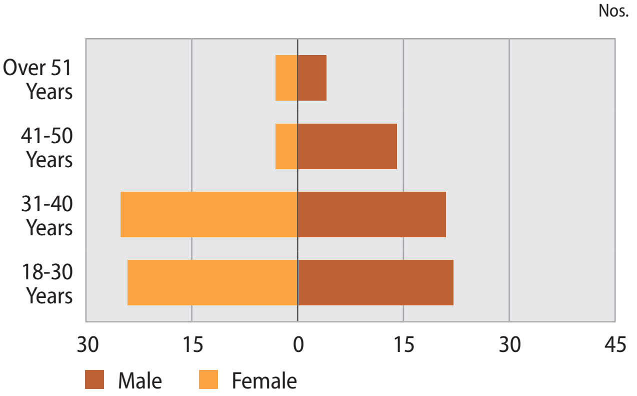


GENDER ANALYSIS OF EMPLOYEES

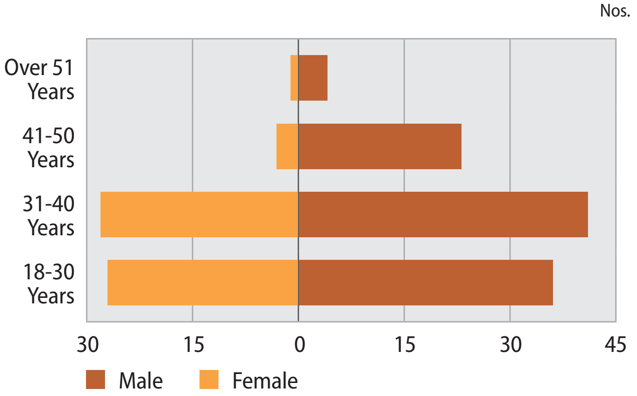


	Percentage (%)
Male	64
Female	36

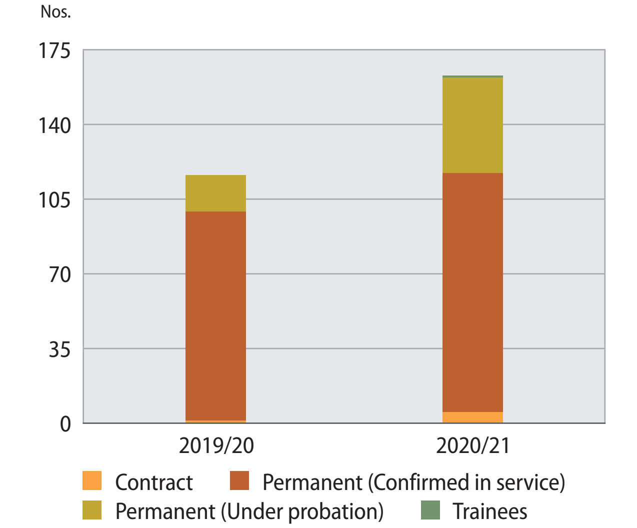
EMPLOYEE ANALYSIS BASED ON AGE AND GENDER FY 2020/21



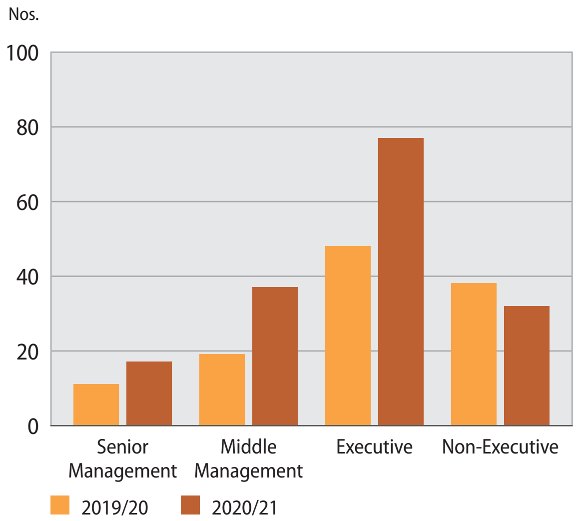
EMPLOYEE ANALYSIS BASED ON AGE AND GENDER FY 2019/20



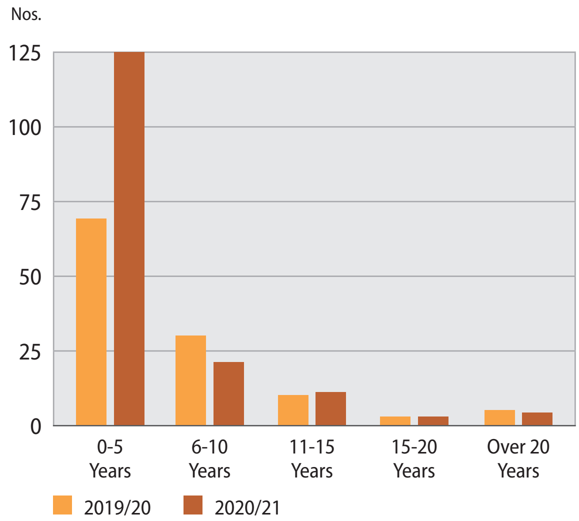
TOTAL WORKFORCE BY EMPLOYMENT TYPE



EMPLOYEES BASED ON GRADE



SERVICE ANALYSIS OF EMPLOYEES



Employees by region/grade – 2020/21

Province	GRADE CATEGORY				
	Senior Management	Middle Management	Executive	Non-Executive	Grand Total
Central	1	2	4	3	10
Eastern		1	6	1	8
North Central		2	4	3	9
North Western	1		4	2	7
Southern		6	8	2	16
Western	15	26	55	22	118
Grand Total	17	37	81	33	168

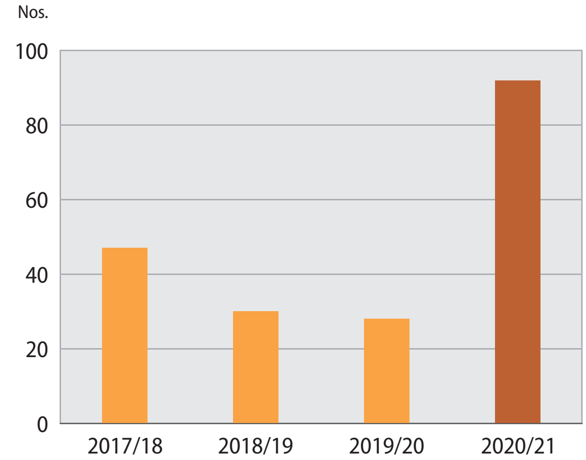
Employees working from home by grade/gender (during lockdown period)

Grade	Male	Female	Total	Total in grade	%
Senior Management	10	1	11	17	64.7
Middle Management	18	4	22	37	59.45
Executive	35	25	60	81	77.92
Non-Executive	12	14	26	33	81.25

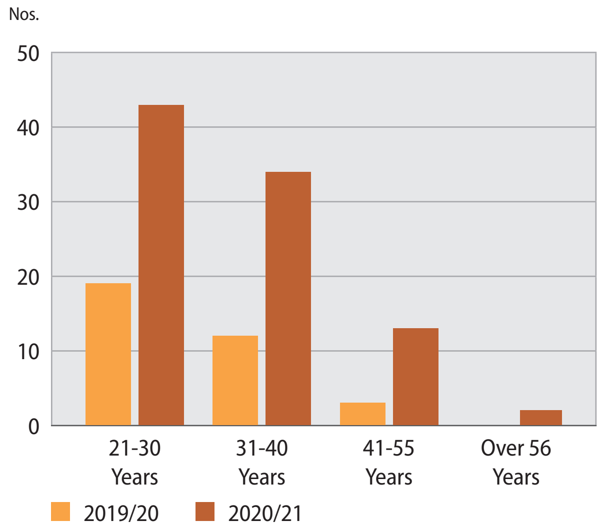
RECRUITMENT

As per our Human Resource plan, we have strengthened our workforce by recruiting specialists to drive business functions and deliver increased value. A total of 92 employees were recruited to the PMF team during FY 2020/21.

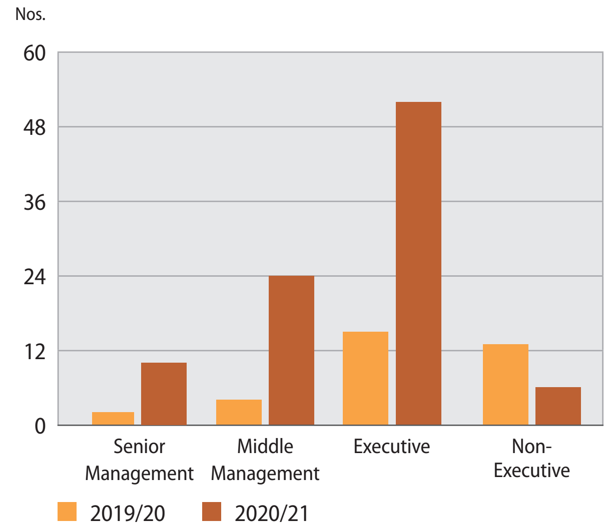
NEW RECRUITMENTS



RECRUITMENT BY AGE



RECRUITMENT BY GRADE



Internship program

In line with the purpose of bringing in new and young talent into our Organisation, we have developed an internship program. We will further develop this program to attract diverse and high caliber talent to fuel the future growth of our Company.

HR network head-hunter program

We have established links with universities and professional bodies to facilitate target recruitments and we will continue to actively participate in job fairs.

Internal recruitment program

This has improved employee motivation and morale and provided career development opportunities to many of our employees. First priority is given to internal candidates to fill internal positions.

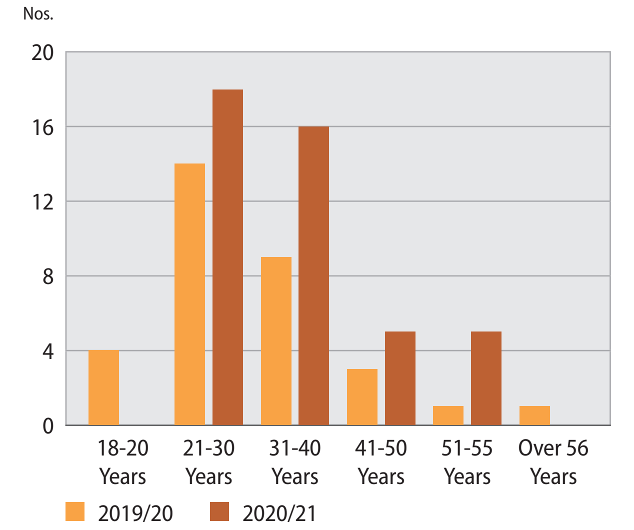
Implementation of employee retention strategies

We have a plan to implement a structured initiative to retain value adding employees. This initiative is based on our "Education-Experience-Exposure" doctrine where we take effort to develop the skill levels of employees through real world learning experiences and enable them to become multi-skilled through job enrichment platforms. This is done by job rotation and giving them opportunities to interact and be mentored and trained by our Senior and Corporate Management.

EMPLOYEE TURNOVER

We have maintained a staff turnover 2.43% with 44 employees relinquishing employment during the financial year 2020/21.

EMPLOYEE TURNOVER BY AGE



Employee turnover based on business segment

Department	Gender	2020/21 Total	2019/20 Total
Administration	Female	1	–
	Male	2	–
Central operations	Female	1	6
	Male	1	–
CEO's office	Male	–	1
Client service	Female	2	1
Credit	Male	1	–
Deposits	Male	1	1
Finance	Female	3	2
	Male	2	3
Gold loans	Female	1	–
HR	Female	1	–
IT	Female	–	1
Legal	Female	3	1
	Male	1	–
Lending	Male	19	10
Pawning	Male	1	–
Recovery	Male	3	1
	Female	–	3
Teller	Female	1	2
Grand total		44	32

	2020/21	2019/20	2018/19	2017/18
Employee turnover				
Resignations (excluding disciplinary grounds/low performance/vacated posts) (Nos.)	20	25	27	36
Total number of resigned employees	44	32	31	42
Turnover ratio				
Turnover ratio (excluding disciplinary grounds/low performance/vacated post) (%)	1.10	1.77	1.81	3.63
Overall (%)	2.43	2.26	2.07	4.23

Talent Retention Management Approach

Talent retention is crucial to the long-term sustainability of our business. We ensure that our employees are appropriately rewarded and remunerated in line with industry standards. We have in place a range of performance-based remuneration schemes to ensure that their contributions to Company performance are recognised and adequately rewarded. Further, a key component of our Human Resources Policy is to strictly ensure that our employees are treated fairly and with respect, without having to face any type of discrimination. This will enable our employees to feel that their contributions are recognised and will in turn help foster their loyalty towards the Organisation. In the long-run, this strategy will help us retain key talent.

EMPLOYEE WELL-BEING

In the context of employee well-being, our primary objective is to create a healthy, safe and productive work environment, where our employees can collectively thrive along with the Company. We have adopted a multi-faceted approach in managing employee well-being focused on work-life balance, occupational health and safety, increased employee engagement and the swift addressing of employee grievances. Further, we have taken the initiative to create a pleasant, comfortable and conducive work environment for our employees at our head office, as well as in our branches.

Consciously moving away from a traditional hierarchical structure, we have strived to create a flat organisational operational structure where a participative decision making work culture is practiced. This helps in enhancing employee engagement and ensuring employees at all levels are actively involved in decision making and execution of strategic decisions.

Even though we have not entered into any collective bargaining agreements with any trade unions, it is our corporate policy to take proactive steps to ensure the maintenance of good, productive industrial relations with all our employees enabling them to bring their concerns to the attention of the management. This is facilitated through an open-door policy.

Statutory benefits for employees

We strongly adhere to the ethos of providing our employees with benefits, both pecuniary and non-pecuniary, that are not less than the statutory requirements. As a responsible corporate that gives absolute precedence to the adherence with statutory obligations, we ensure that all our statutory obligations with regard to our employees are carried out without deviations. This includes the contributions under the EPF, ETF and the provision of Gratuity. Further, we adhere to all statutory obligations with regard to the provision of leave to our employees and ensure that new maternity leave regulations are administered in conformity with statutory requirements.

In order to maintain our employee compensation policy above the industry norms, we continuously review the schemes in place to ensure our employees are rewarded fairly and adequately based on their contributions.

PMF Welfare Society

The quality of employee well-being is a reliable measure of the health of a company. The PMF Welfare Society was launched in September 2020, to assist our staff members in times of hardships during their service period and to organise activities to promote a conducive environment. During the year under review, reimbursement of medical expenses of employees was also continued. With the financial and operational support of the Company, the PMF Welfare Society conducted many initiatives such as celebrating International Women's Day and also organising a Christmas Party along with Christmas Carols on 18 December 2020.

SALARIES AND BENEFITS

Adopting an equal pay policy with gender equality, we maintain an impartial remuneration structure, offering our employees fair, competitive and attractive packages.

	2020/21	2019/20	2018/19
	LKR '000	LKR '000	LKR '000
Salaries paid (Prorated basic salary)	110,094	74,649	75,217
Benefits paid	42,012	35,440	36,278
Gratuity	7,656	3,710	1,646
EPF/ETF contributions (15%)	17,198	11,939	11,475

Introduction of e-payslips

Employees are given instant access to their pay records online. This helps us to use less stationery, contributing towards green concept and waste-reduction.

"Life Assurance" policy

All staff members are given a life assurance policy.

Personal loans

Personal loan and vehicle loan facilities are available with special interest rates for our internal staff.

LEARNING AND DEVELOPMENT

We continue to strengthen our learning and development process, offering numerous training programs at all levels. Various strategic tools are used in designing training programs that address current learning requirements and critical business areas of our Company. In line with the Company's corporate objectives, we successfully organised trainings on motivation, service excellence, etc. Also other internal learning sessions programs are being organised and developed to enhance technical awareness amongst staff members whilst being continuously trained on internal business areas such as new system implementation and product development. Apart from the above, we focus on developing our employees by engaging with external training institutes namely the Central Bank of Sri Lanka (CBSL), Finance Houses Association of Sri Lanka (FHA) and other private training institutes.

The following factors are taken into consideration in designing training programs:

- Strategic organisational development needs
- Succession planning
- The performance skill gaps of employees and learning requirements identified during the annual performance appraisal process
- Technical training requirements with regard to our products (existing and new) and the industry regulatory landscape
- Development of soft skills and general management requirements such as effective communication, team building, motivation and service excellence internal operational changes.

We invested in the capabilities of our employees through the provision of learning and development programs, to equip our people to stay a step ahead. During the year, 32 training programs were conducted delivering almost 1,881 hours of learning, which is the highest number of programs conducted within a financial year in history of our Company. This is reciprocated in the form of enhanced employee contributions in productivity, effectiveness, commitment and loyalty.

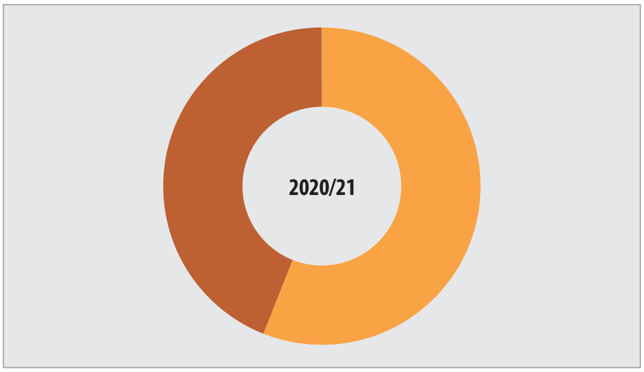
Hours of training by grade

Grade category	2020/21 Total man hours	2020/21 Total participants
Senior Management	121.50	15
Middle Management	307.00	34
Executive	956.50	82
Non-Executive	495.75	37
Grand Total	1,880.75	168

Training statistics

	2020/21
Number of training programs	32
Total number of participants	476
Training days	235
Hours spent on training	1,880.75
Number of trained staff	167

EMPLOYEE TRAINING BY TYPE OF SKILL DEVELOPMENT



	Percentage (%)
Technical skills	56
Soft skills	44

PERFORMANCE MANAGEMENT

Employee commitment and motivation are high corporate priorities. Therefore, we continue to invest in developing employee skills and providing growth opportunities for all our employees, to enhance employee confidence and motivation. We successfully initiated Key Performance Indicators (KPIs) covering key departments, including Credit, Sales (Leasing, Trade Finance, Margin Trading, Gold Loans, Fixed Deposits, Savings), Operations, Legal and Recovery. This helps to ensure the achievement of business objectives which is communicated across the Organisation.

Employee performance is monitored and managed using the Balanced Score Card. Bonuses and increments are based on employee performance during that financial year and distributed according to the Bell Curve. The increments for 2021/22 would be based on Key Performance Indicators (KPI) achieved during 2020/21. Out of 168 employees, 113 were eligible for annual increments. Employees under probation were not included.

Performance Management System (PMS) has been further strengthened and developed into a performance-oriented culture through the identified KPIs. This system empowers and enables employees at all levels to take up higher responsibilities, based on the needs of the Company. The system synchronised the requirement for rewarding employees on performance, who conform to a highly motivational performance culture. We are confident that the PMS system-based culture linked with the reward mechanism will be a major contributory factor towards enhancing the overall performance, and thereby driving the Company in the years to come.

DIVERSITY AND EQUAL OPPORTUNITY

A culture of inclusion and diversity is essential to drive innovation and enabling all employees to do their best. Our employees are treated fairly and equitably in a conducive environment. We have a diverse workforce in terms of gender, ethnicity, race, faith and age, and we welcome and fully consider all applications irrespective of diversities. We support diversity and gender parity through our stance on equal opportunity, anti-sexual harassment and through a dedicated grievance handling mechanism instituted in the Company.

Empowering female employees

We have always had a reputation as a forward thinking Organisation and we always encourage our female employees too, to be innovative.

Under the guidance of our CEO, a special event themed "Choose to Challenge" was organised for the females employees at PMF to commemorate the International Women's Day in 2021. The aim was to extend a powerful message and profound insights that will make a lasting, positive impact on their careers.

The program included knowledge sharing sessions, sharing of innovative and practical and ideas to boost the careers of women to reach greater heights and show new possibilities for life.

The keynote speech was delivered by Ms Gayani De Alwis; Management Consultant, Corporate Trainer, Lecturer, Chairperson and Member of the Chartered Institute of Logistics and Transport (CILT).

She highlighted breakthrough strategies and insights for women of all ages, wining motivational techniques, unique strengths of a woman, building credibility and increasing visibility and how to deal with diversity and challenges in the workplace and the industry.

The event was also graced by our Chairman, and the key topics covered were "Women's full and effective participation and leadership in all areas of life drives progress for everyone" and "Challenges and how we overcome the challenges during the pandemic situation." These insightful sessions have helped the ladies to sharpen their skills and adopt positive attitudes. PMF as a responsible employer will continue to conduct many more similar programs in future to enable our female workforce to reach new heights.

OCCUPATIONAL HEALTH AND SAFETY

In order to ensure the health and safety of our employees across the network, we expend a considerable amount of resources to ensure that the right infrastructure and operational processes are in place. Based on assessments done across our network by our Operational Risk department, we take precautionary measures to anticipate and identify occupational health and safety risks and to minimise the impacts of their occurrence.

Following the outbreak of COVID-19, we have strengthened measures, promoting a healthy culture, improving hygiene practices across the network, raising employee awareness, and facilitating remote working arrangements. As per the guidelines issued by the Ministry of Health, we have appointed a focal point from each branch to ensure health and safety measures of all employees. Awareness programs were conducted for the appointed focal points through an insurance company, and health and safety measures were circulated through different channels across the Company. The appointed person is responsible for assessing the preparedness of the work place/branch to COVID-19 and also to update the records/checklists periodically in coordination with the HR Department. There were no employee fatalities reported in 2020/21.

WHISTLEBLOWING POLICY

In order to foster an ethical and legally compliant working environment, we encourage confidential employee whistleblowing and assure all employees their anonymity in this regard. In line with the HR Manual, Whistleblowing Policy was initiated in October 2020. Employees can use whistleblowing to address any internal violations and misdeeds that they come across.

INTELLECTUAL CAPITAL

Intellectual capital comprising intangible assets is a culmination of all our capitals including our brand and reputation, internal systems and processes, business ethics, corporate values, policies and our corporate culture that is essential to create value for our stakeholders. We strive to develop our intellectual capital through investments in technology, partnership with business partners, improvement of systems and processes, and encouragement for learning and innovation.

HIGHLIGHTS

- **Strong compliance culture**
- **Encourage employees to be innovative**
- **Digital vision to expand our digital footprint**

CORPORATE CULTURE

We nurture a strong compliance culture across the Company with the right tone at the top and via continuous awareness and training program along with investments in systems and technology. It is a culture of professionalism and respect among individuals, that supports a culture of inclusivity, with zero tolerance towards discrimination and corruption. Through integrity-led behaviour, we drive employee discipline and efficiency, inspiring employees to perform, innovate, and create the future by working together.

We also collaborate with organisations who share similar goals to facilitate innovative technological development and utilisation in a sustainable manner. By improving internal systems, processes and resources, we pave the way for efficient delivery of financial services to more people in more places.

DIGITAL TRANSFORMATION

Following our social transformative path to become a leading industry beacon, we have developed a digital vision considering the importance of technology to reach tech-savvy customers by digitalising and operating in the business, in an online world. Our aim is to expand our digital footprint, and take forward the business on a diversified platform to cater to a range of industries and emerging customer segments.

BUILDING OUR BRAND

A range of brand building exercises were carried out throughout the year, mainly focused on digital marketing to enhance our corporate image. Our social marketing strategy and digital strategy are geared to reach all customer segments in tandem with our transformation strategy. During the year under review, we tied up with Dialog Axiata PLC and Ikman.lk to get leads to our campaigns that ultimately convert into leases/loans.

MILESTONES AND RECOGNITIONS

We strive to deliver increased stakeholder value, by achieving excellence in all our operations and strengthening our sustainability. The milestones we have reached in our journey is an encouragement and testament to the success of our strategy and management approach. During the year, we reached several milestones including recording a 184.66% increase in net profit after tax, 8.97% increase in fixed deposits and 23.30% increase in assets.

SOCIAL AND RELATIONSHIP CAPITAL

The viability of our business depends on our ability to create and sustain strong relationships with business partners, customers, investors, environment, and the wider community.

HIGHLIGHTS

- **26% increase in customer base**
- **Debt moratorium extended to 887 customers**
- **Female customers increased to 31%**
- **Green financing embedded to our credit policy**

BUSINESS PARTNER CAPITAL

Our business partners facilitate the smooth operations of our business, enabling market access, providing digital platforms, and necessary materials and other services. We engage with a wide range of business partners including, organisations, small and medium enterprises (SMEs) and individuals in support of our business activities. They all create important links in the supply chain enabling value delivery to our stakeholders. We aim to build strong relationships with them based on mutual trust. During the year, we fast-tracked our payments to suppliers through CEFT transfers.

OUR BUSINESS PARTNERS

We take pride in being an active member of the following platforms:

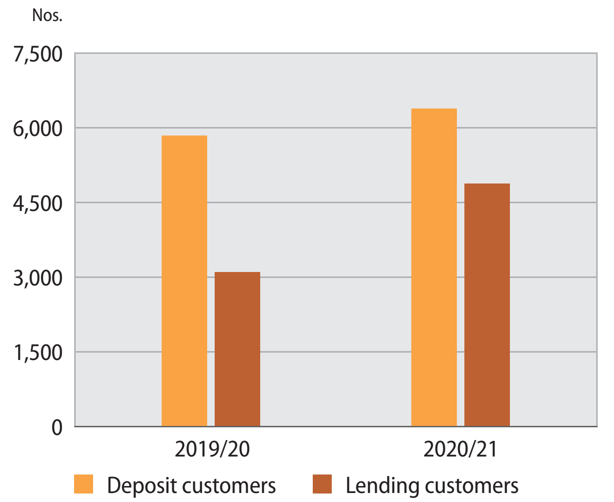
- Financial Ombudsman Sri Lanka (Guarantee) Limited
- Leasing Association of Sri Lanka
- The Credit Information Bureau of Sri Lanka
- The Finance Houses Association of Sri Lanka
- The Ceylon Chamber of Commerce
- The Employers' Federation of Ceylon
- The Department for Registration of Persons

CUSTOMER CAPITAL

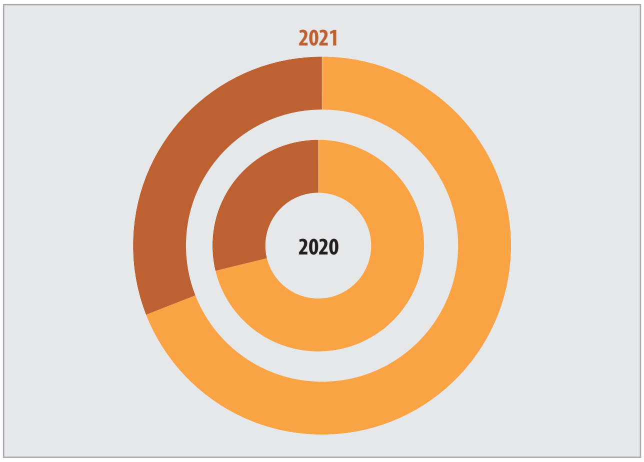
Our customers are at the heart of everything we do. We remain relentless in our commitment to meet customer needs effectively, and to improve their financial well-being. Our customer acquisition strategy is threefold. It includes, cross-selling our products, converting wholesale business to retail business and launching new products such as three wheeler financing and entrepreneur financing. We aim to launch 50 digital centres across Sri Lanka, to reach customers island-wide. With the implementation of the core banking solution, digital banking solution and the customer relationship management (CRM) solution, we will expand our customer base in the ensuing years.

The profile of our customer base is as follows:

GROWTH IN OUR CUSTOMER BASE



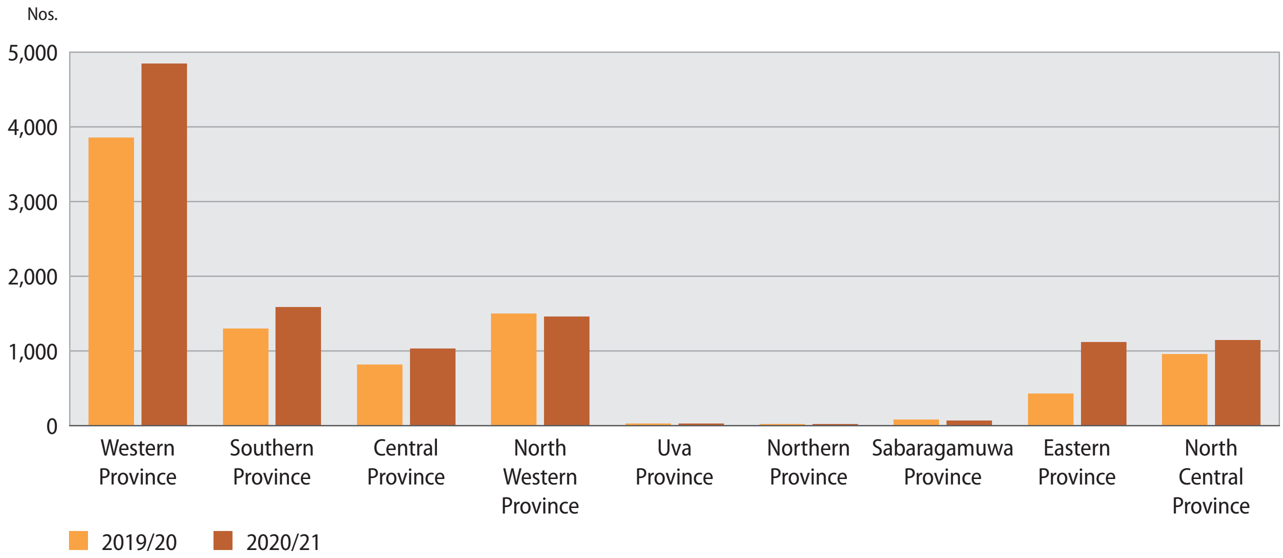
GENDER ANALYSIS OF CUSTOMERS



	2021 Percentage (%)	2020 Percentage (%)
Male	69	71
Female	31	29

The above excludes minor savings accounts customers.

CUSTOMERS BASED ON GEOGRAPHICAL DISPERSION



ELEVATING CUSTOMER EXPERIENCE

We strive to enhance customer experience by combining our financial acumen with deep understanding of our customer needs to deliver innovative products. By investing in our people, processes and digital capabilities, we enhanced our service delivery and customer convenience during the year. All our processes were streamlined, customer agreements were simplified and industry experts were recruited to deliver a speedy and convenient service. By implementing a scanning system, the process of authorisation of customer agreements were expedited. In addition, our customers were enabled to pay their loan/lease installments through the 408 Cargills supermarkets island wide, which greatly increased customer convenience.

The implementation of the core banking system in the ensuing year would enable us to offer customers 24/7 access to financial services through internet and mobile banking services and offer appropriate and innovative cost effective products and solutions to retain our existing customers and acquire new ones. It would also further streamline our operations leading to improved employee efficiency and productivity, and stronger customer relationships.

SUPPORTING CUSTOMERS THROUGH THE PANDEMIC

Supporting customers was a critical focus of the Board throughout the year. This is reflected in a range of actions and decisions taken by the Board and Management, including their efforts to ensure a COVID-19 safe environment is maintained for our customers. This was achieved through the provision of safe access to our branches, implementing a program to achieve effective social distancing and a stringent cleaning routine.

We also supported our customers financially throughout these unprecedented times. The Board supported Management in making appropriate adjustments to implement the debt moratorium of the Central Bank of Sri Lanka. Accordingly, we extended the moratorium to all the customers who requested the concession. The interest to our fixed deposit holders was paid at the beginning of the month providing great relief in the difficult time.

OUR PRODUCT AND SERVICE OFFERING

We strive to meet the changing customer needs by understanding their requirements and offering solutions to meet their diverse needs. Going forward, we will launch the entrepreneur financing facility to uplift the SME sector that forms the backbone of our economy and support our Nation's economic development. We will support both new and existing entrepreneurs throughout their journey through this product. Our product portfolio spans advances, deposits and other products as shown below:

Finance Leases

2020/21 – LKR 1,804 Mn.
2019/20 – LKR 1,262 Mn.

Gold Loans

2020/21 – LKR 585 Mn.
2019/20 – LKR 134 Mn.

Margin Trading

2020/21 – LKR 472 Mn.
2019/20 – LKR 241 Mn.

Other Loans

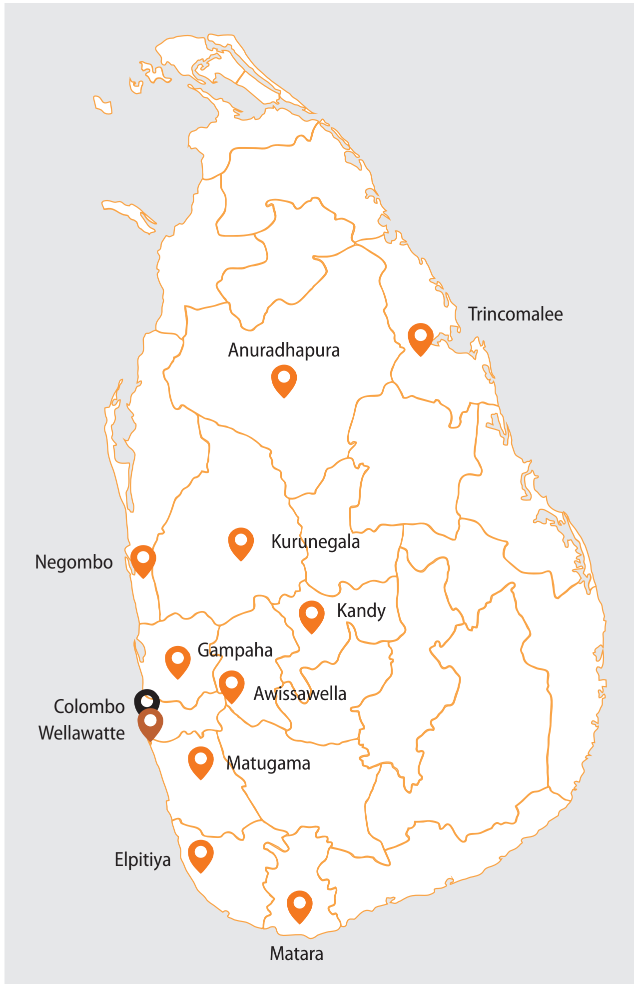
2020/21 – LKR 709 Mn.
2019/20 – LKR 497 Mn.

Deposits

2020/21 – LKR 2,289 Mn.
2019/20 – LKR 2,101 Mn.

GEOGRAPHICAL PRESENCE

We reach our customers through the 11 branches across the Nation. Financial inclusion is one of our key focus areas and 57% of our customers are from provinces other than the Western Province. Going forward, we aim to augment our presence through digital centres and open 6 branches in strategic locations.



CUSTOMER PRIVACY

We continue to implement stringent measures to protect customer privacy and maintain a high standard of confidentiality. Especially, with the implementation of the core banking solution, we will continue to strengthen our IT and cybersecurity framework to ensure that confidential customer data is safeguarded. During the year under review, there were no incidents of non-compliance reported due to breaching of customer privacy.

SOCIAL AND ENVIRONMENTAL CAPITAL

We support the socio-economic progress of communities by, connecting with them and investing in communities in which we operate to support growth and build resilience. Whilst conducting our business in a socially responsible manner, we strive to uplift the underprivileged communities. Through inclusive finance, we empower society and enhance their quality of life. Majority of our customers are in the SME sector and we support them with financial solutions throughout their journey.

Sustainable value creation is another area of emphasis focused on optimising our sustainable resource use and promoting sustainable business practices among our stakeholders. By focusing on energy and waste management, increasing the efficiency of our products and services and optimising resource allocation, we strive to enhance environmental sustainability. The implementation of the core banking solution would improve our waste management, given that it is paperless. We have embedded green financing into our credit policy and we do not extend finance to businesses that are not environmental conscious. When the Government lifts the import restrictions on vehicles, we will launch hybrid vehicle financing. We strive to inculcate an environmentally conscious culture within the Company by creating employee awareness on following green practices that contribute towards a greener planet. All our advertising display boards use energy efficient LED lights and we recycle promotional material to minimise wastage.

INVESTOR CAPITAL

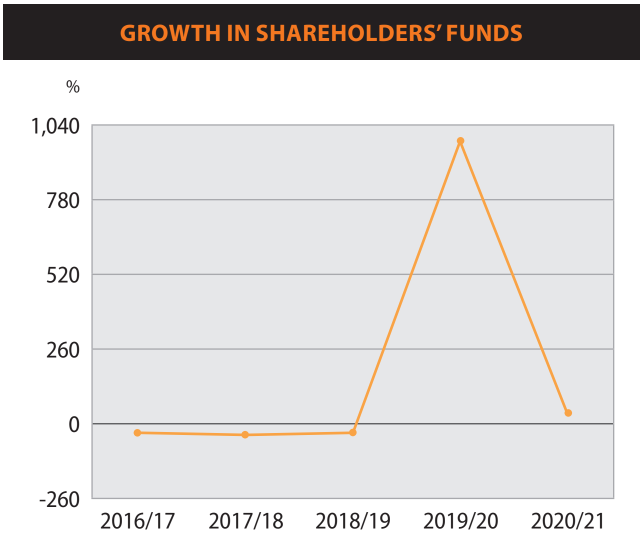
PMF's investor capital constitute individuals and groups who provide the financial capital for investments and development. They are a key stakeholder in our value creation process and they play an integral role in shaping our corporate behaviour on socio-environmental and governance aspects. We strive to maximise investor wealth by delivering sustainable long-term growth and returns and managing risk effectively. By providing investors with sufficient information, we enable them to value us appropriately and make an informed assessment of the year under review and on our future prospects. Through regular engagement, mutual trust and accountability, we nurture our relationships with investors.

A RESILIENT PERFORMANCE IN A CHALLENGING YEAR

Having broken an eight-year loss-making streak, we recorded a phenomenal performance in a very challenging operating context in 2020. The success of our strategic vision was reflected through the resilient performance with a 110% increase in net operating income, 185% growth in profit after tax and a 23% growth in our asset portfolio as at 31 March 2021.

	2020/21	2019/20
Price earnings ratio (Times)	22.5	N/A
Price to book value (Times)	1.10	1.18
Return on equity (%)	3.68	(9.45)
Earnings yield (%)	4.44	N/A
Net interest margin (%)	6.6	8.9
Operating profit margin (%)	21	(12)
Return on assets (%)	1.59	(2.39)
Debt/equity ratio (Times)	1.08	1.36
Quick assets ratio (Times)	24.27	51.32
Interest cover (Times)	1.29	0.73
Profit after tax growth rate (%)	185	14.5

GROWTH IN SHAREHOLDERS' FUNDS



LIST OF 20 MAJOR ORDINARY SHAREHOLDERS BASED ON THEIR SHAREHOLDINGS AS AT 31 MARCH 2021

No.	Name	31 March 2021		31 March 2020	
		Number of shares	Percentage (%)	Number of shares	Percentage (%)
1.	Sterling Capital Investments (Pvt) Ltd.	256,734,990	78.55	143,809,123	68.20
2.	People's Bank	33,856,246	10.36	33,856,246	16.06
3.	People's Leasing & Finance PLC	25,014,002	7.65	25,014,002	11.86
4.	Mr L De Fonseka	1,000,000	0.31	1,000,000	0.47
5.	People's Leasing & Finance PLC/Dr H S D Soysa and Mrs G Soysa	610,704	0.19	310,704	0.15
6.	Mr Z G Carimjee	500,000	0.15	200,000	0.09
7.	Mr H V Pakianathan	370,143	0.11	340,993	0.16
8.	People's Merchant Finance PLC/M Thiyagaraja	200,031	0.06	–	0.00
9.	Dr H S D Soysa	200,000	0.06	–	0.00
10.	DFCC Bank PLC/Mr W G Herath	166,353	0.05	–	0.00
11.	Mr P M R K Kirimetiyawa	150,100	0.05	–	0.00
12.	Mrs A M D Adikari	150,100	0.05	–	0.00
13.	Mr M C M Zarook	139,500	0.04	–	0.00
14.	Mr P B C Kurera	130,960	0.04	–	0.00
15.	Mr H Beruwalage	116,200	0.04	116,200	0.06
16.	Mr B W Kundanmal	102,100	0.03	102,100	0.05
17.	Mr T S R T Fernando	100,155	0.03	–	0.00
18.	Mr S N C W M B C Kandegedara	100,000	0.03	–	0.00
19.	Mr P K Biswas	100,000	0.03	100,000	0.05
20.	Mrs R D Jayawardana	98,887	0.03	77,667	0.04
	Subtotal of top 20 shareholders	319,840,471	97.85	204,927,035	97.56

PUBLIC SHAREHOLDING IN SHARES AS AT 31 MARCH 2021 POSITION

Public Holding

The percentage of ordinary share held by the public as at 31 March 2021 was 3.44% and number of shareholders representing the public holding was 9,989. The float adjusted market capitalisation as at 31 March 2021 was LKR 80,968,586/-.

The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 7.13.1 (b).

	Number of shares
Share Transactions with KMP	
The Parent Company [Sterling Capital Investments (Pvt) Ltd.]	256,734,990
People's Bank	33,856,246
People's Leasing & Finance PLC	25,014,002

Directors'/CEO's holding	Position	31 March 2021 Number of shares	31 March 2020 Number of shares
Mr C P Abeywickrema	Chairman	Nil	Nil
Mr D N Daluwatte	Director	5,375	2,500
Mr C S Manoharan	Director	Nil	Nil
Mr K R P Madusanka	Director	Nil	Nil
Mr M J T Waas	Director	Nil	Nil
Mr R Kodituwakku	Director	Nil	Nil
Mr N Wijekoon	Chief Executive Officer	Nil	Nil
		5,375	2,500

Computation percentage of public shareholding

	31 March 2021 Number of shares
Issued share capital	326,856,250
Parent company	256,734,990
Common Director	58,870,248
Directors shareholding	5,375
Public holding as a percentage of issued share capital (%)	3.44

Distribution of shareholding

Categories of shareholders	31 March 2021			31 March 2020		
	Number of shareholders	Number of shares	Holding percentage (%)	Number of shareholders	Number of shares	Holding percentage (%)
Individual	9,856	9,591,613	2.93	9,779	7,164,125	3.40
Institutional	137	317,264,637	97.07	132	203,710,875	96.60
Total	9,993	326,856,250	100.00	9,911	210,875,000	100.00

Categories of shareholders	31 March 2021			31 March 2020		
	Number of shareholders	Number of shares	Holding percentage (%)	Number of shareholders	Number of shares	Holding percentage (%)
Resident	9,977	326,654,689	99.94	9,893	210,673,229	99.90
Non-resident	16	201,561	0.06	18	201,771	0.10
Total	9,993	326,856,250	100.00	9,911	210,875,000	100.00

Shareholding	As at 31 March 2021								
	Resident			Non-resident			Total		
	Number of shareholders	Number of shares	Percentage (%)	Number of shareholders	Number of shares	Percentage (%)	Number of shareholders	Number of shares	Percentage (%)
1 – 1,000 shares	9,197	1,354,691	0.41	8	1,660	–	9,205	1,356,351	0.41
1,001 – 10,000 shares	639	2,068,096	0.63	5	14,500	–	644	2,082,596	0.63
10,001 – 100,000 shares	124	3,690,318	1.13	3	185,401	0.06	127	3,875,719	1.19
100,001 – 1,000,000 shares	14	3,936,346	1.20	–	–	–	14	3,936,346	1.20
over 1,000,000 shares	3	315,605,238	96.57	–	–	–	3	315,605,238	96.57
Total	9,977	326,654,689	99.94	16	201,561	0.06	9,993	326,856,250	100.00

Share information

Period	Date high	High (LKR)	Date low (LKR)	Low (LKR)	Close (LKR)	Trade volume	Share volume	Last traded date	Days traded
1 January 2021	18 January 2021	10.70	18 March 2021	6.90	7.20	853	640,499	31 March 2021	58
4 January 2020	13 October 2020	10.30	21 December 2020	8.40	8.60	598	546,484	31 December 2020	59
3 January 2020	24 September 2020	10.70	31 July 2020	7.50	9.90	502	320,135	30 September 2020	58
2 January 2020	20 May 2020	10.00	12 May 2020	7.00	8.00	124	75,711	29 June 2020	26

Financial year ended	31 March 2021	31 March 2020	31 March 2019	31 March 2018	31 March 2017
Share information					
Market value of shares					
Highest price during the year (LKR)	10.70	11.40	13.50	21.00	24.00
Lowest price during the year (LKR)	6.90	7.40	8.20	11.00	9.40
Closing price (LKR)	7.20	8.70	9.20	11.00	13.90
Investor ratios					
Price earnings ratio (times)	22.5	–	–	–	–
Net asset value per share (LKR)	6.52	7.36	1.69	3.20	5.38
Share trading					
Number of transactions	2,077	611	1,105	1,411	1,645
Number of shares traded	1,582,829	258,972	658,569	1,136,896	1,659,566
Value of shares traded (LKR '000)	14,193	2,583	7,108	18,254	32,798
Market capitalisation (LKR '000)	2,353,365	1,834,613	776,020	742,500	938,250

OUR GOVERNANCE AND LEADERSHIP

BOARD OF DIRECTORS

01. Mr Chandula Abeywickrema

Chairman/Non-Executive Independent Director

Mr Abeywickrema was appointed as a Non-Executive Independent Director with effect from 26 June 2019 and is the Chairman of People's Merchant Finance PLC.

He is an accomplished and respected senior commercial banker, with lead expertise and experience in Retail and Development Banking. He has a proven track record of over 30 years and is recognised in Asia as an expert in financial inclusion. Mr Abeywickrema has served as a Board Member on numerous Boards of financial institutions, both local and international.

He is the Chairman of CSR Sri Lanka, the national apex body for corporate social responsibility, representing the largest number of private sector companies, the Chairman of Lanka Financial Services for Undeserved Settlements, a public and private sector collaborated credit guarantee fund to support low-income housing finance, and serves as a Board Member of World Vision Lanka. He is the current Chairman of the Banking with The Poor Network (BWTP); Asia's Largest Micro Finance Network and an Advisor on financial inclusion to the Asian Bankers Association (ABA).

Mr Abeywickrema is the Co-Founder of "*Ath Pavura*" the first-ever TV reality show for Social Entrepreneurs and Impact Investors in Sri Lanka. He is also the Founder and Chairman of Lanka Impact Investing Network (Private) Ltd. (LIIN); Sri Lanka's very first impact investing firm focused on channelling private equity funds with the purpose of investing and extending business development support to nurture a well-developed ecosystem of social entrepreneurs across the Nation.

Mr Abeywickrema was the Deputy General Manager – Retail and Development Banking at Hatton National Bank (HNB), where 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 seven consecutive years, until his retirement in 2013 after serving the bank for 25 years. Subsequently, he served as the Managing Director/CEO of CCC Solutions, the project management arm of Ceylon Chamber of Commerce from 2014 to 2015 and as the Consultant-Strategy and Marketing for National Savings Bank (NSB) from 2016 to 2017.

Mr Abeywickrema has participated in numerous international symposiums as an expert presenter and keynote speaker in the areas of development banking, financial inclusion, and impact investing.

02. Mr R 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 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.

03. 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.

04. Mr Rangana Madusanka

Non-Executive Non-Independent Director

Mr Madusanka 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 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 Madusanka 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 Madusanka 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.

05. 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 Pricewaterhouse Coopers (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.

06. Mr Duleep Daluwatte (Deceased)

Non-Executive Non-Independent Director

Mr Daluwatte was appointed as a Non-Executive Non-Independent Director with effect from 3 April 2019.

He counts over 30 years of Senior Corporate Management/Board level experience in diversified business operations covering banking, finance, manufacturing, trading, and service industries, with of over 20 years experience in banking and non-bank financial services. Mr Daluwatte has held key positions including Chief Operating Officer of Merchant Bank of Sri Lanka & Finance PLC, Chief Executive Officer of MCSL Financial Services, Group Joint Managing Director of George Steuart & Company Limited, Group CFO/Group Finance Director of George Steuart & Company Limited and Deputy General Manager – Corporate Finance of Hatton National Bank PLC. He is a Non-Executive Director of Industrial Asphalt (Ceylon) PLC.

Mr Daluwatte has served as the Vice-Chairman of the Finance House Association of Sri Lanka (FHA), and represented the FHA in the Ceylon Chamber of Commerce Committee. He is a Past President of Round Table Sri Lanka and has served on the Asia Pacific Board.

Mr Daluwatte is a Fellow of the Institute of Chartered Accountants of Sri Lanka, Fellow of the Chartered Institute of Management Accountants, UK, a Chartered Global Management Accountant (USA), and a Member of the Chartered Institute of IT, UK (MBCS). He is a life member of the Association of Professional Bankers of Sri Lanka and a Member of the Sri Lanka Institute of Directors. He has attended Executive Development Programs at Cranfield University Business School in UK.

CORPORATE MANAGEMENT

Mr Nalin Wijekoon
Chief Executive Officer

Mr Wijekoon counts over 40 years 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 Peoples' 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 programs in Sri Lanka and overseas, including at the 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).

Mr Yasas Ariyarathne
Deputy General Manager –
Fixed Deposits, Gold Loans, and Margin Trading

Mr Ariyarathne joined PMF in 2011 as DGM – Business Promotions and is currently responsible for Fixed Deposits, Gold Loan, and Margin Trading business products. He counts over 24 years 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 Ariyarathne 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, 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.

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 18 years 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).

Mr Bharatha Manjula

Deputy General Manager –
HR and Administration

Mr Bharatha counts over 20 years 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).

SENIOR MANAGEMENT

Mr Anuranga Indrajith Handaragama

Head of IT

Mr Anuranga counts over 16 years of experience in information technology and joined the PMF 2010 as Head of IT.

Prior to joining PMF, he has worked at Virtusa as an Engineer – Technology, OpenArc System Management as an Analyst Programmer and Assistant Project Manager in Banking and Finance Business Application Division.

Mr Anuranga holds a BSc Special Degree in Mathematics and Master of Information Technology (MIT) from the University of Colombo. He is a Member of British Computer Society, Computer Society of Sri Lanka, and Institute of Certified Professional Managers.

Mr Namal Cooray

Chief Manager – Business Development

Mr Namal counts over 14 years experience in sales and marketing in the finance sector. He started his career at Sri Lankan Airlines, as a Cargo Agent and has held different leadership positions in Senkadagala Finance, Multi Finance PLC, and Orient Finance PLC.

He holds an MBA from the Cardiff Metropolitan University, UK.

Mr Athula Bandaranayake

Chief Manager – Risk and Management Information Systems (MIS)

Mr Athula counts 17 years experience in finance, strategic planning and MIS. He started his career at Sun Match Company 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), 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).

Ms Shyamali Premarathna

Compliance Officer

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

Ms Shyamali holds a BCom Special Degree from the University of Sri Jayawardanapura and a Diploma in Bank Integrated Risk Management at IBSL.

Mr Prabath Jayakody
Head of Internal Audit

Mr Prabath counts over 14 years 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.

Mr Darshana Wijayanayake
Chief Manager – Finance

Mr Darshana counts over seven years experience in banking and finance. He commenced his career at Gomes and Company as an Audit Trainee and has held different positions in MBSL Savings Bank, Supermet Building Solutions Limited (Rhino Roofing Group) and MBSL.

He holds a BSc – Business Administration (Special) from the University of Sri Jayawardanapura and has completed the Certificate Level in CBF of IBSL. He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka.

Mr Sahan Rodrigo
Chief Manager – Recovery and Legal

Mr Sahan provides oversight to the entire recovery and legal operations of PMF. He counts over 16 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 Charith Dias
Chief Manager – Trade Finance

Mr Charith counts 16 years experience in banking and finance. He joined the Bank of Ceylon in 2004, as System Operator (IBCS) and has worked in Orient Finance PLC and Frintex Finance Ltd.

He holds a Diploma in Credit Management from the Institute of Bankers of Sri Lanka (IBSL).

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 on 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 the regulatory requirements.

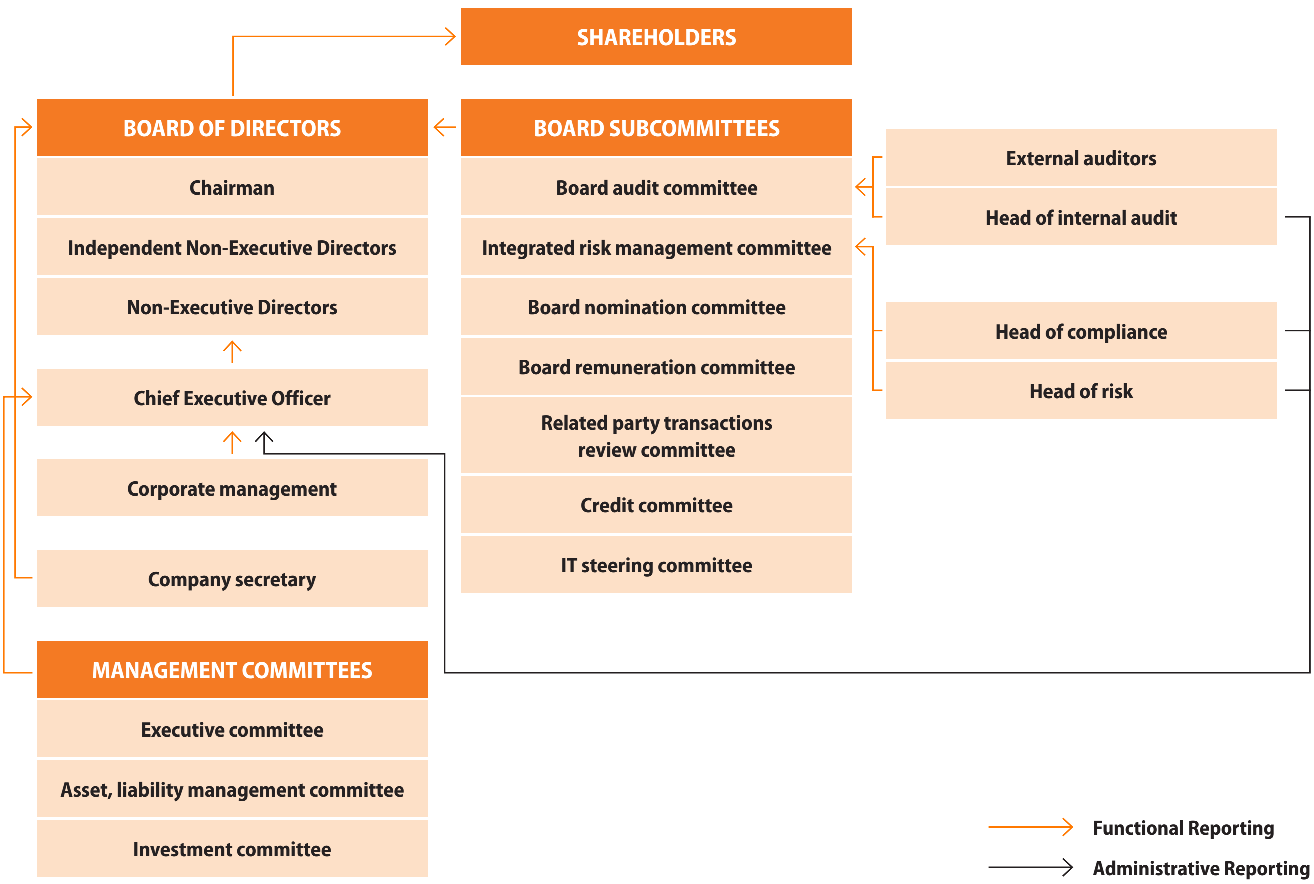
GOVERNANCE FRAMEWORK

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

- Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka
- Finance Business Act No. 42 of 2011
- Companies Act No. 07 of 2007
- Listing Rules of the Colombo Stock Exchange
- Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (on a voluntary basis)

In addition, Corporate Governance Framework is also guided by the Articles of Association and the provisions contained in the Board-approved Corporate Governance Charter.

GOVERNANCE STRUCTURE



BOARD OF DIRECTORS

Information on Board of Directors has been published in the Annual Report under "Board of Directors" (pages 46 to 49).

DEVELOPMENTS DURING THE YEAR

Board oversight for the management of the Company	Key highlights for 2020/21
Strategic oversight	Board approved the Strategic Plan from 2020/21 to 2024/25.
Financial control	Following policies and procedures were reviewed and approved by the Board: • Finance Manual • Impairment Policy • Write-off Policy
Compliance oversight	Following policies were reviewed and approved by the Board of Directors in order to comply with the Directions issued by CBSL: • Compliance Policy • AML/CFT Policy • Complaint Handling Policy • Whistleblowing Policy • Policy on Non-Audit Services by the External Auditor • Outsourcing Policy • Product Development Policy • Investment Policy • Assets and Liability Management Policy • Policy on Valuation of Immovable Properties
Risk oversight	• ML/TF Risk Assessments were presented to the Integrated Risk Management Committee in biannual basis • IRMC Charter was reviewed and approved by the Board • Risk Management Policy and Risk Appetite Statement were approved by the Board
HR Best Practices	• Succession Plan for Key Management Personnel was reviewed by the Board of Directors • HR Manual was reviewed and approved by the Board
IT Governance	• Information Security Policy was reviewed and approved by the Board

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 who provides direction and leadership to the Company and guides its activities.
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. Further, effectiveness of such systems is monitored by the Board through the IRMC, Internal and External Auditors and improvements are implemented accordingly.
CBSL 2.1 (d)	Approving a policy of communication with the stakeholders.	Compliant	The Board has adopted and approved the policy on communication to ensure effective internal and external communication of corporate information with all stakeholders. The Company maintains a website and periodically issues press releases. Communications from stakeholders are promptly attended to.
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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
CBSL 2.1(i)	Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of key management personnel; (ii) the management of conflicts of interest; and (iii) the determination of weaknesses and implementation of changes where necessary.	Compliant	A Board Nomination 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 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) during the FY 2020/21. A list of KMP approved by the Board of Directors is available and a Succession Plan for Key Management Personnel is being developed.
CBSL 2.1 (k)	Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives.	Compliant	The Board interacts regularly with the Management in order to execute and review policies and to ensure corporate objectives are met.
CBSL 2.1 (l), (m)	Understanding the regulatory environment and exercise due diligence in the hiring and oversight of External Auditors.	Compliant	The Board of Directors and the staff are continuously kept updated on regulatory developments and changes to regulations and implications. The Board Audit Committee exercises due diligence in hiring and oversight of External Auditors.
CBSL 2.2	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph seven 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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
CBSL 2.4	A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Compliant	Directors abstain from voting on any resolution in which 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 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.
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 12 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 meeting are included in the agenda. Additionally, the Chairman frequently consults Directors with a view to ascertain their requirements with regard to matters for discussion.
Code A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company.	Compliant	Directors devote adequate time for Board meetings as well as Board 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 of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Compliant	Sufficient notice has been given to the Board members, to ensure all Directors have an opportunity to attend. The annual calendar of meetings is adopted at the first meeting of the calendar year and any changes are agreed upon with adequate notice.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
CBSL 3.4	A Director, who has not attended at least two-thirds of the meetings in the period of twelve month immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall however, be acceptable as attendance.	Compliant	Directors have regularly attended Board meetings. Attendance of each Director at the Board meetings has been disclosed at the end of this report.
CBSL 3.5	The Board shall appoint a Company Secretary to carry out secretarial services to the Board and shareholders meetings and other functions specified in the regulations.	Compliant	Corporate Services (Pvt) Ltd. has been appointed as the Company Secretary in line with the stipulated requirements.
CBSL 3.6	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Compliant	The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.
CBSL 3.7 Code A.1.4	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Compliant	The Directors constantly work with the Company Secretaries to ensure that Board procedures and all applicable rules and regulations are duly complied.
CBSL 3.8	The Company Secretary shall maintain the Minutes of Board meetings and such Minutes shall be open for inspection at any reasonable time on reasonable notice by any Director.	Compliant	Minutes of Board meetings are maintained by the Company Secretary. The Board Minutes are available for inspection by any Director as and when required.
CBSL 3.9	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The Minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings.	Compliant	Board Minutes are maintained in sufficient detail with data and information used by the Board in its deliberations, decisions and Board resolutions. Board minutes also contain and refer to the fact-finding discussions, matters which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations.
Composition of the Board			
Code A.10, A.10.1	Shareholders should be kept advised of relevant details in respect of Directors.	Compliant	Required information on Board of Directors has been published in the Annual Report under "Board of Directors" (pages 46 to 49)
CBSL 4.1	Subject to the transitional provisions contained herein, Number of Directors should not be less than 05 and not more than 13.	Compliant	The Board comprised of six Directors during the financial year under review.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 has 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 in 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 six Directors are Independent Non-Executive Directors. The composition of the Board is set out on page 95 in this Annual Report.
Code A.5.4	Each Independent Director shall submit a declaration of his/her independence against the specified criteria.	Compliant	Each Independent Director submits an annual declaration which is filed with the Company Secretary.
Code A 5.5	The Board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the Board and shall set out in the annual report the names of Directors determined to be independent.	Compliant	The Board makes a decision as to the independence of each Director based on the declaration submitted. The details of Independent Directors are included in page 95 of this report.
CBSL 4.5 Code A.5.6	In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.	Not applicable	No alternate Directors have been appointed to represent Independent Non-Executive Directors during the year under review.
CBSL 4.6	Non-executive directors shall have necessary skills, qualifications and experience to bring an objective 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 46 to 49 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 2020/21, more than one half of the numbers of Directors that constitute the quorum were Non-Executive Directors.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 "Board of Directors" on pages 46 to 49 in this Annual Report, for the Directors' profiles.
CBSL 4.8	The finance company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and Independent Non-Executive Directors in the Annual Corporate Governance Report.	Compliant	The details of the Directors by category are included on page 95 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.	Complaint	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. A 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.	Compliant	Duly complied.
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.
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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 46 and 50 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: • 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.

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 7 days prior to the meetings in order for Directors to request any other information, if necessary. Minutes of Board meetings are circulated in a timely manner.
CBSL 7.7	The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interest of the finance company.	Compliant	All Directors are encouraged to actively participate at the Board meetings and the ensuing discussions.
CBSL 7.8	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Compliant	The Chairman ensures that the relationship among the Directors provides an opportunity to all Directors to actively participate in the Board's affairs.
CBSL 7.9	Subject to the transitional provisions contained herein, The Chairman shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Compliant	The Chairman is an Independent Non-Executive Director and is not involved in executive functions or in direct supervision of any staff.
CBSL 7.10 Code C.1	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Compliant	Effective communication with shareholders is maintained through the Annual General Meeting and Extra Ordinary General Meetings. Moreover, Annual Reports are delivered to shareholders 15 working days prior to the AGM in order to communicate their views effectively. The Chairman briefs the Board and the CEO regarding any issues or concerns of the shareholders.
CBSL 7.11	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Company's operations and business.	Compliant	The Chief Executive Officer functions as the executive-in-charge of the day-to-day management of the Company's operations and business.
Code A .11	The Board should be required, at least annually to assess the performance of the CEO.	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 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 49 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: 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 76 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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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.
CBSL 8.2 (f)	The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including: 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)	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: 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.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 responses thereto.
CBSL 8.2 (j)	The Committee shall take the following steps with regard to the internal audit function of the Company: 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 program 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	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. 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 2020/21 at the Board Audit Committee meetings without Executive Directors being present.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
CBSL 8.2 (m)	The Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Compliant	The terms of reference of the Board Audit Committee includes the scope and responsibilities of the Committee. The Audit Committee is authorised to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matters within its terms of reference.
CBSL 8.2 (n)	The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Compliant	The Committee has met four times during the financial year. Minutes of such meetings have been recorded accordingly.
CBSL 8.2 (o)	The Board shall, in the Annual Report, disclose in an informative way: i. details of the activities of the Audit Committee; ii. the number of Audit Committee meetings held in the year; and iii. details of attendance of each individual member at such meetings.	Compliant	Details of the work of the Audit Committee are disclosed on page 76 of this Annual Report. Attendance has been disclosed on page 75 of the 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, maintains 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. Whistleblowing Policy has been approved by the Board on 27 October 2020.
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 of five 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 work 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 risk within quantitative and qualitative risk limits as specified by the Committee.	Compliant	Minutes of Management level committees are submitted to the Committee to review the adequacy and effectiveness of the respective committees.
CBSL 8.3 (d)	The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent level decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Compliant	All risk indicators that exceed the specified quantitative and qualitative risk limits are reviewed and discussed for action.
CBSL 8.3 (e)	The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Compliant	The Committee meets in quarterly basis to assess all aspects of risk management including updated business continuity plans.
CBSL 8.3 (f)	The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee and/or as directed by the Director of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Compliant	The Committee 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 to the Board 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. Compliance Officer carries out the compliance function and reports to the Committee periodically.

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 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 158 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 Transactions Review Committee.
CBSL 9.4	The Board shall ensure that the finance company does not engage in transactions with related party in a manner that would grant such party "more 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: • 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.	Compliant	Relevant Financial Statements are prepared and published at the specified frequencies in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and such statements are published in the newspapers in an abridged form, in Sinhala, Tamil, and English languages.
CBSL 10.2	The Board shall ensure following minimum disclosures are made in the annual report:		
CBSL 10.2.a Code D.1	A statement to the effect that the annual audited Financial Statements has been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Compliant	Relevant disclosures are included on page 98 of the Annual Report under "Directors' Responsibility for financial reporting".

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 99 of the Annual Report under "Directors Statement of Internal Controls over financial reporting".
CBSL 10.2.c	The External Auditor's certification on the effectiveness of the internal control mechanism referred to in Direction 10 (2) (b) above, in respect of any statements prepared or published after 31 March 2010.	Compliant	A certification from the External Auditors on the effectiveness of the Internal Control mechanism has been published on the page 101 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 159 under "Related Party Transactions".
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 159 under "Related Party Transactions".
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	Total net accommodation granted to each category of Related parties and net accommodation outstanding in respect of each category of related parties – Nil
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	Short-term Employment Benefits LKR 43,342,943/- Terms Deposits/Savings Accounts LKR 1,867,329/- Total accommodation granted – Nil

Section reference	Corporate governance principle	Status of compliance	Level of compliance
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 56 to 75 and "Annual report of the Board of Directors on the Affairs of the Company" on pages 93 to 97 satisfy this requirement.
CBSL 10.2.i	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non-compliance with these Directions that have been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Compliant	There were no significant supervisory concerns on lapses in the Company's Risk Management or non-compliance with these Directions that had been pointed out by the Director of the Department of Supervision of Non-Bank Financial Institutions and requested by the Monetary Board to be disclosed to the public.
CBSL 10.2.j	The External Auditors' certification of compliance with the Corporate Governance Direction in the annual corporate governance report published.	Compliant	The Company has obtained a certification from the External Auditors of the Company on the compliance with the Corporate Governance Directions.
Code D.1.3	The annual report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of financial statements together with a statement by the auditors about their reporting responsibilities.	Compliant	Directors' Responsibility for financial reporting included on page 98 of this Annual Report while the Auditors Responsibilities have been enumerated in the Auditors' Report on page 104.
Code D.1.4	The Annual Report should contain a "Management Discussion and Analysis".	Compliant	Refer pages 16 to 44 for the Management Discussion and Analysis.

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	Level of compliance
7.10 Corporate Governance			
7.10	Statement confirming that as at the date of the annual report that the Company is in compliance with these rules.	Non-Compliant	The Company is compliant with the corporate governance requirements of the Listing Rules of the Colombo Stock Exchange, except for the requirements relating to the Public Float.
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 six 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 95 of the Annual Report.
7.10.3 (b)	In the event of a Director does not qualify as Independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.		Not Applicable
7.10.3 (c)	A brief résumé of each Director should be published in the Annual Report including the areas of expertise.	Compliant	Please refer pages 46 to 49 in 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	A brief résumé of all new Directors appointed to the Board during the FY 2020/21 has been submitted to the Exchange for dissemination to the public.
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	Level 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 Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Compliant	Board-appointed Remuneration Committee is in place. Two Directors are Independent Non-Executive Directors out of three Non-Executive Directors of the Committee.
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Report of the Remuneration Committee on page 79 to the Annual Report.
7.10.5 (c)	The Annual Report shall set out: (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 79 of the 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. One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board. The Chief Executive Officer and Chief Financial shall attend Audit Committee meetings. Chairman or one member of the Committee should be a member of a recognise professional accounting body.	Compliant	Majority of the Audit Committee members are Independent Non-Executive Directors. Mr Channa Manoharan is the Chairman of the Committee who is an Independent Non-Executive Director. Both Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The Chairman of the Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a Fellow of the Institute of Certified Management Accountants of Sri Lanka.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules.	Compliant	Please refer Audit Committee Report on page 76 of the Annual Report.
7.10.6 (c)	Annual Report shall set out: (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 76 for the required disclosure.

Section reference	Corporate governance principle	Status of compliance	Level of compliance
7.13 Minimum Public Holding Requirement			
7.13.1 (b)	Minimum Public Holding Requirement Disclosure in terms of Rule 7.13.02 of the Listing Rules of the Colombo Stock Exchange ("CSE")	Non-Compliant	In accordance with the requirements of the Rule, we provide below the following details as at 31 March 2021: The Company is not compliant with the Minimum Public Holding Requirement stipulated in CSE Rule 7.13.1 (b).
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. Such Independent Director is the Committee Chairman. For further details, please refer the Committee Report on page 80.
9.3 Related Party Transactions – Disclosures in the Annual Report			
9.3.2 (a)	Non-recurrent Related Party Transactions	Compliant	Please refer the Related Party Disclosures on page 161.
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 80.
9.3.2 (d)	A declaration by the Board of Directors in the Annual Report	Compliant	Please refer the Committee Report on page 80.

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		IT Steering 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	12/12	C	4/4	M	4/4			C	2/2	C	3/3		
Mr Duleep Daluwatte		✓	M	12/12	M	4/4			M	4/4					C	5/5
Mr Channa Manoharan	✓		M	12/12	M	4/4	C	4/4	C	4/4	M	2/2	M	3/3		
Mr Rangana Madusanka (i)		✓	M	12/12	M	4/4	M	4/4	M	4/4	M	2/2	M	3/3	M	5/5
Mr Travis Waas (ii)		✓	M	10/10	M	3/3										
Mr Ranjith Kodituwakku (iii)		✓	M	7/7												
Mr G B R P Gunawardana (iv)		✓	M													
Ms Gloria Kodagoda (v)		✓	M													

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

i. Mr Rangana Madusanka was re-appointed to the Board Audit Committee, Related Party Transactions Review Committee and Remuneration Committee as a member w.e.f. 30 April 2020 since he resigned from the position of Acting CEO w.e.f. 17 April 2020. Mr Madusanka was appointed to the IRMC as a member w.e.f. 30 April 2020.

ii. Mr Travis Waas was appointed to the Board as a Non-Independent Non-Executive Director w.e.f. 22 June 2020 and appointed to the IRMC w.e.f. 21 July 2020 as a member.

iii. Mr Ranjith Kodituwakku was appointed to the Board as a Non-Independent Non-Executive Director w.e.f. 10 September 2020.

iv. Mr G B R P Gunawardana resigned from the Board w.e.f. 22 June 2020.

v. Ms Gloria Kodagoda resigned from the Board w.e.f. 28 May 2020.

BOARD COMMITTEE REPORTS

BOARD AUDIT COMMITTEE REPORT

The Charter of the Board Audit Committee defines the Terms of Reference relating to the Committee including its responsibilities and is reviewed annually. The Charter of the Committee was last reviewed and approved by the Board in May 2021.

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 46 to 49 of this Annual Report.

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

** Mr K R P Madusanka was appointed to the Committee w.e.f. 30 April 2020.*

BOARD AUDIT COMMITTEE MEETINGS

The Committee meets quarterly and additional meetings are held based on the requirements. The Committee held four meetings during the financial year ended 31 March 2021. 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	4/4
Mr K R P Madusanka	4/4
Mr C P Abeywickrema	4/4

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 internal audit services for selected processes, 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

The Committee reviewed the Financial Statements for the year ended 31 March 2021. The Committee also reviewed all the interim financial statements starting from the quarter ended 30 June 2020 prior to their release, to ensure compliance with 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 established its own internal audit function during the financial year and 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 2020/21.

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

COMMITTEE EVALUATION

The 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 2020/21.

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.

C S Manoharan
Chairman
Board Audit Committee

28 June 2021
Colombo

REPORT OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

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

COMPOSITION OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

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

1. Mr C P Abeywickrema – Chairman – Independent Non-Executive Director (appointed w.e.f. 27 June 2019)
2. Mr D N Daluwatte – Non-Independent Non-Executive Director (appointed w.e.f. 27 June 2019)
3. Mr C S Manoharan – Independent Non-Executive Director (appointed w.e.f. 27 June 2019)
4. Mr K R P Madusanka – Non-Independent Non-Executive Director (appointed w.e.f. 30 April 2020)
5. Mr M J T Waas - Non-Independent Non-Executive Director (appointed w.e.f. 21 July 2020)

CHARTER OF THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE

The Integrated Risk Management Committee was established as a subcommittee of the Board in compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka.

GOVERNANCE OF IRMC

The IRMC's governance structure comprise 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 were referred to the Board on a quarterly basis.

ATTENDANCE

The committee held four meetings in relation to the financial year under review. The attendance of members is listed on page 75 of the Annual Report.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

IRMC undertook the following activities:

- Reviewed the implementation of risk management and established a compliance function to assess the finance 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 NBFI Section of Central Bank of Sri Lanka.
- Reviewed the liquidity management strategies of the Company.
- Reviewed the effectiveness of the strategies in place to minimise the maturity mismatches.

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

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 2020/21.

On behalf of the Board Integrated Risk Management Committee

C P Abeywickrema
Chairman
Integrated Risk Management Committee

28 June 2021
Colombo

REGULATIONS/RULES RELEVANT TO THE FUNCTIONS OF REMUNERATION COMMITTEE

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

The Remuneration Committee functions within the agreed Terms of Reference approved by the Board.

COMPOSITION OF THE COMMITTEE

1. Mr C P Abeywickrema – Chairman – Non-Executive Independent Director
2. Mr Channa Manoharan – Non-Executive Independent Director
3. Mr K Rangana Madusanka – Non-Executive Non-Independent Director

ATTENDANCE AT MEETINGS HELD DURING THE YEAR

The Committee had two (2) meetings during the year 2020/21 and the attendance of the Committee members at these meetings are given below:

Name of the Director	Attendance
Mr C P Abeywickrema – Chairman – Non-Executive Independent Director	2/2
Mr Channa Manoharan Non-Executive Independent Director	2/2
Mr K Rangana Madusanka* Non-Executive Non-Independent Director	2/2

* *Stepped down from the Committee w.e.f. 20 January 2020 since appointed as the Acting Chief Executive Officer and re-appointed w.e.f. 30 April 2020 since he resigned from the position of Acting Chief Executive Officer with effect from 17 April 2020.*

The Company Secretary functions as the Secretary to the Remuneration Committee.

TERMS OF REFERENCE

a. The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer.

b. The Committee operates within Board approved Terms of Reference and assists the Board of Directors in ensuring that remuneration arrangements in the Company align reward with performance.

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

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

AUTHORITY OF THE COMMITTEE

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

REMUNERATION STRUCTURE

The Company's reward strategies and remuneration structure is designed to attract, motivate and retain high calibre people at all levels of the Organisation, in a highly competitive environment and to deliver the Company's strategy. Accordingly, the salaries and other benefits are reviewed periodically taking into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The skills, experience of the individual and his/her level of responsibility are also taken into account in deciding on the remuneration.

The Company's remuneration strategy is:

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

DIRECTORS' REMUNERATION

The total amount paid as Directors' remuneration during the year under review is set out in Note 35.2.1 to the Financial Statements.

On behalf of the Remuneration Committee

C P Abeywickrema
Chairman
Remuneration Committee

28 June 2021
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

PURPOSE OF THE COMMITTEE

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

COMPOSITION OF THE COMMITTEE

The Committee composition during the period ended 31 March 2021 is as follows:

Name of the Director	Directorship status	Membership status
Mr C S Manoharan (appointed w.e.f. 27 June 2019)	Non-Executive Independent Director	Chairman
Mr K R Madusanka (appointed w.e.f. 27 June 2019, stepped down from the Committee w.e.f. 20 January 2020 since appointed as the Acting CEO and reappointed w.e.f. 30 April 2020)	Non-Executive Non-Independent Director	Member
Mr D N Daluwatte (appointed w.e.f. 30 January 2020)	Non-Executive Non-Independent Director	Member

SCOPE OF THE COMMITTEE

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

POLICIES AND PROCEDURES

The Company has in place a Related Party Transactions Policy (RPT) whereby the categories of persons/entities who shall be considered as "related parties" have 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 of the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying parties related to them.

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

MEETINGS OF THE COMMITTEE

The Committee had four meetings during the year under review. Attendance of each Committee member at each of the said meetings is given on page 75 of the Annual Report. Members of the Corporate Management were invited to participate in the meeting of the Committee as required. The Finance Division submitted comprehensive reports on Related Party Transactions to the Committee.

REPORTING TO THE BOARD OF DIRECTORS

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

RELATED PARTY TRANSACTIONS FOR THE YEAR 2020/21

Details of all transactions with the related parties during the year 2020/21 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 2020/21 are disclosed under "Note 35 – Related Party Disclosure" of the Financial Statements.

DECLARATION

The declaration by the Board of Directors that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange and the SEC Code pertaining to Related Party Transactions during the Financial Year ended 31 March 2021 is given on page 96 of the Annual Report.

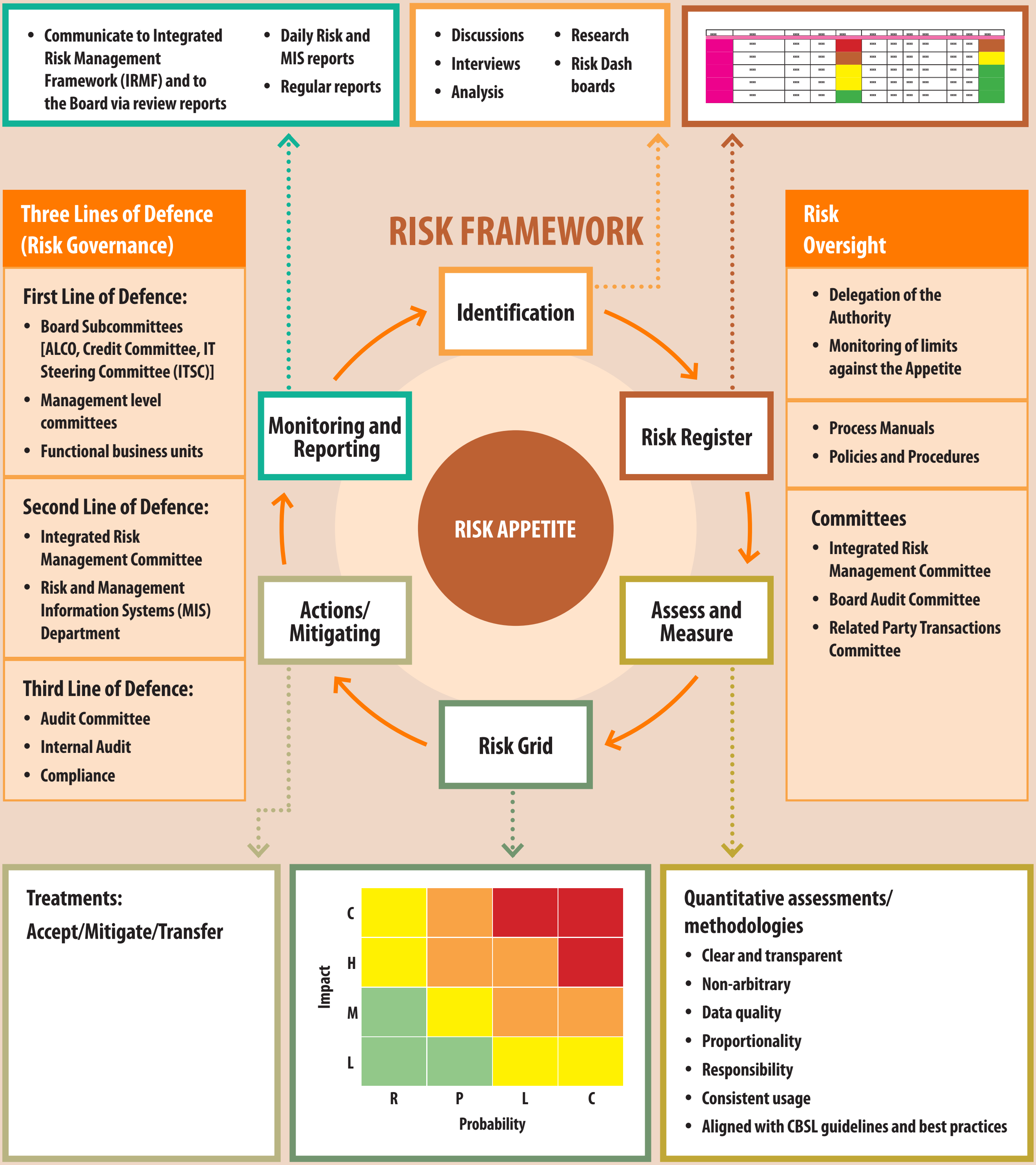
On behalf of the Board Related Party Transactions Review Committee

C S Manoharan
Chairman
Board Related Party Transactions Review Committee

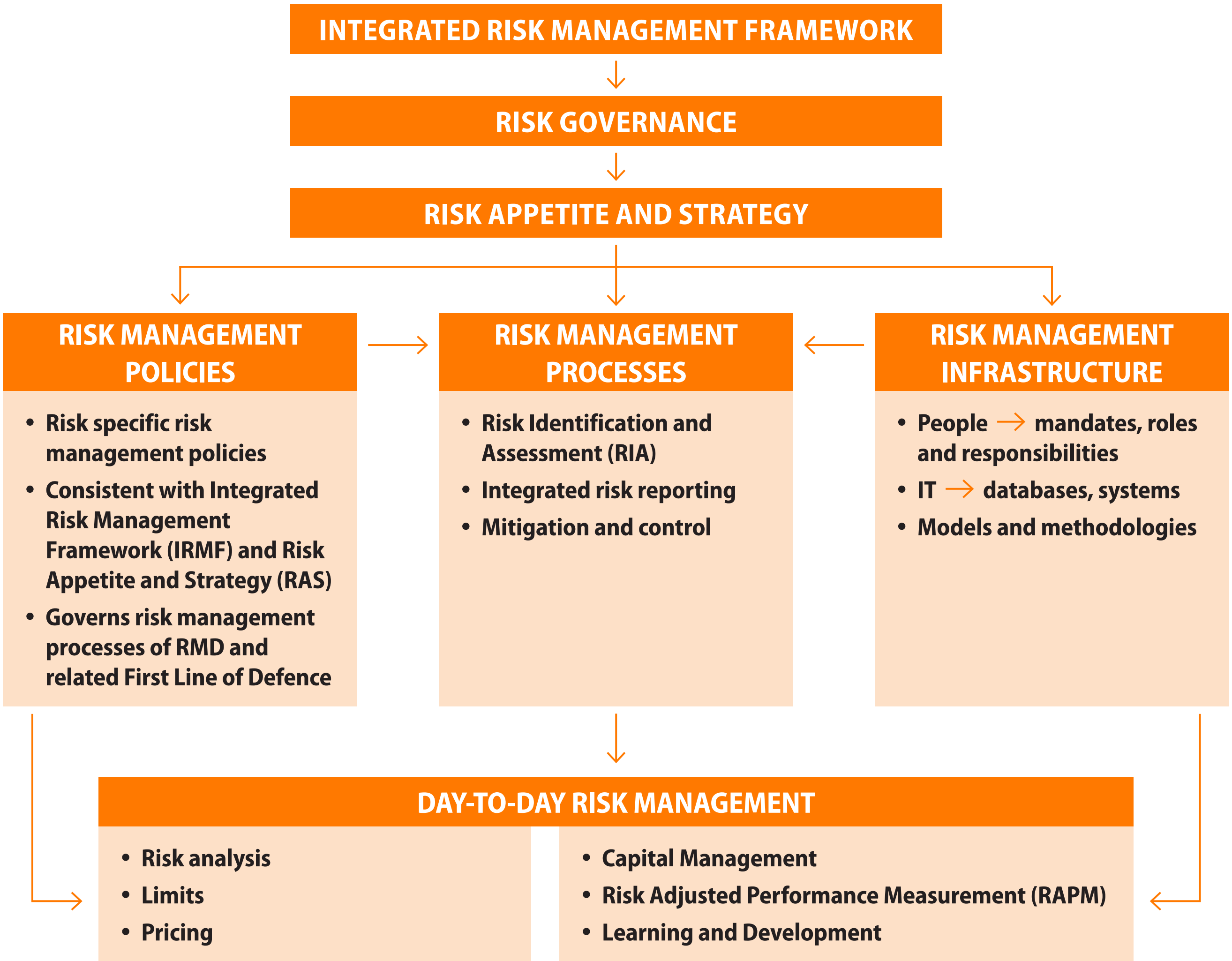
28 June 2021
Colombo

RISK MANAGEMENT

As a disciplined financial institution, 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 and safeguard the Company's stability and reputation while protecting the interests of all the stakeholders at all times.



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 Company's Risk Management Framework (RMF) covers all elements under the main components of Integrated Risk Management Framework (IRMF), Risk Governance, Risk Appetite and Strategy (RAS), risk management infrastructure and day-to-day risk management as depicted above.

The risk management function shall not have responsibility for revenue generating business or risk-taking activities. Notwithstanding the independence requirement, risk management shall keep close enough contact with business/risk-taking activities in order to gain sufficient information on risk exposures, business strategies and ensure compliance with the risk appetite, policies and 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, operational risk (including IT risk), strategic risk, reputational risk, and compliance risk.

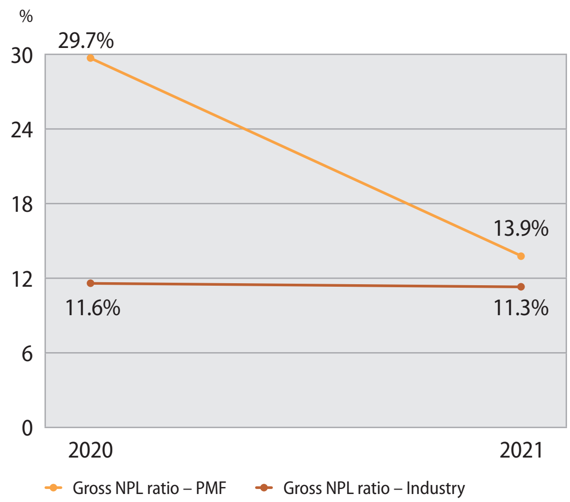
CREDIT RISK

Credit risk is the possible financial loss to the Company due to the failure to meet its contractual obligations, and arises principally from the Company's loans and receivables to customers and other banks, and investments in debt securities.

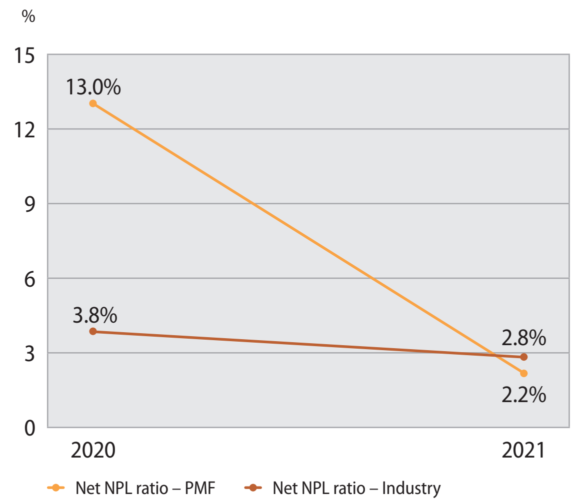
Risk appetite criteria	Appetite (PMF)	Regulatory limits	Status: As at 31 March 2021 Percentage (%)	Status: As at 31 March 2020 Percentage (%)
Loans and advances				
Non-performing loans ratio – Gross	14%	N/A	13.90	29.72
Non-performing loans ratio – Net	4.5%	N/A	2.19	13.00
Maximum exposure to single borrower – Secured – Individual	15% of capital funds	15% of capital funds	4.37	5.08
Maximum exposure to single borrower – Secured – Group	20% of capital funds	20% of capital funds	5.15	6.01
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	70%	N/A	84.21	78.37
Sector concentration highest exposure to sector (Lease/Loan)	20% of portfolio	N/A	19.25 (Industry and manufacturing)	19.12 (Industry and manufacturing)

Risk Management 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 standards.

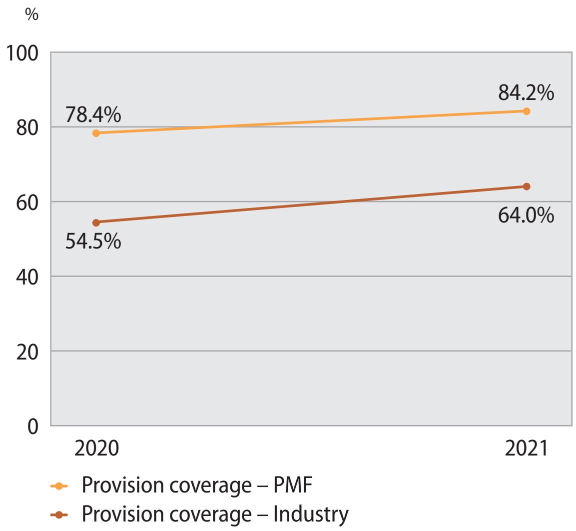
GROSS NPL RATIO



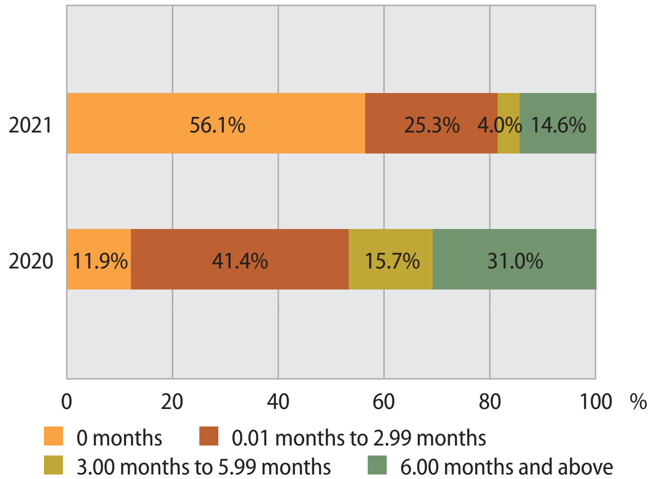
NET NPL RATIO



PROVISION COVERAGE

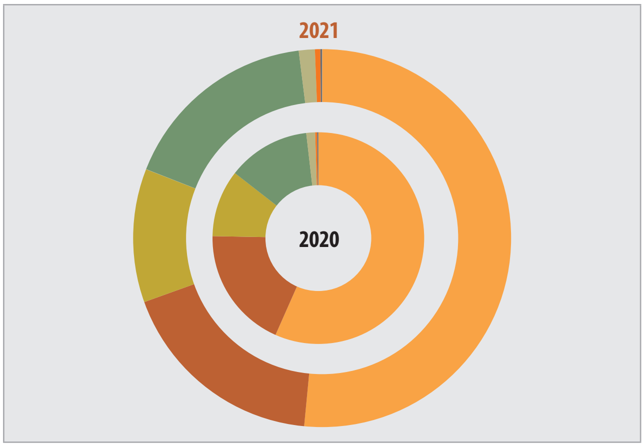


AGEING OF THE PORTFOLIO (LEASE/LOANS)



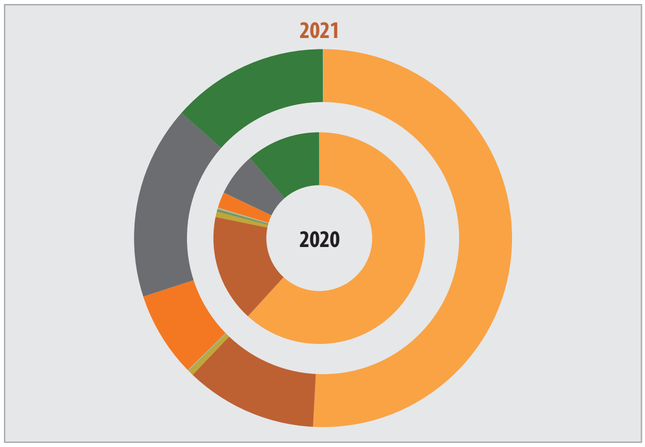
ASSESSING CONCENTRATION RISK

EXPOSURE BY CUSTOMER SIZE



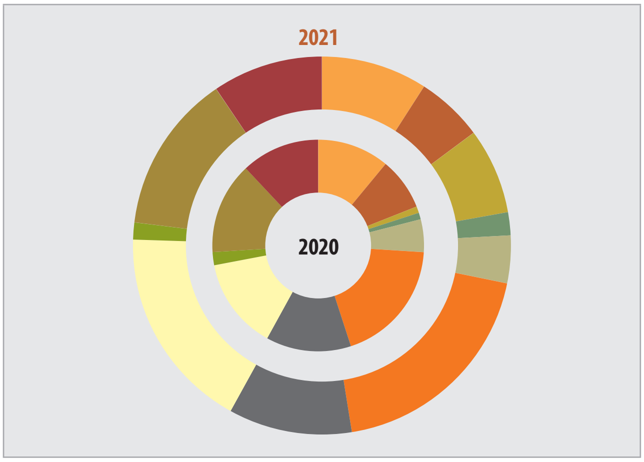
	2021 Percentage (%)	2020 Percentage (%)
LKR 0 – LKR 200,000	51.53	56.63
LKR 200,000 – LKR 500,000	17.98	18.67
LKR 500,000 – LKR 1,000,000	11.43	10.24
LKR 1,000,000 – LKR 5,000,000	17.09	12.62
LKR 5,000,000 – LKR 10,000,000	1.37	1.36
LKR 10,000,000 – LKR 25,000,000	0.46	0.30
Above LKR 25,000,000	0.15	0.18

PRODUCT CONCENTRATION



	2021 Percentage (%)	2020 Percentage (%)
Lease	50.84	61.76
Term loans	11.29	16.43
Pledge loans	0.42	0.84
Group loans	0.05	0.38
Hire purchase	0.11	0.26
Ikman loans	7.29	2.40
Gold loans	16.54	6.57
Margin trading	13.46	11.35

INDUSTRY CONCENTRATION



	2021 Percentage (%)	2020 Percentage (%)
Agriculture forestry and fishing	9.09	11.00
Construction and infrastructure development	5.74	8.00
Financial services	7.34	1.00
Government institutions	1.97	1.00
Hotel and restaurants	4.08	5.00
Industry and manufacturing	19.25	19.00
Consumption	10.56	13.00
Other services	17.48	14.00
Tourism	1.46	2.00
Wholesale and retail	13.58	14.00
Transportation and storage	9.46	12.00

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 assessed the liquidity risk by way of stress testing based on several plausible scenarios. The key observations made on the scenario analysis were presented to the IRMC.

		Status	
		FY 2020/21	FY 2019/20
		Regulatory limits	
Risk appetite criteria	Regulatory criteria segment	Percentage (%)	Percentage (%)
Liquid assets ratio	Fixed deposits	6	10
	Savings accounts	10	15
	Unsecured borrowings	5	10

As per the risk appetite of the Company and the Direction No. 4 of 2013 of the Central Bank of Sri Lanka and its subsequent amendments, it is required to maintain a minimum holding of liquid assets in the above manner.

	Status	
As at 31 March	2021	2020
	LKR '000	LKR '000
Required minimum amount of liquid assets	138,682	212,462
Total liquid assets	739,867	1,442,077
Excess liquidity	601,185	1,229,615

PMF maintained a total liquid assets to total deposit liabilities ratio of 32.25% for the FY ended 31 March 2021 compared to 68.31% reported for the FY 2019/20.

STRESS TESTING
Scenario analysis

	31 March 2021 LKR Mn.	Scenario II LKR Mn.	Scenario III LKR Mn.	Scenario IV LKR Mn.	Breakeven LKR Mn.
Deposit base, March 2021	2,289.49				
Shock on the deposit base (outflow) (%)		5.00	10.00	15.00	28.26
Shock on the deposit base (outflow, in value terms)		114.50	228.99	343.49	637.41
Current liquidity (as per CBSL definition)	739.87				
Liquidity position with the impact of the scenarios		625.37	510.87	396.38	102.45
Required minimum amount of liquid assets (CBSL requirement)	139.00	133.83	126.96	120.09	102.45
Excess liquidity	600.87	491.54	383.91	276.29	–

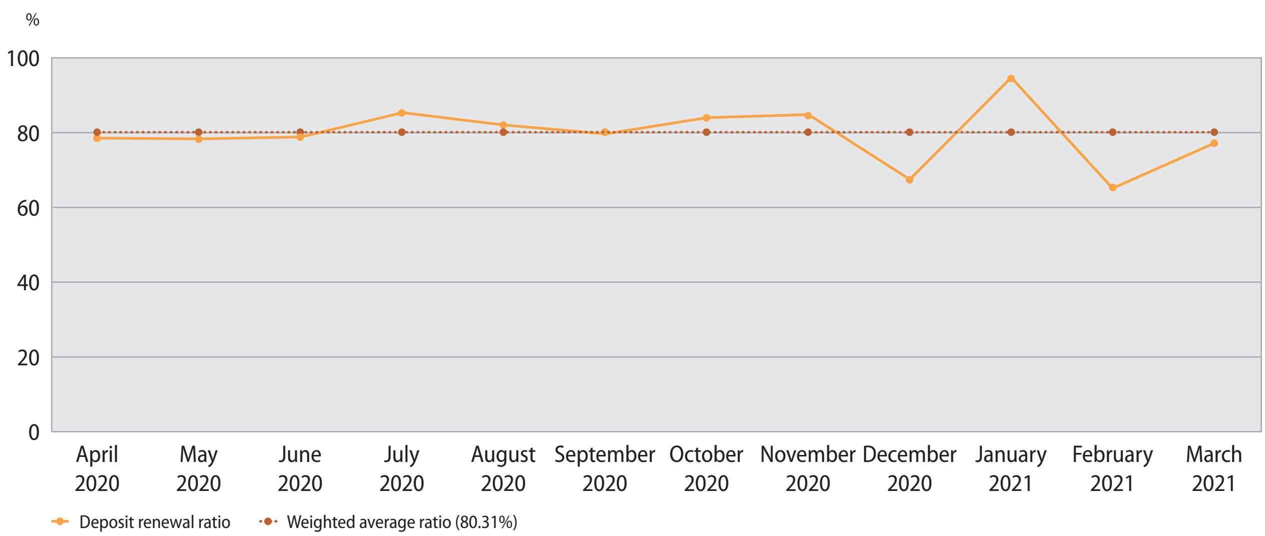
Regulatory liquidity (as per the Direction No. 3 of 2021, amendments to Directions on liquid assets)

- 6% of the total outstanding value of the time deposits (including the accrued interest) and face value of the non-transferable certificates of deposits.
- 10% of the total outstanding value of the savings accounts (including the accrued interest).
- 5% of the total outstanding borrowings and any other payables determined by the Director – NBFI.

Assumptions

- No exceptional lending to clients
- 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 77% at all times during the FY 2020/21 except in December 2020 which recorded 65.40%.

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, equity price 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 lower interest rates regimes during the FY 2020/21. These changes impacted the NII (Net Interest Income) during the financial year. ALCO is responsible for asset and liability management including the 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. 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.

PMF has assessed the market value of the gold loan 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	2021	2020
Shock levels	Impact on market value LKR '000	Impact on market value LKR '000
10% shock (increase)	79,179.52	21,084.88
10% shock (decrease)	(79,179.52)	(21,084.88)

Note: Prices of 24 carat gold were considered as LKR 85,000/- and LKR 105,000/- at the financial years 2020 and 2021 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 weekly basis for its trading portfolio and trading is made at right times and assess the impact accordingly. Further the economic fallout of the share market due to COVID-19 pandemic resulted in significant but dynamic momentums in share market indexes and management is monitoring the equity price movements on regular basis.

As at 31 March	2021	2020
	LKR '000	LKR '000
Market value of quoted equity instruments	2,320.76	1,819.23

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	2021	2020
Shock levels	Impact on market value LKR '000	Impact on market value LKR '000
10% shock (increase)	23.21	18.19
10% shock (decrease)	(23.21)	(18.19)

Further the company is engaged in the margin trading businesses 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 assets 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 2021

Position of core capital

	LKR Mn.	Scenario I LKR Mn.	Scenario II LKR Mn.	Scenario III LKR Mn.	Breakeven LKR Mn.
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 (Ratio)	10 : 4				
Stated capital	3,252.16	3,252.16	3,252.16	3,252.16	3,252.16
Statutory reserve fund	10.65	10.65	10.65	10.65	10.65
Accumulated losses	(1,131.61)	(1,151.28)	(1,170.94)	(1,190.61)	(1,262.81)
Core capital	2,131.20	2,111.53	2,091.86	2,072.20	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.

PMF has developed the strategic plan considering the pandemic, regulatory requirements and other aspects in order to meet the future core capital requirements including the upcoming minimum unimpaired core capital requirement of LKR 2.5 Bn. effective from 1 January 2022.

Risk appetite criteria	Appetite (PMF)	Regulatory minimum	Status As at 31 March 2021	Status As at 31 March 2020
	Percentage (%)	Percentage (%)	Percentage (%)	Percentage (%)
Capital adequacy				
Core capital ratio	7.5	6.5	44.39	39.58
Total risk-weighted capital ratio	12.5	10.5	44.38	39.56

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 batch wise screening process made to the existing client base. Our compliance team has ensured that all our regulatory obligations in this regard too.

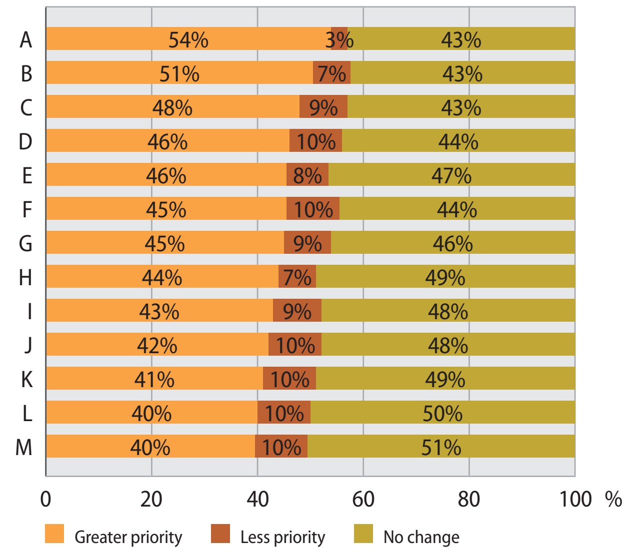
The Company has taken a lot of initiatives for maintaining the health of the new portfolio disbursed from the calendar year 2020 during which a new management started steering the journey of PMF. In addition to a skilled force of internal employees engaged in collection and recovery efforts, the Company 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 COVID-19

The most significant risk event faced by all the corporates in the FY 2020/21, was the economic and social impact of the 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.

Under the COVID-19 and KYC Compliance perspective, the survey results of respondents on Company priorities on the risks in the Global Risk and Compliance Report 2021, Rifinitiv World-Check are depicted below.

PANDEMIC IMPACT ON COMPANY RISK PRIORITIES



A	KYC on the identity of clients
B	Cybercrime
C	Transaction monitoring
D	Financial crime risk
E	Enhances due diligence
F	Financial fraud
G	Risk screening
H	KYC verification of client data
I	Green crime
J	Source of wealth and source of funds
K	Supplies or relationships
L	Sanctions screening
M	Ultimate beneficial ownership status

Base size = 2,920 management in large companies across 30 geographies, who are knowledgeable or involved in regulatory compliance and practices.

According to the survey results, over half (54%) of respondents agreed that COVID-19 had made KYC on the identity of clients a greater priority and 44% said it had impacted the need for KYC verification of client data.

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 2020/21	Focus points
PMF managed to reduce the NPL position significantly to 13.87% from 29.72% reported in FY 2019/20 through a combination of the reversal of NPL (conversion) and a growth of the lending portfolio, against the industry ratio of 11.74% as at 31 March 2021. Despite the turbulent and challenging environmental conditions arising from the stressful situations following the first and second waves of the 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 expects to use the proposed 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. Gold price movements, trends, tenor exposures were tabled for monthly Board meetings in addition to quarterly revaluations at IRMC.	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. Monitoring future market momentum in the macro environment.

Liquidity risk

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

With the pandemic, CBSL reduced the requirement of statutory liquidity ratios. Statutory liquidity ratio stood at 31.74% as at 31 March 2021. PMF honoured all obligatory payments on time even during the pandemic. 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. A monthly ALCO meeting was conducted focusing mainly on cash flow predictions to assess the Company's overall positions.	Maintaining healthy cash flows and additional buffers early while identifying early warning signals and meeting liquidity requirements. Investing in high yielding marketable assets while meeting required liquidity level and meeting appropriate diversification strategies, tenor of funding and liquidity. Conducting cash flow predictions/liquidity stress testing in order to meet unforeseen events.

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 FTRA.

Conducting and assessing clients using a credit risk scorecard (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 programs for new recruits with special emphasis on the cybersecurity.

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.

In order to create a synergised effect of the PMF, it established an in-house Internal Audit Division in order to perform risk-based audits during the FY.

Made room for the capital market by resuming margin trading business in October 2020 and grew the portfolio from LKR 233 Mn. (as at 30 September 2020) to LKR 476 Mn. at the year end.

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 developed the risk appetite and strategy (RAS) in order to generate early warning signals.

With respect to the new product development, PMF has developed risk-based product assessment reports to assess the feasibility before embarking on the business.

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

Enhancing IT governance framework.

Keeping well planned BCP infrastructure arrangements and performing BCP drills to check the adequacy of contingency arrangements.

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

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 evaluating the prospective core application system providers.

Designed a virtualisation data centre including the DR site.

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

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

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

Under digitisation platform of the strategic plan, the PMF is planning to implement a new core application system by 2022 making special emphasis on the future trends in the cybersecurity.

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

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.

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 2025 (five year) and aligned with the Government's five year plan.

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

Digitalisation has been addressed in the strategic plan and PMF is validating the proposals/demonstrations of several service providers (core application) against the business and other needs.

New strategic plan would be developed/the strategic plan will continue to be finetuned considering the recent developments happening in the market environment.

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.

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 COVID-19 outbreak.

All moratorium requests which were under consideration as per the CBSL criteria were taken into consideration by the Management.

The Company has developed a Board approved complaints handling policy.

Client complaint handling mechanism would be digitalised.

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.

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.

The Corporate Governance Framework was strengthened.

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

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 batch wise screening process made to the existing client base.

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 2021 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 No. 21, Nawam Mawatha, Colombo 02.

PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

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

Subsidiaries – The Company has a fully owned subsidiary company (PMB Services Limited). The principal activity of PMB Services Limited was operation of credit cards and to undertake all ancillary activities in connection 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

The total branch network of the Company as at 31 March 2021 was 11 and 1 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 09). These reports form an integral part of the report of the Directors and together with audited Financial Statements reflect the state of affairs of the Company and the Group. Segment wise contribution to Group revenue, results, assets and liabilities are disclosed in the Notes to the Financial Statements on (page 180) of this Annual Report.

FINANCIAL STATEMENTS OF THE GROUP AND THE COMPANY

The Financial Statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) laid down by The Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No. 07 of 2007.

The Financial Statements of the Group and the Company, which are duly certified by the Chief Manager – Finance and the Chief Executive Officer as approved by the Board of Directors and signed by the Chairman and one Director is reflected on page 110 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 2021 and the Auditor's Report issued thereon is given on pages 104 to 107 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 117 Accounting policies used by the Group and the Company during the year under review. Significant accounting policies together with the notes adopted in preparation of the Financial Statements of the Group and the Company are given on the pages 108 to 184. 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 2020 to 31 March 2021.

FINANCIAL RESULTS AND APPROPRIATIONS

Financial Results

The Group and the Company recorded a net profit of LKR 67.7 Mn. and LKR 67.8 Mn. respectively for the financial year 2020/21 (Net loss LKR 80.2 Mn. and LKR 80.1 Mn. in 2019/20). Details of the Company's performance and appropriation are tabulated as follows.

Company	2020/21 LKR '000	2019/20 LKR '000
Profit/(Loss) after taxation	67,799	(80,086)
Other comprehensive income	1,259	(338)
Transfers from reserves	(3,390)	–
Transaction cost related to rights issue	(2,228)	(12,020)
Balance brought forward	(1,195,047)	(1,102,603)
Balance carried forward	(1,131,607)	(1,195,047)

PROVISION FOR TAXATION

The income tax rate applicable on the profits earned during the year is 24%. Rate of VAT on financial services is 15%. Accordingly, the current year income tax charge of the Company is LKR 0.4 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 2021 (FY 2019/20 – Nil).

PREFERENCE SHARES AND PREFERENCE DIVIDEND

Outstanding balance of the preference shares as at 31 March 2021 amounted to LKR 10 Mn. The Company has provided for preference share dividend payable amounting to LKR 6.6 Mn. during the financial year.

INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT

The details of property, plant and equipment are presented in Note 21 and 22 (pages 146 to 148) 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 136 to 138 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 of the Company and the Group as at 31 March 2021 amounted to LKR 3,252.159 Mn. (LKR 2,440.290 Mn. as at 31 March 2020).

RESERVES

A summary of reserves of the Group and Company as at year ended 31 March 2021 as follows:

	COMPANY		GROUP	
	2020/21 LKR '000	2019/20 LKR '000	2020/21 LKR '000	2019/20 LKR '000
Statutory reserve fund	10,649	7,259	10,649	7,259
Retained earnings	(1,131,607)	(1,195,047)	(1,131,793)	(1,195,156)
Total	(1,120,958)	(1,187,788)	(1,121,144)	(1,187,897)

SHARE INFORMATION

Shareholder information and information on trading are provided under the tittle "Investor Capital" on pages 42 to 44 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 holdings and public holding percentage are given under the tittle "Investor Capital" on page 42.

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 2021 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	Appointed on 3 April 2019
Mr Channa Manoharan	Non-Executive Independent Director	Appointed on 26 June 2019
Mr K Rangana Madusanka	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
Mrs Gloria Kodagoda	Non-Executive Non-Independent Director	Resigned on 28 May 2020
Mr Rasitha Gunawardana	Non-Executive Non-Independent Director	Resigned on 22 June 2020

Mr K Rangana Madusanka was Acting CEO and Executive Director for the period from 20 January 2020 to 17 April 2020 and he became a Non-Executive Non-Independent Director w.e.f. 24 April 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 159 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	
	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Directors' fees and emoluments	9,102	7,453	9,102	7,453

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 2021 and 31 March 2020 are given on page 43 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 2021 and 31 March 2020 are given on page 43 of this Annual Report.

DIRECTORS' MEETINGS

The details of Directors' meetings are presented in the Corporate Governance report on page 75 of this Annual Report.

BOARD SUBCOMMITTEES

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 subcommittee details other than the Board Nomination Committee are presented on pages 76 to 80.

NOMINATION COMMITTEE

The Committee composition during the period ended 31 March 2021 is as follows:

- Mr C P Abeywickrema – Independent, Non-Executive Director – Chairman
- Mr C Manoharan – Independent, Non-Executive Director
- Mr K R Madusanka – Non-Independent, Non-Executive Director

The committee held three meetings in relation to the financial year under review. The attendance of members is listed on page 75 of the Annual Report.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group, which reflects a true and fair view of the state of its affairs. The Directors are of the view that the 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 2021 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 Directors' Responsibility for Financial Reporting" is provided on page 98 forms an integral part of this report.

DONATIONS

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

RELATED PARTY TRANSACTIONS

There are no related party transactions which exceed 10% of the equity or 5% of the total assets whichever is lower, other than the transaction disclosed under the Note 35 on page 158 and the Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange and the SEC code 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 pages 158 to 161 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 pages 76 and 77 of this 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 54 to 75.

HUMAN RESOURCES

The number of employees as at 31 March 2021 was 168 (31 March 2020 – 118).

ENVIRONMENTAL PROTECTION

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

STATUTORY PAYMENTS

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

OUTSTANDING LITIGATION

In the opinion of the Directors formed in consultation with the Company lawyers, litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on Note 34 to the Financial Statements on page 158.

EVENTS AFTER THE REPORTING DATE

Details of events after the reporting date are reflected in Note 42 on page 182 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 1.7 Mn. as audit fees and audit-related services by the Company. Further, they were paid LKR 0.8 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 195 of this Annual Report.

M J Travis Waas
Director

C P Abeywickrema
Chairman

Corporate Services (Private) Limited
Company Secretary

28 June 2021
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 statues, which are applicable in the preparation of Financial Statements. The Financial Statements comprise the Statement of Financial Position as at 31 March 2021, 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 104 to 107 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
28 June 2021
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.

An effective internal audit function strengthens the monitoring over internal controls, which is an integral part of an effective system of internal controls. In accordance with the Board's initiatives to strengthen the governance and risk management system of the Company, an in-house internal audit function was established during the financial year, which performed the internal audits based on a risk-based internal audit plan covering its main operational processes and branch operations including its finance function.

During the financial year 2020/21, 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 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 within the financial year. 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 76 and 77.
- 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 COVID-19 pandemic and the moratorium schemes introduced to support the recovery of the economy. The Board Audit Committee reviewed the amendments made to the policies and methodologies and the underlying assumptions during the financial year taking into consideration the potential implications of the COVID-19 pandemic situation.

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 2021 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 101 and 102 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 Madusanka
Director

C P Abeywickrema
Chairman

Colombo
26 August 2021

AUDITOR'S REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

KPMG
(Chartered Accountants)
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TO THE BOARD OF DIRECTORS OF PEOPLE'S MERCHANT FINANCE PLC

We were engaged by the Board of Directors of People's Merchant Finance PLC ("the Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") for the year ended 31 March 2021 as set out on pages 99 to 100 of the Annual Report.

MANAGEMENT'S RESPONSIBILITY

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

OUR INDEPENDENCE AND QUALITY CONTROL

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

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.

PRACTITIONER'S RESPONSIBILITIES

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

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

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

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

KPMG

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 in the Annual Report.
b. Reviewed the documentation prepared by the Management to support the 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 License Finance Company's risk and control procedures. SLSAE 3051 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.

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

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

OUR CONCLUSION

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

KPMG

CHARTERED ACCOUNTANTS

26 August 2021
Colombo

FINANCIAL REPORTS

INDEPENDENT AUDITOR'S REPORT

KPMG
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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 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information set out on pages 108 to 184 of the annual report.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2021, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for opinion

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

Key audit matters

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

Impairment allowance for loans and lease rental receivable

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

Risk description	Our response
As at 31 March 2021 67% of total assets of the Group consisted of loans and advances. As disclosed in Note 19 to the financial statements, the Group and the Company has recorded LKR 3,157 Mn. as loans and advances net of LKR 413 Mn. expected credit losses as at the reporting date. Loans and advances impairment remain as one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak.	Our audit procedures to assess impairment of loans and advances to customers included, • Assessment of the methodology inherent within the models against the requirements of SLFRS 9 – "Financial Instruments"; • Assessing the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates; • Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios;

KPMG

SLFRS 9 "Financial Instruments" requires the application of the expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required. Therefore, we identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in the ECL model. This model is reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk.	• Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; • Assessing how management had assessed the impact of COVID-19, including the implications of the moratoriums granted to customers, within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date; • Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development. • Assessing the appropriateness of the Group's disclosures in the financial statements using our understanding obtained from our testing and against the requirements of the Sri Lanka Accounting Standards.

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

Risk description	Our response
The financial statements of the Group have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the Directors have reviewed the Company's 12 months cash flow projections prepared by management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, taking into consideration the impact of COVID-19 related events. Note 43 describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's, future prospects, performance and cash flows. The management has described how they plan to deal with these events and circumstances as the outbreak is still prevailing as at the date of this report. We identified the assessment of going concern as a key audit matter because the assessment of going concern involves consideration of future events and complying with the regulatory requirements of the Central Bank of Sri Lanka. Impact arising from COVID-19 requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential bias.	Our audit procedures to assess the Group's ability to continue as a going concern included: • Obtaining the Company's cash flow projections covering a period of not less than 12 months from the reporting period end date and assessing these key assumptions used in preparing the projections; • Evaluating the sensitivity of the projected cash flows by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions; • Assessing correspondence with the Regulator in order to evaluate the potential impact and the agreed rectifications for the non-compliances with regulatory requirements; • Assessing adequacy of the disclosures in the financial statements.

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Other information

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

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

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

Responsibilities of Management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with SLAuSs, we exercise professional 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.

KPMG

- 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 Auditors' Report is 1224.

KPMG

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka

28 June 2021

STATEMENT OF PROFIT OR LOSS

For the year ended 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Gross income	6	629,491	629,528	629,491	629,528
Interest income	7.1	470,977	563,581	470,977	563,581
Interest expense	7.2	(237,591)	(300,039)	(237,591)	(300,039)
Net interest income	7	233,386	263,542	233,386	263,542
Fee and commission income	8	11,001	6,182	11,001	6,182
Net income from financial assets at FVTPL	9	43,995	29,606	43,995	29,606
Other operating income	10	103,518	30,159	103,518	30,159
Total operating income		391,900	329,489	391,900	329,489
Impairment (charge)/reversal and other losses for loans and lease rentals receivable	11	41,802	(122,535)	41,802	(122,535)
Net operating income		433,702	206,954	433,702	206,954
Expenses					
Personnel expenses	12	(174,111)	(129,227)	(174,111)	(129,227)
Depreciation of property, plant and equipment		(4,267)	(4,378)	(4,267)	(4,378)
Amortisation of intangible assets		(392)	(3,285)	(392)	(3,285)
Amortisation of right of use assets	23	(35,085)	(28,930)	(35,085)	(28,930)
Other operating expenses	13	(119,297)	(109,407)	(119,374)	(109,494)
Operating profit/(loss) before taxes on financial services		100,550	(68,273)	100,473	(68,360)
Taxes on financial services		(33,148)	(11,681)	(33,148)	(11,681)
Profit/(loss) before income tax		67,402	(79,954)	67,325	(80,041)
Income tax (expense)/reversal	14	397	(132)	397	(132)
Profit/(loss) attributable to the owners of the Company		67,799	(80,086)	67,722	(80,173)
Basic earnings/(loss) per share (LKR)	15	0.32	(0.40)	0.32	(0.40)
Diluted earnings/(loss) per share (LKR)	15	0.32	(0.40)	0.32	(0.40)

Figures in brackets indicate deductions.

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		COMPANY		GROUP	
For the year ended 31 March		2021	2020	2021	2020
	Note	LKR '000	LKR '000	LKR '000	LKR '000
Profit/(loss) for the year		67,799	(80,086)	67,722	(80,173)
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Actuarial gain/(loss) on retirement benefit obligation	29	1,656	(470)	1,656	(470)
Deferred tax effect on actuarial gain/(loss)		(397)	132	(397)	132
Other comprehensive income/(loss) for the year, net of tax		1,259	(338)	1,259	(338)
Total comprehensive income/(loss) for the year attributable to the owners of the Company		69,058	(80,424)	68,981	(80,511)

Figures in brackets indicate deductions.

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

STATEMENT OF FINANCIAL POSITION

As at 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Assets					
Cash and cash equivalents	16	707,190	291,440	707,437	291,690
Placements with banks and financial institutions	17	5,126	1,214,097	5,126	1,214,097
Financial assets measured at fair value	18	647,840	486,188	647,840	486,188
Financial assets measured at amortised cost – Loans and lease rentals receivable	19	3,156,568	1,658,310	3,156,568	1,658,310
Investments in subsidiary	20	–	–	–	–
Property, plant and equipment	21	24,879	11,539	24,879	11,539
Intangible assets	22	6,590	2,483	6,590	2,483
Right-of-use assets	23	68,787	63,643	68,787	63,643
Other assets	24	86,872	87,242	86,872	87,242
Total assets		4,703,852	3,814,942	4,704,099	3,815,192
Liabilities					
Due to banks	25	–	1,715	–	1,715
Financial liabilities at amortised cost – Deposits due to customers	26	2,289,491	2,100,936	2,289,491	2,100,936
Debt securities issued	27	16,600	16,000	16,600	16,000
Lease liabilities	23	80,424	74,386	80,424	74,386
Deferred tax liabilities	28	–	–	–	–
Employee benefit obligation	29	18,360	23,457	18,360	23,457
Other liabilities	30	167,776	45,946	168,209	46,305
Total liabilities		2,572,651	2,262,440	2,573,084	2,262,799
Equity					
Stated capital	31	3,252,159	2,440,290	3,252,159	2,440,290
Advance against stated capital	31.1	–	300,000	–	300,000
Statutory reserve fund	32	10,649	7,259	10,649	7,259
Accumulated losses	33	(1,131,607)	(1,195,047)	(1,131,793)	(1,195,156)
Total equity attributable to the owners of the Company		2,131,201	1,552,502	2,131,015	1,552,393
Total liabilities and equity		4,703,852	3,814,942	4,704,099	3,815,192
Commitments and contingencies	34	81,260	40,028	81,260	40,028
Net assets value per share (LKR)		6.52	7.36	6.52	7.36

Figures in brackets indicate deductions.

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

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

Darshana Wijayanayaka
Chief 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

Channa Manoharan
Director

28 June 2021
Colombo, Sri Lanka

STATEMENT OF CHANGES IN EQUITY – COMPANY

	Stated capital LKR '000	Advance against stated capital LKR '000	Reserve fund LKR '000	Retained earnings LKR '000	Total equity LKR '000
Balance at 1 April 2019	1,238,302	–	7,259	(1,102,603)	142,958
Total comprehensive income for the year					
Loss for the year	–	–	–	(80,086)	(80,086)
Other comprehensive income					
Remeasurement of defined benefit liability	–	–	–	(470)	(470)
Tax on other comprehensive income	–	–	–	132	132
Total other comprehensive income	–	–	–	(338)	(338)
Total comprehensive income	–	–	–	(80,424)	(80,424)
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	1,201,988	–	–	–	1,201,988
Advance against stated capital	–	300,000	–	–	300,000
Transaction cost related to rights issue	–	–	–	(12,020)	(12,020)
Total contribution and distribution	1,201,988	300,000	–	(12,020)	1,489,968
Total transactions with owners of the Company	1,201,988	300,000	–	(12,020)	1,489,968
Balance at 31 March 2020	2,440,290	300,000	7,259	(1,195,047)	1,552,502
Balance at 31 March 2020	2,440,290	300,000	7,259	(1,195,047)	1,552,502
Total comprehensive income					
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

Figures in brackets indicate deductions.

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

STATEMENT OF CHANGES IN EQUITY – GROUP

	Stated capital LKR '000	Advance against stated capital LKR '000	Reserve fund LKR '000	Retained earnings LKR '000	Total equity LKR '000
Balance at 1 April 2019	1,238,302	–	7,259	(1,102,625)	142,936
Total comprehensive income for the year	–	–	–	–	–
Loss for the year	–	–	–	(80,173)	(80,173)
Other comprehensive income					
Remeasurement of defined benefit liability	–	–	–	(470)	(470)
Tax on other comprehensive income	–	–	–	132	132
Total other comprehensive income	–	–	–	(338)	(338)
Total comprehensive income	–	–	–	(80,511)	(80,511)
Transactions with owners of the Company					
Contributions and distributions					
Issue of ordinary shares through right issue	1,201,988	–	–	–	1,201,988
Advance against stated capital	–	300,000	–	–	300,000
Transaction cost related to rights issue	–	–	–	(12,020)	(12,020)
Total contribution and distribution	1,201,988	300,000	–	(12,020)	1,489,968
Total transactions with owners of the Company	1,201,988	300,000	–	(12,020)	1,489,968
Balance at 31 March 2020	2,440,290	300,000	7,259	(1,195,156)	1,552,393
Balance at 31 March 2020	2,440,290	300,000	7,259	(1,195,156)	1,552,393
Total comprehensive income					
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
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

Figures in brackets indicate deductions.

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

STATEMENT OF CASH FLOWS

For the year ended 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash flows from operating activities		67,402	(79,954)	67,325	(80,041)
Profit/(loss) before tax					
Adjustment for:					
– Depreciation and amortisation		39,744	36,593	39,744	36,592
– Gain on de-recognition of right-of-use assets		(874)	–	(874)	–
– Fair value gain on financial assets		(43,653)	(29,295)	(43,653)	(29,295)
– Net impairment loss on loans and advances		(41,802)	122,535	(41,802)	122,535
– Interest expense on preference shares		600	600	600	600
– Interest expense on leases		13,635	9,757	13,635	9,757
– Dividend on equity securities at FVPTL		(342)	(311)	(342)	(311)
– Interest income on short-term investments		(77,774)	(115,937)	(77,774)	(115,937)
– Provision for retirement benefit obligation		4,216	4,690	4,216	4,690
– Gain on disposal of property, plant and equipment		(17,526)	(231)	(17,526)	(231)
		(56,373)	(51,553)	(56,452)	(51,641)
Changes in					
Financial assets measured at amortised cost – Loans and lease rentals receivable		(1,456,456)	723,421	(1,456,456)	723,421
Other assets		368	(1,987)	368	(1,987)
Due to customers		188,555	(333,798)	188,555	(333,798)
Other liabilities		121,830	(13,195)	121,903	(13,113)
		(1,202,076)	322,888	(1,202,081)	322,882
Retiring gratuity paid	29	(7,656)	(3,710)	(7,656)	(3,710)
Income tax paid		–	–	–	–
Net cash from/(used in) operating activities		(1,209,732)	319,178	(1,209,736)	319,172
Cash flows from investing activities					
Interest income received on short-term investments	7.1	77,774	115,937	77,774	115,937
Investment/upliftment of fixed deposits		1,208,971	(1,157,350)	1,208,971	(1,157,350)
Investments in securities – Net		(118,000)	(454,752)	(118,000)	(454,752)
Acquisition of property, plant and equipment		(17,627)	(2,349)	(17,627)	(2,349)
Acquisition of intangible assets		(4,499)	(642)	(4,499)	(642)
Proceeds from disposal of property, plant and equipment		17,547	231	17,547	231
Dividends received from investments	10	342	311	342	311
Net cash from/(used in) investing activities		1,164,509	(1,498,614)	1,164,509	(1,498,614)

For the year ended 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash flows from financing activities					
Proceeds from rights issue of shares		511,869	1,201,988	511,869	1,201,988
Transaction cost related to rights issue		(2,228)	(12,020)	(2,228)	(12,020)
Advances against stated capital		–	300,000	–	300,000
Lease rental payments		(46,953)	(27,944)	(46,953)	(27,944)
Net cash from/(used in) financing activities		462,688	1,462,024	462,688	1,462,024
Net increase/(decrease) in cash and cash equivalents		417,465	282,588	417,462	282,582
Cash and cash equivalents at beginning of the year		289,725	7,137	289,975	7,393
Cash and cash equivalents at the end of the year		707,190	289,725	707,437	289,975
Cash and cash equivalents at the end of the year					
Cash and cash equivalents	16	707,190	291,440	707,437	291,690
Bank overdraft	16	–	(1,715)	–	(1,715)
		707,190	289,725	707,437	289,975

Figures in brackets indicate deductions.

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

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

1.1 Corporate information

People's Merchant Finance PLC ("the Company") 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. 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; 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. 21, Nawam Mawatha, Colombo 02.

Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended 31 March 2021 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 2021 was 168 (118 as at 31 March 2020).

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. 7 of 2007).

PMB Services Limited

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

The Consolidated Financial Statements of the Group and separate Financial Statements of the Company comprising the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows together with notes ("the Financial Statements"), as at 31 March 2021 and for the year then ended are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) and Sri Lanka Accounting Standards (LKASs) (hereafter "SLFRS/LKAS") laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL). The presentation of the Financial Statements is also in compliance with the requirements of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the listing rules of the Colombo Stock Exchange.

2.2 Directors' responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with 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 2021 were approved and authorised for issue by the Management on 28 June 2021.

2.3 Basis of measurement

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

Item	Basis of measurement
Financial instruments at FVPTL	Fair value
Financial assets at FVOCI	Fair value
Defined benefit obligations	Present value of the defined benefit obligations

2.4 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the statement of financial position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

2.5 Functional and presentation currency

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

2.6 Materiality and aggregation

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

2.7 Rounding

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

2.8 Statement of cash flows

The statement of cash flows has been prepared by using the "Indirect Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on "Statement of Cash Flows". Whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows comprise of those items as explained in Note 16 and Note 25.

2.9 Use of estimates and judgements

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs and LKAS 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 judgments in applying accounting policies that have most significant effect on amounts recognised in the Financial Statements of the Group are as follows:

- Fair value measurement
- Impairment of financial assets
- Useful life of property, plant and equipment
- Impairment of non-financial assets
- Employee benefit
- Deferred taxation
- Commitments and contingencies
- Determination of lease term and estimating incremental borrowing rate

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 4.17: 2 Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. 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.

2.10 Going concern

The management has made as 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, Sterling Capital Investments (Pvt) Ltd. infused a capital of LKR 790 Mn., while the minority shareholders contributed to the capital by LKR 21 Mn., during the year through a rights issue which resulted in the Company having a net equity position of LKR 2.1 Bn. as at 31 March 2021.

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.

4. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes explained in Note 3, the Group has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements.

4.1 Basis of consolidation

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

4.1.1 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group "Controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of the control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

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

The Financial Statements of the Subsidiary is included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

These Consolidated Financial Statements are prepared to a common financial year end of 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 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 Lanka 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 De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de recognition of an item of property, plant and equipment is included in profit or loss when the item is de-recognised.

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 de-recognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost is de-recognised.

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

4.4.1.3 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 de-recognised.

4.4.2 Intangible assets

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

4.4.2.1 Recognition and measurement

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

4.4.2.2 Software

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

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is four years.

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

4.4.2.3 De-recognition

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

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

4.4.4 Deposits from customers

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

4.5 Non-financial liabilities

4.5.1 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with LKAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

4.5.2 Commitments and contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not 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.

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

4.13 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

4.14 Segment reporting

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

Segment results are reported to the Group's CEO (being the CODM) include items that are directly attributable to a segment as well as those that cab 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.

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

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

Contractually linked instruments

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

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

4.17.3 Reclassifications

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

4.17.4 Financial liabilities

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

4.17.5 De-recognition

4.17.5.1 Financial assets

The Group de-recognises 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 de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset de-recognised) 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 de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition 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 de-recognised. 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 de-recognised if it meets the de-recognition 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 de-recognises 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 de-recognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

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

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 de-recognition 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 de-recognises 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 de-recognised 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 de-recognition, 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.

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 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.

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 de-recognised and ECL are measured as follows:

- If the expected restructuring will not result in de-recognition 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 de-recognition 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 de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition 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.

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

Individual or collective assessment

A facility is considered for impairment under the individual impairment basis when the ageing of the facility exceeds 6 months and the outstanding receivable value is more than LKR 5 Mn. This was changed from 6 months and outstanding receivable value of more than LKR 1 Mn. in the prior year.

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

4.17.10 Designation at fair value through profit or loss

4.17.10.1 Financial assets

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

4.17.10.2 Financial liabilities

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

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

4.18 Hedge accounting

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

4.19 Leases

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

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 re-measurements 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 sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies SLFRS 15 to allocate the consideration in the contract. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of "other income".

4.20 Basis of consolidation

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. in 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.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'control' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the Subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

4.21 Stated capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, in retained earnings.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards are effective for annual periods beginning after 1 January 2020 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);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4, SLFRS 16);
- 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

6. GROSS INCOME

For the year ended 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Interest income	7.1	470,977	563,581	470,977	563,581
Fee and commission income	8	11,001	6,182	11,001	6,182
Net income from financial assets at FVTPL	9	43,995	29,606	43,995	29,606
Other operating income	10	103,518	30,159	103,518	30,159
		629,491	629,528	629,491	629,528

7. NET INTEREST INCOME

7.1 Interest income

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash and cash equivalents	15,628	33,385	15,628	33,385
Loans and advances to customers	222,356	213,746	222,356	213,746
Total interest income calculated using the effective interest method	237,984	247,131	237,984	247,131
Other interest income – interest income on finance leases and hire purchase	232,993	316,450	232,993	316,450
Total interest income	470,977	563,581	470,977	563,581

7.2 Interest expense

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Interest on overdrafts and charges	–	2,409	–	2,409
Interest on fixed and savings deposits	223,356	287,273	223,356	287,273
Interest on preference shares	600	600	600	600
Interest on lease liabilities	13,635	9,757	13,635	9,757
Total interest expenses	237,591	300,039	237,591	300,039
Net interest income	233,386	263,542	233,386	263,542

8. FEE AND COMMISSION INCOME

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

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Fee and commission income	11,001	6,182	11,001	6,182
Comprising				
Guarantee fees	27	27	27	27
Insurance commission	6,623	4,963	6,623	4,963
Service charges	4,351	1,191	4,351	1,191
Total fee and commission income from contract with customers	11,001	6,182	11,001	6,182

9. NET INCOME FROM FINANCIAL ASSETS AT FVTPL

For the year ended 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Equity investments – Quoted					
Dividend on equity securities measured at FVTPL		342	311	342	311
Fair value gain/(loss) on financial assets at FVTPL	18.1	502	(300)	502	(300)
		843	11	843	11
Unit trusts					
Fair value gain on financial assets at FVTPL	18.2	43,151	29,595	43,151	29,595
Net income from financial assets at FVPTL		43,995	29,606	43,995	29,606

10. OTHER OPERATING INCOME

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Net gain from foreign exchange	76	75	76	75
Profit on real estate sales	26,984	–	26,984	–
Staff loan income	591	2,510	591	2,510
Recovery of bad debts written off	46,398	24,077	46,398	24,077
Gain on disposal of property, plant and equipment	17,526	231	17,526	231
Gain on de-recognition of right-of-use assets	874	–	874	–
Other operating income	11,069	3,266	11,069	3,266
Total other operating income	103,518	30,159	103,518	30,159

11. IMPAIRMENT CHARGE/(REVERSAL) AND OTHER LOSSES

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Lease receivables	(21,328)	40,167	(21,328)	40,167
Loans and advances	(55,764)	17,488	(55,764)	17,488
Hire purchase receivables	(876)	2,182	(876)	2,182
Margin trading	1,530	606	1,530	606
Gold loans	114	28	114	28
Loss on disposal of collaterals	34,521	62,064	34,521	62,064
Net impairment charges and loss on disposal of collaterals	(41,803)	122,535	(41,803)	122,535

The Company recorded a loss on disposal of collaterals amounting to LKR 34 Mn. out of facilities totaling up to an outstanding value of LKR 74 Mn. during the year.

12. PERSONNEL EXPENSES

For the year ended 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Salaries and other related expenses		152,106	110,089	152,106	110,089
Employee benefit – Retirement benefit obligation	29	4,216	4,689	4,216	4,689
Employee benefit – Defined contribution plans (EPF/ETF)		17,198	11,939	17,198	11,939
Amortisation of prepaid staff loans		591	2,510	591	2,510
Total personnel expense		174,111	129,227	174,111	129,227

13. OTHER OPERATING EXPENSES

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Directors' fees and emoluments	9,102	7,453	9,102	7,453
Auditor's remunerations:				
– Statutory audit fees	1,175	1,100	1,175	1,100
– Audit related services	550	550	550	765
– Non-audit services	750	540	750	640
Professional and legal fees	10,862	10,294	10,862	9,979
Office administrative and establishment expenses	96,858	89,470	96,935	89,557
Total other operating expenses	119,297	109,407	119,374	109,494

14. INCOME TAX EXPENSE/(REVERSAL)

For the year ended 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Current tax expense		–	–	–	–
Deferred tax expense	14.1	(397)	132	(397)	132
Total tax expense		(397)	132	(397)	132

14.1 Deferred tax expense

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Deferred tax recognised in other comprehensive income	(397)	132	(397)	132
Deferred tax recognised in profit or loss	397	(132)	397	(132)
Total deferred tax expense	–	–	–	–

14.2 Reconciliation of tax expense

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Profit/(loss) before tax	67,402	(79,954)	67,325	(80,040)
Tax at rate of 24% (2020 – 28%)	16,176	(22,387)	16,158	(22,387)
Tax effect on exempted income	(5)	(87)	(5)	(87)
Tax effect on disallowable expenses	93,270	151,870	93,270	151,870
Tax effect on capital allowances	(26,608)	(61,847)	(26,608)	(61,847)
Tax effect on other allowable expenses	(71,948)	(67,531)	(71,948)	(67,531)
Effect of taxable losses	(10,886)	(18)	(10,867)	(18)
Income tax expenses	–	–	–	–
Effective tax rate (%)	0	0	0	0

As instructed by the Ministry of Finance on 31 January 2020, changes to the current tax rate was proposed, pending formal amendments being made to the Act and to be implemented with effect from 1 January 2020. The Bill to amend the Inland Revenue Act No. 24 of 2017 was gazetted and issued on 18 March 2021. The Bill was presented at the Parliament for first reading and approved on 26 March 2021. Accordingly, the new tax rate of 24% (2020 – 28%) has been considered to be substantially enacted as at reporting date for the computation of current and deferred tax for the year ended 31 March 2021.

14.3 Analysis of tax losses

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000
Balance at 1 April	1,108,571	1,093,770
Adjustments on over/under provision	126,770	135,170
Adjustments on tax assessments	–	(120,304)
Loss utilised during the year	(45,359)	(65)
Closing tax loss	1,189,982	1,108,571

14.4 Income tax assessment

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.

Tax losses amounting to LKR 376 Mn. being the matters under dispute are included in the unrecognised tax losses referred to in Note 14.3 and 28.3 to the Financial Statements. This amount is not adjusted in the tax loss carried forward since the Company is confident that the outcome of the appeal would be positive to the Company. As at 31 March 2021, the tax assessment and the appeal thereto is currently under discussion with the matter yet to be settled.

15. EARNINGS/(DEFICIT) PER SHARE

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

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

For the year ended 31 March	COMPANY 2021	COMPANY 2020	GROUP 2021	GROUP 2020
Profit/(Loss) for the year attributable to ordinary shareholders (LKR '000)	67,799	(80,086)	67,722	(80,173)
Weighted-average number of shares at 31 March ('000)	214,614	199,437	214,614	199,437
Basic earnings/(loss) per share	0.32	(0.40)	0.32	(0.40)

15.1 Weighted average number of shares

For the year ended 31 March	COMPANY 2021	COMPANY 2020	GROUP 2021	GROUP 2020
Brought forward number of shares	210,875	84,350	210,875	84,350
Effect of rights issue	3,121	3,121	3,121	3,121
Effect of shares issued during the year	618	111,966	618	111,966
Weighted average number of shares	214,614	199,437	214,614	199,437

16. CASH AND CASH EQUIVALENTS

As at 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cash in hand		16,941	7,103	16,941	7,103
Cash and cash equivalents with other financial institutions		26,961	33,534	27,208	33,784
Securities under reverse repurchase agreements		663,288	250,803	663,288	250,803
Cash and cash equivalents in the Statement of Financial Position		707,190	291,440	707,437	291,690
Bank overdrafts repayable on demand and used for cash management purposes	25	–	(1,715)	–	(1,715)
Cash and cash equivalents in the statement of cash flows		707,190	289,725	707,437	289,975

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

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Investment in fixed deposits	5,126	1,134,915	5,126	1,134,915
Investment in securitisation	–	79,182	–	79,182
	5,126	1,214,097	5,126	1,214,097

18. FINANCIAL ASSETS MEASURED AT FAIR VALUE

As at 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Financial assets measured at FVTPL – Quoted investments	18.1	2,320	1,819	2,320	1,819
Financial assets measured at FVTPL – Unit trust	18.2	645,496	484,346	645,496	484,346
Financial assets measured at FVOCI – Debt instruments		48	48	48	48
Financial assets measured at FVOCI – Equity instruments		23	23	23	23
		647,888	486,236	647,888	486,236
Less: Impairment charges on debt securities	18.3	(48)	(48)	(48)	(48)
		647,840	486,188	647,840	486,188

18.1 Financial assets measured at FVTPL

As at 31 March	Notes	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Investment in equity securities					
Cost	18.1.2	3,386	3,386	3,386	3,386
Fair value changes	18.1.1	(1,066)	(1,567)	(1,066)	(1,567)
Total		2,320	1,819	2,320	1,819

18.1.1 Movements in fair value changes

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at 1 April	(1,567)	(1,267)	(1,567)	(1,267)
Gain/(Reversal) during the year	501	(300)	501	(300)
Balance at 31 March	(1,066)	(1,567)	(1,066)	(1,567)

18.1.2 Quoted equity securities held by the – Company/Group

As at 31 March	2021			2020		
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	3,077	214	231
Vanik Incorporation PLC	61	3	–	61	3	–
People's Leasing & Finance PLC	74,447	1,242	878	71,089	1,242	867
Sampath Bank PLC	78	6	4	24	6	3
		1,465	1,056		1,465	1,101
Sector Percentage (%)			46			61
Hotel and travels						
Keels Hotels PLC	7,085	150	67	7,085	150	47
Hotel Services Ceylon PLC	87,000	1,320	522	43,500	1,320	379
		1,470	589		1,470	426
Sector Percentage (%)			25			23
Manufacturing						
ACL Cables PLC	18,800	450	675	9,400	451	292
		450	675		451	292
Sector Percentage (%)			29			16
Total		3,386	2,320		3,386	1,819

18.2 Financial assets measured at FVTPL – Unit trust

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at 1 April				
Opening balance	484,346	–	484,346	–
Purchases	1,118,000	530,000	1,118,000	530,000
Sales	(1,000,000)	(75,248)	(1,000,000)	(75,248)
Fair value changes	43,151	29,594	43,151	29,594
Balance at 31 March	645,496	484,346	645,496	484,346

18.3 Movements in impairment charges during the year

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
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

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Loans	1,765,449	873,374	1,765,449	873,374
Finance leases	1,804,480	1,261,523	1,804,480	1,261,523
Gross loans and receivables	3,569,929	2,134,897	3,569,929	2,134,897
Less: Impairment loss allowance	(413,361)	(476,587)	(413,361)	(476,587)
Net loans and advances	3,156,568	1,658,310	3,156,568	1,658,310

19.1 Analysis by product

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Finance lease receivable	1,804,480	1,261,523	1,804,480	1,261,523
Hire purchase receivable	3,962	5,300	3,962	5,300
Vehicle loans	358,363	115,982	358,363	115,982
Gold loans	585,167	133,734	585,167	133,734
Margin trading receivable	471,570	240,804	471,570	240,804
Loans against fixed deposits	25,055	83,020	25,055	83,020
Other loans	321,332	294,533	321,332	294,533
Gross total	3,569,929	2,134,897	3,569,929	2,134,897
Analysis by currency				
Sri Lankan rupees	3,569,929	2,134,897	3,569,929	2,134,897
Gross total	3,569,929	2,134,897	3,569,929	2,134,897

19.2 Impairment loss allowance

As at 31 March	Notes	2021 Gross carrying amount LKR '000	2021 ECL allowance LKR '000	2021 Carrying amount LKR '000	2020 Gross amount LKR '000	2020 ECL allowance LKR '000	2020 Carrying amount LKR '000
Hire purchase	19.2.1	3,962	2,390	1,572	5,300	3,277	2,023
Vehicle loans	19.2.2	358,363	21,266	337,097	115,982	15,991	99,991
Other loans	19.2.3	346,387	91,513	254,874	377,553	154,427	223,126
Margin trading	19.2.4	471,570	109,940	361,630	240,804	93,337	147,467
Gold loans	19.2.5	585,167	919	584,248	133,734	805	132,929
Lease	19.2.6	1,804,480	187,333	1,617,147	1,261,523	208,750	1,052,773
		3,569,929	413,361	3,156,568	2,134,897	476,587	1,658,310

19.2.1 Hire purchase

As at 31 March	2021 LKR '000	2020 LKR '000
Gross investment in hire purchase		
Less than one year	751	2,556
Between one and five years	3,659	3,401
More than five years	–	–
	4,410	5,957
Unearned income	(448)	(657)
	3,962	5,300
Impairment allowance for hire purchase – Individual	–	–
Impairment allowance for hire purchase – Collective	(2,390)	(3,277)
Net investment in hire purchase	1,572	2,023

19.2.2 Vehicle loans

As at 31 March	2021 LKR '000	2020 LKR '000
Gross investment in loan receivables		
Less than one year	231,767	76,906
Between one and five years	145,581	55,385
More than five years	–	–
	377,348	132,291
Unearned income	(18,985)	(16,309)
	358,363	115,982
Impairment allowance for loan receivables – Individual	(5,041)	(11,560)
Impairment allowance for loan receivables – Collective	(16,224)	(4,431)
Net investment in loan receivables	337,097	99,990

19.2.3 Other loans

As at 31 March	2021 LKR '000	2020 LKR '000
Gross investment in loan receivables		
Less than one year	159,061	210,000
Between one and five years	184,689	208,347
More than five years	68,255	–
	412,005	418,347
Unearned income	(65,618)	(40,794)
	346,387	377,553
Impairment allowance for loan receivables – Individual	(35,315)	(120,559)
Impairment allowance for loan receivables – Collective	(56,199)	(33,867)
Net investment in loan receivables	254,874	223,126

19.2.4 Margin trading receivables

As at 31 March	2021 LKR '000	2020 LKR '000
Gross investment in margin trading receivables		
Less than one year	471,570	240,804
Between one and five years	–	–
More than five years	–	–
	471,570	240,804
Unearned income	–	–
	471,570	240,804
Impairment allowance for margin trading receivables – Individual	(109,940)	(93,337)
Impairment allowance for margin trading receivables – Collective	–	–
Net investment in margin trading receivables	361,630	147,467

19.2.5 Gold loans

As at 31 March	2021 LKR '000	2020 LKR '000
Gross investment in gold loans and other receivables		
Less than one year	585,167	133,734
Between one and five years	–	–
More than five years	–	–
	585,167	133,734
Unearned income	–	–
	585,167	133,734
Impairment allowance for gold loans and other receivables – Individual	(919)	(805)
Impairment allowance for gold loans and other receivables – Collective	–	–
Net investment in gold loans receivables	584,248	132,929

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	2021 LKR '000	2020 LKR '000
Gross investment in finance lease receivables		
Less than one year	239,508	671,977
Between one and five years	1,910,896	859,760
More than five years	115,391	–
	2,265,795	1,531,737
Unearned income	(461,314)	(270,214)
	1,804,480	1,261,523
Impairment allowance for finance lease receivables – Individual	(105,450)	(160,540)
Impairment allowance for finance lease receivables – Collective	(81,883)	(48,210)
Net investment in finance lease receivables	1,617,147	1,052,773

The Company has revised its individual assessment threshold during the year to be inline with the new operational procedures and credit monitoring activities. Accordingly, the movement of impairment includes the movement of impairment between individually assessed loans and collectively assessed loans.

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

	2021			2020		
	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	–	–	–	–	(202)	(202)
Stage 2	–	–	–	–	(40)	(40)
Stage 3	–	(876)	(876)	(66)	2,489	2,423
Total	–	(876)	(876)	(66)	2,247	2,182
Financial assets at amortised cost – Finance lease receivables						
Stage 1	–	15,947	15,947	–	(11,271)	(11,271)
Stage 2	–	(21,171)	(21,171)	–	(19,161)	(19,161)
Stage 3	(51,345)	35,242	(16,103)	66,824	3,775	70,599
Total	(51,345)	30,018	(21,328)	66,824	(26,657)	40,167
Financial assets at amortised cost – Vehicle loans						
Stage 1	–	3,816	3,816	–	(2,879)	(2,879)
Stage 2	–	(581)	(581)	–	(1,530)	(1,530)
Stage 3	(10,324)	9,181	(1,142)	3,575	4,367	7,942
Total	(10,324)	12,417	2,093	3,575	(42)	3,533
Financial assets at amortised cost – Other loans						
Stage 1	–	(1,060)	(1,060)	–	(2,110)	(2,110)
Stage 2	–	(16,013)	(16,013)	–	(4,356)	(4,356)
Stage 3	(85,245)	44,461	(40,783)	19,422	998	20,420
Total	(85,245)	27,388	(57,856)	19,422	(5,468)	13,954
Financial assets at amortised cost – Margin trading						
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	1,530	–	1,530	606	–	606
Total	1,530	–	1,530	606	–	606
Financial assets at amortised cost – Gold loans						
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	114	–	114	28	–	28
Total	114	–	114	28	–	28

	2021			2020		
	Individual LKR '000	Collective LKR '000	Total LKR '000	Individual LKR '000	Collective LKR '000	Total LKR '000
Financial assets at amortised cost – Total						
Stage 1	–	18,703	18,703	–	(16,462)	(16,462)
Stage 2	–	(37,765)	(37,765)	–	(25,087)	(25,087)
Stage 3	(145,269)	88,009	(57,261)	90,389	11,629	102,019
Total	(145,269)	68,947	(76,323)	90,389	(29,920)	60,471

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
Vehicle loans				
Amortised cost as at 1 April 2020	47,340	12,912	55,730	115,982
Transfer to stage	(1,824)	3,111	(1,287)	–
New assets originated or purchased	296,183	528	–	296,711
Financial assets de-recognised and repaid	(19,482)	(5,096)	(29,752)	(54,330)
Amortised cost as at 31 March 2021	322,217	11,454	24,692	358,363
Other loans				
Amortised cost as at 1 April 2020	123,909	68,150	185,495	377,553
Transfer to stage	2,962	(2,050)	(912)	–
New assets originated or purchased	138,463	–	–	138,463
Financial assets de-recognised and repaid	(88,143)	(44,128)	(37,360)	(169,630)
Amortised cost as at 31 March 2021	177,191	21,972	147,223	346,386
Lease receivable				
Amortised cost as at 1 April 2020	688,504	315,228	257,790	1,261,523
Transfer to stage	(19,115)	(54,579)	73,694	–
New assets originated or purchased	985,767	9,591	–	995,357
Financial assets de-recognised and repaid	(303,314)	(86,103)	(62,982)	(452,399)
Amortised cost as at 31 March 2021	1,351,842	184,137	268,502	1,804,481

19.5 Provision for total impairment (ECL) movement

	2021 LKR '000	2020 LKR '000
Stage 1		
Opening balance as at 1 April	86,920	23,664
Net impairment charge for the year	15,927	63,256
Closing balance as at 31 March	102,847	86,920
Stage 2		
Opening balance as at 1 April	95,656	91,097
Net impairment charge/(reversal) for the year	(32,976)	4,559
Closing balance as at 31 March	62,680	95,656
Stage 3		
Opening balance as at 1 April	294,011	279,413
Net impairment charge/(reversal) for the year	(46,175)	14,598
Closing balance as at 31 March	247,836	294,011
Total		
Opening balance as at 1 April	476,587	394,174
Net impairment charge/(reversal) for the year	(76,324)	60,472
Adjustment in recognising interest income on net basis for credit impaired loans advances	13,098	21,941
Closing balance as at 31 March	413,361	476,587

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
Vehicle loans				
Impairment as at 1 April 2020	1,026	2,332	12,633	15,991
Transfer to stage	503	(365)	(137)	–
New assets originated or purchased	4,486	31	–	4,517
Net re-measurement of impairment and repaid	(982)	561	13,259	12,839
Financial assets de-recognised	(192)	(838)	(11,051)	(12,081)
Impairment as at 31 March 2021	4,841	1,721	14,704	21,266
Other loans				
Impairment as at 1 April 2020	2,012	19,458	132,957	154,427
Transfer to stage	2,968	889	(3,858)	–
New assets originated or purchased	667	–	–	667
Net re-measurement of impairment and repaid	(4,654)	(9,861)	(27,391)	(41,906)
Financial assets de-recognised	(39)	(7,012)	(14,623)	(21,674)
Impairment as at 31 March 2021	954	3,475	87,084	91,513

	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				
Impairment as at 1 April 2020	12,987	23,096	172,667	208,750
Transfer to stage	5,294	(8,855)	3,561	–
New assets originated or purchased	16,688	556	–	17,244
Net re-measurement of impairment and repaid	(9,774)	2,318	13,204	5,748
Financial assets de-recognised	(1,473)	(4,588)	(38,348)	(44,409)
Impairment as at 31 March 2021	**23,722**	**12,526**	**151,085**	**187,333**

20. INVESTMENTS IN SUBSIDIARY

As at 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Unquoted equity share	20.1	175,000	175,000	–	–
Less: Impairment charges		(175,000)	(175,000)	–	–
Net total		–	–	–	–

20.1 Unquoted equity shares

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 %	GROUP 2021 LKR '000	GROUP 2020 %
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 Limited was fully impaired due to the continuous losses incurred by the subsidiary. The subsidiary does not have any operations currently. PMB Services Limited incurred a loss of LKR 76,788/- during the financial year 2020/21 (2019/20 – LKR 85,638/-).

21. PROPERTY, PLANT AND EQUIPMENT

21.1 Reconciliation of carrying amounts

Property, plant and equipment – Company	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 2019	27,810	22,077	42,320	29,532	–	121,739
Assets written off	–	(2,266)	(5,816)	(5,060)	–	(13,142)
Additions	–	198	654	1,496	–	2,348
Disposals	(1,285)	–	–	–	–	(1,285)
Balance at 31 March 2020	26,525	20,009	37,158	25,968	–	109,660
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 as at 31 March 2021	–	28,729	41,882	29,474	270	100,355
Accumulated depreciation and impairment losses						
Balance at 1 April 2019	27,810	19,047	36,046	25,267	–	108,170
Depreciation of assets written off	–	(2,265)	(5,817)	(5,060)	–	(13,142)
Depreciation for the year	–	626	2,543	1,209	–	4,378
Disposals	(1,285)	–	–	–	–	(1,285)
Balance at 31 March 2020	26,525	17,408	32,772	21,416	–	98,121
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
Carrying amount						
Balance at 1 April 2019	–	3,029	6,275	4,265	–	13,569
Balance at 31 March 2020	–	2,601	4,386	4,552	–	11,539
Balance at 31 March 2021	–	10,362	7,363	6,884	270	24,879

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.

	COMPANY		GROUP	
As at 31 March	2021 LKR '000	2020 LKR '000	2021 LKR '000	2020 LKR '000
Work-in-progress				
Head office renovation cost	270	–	270	–

The Company started renovations on its new head office and costs incurred up to 31 March 2021 totalled to LKR 270,000/- (2020: Nil).

21.2 There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year 31 March 2021 (31 March 2020: 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:

	PEOPLE'S MERCHANT FINANCE PLC		PMB SERVICES LTD.		GROUP	
As at 31 March	2021	2020	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Motor vehicle	–	26,525	–	–	–	26,525
Computers	29,150	29,150	5,940	5,940	35,090	35,090
Furniture and fitting	15,677	15,690	2,266	2,266	17,943	17,956
Office equipment	16,506	16,900	5,060	5,060	21,566	21,960
Total	61,333	88,265	13,266	13,266	74,599	101,531

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 2019	30,920	–	30,920
Additions	642	–	642
Balance at 31 March 2020	31,562	–	31,562
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
Accumulated amortisation			
Balance at 1 April 2019	25,795	–	25,795
Amortisation	3,285	–	3,285
Balance at 31 March 2020	29,080	–	29,080
Balance at 1 April 2020	29,080	–	29,080
Amortisation	392	–	392
Balance at 31 March 2021	29,472	–	29,472
Carrying amount			
Balance at 31 March 2020	2,483	–	2,483
Balance at 31 March 2021	3,327	3,263	6,590

22.2 Fully depreciated intangible assets

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

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Computer software	20,840	20,840	20,840	20,840

22.3 Work-in-progress

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Software	3,263	–	3,263	–

Included in the work-in-progress as at 31 March 2021 is an amount of LKR 3,262,500/- being the initial cost related to the development of the Core Banking System.

23. RIGHT-OF-USE ASSETS

23.1 Right-of-use assets

	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cost				
Recognition of right of use asset on initial application of SLFRS 16	–	92,573	–	92,573
Balance as at the beginning of the year	92,573	92,573	92,573	92,573
Additions during the year	19,331	–	19,331	–
Adjustment on remeasurement of right of use asset	29,088	–	29,088	–
De-recognition of right of use assets	(11,208)	–	(11,208)	–
Balance as at the end of the year	129,784	92,573	129,784	92,573
Accumulated depreciation				
Balance as at the beginning of the year	28,930	–	28,930	–
Charge for the year	35,085	28,930	35,085	28,930
De-recognition of right of use assets	(3,018)	–	(3,018)	–
Balance as at the end of the year	60,997	28,930	60,997	28,930
Carrying value as at the end of the year	68,787	63,643	68,787	63,643

23.2 Lease liabilities

As at 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Due within one year		40,466	35,062	40,466	35,062
Due after one year		39,958	39,324	39,958	39,324
Total		80,424	74,386	80,424	74,386
Maturity analysis – Contractual undiscounted cash flows					
Not later than one year		41,289	40,848	41,289	40,848
Later than one year and not later than five years		43,886	45,284	43,886	45,284
Later than five years		1,525	2,610	1,525	2,610
Movement of lease liability					
Recognition of right of use asset on initial application of SLFRS 16		–	92,573	–	92,573
Balance as at the beginning of the year		74,386	92,573	74,386	92,573
Adjustment on re-measurement of lease liability	23.3	29,088	–	29,088	–
Additions during the year		19,331	–	19,331	–
De-recognition of lease liability	23.4	(9,063)	–	(9,063)	–
Interest expense on leases		13,635	9,757	13,635	9,757
Lease rental payments		(46,953)	(27,944)	(46,953)	(27,944)
Lease liability as at the end of the year		80,424	74,386	80,424	74,386
Amounts recognised in profit or loss					
Interest on lease liabilities		13,635	9,757	13,635	9,757
Amortisation charge for the year		35,085	28,930	35,085	28,930
Amounts recognised in statement of cash flows					
Lease rental payments		(46,953)	(27,944)	(46,953)	(27,944)

23.3 Re-measurement of lease liability

During the year the Company has re-measured the Colombo lease as the lease period was extended based on the agreement of the parties.

23.4 De-recognition of lease liability

During the year the Company de-recognised two leases at Kurunegala and Trincomalee as they moved to different locations.

23.5 Details of leases

Leasehold property	Asset type	Repayment terms	Interest rate	Balance as at 31 March 2021
			%	LKR '000
Colombo	Building	24 months	12.00	33,691
Wellawatta	Building	60 months	12.00	1,568
Avissawella	Building	60 months	12.00	2,063
Gampaha	Building	83 months	12.00	2,145
Mathugama	Building	60 months	12.00	1,484
Kandy	Building	36 months	12.00	8,159
Kurunegala	Building	72 months	7.95	13,741
Elpitiya	Building	60 months	12.00	2,346
Matara	Building	60 months	12.00	1,706
Negombo	Building	60 months	12.00	6,768
Anuradhapura	Building	60 months	12.00	1,807
Trincomalee	Building	72 months	7.95	4,947
Total				80,424

24. OTHER ASSETS

		COMPANY		GROUP	
As at 31 March		2021	2020	2021	2020
	Note	LKR '000	LKR '000	LKR '000	LKR '000
Financial assets					
Security deposits		15,281	7,056	15,281	7,056
Advance introducer commission		11,340	2,129	11,340	2,129
Other financial assets		10,340	13,276	10,340	13,276
Total other financial assets		36,961	22,460	36,961	22,460
Non-financial assets					
Advance payments		9,827	6,672	9,827	6,672
Real estate inventories	24.1	11,878	36,407	11,878	36,407
Recoverable from Director	24.2	–	–	–	–
Prepaid staff cost		1,086	2,436	1,086	2,436
Stationery		2,093	1,412	2,093	1,412
ESC recoverable		5,575	7,744	5,575	7,744
VAT recoverable	24.3	–	–	–	–
Other non-financial assets		19,453	10,110	19,453	10,110
Total other non-financial assets		49,912	64,781	49,912	64,781
Total		86,872	87,242	86,872	87,242

24.1 Real estate inventories

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at 1 April	36,407	36,407	36,407	36,407
Disposals during the year	(24,529)	–	(24,529)	–
Balance as at 31 March	11,878	36,407	11,878	36,407

24.2 Recoverable from former Director

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Recoverable from former Director	–	11,632	–	11,632
Impairment provision	–	(11,632)	–	(11,632)
Balance at 31 March	–	–	–	–

24.3 VAT recoverable

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
VAT recoverable balance	–	18,468	–	18,468
Impairment provision	–	(18,468)	–	(18,468)
Balance at 31 March	–	–	–	–

24.4 Suspense account balance

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

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Suspense account balance	–	138,552	–	138,552
Impairment provision	–	(138,552)	–	(138,552)
Balance at 31 March	–	–	–	–

25. DUE TO BANKS

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Bank overdraft	–	1,715	–	1,715
Total	–	1,715	–	1,715

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

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Fixed deposits	2,261,451	2,073,565	2,261,451	2,073,565
Savings deposits	28,041	27,371	28,041	27,371
Total	2,289,491	2,100,936	2,289,491	2,100,936

26.1 Analysis by currency

	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Sri Lankan rupees	2,289,491	2,100,936	2,289,491	2,100,936
Total	2,289,491	2,100,936	2,289,491	2,100,936

27. DEBT SECURITIES ISSUED

As at 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Cumulative preference shares	27.1	16,600	16,600	16,600	16,600
Total		16,600	16,600	16,600	16,600
Due within 1 year		–	–	–	–
Due after 1 year		16,600	16,600	16,600	16,600
Total		16,600	16,600	16,600	16,600

27.1 Details of debt securities issued – Company/Group

	Face value LKR '000	2021 LKR '000	2020 LKR '000
Issued by the Company			
6% cumulative non-redeemable preference shares	10,000	10,000	10,000
Interest payable	–	6,600	6,600
Total	10,000	16,600	16,600

28. DEFERRED TAXATION

As at 31 March	Note	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Deferred tax assets	28.1	(32,856)	(76,060)	(32,856)	(76,060)
Deferred tax liabilities	28.2	32,856	76,060	32,856	76,060
		–	–	–	–

28.1 Deferred tax assets

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at 1 April	76,060	96,664	76,060	96,664
Origination/(reversal) of temporary difference	(43,204)	(20,604)	(43,204)	(20,604)
Balance at 31 March	32,856	76,060	32,856	76,060

As at 31 March	TEMPORARY DIFFERENCE 2021 LKR '000	TEMPORARY DIFFERENCE 2020 LKR '000	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Retiring gratuity	18,360	23,456	4,407	6,568	4,407	6,568
Impairment on loans and advances	9,513	128,580	2,283	36,002	2,283	36,002
Lease liability	80,424	74,386	19,302	20,828	19,302	20,828
Tax losses	28,604	45,225	6,865	12,663	6,865	12,663
Balance at 31 March			32,856	76,060	32,856	76,060

28.2 Deferred tax liabilities

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Balance at 1 April	76,060	96,664	76,060	96,664
Origination/(reversal) of temporary difference	(43,204)	(20,604)	(43,204)	(20,604)
Balance at 31 March	32,856	76,060	32,856	76,060

As at 31 March	TEMPORARY DIFFERENCE COMPANY/ GROUP 2021 LKR '000	TEMPORARY DIFFERENCE COMPANY/ GROUP 2020 LKR '000	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Property, plant and equipment	2,567	2,959	616	828	616	828
Intangible assets	5,180	2,483	1,243	695	1,243	695
Leased assets	60,367	202,562	14,488	56,717	14,488	56,717
Right of use assets	68,787	63,643	16,509	17,820	16,509	17,820
Balance at 31 March			32,856	76,060	32,856	76,060

28.3 Unrecognised deferred tax assets

Deferred tax assets 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.

For the year ended 31 March	COMPANY/GROUP Temporary difference 2021 LKR '000	COMPANY/GROUP Temporary difference 2020 LKR '000	COMPANY/GROUP Tax effect 2021 LKR '000	COMPANY/GROUP Tax effect 2020 LKR '000
Tax losses	1,154,188	1,033,614	277,005	248,067

29. EMPLOYEE BENEFIT OBLIGATION

For the year ended 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Movement in the present value of defined benefit obligation				
Balance at the beginning of the year	23,457	22,006	23,457	22,006
Amount recognised in profit or loss				
– Interest cost	2,111	2,311	2,111	2,311
– Current service cost	2,105	2,379	2,105	2,379
Amount recognised in the other comprehensive income				
– Actuarial gain	(1,656)	470	(1,656)	470
Payment made during the year	(7,656)	(3,710)	(7,656)	(3,710)
Balance at the end of the year	18,360	23,457	18,360	23,457

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 2021 by Mr Pushpakumar Gunasekera (Actuary/Associate of the Institute of Actuaries of Australia (AIAA)), for and on behalf of Messrs Smiles Global (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the "Projected Unit Credit Method", the method recommended by the LKAS 19.

	COMPANY/ GROUP	
	2021	2020
Actuarial assumption		
Discount rate (%)	7.00	9.00
Future salary increment rate (%)	10.00	10.00
Retirement age (Years)	55	55

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

Duration of the liability (Expected future working life) as at 31 March 2021 is 3.92 years and yield of the matching Government Bonds for the given duration is approximately 7%. Duration of the liability (Expected future working life) as at 31 March 2020 was 3.63 years and the yields of the matching Government Bonds for the given duration was approximately 9%. Hence the reason for the change in the discount rate from 9% to 7%.

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

Demographic assumptions

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

29.1 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	17,746
1% point Decrease	10.0	19,021
7.0%	1% point Increase	19,073
7.0%	1% point Decrease	17,685

30. OTHER LIABILITIES

As at 31 March	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Financial liabilities				
Sterling Capital Investments (Private) Limited – Current balance	131	–	131	–
Amounts payable to suppliers	105,873	402	105,873	402
Insurance payables	10,460	1,835	10,460	1,835
Other financial liabilities	13,669	3,835	14,102	4,194
Total other financial liabilities	130,132	6,072	130,565	6,431
Non-financial liabilities				
Real estate advance	5,108	–	5,108	–
Overpayments	12,740	8,413	12,740	8,413
Other non-financial liabilities	19,795	31,463	19,795	31,463
Total other non-financial liabilities	37,643	39,876	37,643	39,876
Total	167,776	45,947	168,209	46,306

31. STATED CAPITAL

As at 31 March	Number of shares Number '000	COMPANY 2021 LKR '000	COMPANY 2020 LKR '000	GROUP 2021 LKR '000	GROUP 2020 LKR '000
Issued and fully paid ordinary shares	210,875	2,440,290	1,238,302	2,440,290	1,238,302
Rights issue – shares	115,981	811,869	1,201,988	811,869	1,201,988
Total	326,856	3,252,159	2,440,290	3,252,159	2,440,290

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 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. On 13 May 2019, a rights issue was conducted to raise a capital of LKR 1,201,987,500/- by issuing 126,525,000 shares at an exercise price of LKR 9.5/- per share.

Utilisation of rights issue proceeds

The utilisation of the rights issue amounting to LKR 811,868,750/- is as follows:

Objective as per circular	Proposed date of utilisation	Amount allocated '000	% of total proceeds	Amounts utilised against allocation	Clarification if not utilised
Meet the minimum capital obligations stipulated by the CBSL	29 March 2021	811,869	100	811,869	N/A

31.1 Advances against stated capital

The Directors resolved to raise a sum of LKR 811.9 Mn. by way of a rights issue of shares in the financial year ended 31 March 2020. The Company by letter dated 28 February 2020, informed the shareholders of its intention to convene an Extraordinary General Meeting to obtain shareholder approval for the aforesaid Rights Issue. However, due to the impact of COVID-19, the Company was unable to proceed with the proposed rights issue during the financial year ended 31 March 2020. The rights issue took place on 29 March 2021 and the total sum of LKR 300 Mn. infused by the controlling shareholder, Sterling Capital Investments (Pvt) Limited in February 2020 was transferred to the stated capital.

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	% 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	
As at 31 March	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at the beginning of the year	7,259	7,259	7,259	7,259
Transfer during the year	3,390	–	3,390	–
Balance as at the end of the year	10,649	7,259	10,649	7,259

33. ACCUMULATED LOSSES

	COMPANY		GROUP	
As at 31 March	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Balance as at the beginning of the year	(1,195,047)	(1,102,603)	(1,195,156)	(1,102,625)
Adjustment on initial application of SLFRS 9	–	–	–	–
Adjusted balance as at the beginning of the year	(1,195,047)	(1,102,603)	(1,195,156)	(1,102,625)
Profit/(loss) for the year	67,799	(80,086)	67,722	(80,174)
Other comprehensive income	1,259	(338)	1,259	(338)
Transfers to reserve fund	(3,390)	–	(3,390)	–
Transaction cost related to rights issue	(2,228)	(12,020)	(2,228)	(12,020)
Balance as at the end of the year	(1,131,607)	(1,195,047)	(1,131,793)	(1,195,156)

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	
As at 31 March	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
Contingent liabilities	1,098	1,098	1,098	1,098
Commitments	80,162	38,930	80,162	38,930
Total	81,260	40,028	81,260	40,028
Contingent liabilities				
– Guarantees	1,098	1,098	1,098	1,098
Commitments				
– Capital commitments	–	–	–	–
– Unutilised facilities (Margin trading)	80,162	38,930	80,162	38,930
	81,260	40,028	81,260	40,028

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.

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.

On 29 March 2019, Sterling Capital Investments (Private) Limited (SCIL) acquired a share ownership of 19.98% of the Company via a private placement, which ultimately reduced the People's Bank and People's Leasing & Finance PLC share ownership to 67.79% of Company's ordinary shares as at 31 March 2019. In the year ended 31 March 2020, SCIL further subscribed for 115 million ordinary voting shares of the Company for a total consideration of LKR 1,201 Mn. on 13 May 2019, resulting in the total stake of SCIL in PMF to increase up to 67.9%. In the current financial year, in the rights issue conducted on 29 March 2021 SCIL subscribed for ordinary shares to bring up the total number of shares of SCIL to 257 million in order to have a holding of 78.55%. 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 – People's Bank and the Management Agent of the Company – People's Leasing & Finance PLC have been identified as KMPs of the Group.

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

	COMPANY		GROUP	
As at 31 March	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000
35.2.1 Remuneration to Board of Directors				
Short-term employee benefits	9,102	7,453	9,102	7,453
35.2.2 Share transactions with KMP				
Number of ordinary shares held at the end of the financial period				
The Parent Company [Sterling Capital Investments (Pvt) Limited]	256,735	143,809	256,735	143,809
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	5,375	2,500	5,375	2,500

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, People's Bank, holds 10.7% shares of shares of People's Merchant Finance PLC. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. There were no individual significant transactions with the Government of Sri Lanka and Government-related entities during the year, other than on normal day-to-day business operations.

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

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

35.3.1 Company

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

As at 31 March	Sterling Capital Investments (Private) Limited (Parent Company) 2021 LKR '000	2020 LKR '000	People's Bank (Common Directors) 2021 LKR '000	2020 LKR '000	PMB Services Limited (Subsidiary of People's Merchant Finance PLC) 2021 LKR '000	2020 LKR '000	PricewaterhouseCoopers Digital Technology Services (Pvt) Limited (Common Control) 2021 LKR '000	2020 LKR '000
(a) Items in statement of profit or loss								
Interest income	–	–	14,211	47,582	–	–	–	–
Interest expense	–	–	225	2,744	–	–	–	–
Other operating expenses	–	–	26,058	18,281	–	–	2,430	–
Expenses incurred on behalf	–	–	–	–	73	80	–	–
Provisions made during the year	–	–	–	–	(73)	(80)	–	–
(b) Items in statement of financial position								
Assets								
Cash and cash equivalents	–	–	25,625	32,379	–	–	–	–
Investments in fixed deposits/Repos	–	–	542,627	413,502	–	–	–	–
Investments in subsidiaries/affiliates	–	–	–	–	175,000	175,000	–	–
Other assets	–	–	–	–	19,294	19,221	–	–
Provisions made	–	–	–	–	(194,294)	(194,221)	–	–
Liabilities								
Due to banks	–	–	–	1,715	–	–	–	–
Debt securities issued	–	–	10,000	10,000	–	–	–	–
Preference shares dividend payable	–	–	6,600	6,000	–	–	–	–
(c) Transactions								
Advances in lieu of rights issue of shares	–	300,000	–	–	–	–	–	–
Transfers to stated capital from advances in lieu of rights issue of shares	300,000	–	–	–	–	–	–	–
Utilisation of funds raised in rights issue	490,481	–	–	–	–	–	–	–
Excess funds received from rights issue	131	–	–	–	–	–	–	–

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

35.3.2 Group

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

As at 31 March	Sterling Capital Investments (Private) Limited (Parent Company) 2021 LKR '000	2020 LKR '000	People's Bank (Common Directors) 2021 LKR '000	2020 LKR '000	PricewaterhouseCoopers Digital Technology Services (Pvt) Limited (Common Control) 2021 LKR '000	2020 LKR '000
(a) Items in statement of profit or loss						
Interest income	–	–	14,211	47,582	–	–
Interest expense	–	–	225	2,744	–	–
Other operating expenses	–	–	26,058	18,281	–	–
(b) Items in statement of financial position						
Assets						
Cash and cash equivalents	–	–	25,625	32,379	–	–
Investments in fixed deposits/Repos	–	–	542,627	413,502	–	–
Liabilities						
Due to banks	–	–	–	1,715	–	–
Debt securities issued	–	–	10,000	10,000	–	–
Preference shares dividend payable	–	–	6,600	6,000	–	–
(c) Transactions						
Advances in lieu of rights issue of shares	–	300,000	–	–	–	–
Transfers to stated capital from advances in lieu of rights issue of shares	300,000	–	–	–	–	–
Funds received for the rights issue	490,481	–	–	–	–	–
Excess funds received from rights issue	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	790,481	Assets	6%	To be transferred to stated capital of PMF	To infuse capital to PMF
			Equity	14%		

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:

	Carrying amount LKR '000		Fair value LKR '000					
	COMPANY	GROUP	COMPANY			GROUP		
As at 31 March	2021		2021					
			Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	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	–	–	–	–	–	–
	4,516,724	4,516,971	2,320	645,496	23	2,320	645,496	23
Financial liabilities not measured at fair value								
Deposits from 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	–	–	–	–	–	–

As at 31 March	Carrying amount LKR '000 COMPANY 2020	Carrying amount LKR '000 GROUP 2020	Fair value LKR '000 COMPANY 2020 Level 1	Level 2	Level 3	Fair value LKR '000 GROUP 2020 Level 1	Level 2	Level 3
Financial assets measured at fair value								
Investment securities measured at FVTPL (Note a)	486,165	486,165	1,819	484,346	–	1,819	484,346	–
Investment securities measured at FVOCI (Note b)	23	23	–	–	23	–	–	23
	486,188	486,188	1,819	484,346	23	1,819	484,346	23
Financial assets not measured at fair value								
Loans and advances to customers (Note c)	1,658,310	1,658,310	–	–	–	–	–	–
Cash and cash equivalents (Note d)	291,440	291,690	–	–	–	–	–	–
Placements with banks and financial institutions (Note e)	1,214,097	1,214,097	–	–	–	–	–	–
	3,163,847	3,164,097	–	–	–	–	–	–
	3,650,035	3,650,285	1,819	484,346	23	1,819	484,346	23
Financial liabilities not measured at fair value								
Due to banks (Note f)	1,715	1,715	–	–	–	–	–	–
Deposits due to customers (Note g)	2,100,936	2,100,936	–	–	–	–	–	–
Debt securities issued (Note h)	16,000	16,000	–	–	–	–	–	–
Financial liabilities (Note i)	6,072	6,072	–	–	–	–	–	–
Lease liabilities (Note j)	74,386	74,386	–	–	–	–	–	–
	2,199,109	2,199,109	–	–	–	–	–	–

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 traded 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 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 one 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 transfers between Level 1 and Level 2 during the year 2020/21.

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

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

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

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

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

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

Assets and Liability Committee (ALCO)

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

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

A. Credit Risk

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

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

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

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 2021	As at 31 March 2020
	LKR '000	LKR '000
Cash and cash equivalents	707,190	291,440
Placements with banks and financial institutions	5,126	1,214,097
Investment securities measured at FVTPL	647,817	486,165
Loans and advances to customers	3,156,568	1,658,310
Investment securities measured at FVOCI	23	23
Security deposits	15,281	7,056
	4,532,004	3,657,090

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 2021 LKR '000	As at 31 March 2020 LKR '000
Gross carrying amount at amortised cost		
Individually significant portfolio	1,326,813	902,477
Individually non significant portfolio	2,243,116	1,232,420
	3,569,929	2,134,897

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 COVID-19 pandemic

The impact of COVID-19 on the credit risk of loans and advances customers are given under Note 43.1.

Movement between the stages

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

Incorporation of forward-looking Information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL using a variety of external actual and forecasted information. The Company formulates a base case view of the future direction of relevant economic variables as well as a representative range (Best Case and worst Case) of other possible forecast scenarios.

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

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

Unemployment rate	Base case scenario along with two other scenarios has been used (Best case and Worst case).
Interest rate	
GDP growth rate	
Inflation rate	

Measurement of ECL

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

1. Probability of Default (PD);
2. Loss Given Default (LGD);
3. Exposure At Default (EAD).

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

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

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

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. The 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 2021 LKR '000	As at 31 March 2020 LKR '000
Gross receivable	1,326,813	902,477
Less: Allowance for impairment	256,665	386,861
	1,070,148	515,616

Individually non-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 2021 LKR '000	As at 31 March 2020 LKR '000
Gross receivable	2,243,116	1,232,420
Less: Allowance for impairment	156,696	89,726
	2,086,419	1,142,694

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.

Product concentration

Product category	As at 31 March 2021 LKR '000	As at 31 March 2021 %	As at 31 March 2020 LKR '000	As at 31 March 2020 %
Leasing and hire purchase	1,808,442	51	1,266,822	59
Vehicle loans	358,363	10	115,982	5
Other loans	346,387	10	377,553	18
Margin trading receivable	471,570	13	240,804	11
Gold loans	585,167	16	133,734	6
	3,569,929	100	2,134,897	100

Sector-wise concentration

Sector	As at 31 March 2021 LKR '000	As at 31 March 2021 %	As at 31 March 2020 LKR '000	As at 31 March 2020 %
Agriculture, forestry and fishing	226,508	6	188,616	9
Construction and infrastructure development	144,832	4	96,046	4
Consumption	253,355	7	190,301	9
Financial services	1,135,645	32	477,540	22
Health care, social services and support services	483,094	14	252,805	12
Information technology and communication	38,603	1	10,384	0
Manufacturing	476,657	13	323,574	15
Tourism	137,966	4	113,371	5
Transportation and storage	335,518	9	251,300	12
Wholesale and retail trade	337,751	9	230,960	11
	3,569,929	100	2,134,897	100

Geographical area concentration

Province	As at 31 March 2021 LKR '000	As at 31 March 2021 %
Central	243,980	7
Eastern	140,847	4
North Central	330,095	9
North Western	298,581	8
Southern	546,942	15
Western	2,009,484	56
	3,569,929	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:

Category	As at 31 March 2021 LKR '000	As at 31 March 2020 LKR '000
Immovable assets	253,977	149,852
Movable assets	2,159,411	1,470,555
Corporate guarantor/Personal guarantor	74,750	56,931
Fixed deposit securities	25,055	83,020
Market securities	471,570	240,804
Gold securities	585,167	133,734
	3,569,929	2,134,897

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 2020	55,730	185,495	257,790	499,016
Transfer to stage	(1,287)	(912)	73,694	71,495
Financial assets de-recognised and repaid	(29,752)	(37,360)	(62,982)	(130,094)
Amortised cost as at 31 March 2021	24,692	147,223	268,502	440,417

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 2020/21.

Financial assets	Not subject to ECL LKR '000	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
Cash and cash equivalents	707,190	–	–	–	707,190
Placements with banks and financial institutions	5,126	–	–	–	5,126
Financial assets measured at fair value	647,840	–	–	–	647,840
Vehicle loan receivable	–	322,217	11,454	24,692	358,363
Other loan receivable	–	177,191	21,972	147,223	346,386
Lease receivable	–	1,351,842	184,137	268,502	1,804,481
Total	1,360,156	1,851,250	217,563	440,417	3,869,385

Sensitivity of impairment provision on loans and lease rentals receivable

The impairment provision on loans and lease rental receivable as at 31 March 2021 is subject to various assumptions. The below table demonstrates the sensitivity of the impairment provision of the Company as at 31 March 2021 to a reasonably possible change in PDs, LGDs and forward looking information:

Assumption	Stage 1 LKR '000	Stage 2 LKR '000	Stage 3 LKR '000	Total LKR '000	Sensitivity Effect from income statement LKR '000
PD 1% increase	4,390	612	–	5,001	5,001
PD 1% decrease	(4,390)	(612)	–	(5,001)	(5,001)
LGD 5% increase	6,083	2,870	7,043	15,996	15,996
LGD 5% decrease	(6,083)	(2,870)	(7,043)	(15,996)	(15,996)
Base case 10% increase, worst case 5% decrease, best case 5% decrease	(290)	(125)	–	(415)	(415)
Base case 10% decrease, worst case 5% increase, best case 5% increase	290	125	–	415	415

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.

Exposure to liquidity risk	As at 31 March 2021 LKR '000	As at 31 March 2020 LKR '000
Net loans/Total assets	0.67	0.43
Gross Loans/Customer deposits	1.56	1.02

Following are the remaining maturities of financial liabilities as at the reporting date:

	COMPANY/GROUP			
	Up to 3 months	3-12 months	Over 1 year	As at 31 March 2021
	LKR '000	LKR '000	LKR '000	LKR '000
Financial liabilities at amortised cost – Deposits due to customers	616,049	1,470,971	267,924	2,354,944
Debt securities issued	–	–	16,600	16,600
Financial liabilities	116,334	131	–	116,465
Lease liabilities	10,481	30,808	45,411	86,699
Un-utilised facilities (Margin Trading)	80,162	–	–	80,162
Guarantees	1,098	–	–	1,098
	824,123	1,501,910	329,935	2,655,968

Impact of COVID-19 on the liquidity risk

Considering the maturity analysis of assets in Note 38.1, the Company has funds to meet the short-term liquidity requirements. Refer Note 43.1.2 for further details of the implications of COVID-19 on the liquidity of the Company.

C. Market risk

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

Interest rate risk

The risk that interest rates or their implied volatility will fluctuate will resulting in adverse impact to the future cash flows or the fair values of financial instruments of the Company. The Company holds interest-bearing assets and liabilities such as investments in fixed deposits, loans and advances to customers, due to banks, deposits from customers and debt security issued. The Company's exposure to interest rate risk with instruments which have variable interest rates and reprising of interest rates of liabilities which have shorter maturities. Interest risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing 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 2021.

	COMPANY	
	2021	
Increase/(Decrease) in incremental borrowing rate	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
1bp Up	1,945	(651)
1bp Down	(2,008)	670

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	3-12 months LKR '000	1-5 Years LKR '000	Non-interest bearing LKR '000	As at 31 March 2021 LKR '000
Assets					
Cash and cash equivalents	707,189	–	–	–	707,189
Placements with banks and financial institutions	5,126	–	–	–	5,126
Financial assets measured at amortised cost – Loans and lease rentals receivable	1,039,441	618,334	1,498,793	–	3,156,568
Financial assets measured at FVTPL – Quoted investments	–	–	2,320	–	2,320
Financial assets measured at FVTPL – Unit trust	645,496	–	–	–	645,496
Financial assets measured at FVOCI – Equity instruments	–	–	23	–	23
	2,397,252	618,334	1,501,136	–	4,516,723
Liabilities					
Due to banks	–	–	–	–	–
Financial liabilities at amortised cost – Deposits due to customers	612,306	1,424,926	252,259	–	2,289,491
Debt securities issued	–	–	16,600	–	16,600
Financial liabilities	157,816	2,734	25,672	–	186,222
Lease liabilities	13,963	26,526	39,935	–	80,424
	784,085	1,454,186	334,467	–	2,572,738

	GROUP				
	Up to 3 months LKR '000	3-12 months LKR '000	Over 1 year LKR '000	Non-interest bearing LKR '000	As at 31 March 2021 LKR '000
Assets					
Cash and cash equivalents	707,437	–	–	–	707,437
Placements with banks and financial institutions	5,126	–	–	–	5,126
Financial assets measured at amortised cost – Loans and lease rentals receivable	1,039,441	618,334	1,498,793	–	3,156,569
Financial assets measured at FVTPL – Quoted investments	–	–	2,320	–	2,320
Financial assets measured at FVTPL – Unit trust	645,496	–	–	–	645,496
Financial assets measured at FVOCI – Equity instruments	–	–	23	–	23
	2,397,500	618,334	1,501,136	–	4,516,971
Liabilities					
Due to banks	–	–	–	–	–
Financial liabilities at amortised cost – Deposits due to customers	612,306	1,424,926	252,259	–	2,289,491
Debt securities issued	–	–	16,600	–	16,600
Financial liabilities	157,816	2,734	25,672	–	186,222
Lease liabilities	13,963	26,526	39,935	–	80,424
	784,085	1,454,186	334,467	–	2,572,737

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 of Corporate Management, heads of Operational divisions and branch management through Board sub committees and CEO to development and implementation of control to address operational risk related to each division and branch. This responsibility is supported by the continuous improvement of overall Group standards for the management of operational risk including:

- Appropriate segregation of duties on requirements, including the independent 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 stands is supported by a programmed of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the Management of the business line to which they relate, with summaries submitted to the Board Audit Committee and Corporate Management of the Company.

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:

01. to safeguarded the Company's ability to continue as going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
02. to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and further, the Board seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing, and the advantages and security afforded by the strong capital position of the Company.

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

Category	As at 31 March 2021 LKR '000	As at 31 March 2020 LKR '000
Total liabilities	2,572,651	2,262,440
Less: Cash and cash equivalents	707,190	291,440
Net debt	1,865,461	1,971,000
Total adjusted equity (excluding advance against stated capital)	2,131,201	1,252,501
Net debt to adjusted equity ratio at 31 March	0.88	1.57

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka.

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	2021			2020		
	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-	574,714	20	114,943	826,892	20	165,378
Financial institutions	–	–	–	–	0	–
AAA to AA-	–	20	–	227,504	20	45,501
A+ to A-	120,868	50	60,434	444,038	50	222,019
Unrated	645,496	100	645,496	484,346	100	484,346
Retail claims						
Retail claims in respect of motor vehicles and machinery	1,914,112	100	1,914,112	882,327	100	882,327
Claims Secured by Gold						
Outstanding claim portion up to 70% of the market value	39,623	–	–	15,473	–	–
Remaining outstanding claim portion over 70% of the market value	544,794	100	544,794	113,639	100	113,639
Retail claims secured by immovable property						
Retail claims that do not qualify for regulatory capital purposes	189,958	100	189,958	67,137	100	67,137
Other retail claims	410,816	125	513,520	187,596	125	234,495
Non-performing retail claims secured by immovable property						
Specific provisions are equal or more than 20%	16,978	50	8,489	25,839	50	12,919
Specific provisions are less than 20%	1,422	100	1,422	38,442	100	38,442
Non-performing assets (NPAs)						
Specific provisions are equal or more than 20%	45,859	100	45,859	98,281	100	98,281
Other non-performing assets						
Specific provisions are equal or more than 20%	8,032	150	12,048	156,695	150	235,042
Other claims (assets)						
Notes and coins	16,941	0	–	7,103	0	–
Cash items in the process of collection	–	20	–	–	20	–
Fixed assets	24,877	100	24,877	11,539	100	11,539
Other assets/exposures	286,761	100	286,761	228,094	100	228,094
Risk weighted amount for operational risk			421,848			317,469
Total risk weighted amount			4,784,561			3,156,627

37.2 Total capital base computation

As at 31 March	2021 Amount LKR '000	2020 Amount LKR '000
Tier I capital		
Stated capital	3,252,159	2,440,290
Reserve fund	10,649	7,259
Audited retained earnings/(losses)	(1,195,048)	(1,102,603)
Transaction cost related to rights issue	(2,228)	(12,020)
Other comprehensive income	1,259	(338)
Transfers to reserve fund	(3,390)	–
(Less) Revaluation gains/surplus of investment property	–	–
General and other disclosed reserves	–	–
Current year's profit/(losses)	67,799	(80,086)
Tier I capital	2,131,201	1,252,502
Adjustments to Tier I capital	(7,118)	(3,033)
Other intangible assets (net)	(6,590)	(2,483)
50% of investment in other banking and financial institutions	(528)	(551)
Tier I capital (after adjustments)	2,124,083	1,249,468
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	528	551
Eligible Tier 2 capital after adjustments	(528)	(551)
Total capital	2,123,555	1,248,917

As at 31 March			2021 Amount LKR '000	2020 Amount LKR '000
Core capital ratio (Minimum 6.5%) Core capital ratio	=	Core capital x 100 Risk-weighted assets	44.39%	39.58%
Total risk-weighted capital ratio (Minimum 10.5%) Total risk-weighted capital ratio	=	Capital base x 100 Risk-weighted assets	44.38%	39.56%

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.

As at 31 March		Based on Direction No. 03 of 2018	
		2021	2020
		%	%
Core capital ratio	Based on Direction No. 03 of 2018	44.39	39.58
Total capital ratio	Based on Direction No. 03 of 2018	44.38	39.56

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	2021			2020		
	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	707,437	–	707,437	291,690	–	291,690
Investment in fixed deposits	5,126	–	5,126	1,214,097	–	1,214,097
Financial assets measured at fair value	647,817	23	647,840	486,165	23	486,188
Financial assets measured at amortised cost – Loans and lease rental receivables	1,657,775	1,498,793	3,156,568	919,392	738,918	1,658,310
Total interest-bearing assets	3,018,156	1,498,816	4,516,970	2,911,343	738,941	3,650,284
Total non-interest-bearing assets	57,132	129,997	187,129	6,528	158,379	164,907
Total assets	3,075,286	1,628,812	4,704,099	2,917,871	897,320	3,815,192
Percentage (%)	65.37	34.63	100.00	76.48	23.52	100.00
Interest-bearing liabilities						
Due to banks	–	–	–	1,715	–	1,715
Financial liabilities at amortised cost – Deposits due to customers	2,037,232	252,259	2,289,491	1,700,197	400,739	2,100,936
Debt securities issued	–	16,600	16,600	–	16,000	16,000
Lease liabilities	40,489	39,935	80,424	35,062	39,324	74,386
Total interest-bearing liabilities	2,077,721	308,794	2,386,515	1,736,973	456,064	2,193,037
Total non-interest-bearing liabilities	160,171	26,397	186,569	69,405	358	69,763
Equity	–	2,131,015	2,131,015	–	1,552,392	1,552,392
Total liabilities and equity	2,237,892	2,466,206	4,704,099	1,806,378	2,008,815	3,815,192
Percentage (%)	47.57	52.43	100.00	47.35	52.65	100.00

38.1 (b) Company

As at 31 March	2021 Less than 1 Year LKR '000	2021 More than 1 Year LKR '000	2021 Total LKR '000	2020 Less than 1 Year LKR '000	2020 More than 1 Year LKR '000	2020 Total LKR '000
Interest-bearing assets						
Cash and cash equivalents	707,190	–	707,190	291,440	–	291,440
Investment in fixed deposits	5,126	–	5,126	1,214,097	–	1,214,097
Financial assets measured at fair value	647,817	23	647,840	486,165	23	486,188
Financial assets measured at amortised cost – Loans and lease rental receivables	1,657,775	1,498,793	3,156,568	919,392	738,918	1,658,310
Total Interest-bearing assets	3,017,907	1,498,816	4,516,723	2,911,094	738,941	3,650,034
Total non-interest-bearing assets	57,132	129,997	187,129	6,528	158,379	164,907
Total assets	3,075,039	1,628,812	4,703,852	2,917,622	897,320	3,814,942
Percentage (%)	65.37	34.63	100.00	76.48	23.52	100.00
Interest-bearing liabilities						
Due to banks	–	–	–	1,715	–	1,715
Financial liabilities at amortised cost – Deposits due to customers	2,037,232	252,259	2,289,491	1,700,197	400,739	2,100,936
Debt securities issued	–	16,600	16,600	–	16,000	16,000
Lease liabilities	40,489	39,935	80,424	35,062	39,324	74,386
Total interest-bearing liabilities	2,077,721	308,794	2,386,515	1,736,973	456,064	2,193,037
Total non-interest-bearing liabilities	160,171	25,964	186,135	69,047	357	69,404
Equity	–	2,131,201	2,131,201	–	1,552,501	1,552,501
Total liabilities and equity	2,237,892	2,465,960	4,703,852	1,841,084	2,048,245	3,814,942
Percentage (%)	47.58	52.42	100.00	48.26	53.69	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:

For the year ended 31 March	2021				
	Leasing and hire purchases LKR '000	Trade Bills, loans and pawning LKR '000	Margin trading LKR '000	Other LKR '000	Total LKR '000
Interest income	191,540	172,031	29,633	77,774	470,977
Fee and commission income	10,974	–	–	27	11,001
Net income from other financial instruments at FVTPL	–	–	–	43,995	43,995
Other operating income	8,805	5,278	–	89,435	103,518
Gross revenue	211,318	177,309	29,633	211,232	629,491
Interest expenses	(81,757)	(59,407)	(18,265)	(78,162)	(237,591)
Total operating income	129,561	117,902	11,368	133,070	391,900
Impairment charges for loans, advances and other receivables	(5,059)	55,736	(1,616)	–	41,802
Net operating income	124,502	173,637	9,752	133,070	433,702
Depreciation and amortisation	(1,603)	(1,165)	(358)	(1,533)	(4,659)
Amortisation of right-of-use assets	(12,073)	(8,773)	(2,697)	(11,542)	(35,085)
Staff and other expenses	(100,991)	(73,383)	(22,562)	(96,549)	(293,485)
Segment results	9,835	90,316	(15,865)	23,446	100,473
Taxes on financial services					(33,148)
Net tax expense					397
Profit for the year					67,722
As at 31 March					
Segment assets	1,618,719	1,176,217	361,630	1,547,533	4,704,099
Segment liabilities	885,419	643,376	197,807	846,481	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.

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	2020				
	Leasing and hire purchases LKR '000	Trade Bills, loans and pawning LKR '000	Margin trading LKR '000	Other LKR '000	Total LKR '000
Interest income	316,450	104,667	26,528	115,936	563,581
Fee and commission income	6,155	–	–	27	6,182
Net income from other financial instruments at FVTPL	–	–	–	29,606	29,606
Other operating income	7,377	629	–	22,152	30,159
Gross revenue	329,982	105,296	26,528	167,721	629,528
Interest expenses	(80,748)	(35,865)	(11,597)	(169,624)	(300,039)
Total operating income	249,233	69,431	14,930	(1,903)	329,489
Impairment charges for loans, advances and other receivables	(104,413)	(17,387)	(606)	–	(122,535)
Net operating income	144,820	51,915	14,324	(1,902)	206,954
Depreciation and amortisation	(2,119)	(916)	(296)	(4,332)	(7,663)
Amortisation of right-of-use assets	(7,998)	(3,458)	(1,118)	(16,356)	(28,930)
Staff and other expenses	(65,600)	(28,362)	(9,171)	(134,142)	(238,721)
Segment results	69,102	19,179	3,739	(156,730)	(68,360)
Taxes on financial services					(11,681)
Net tax expense					(132)
Loss for the year					(80,173)
As at 31 March					
Segment assets	1,054,795	456,046	147,467	2,156,883	3,815,192
Segment liabilities	625,602	270,482	87,463	1,279,253	2,262,799

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.

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 and borrowing liabilities (with accrued interest) at LKR 2,500 Mn. and LKR 39 Mn. respectively, until such time the Company meets the required minimum core capital as per the Finance Business Act Direction No. 2 of 2017 – Minimum Core Capital. However, the Company has met the required minimum core capital as at 31 March 2021 with the right issue of LKR 811.9 Mn. on 29 March 2021 and a request has been made to the Central Bank of Sri Lanka to lift the Cap on total deposits and borrowing liabilities.

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.

43. ASSESSMENT OF THE GOING CONCERN ASSUMPTION

43.1 Coronavirus (COVID-19) pandemic

The COVID-19 pandemic has continued to impact Sri Lanka with resurgences occurring during different times of the year. As a result, this has continued to bring about additional uncertainties in the Group's operating environment. The implications of the outbreak is closely monitored by the Group throughout the year and the Group has taken measures to communicate with the stakeholders of the Company in order to continue business under the new-normal in the world.

The ongoing COVID-19 pandemic has continued increased the estimation uncertainty in the preparation of these Consolidated Financial Statements. The estimation uncertainty is associated with:

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

The Group has developed various accounting estimates in these Consolidated Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these Financial Statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses which is described below:

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

The Group measures the allowance for expected credit losses (ECL) using an expected credit loss impairment model as required by SLFRS 9 – Financial Instruments. The Group's accounting policy for the recognition and measurement of the allowance for expected credit losses is described at Note 4.17 to the Financial Statements for the year ended 31 March 2021.

The Group's allowance for expected credit losses assessed under collective and individual approaches are given in Note 36.2.

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

Collectively assessed allowance for expected credit losses

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

Assumption	Significant judgement involved
Economic factor adjustments	The Company used the most updated future economic forecasts available at the reporting date. The forecasts used in the computation are inclusive of the impact of COVID-19.
Assignment of the weightage to worst case scenario	Weightage assigned to worst case scenario has been increased by transferring the weightage from best case scenario to worst case scenario.
Probability of Default (PDs) and Loss Given Default (LGDs)	The Company considered the PDs and LGDs computed as at 31 March 2021.

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 COVID-19 outbreak 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 model. There was no material change to the ECL model due to the granting of moratoriums.

In addition to that, the Group modified contracts of an outstanding of LKR 108 Mn. due to the impact of granting moratorium facilities to customers which did not result in a derecognition. Accordingly, a day one loss of LKR 3 Mn. was recorded by the Group with respect of this. However, no contracts were transferred from lifetime expected credit loss to 12-month expected credit loss subsequent to the modifications.

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

43.1.2 Sensitivity analysis of the expected credit loss model

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

Given current economic uncertainties and the judgement 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	2021	
	Total collective impairment LKR '000	Impact to the statement of profit or loss LKR '000
100% best case scenario	147,377	(9,319)
100% base case scenario	154,285	(2,412)
100% worst case scenario	169,041	12,345

43.1.3 Impact of COVID-19 on the liquidity of the Company

The COVID-19 outbreak has negatively impacted the liquidity position of banks and finance institutions in the industry due to reasons that include:

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

However, as given in Note 38 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 COVID-19 on fair value measurement of financial instruments

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

44. COMPARATIVE INFORMATION

Comparative information is reclassified wherever necessary to conform with the current year's classification in order to provide better presentation.

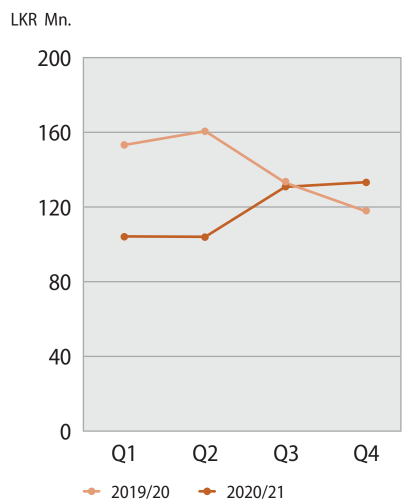
SUPPLEMENTARY INFORMATION

SUMMARY OF QUARTERLY FINANCIALS

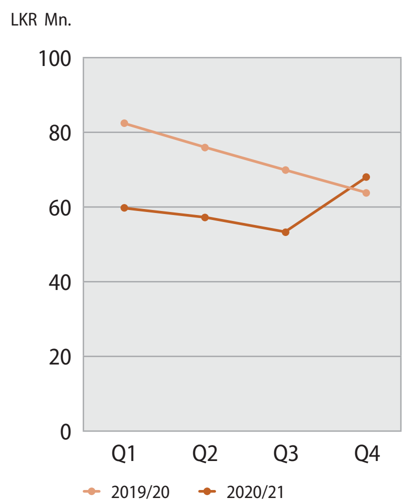
	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	April – June		July – September		October – December		January – March		For the Year ended 31 March	
	2020	2019	2020	2019	2020	2019	2021	2020	2021	2020
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Interest income	104,040	153,033	103,758	160,238	130,331	132,686	132,848	117,624	470,977	563,581
Less: Interest expense	59,620	82,300	57,121	75,912	53,239	69,919	67,611	63,936	237,591	300,039
Net interest income	44,420	70,733	46,637	84,326	77,092	62,767	65,237	53,688	233,386	263,542
Fee and commission income	1,225	861	3,200	1,320	3,105	2,002	3,472	995	11,001	6,182
Net fair value gain/(loss) from financial assets at FVTPL	12,581	(87)	13,209	2,476	13,645	14,149	4,218	12,756	43,653	29,606
Other operating income	6,537	8,073	23,618	14,280	46,483	2,448	27,217	6,675	103,860	30,159
Total operating income	64,763	79,580	86,664	102,402	140,331	81,366	100,144	74,114	391,900	329,489
Less: Net impairment charges/ (reversal) on financial assets	33,337	30,503	(26,908)	59,994	545	10,310	(48,776)	21,728	(41,802)	122,535
Net operating income	31,426	49,077	113,572	42,408	139,786	71,056	148,920	52,386	433,702	206,954
Less: Staff costs	28,454	31,845	43,248	31,539	48,770	30,500	53,640	35,723	174,111	129,227
Depreciation and Amortisation	1,228	1,906	1,536	1,908	1,701	1,934	194	1,914	4,659	7,663
Amortisation of right of use assets	7,233	7,233	7,233	7,233	13,581	9,804	7,039	4,662	35,085	28,930
Other expenses	22,712	17,667	29,678	30,619	34,137	36,320	32,848	24,888	119,297	109,407
Operating profit/(loss) before taxes on financial services	(28,201)	(9,574)	31,877	(28,891)	41,598	(7,502)	55,274	(14,800)	100,550	(68,273)
Less: Taxes on financial services	–	351	9,526	3,833	10,452	4,451	13,170	3,047	33,148	11,681
Operating profit/(loss) after taxes on financial services	(28,201)	(9,925)	22,351	(32,724)	31,145	(11,953)	42,106	(17,847)	67,402	(79,954)
Less: Net tax expense	–	–	–	–	–	–	(397)	132	(397)	132
Profit/(loss) for the period	(28,201)	(9,925)	22,351	(32,724)	31,145	(11,953)	42,503	(17,979)	67,799	(80,086)
Basic earning/(loss) per ordinary share – (LKR)	(0.13)	(0.10)	0.11	(0.16)	0.15	(0.06)	0.20	(0.08)	0.32	(0.40)

Figures in brackets indicate deductions.

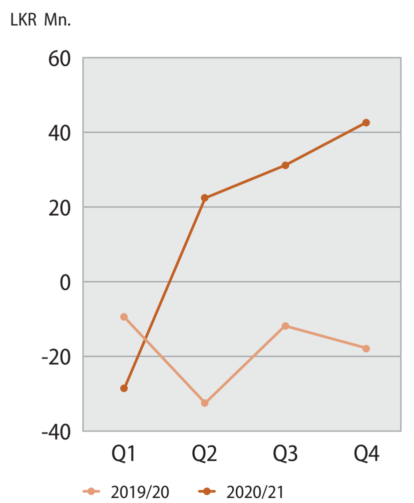
INTEREST INCOME



INTEREST EXPENSE



PROFIT/(LOSS) AFTER TAX



TEN YEAR SUMMARY

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
FINANCIAL CAPITAL										
Operating results										
Income	629,491	629,527	616,671	467,004	375,535	381,358	664,827	757,861	661,236	505,096
Interest income	470,977	563,581	546,759	431,790	365,433	377,193	659,707	750,661	640,259	492,823
Interest expenses	237,591	292,067	357,067	339,682	342,347	281,622	475,897	591,995	425,598	301,641
Net interest income	233,386	271,514	189,692	92,108	23,086	95,571	183,810	158,666	214,661	191,182
Impairment charges for loans and receivables and other losses	41,802	122,535	85,389	94,900	40,428	68,842	264,238	229,171	66,776	49,827
Other operating expenses	119,297	109,407	122,794	79,364	88,189	74,451	149,702	104,757	177,045	102,283
Profit/(Loss) before tax	67,402	(79,954)	(91,942)	(148,525)	(203,034)	(129,895)	(308,354)	(216,891)	(89,740)	106,245
Profit/(Loss) for the year	67,799	(80,086)	(93,684)	(148,312)	(199,352)	(86,874)	(337,486)	(254,827)	(90,894)	92,740
Return on assets (ROA) (%)	1.59	-2.39	-3.22	-4.64	-5.65	-2.19	-6.99	-5.14	-2.41	2.80
Cost to income ratio (%)	85	84	100	111	143	118	108	106	111	106
Financial position										
Cash, balance with banks and reverse repo	707,190	291,440	226,281	289,945	313,065	477,313	399,141	231,787	168,791	126,493
Loans and Receivables	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	2,097,810
Total assets	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	2,919,524
Borrowings	–	–	–	350,000	350,000	–	24,940	49,960	227,143	451,737
Deposits from customers	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	1,376,871
Total equity	2,131,201	1,552,501	142,959	215,691	363,454	553,339	642,894	880,008	1,268,155	893,551
Total liabilities and shareholder's funds	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	2,919,524
Financial cash flows										
Net cash flows from/(used in) operating activities	(1,209,732)	319,178	(351,023)	(621,006)	(977,734)	(386,341)	289,680	899,854	161,375	(336,701)
Net cash flows from/(used in) investing activities	1,164,509	(1,498,614)	4,697	1,063,789	290,362	457,008	(96,929)	(317,793)	(8,235)	403,148
Net cash flows from/(used in) financing activities	462,688	1,462,024	160,075	(354,465)	354,465	(24,940)	(25,020)	(177,183)	(224,594)	(79,286)
Total net cash inflows/(Outflows)	417,465	282,588	(186,252)	88,318	(332,907)	45,726	167,730	404,878	(71,453)	(12,839)
Statutory ratio										
Capital adequacy ratio										
Core capital ratio (required min -6.5%) (%)	44.39	39.58	4.85	8.69	-6.84	-0.73	2.26	9.54	19.31	32.11
Total risk weighted capital ratio (required min -10.5%) (%)	44.38	39.56	4.82	8.68	-6.85	-0.74	2.25	9.53	31.67	33.36

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
HUMAN CAPITAL										
Number of employees	168	118	123	124	118	110	96	117	155	124
Profit/(Loss) before tax per employee	401.20	(677.58)	(747.50)	(1,198)	(1,721)	(1,181)	(3,212)	(1,854)	(579)	857
Employees' salaries and benefits	174,111	129,607	127,248	96,543	92,499	79,487	79,135	88,926	117,442	91,590
RELATIONSHIP CAPITAL										
Number of branches	11	11	11	11	11	11	11	11	11	11
Number of shareholders	9,993	9,911	10,089	10,133	10,182	10,345	10,530	11,335	11,824	12,465
Number of ordinary shares ('000)	326,856	210,875	84,350	67,500	67,500	67,500	67,500	67,500	67,500	67,500
Earnings/(Loss) per share – Company (LKR)	0.32	(0.40)	(1.38)	(2.20)	(2.95)	(1.29)	(5.00)	(3.78)	(1.35)	1.88
Net assets value per share (LKR)	6.52	7.36	1.69	3.20	5.38	8.22	9.52	13.03	18.79	13.24
Market price per share										
Highest (LKR)	10.70	11.40	13.50	21.00	24.0	30	29.3	17.1	17.9	42
Lowest (LKR)	6.90	7.40	8.20	11.00	9.4	11.4	16	10.4	11.6	12
Closing (LKR)	7.20	8.70	9.20	11.00	13.9	12	23.9	16.9	13.5	12.9
Market capitalisation	2,353,363	1,834,613	776,020	742,500	938,250	810,000	1,613,250	1,140,750	911,250	870,750
Debt equity (Times)	1.08	1.46	19.24	12.57	8.53	5.50	5.77	5.03	2.63	2.27
Return on equity (ROE) (%)	3.68	-9.45	-52.24	-51.22	-43.49	-14.52	-44.32	-23.73	-8.41	13.60
Total liabilities	2,572,651	2,262,441	2,750,424	2,712,248	3,099,058	3,042,548	3,709,547	4,430,093	3,340,478	2,025,973

BRANCH NETWORK

Branch	Address	Phone	Email
Corporate	No. 21 Nawam Mawatha, Colombo 02	+94 11 766 6300, +94 11 230 0191/4	info@pmb.lk
Kurunegala	No. 02, South Circular Road, Navinna Junction, Kurunegala	+94 37 738 9091/2, +94 37 222 0911/2	kurunegala@pmb.lk
Matara	No. 213, Anagarika Dharmapala Mawatha, Nupe, Matara	+94 41 738 9091/3, +94 41 222 0600/700	matara@pmb.lk
Negombo	No. 198, St. Joseph Street, Negombo	+94 31 738 9091/2, +94 31 222 8577	negombo@pmb.lk
Awissawella	No. 75, Yatiyantota Road, Avissawella	+94 36 721 1930/3, +94 36 223 3520	awissawella@pmb.lk
Matugama	No. 74B, Neboda Road, Mathugama	+94 34 721 2933, +94 34 224 3828	matugama@pmb.lk
Elpitiya	No. 10/5, Pituwala Road, Elpitiya	+94 91 721 4505/8, +94 91 229 0498	elpitiya@pmb.lk
Kandy	No. 145, Kotugodella Street, Kandy	+94 81 738 9091/9, +94 81 220 0798	kandy@pmb.lk
Trincomalee	No. 39C, N C Road, Trincomalee	+94 26 738 9090/3	trinco@pmb.lk
Anuradhapura	No. 304, New Town, Maithripala Senanayake Mawatha, Anuradhapura	+94 25 738 9090/2	anuradhapura@pmb.lk
Gampaha	No. 64, Queen Mary's Road, Gampaha	+94 33 721 3414, +94 33 223 3633	gampaha@pmb.lk
Wellawatta Pawning Centre	No. 118D, Galle Road, Wellawatte	+94 11 750 0581/3	wellawatte@pmb.lk

GLOSSARY

A

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

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

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

Amortised cost
The amount at which the financial asset 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.

$$\frac{\text{Profit/Loss attributable to ordinary share}}{\text{Number of ordinary shares}}$$

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.

$$\frac{\text{Earning per share}}{\text{Market price per share}} \times 100$$

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.

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

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

F

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

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

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

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

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

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

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

G

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

Group
A group is a parent and all its subsidiaries.

Guarantees
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.

$$\frac{\text{Total shareholders equity}}{\text{Number of shares}}$$

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.

$$\frac{\text{Net interest income}}{\text{Average interest earnings assets}} \times 100$$

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

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

O

Off-balance sheet transactions
Transactions that are not recognised as assets or liabilities in the balance sheet, but which give rise to contingencies and commitments.

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

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

P

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

Past due
A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Price earnings ratio (P/E ratio)
Market price of an ordinary share divided by earnings per share.

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

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 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.

$$\frac{\text{(Closing market price - Opening market price) + Dividend per share}}{\text{Opening market price}} \times 100$$

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.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Thirty-Seventh (37th) Annual General Meeting ("AGM") of PEOPLE'S MERCHANT FINANCE PLC (the "Company") will be held on Thursday, the 30th day of September 2021 at 9.00am 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 2021 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 2022 and to authorise the Directors to determine their remuneration therefor.
3. To re-elect Mr Moderage Joseph Travis Waas as a Director in terms of section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
4. To re-elect Mr Ranjith Kodituwakku as a Director in terms of section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
5. To authorise the Directors to determine contributions to charities for the ensuing year.
6. To inform the Remedial action to be taken on non-compliance with the minimum public holding requirement (rule 7.13.1) of the Listing Rules of the Colombo Stock Exchange.

By order of the Board,

CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries

PEOPLE'S MERCHANT FINANCE PLC

30 August 2021
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. 21, Nawam Mawatha, Colombo 02, 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 phone 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 Nadeeka Jayawickrama of People's Merchant Finance PLC on +94 11 766 6333 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 Channa Manoharan   or failing him
3. Mr K Rangana Pubudu Madusanka   or failing him
4. Mr Travis Waas   or failing him
5. Mr Ranjith Kodituwakku

as my/our proxy to attend and vote/speak at the Thirty-Seventh Annual General Meeting of the Company to be held on the 30th day of September 2021 at 9.00am 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 2021 together with Report of the Auditors thereon.		
2.	To reappoint Messrs KPMG, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board of Directors and to audit the Financial Statements of the Company for the accounting period ending 31 March 2022.		
3.	To re-elect Mr Moderage Joseph Travis Waas as a Director in terms of section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.		
4.	To re-elect Mr Ranjith Kodituwakku as a Director in terms of section 4.10 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.		
5.	To authorise the Directors to determine contributions to charities for the ensuing year.		

Signed this .... day of .... 2021.

....
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.

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. 21, Nawam Mawatha, Colombo 02 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.

Name of 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 Principle Place of Business	No. 21, Nawam Mawatha, Colombo 02, Sri Lanka.
Phone	+94 11 230 0191/+94 11 766 6333
Fax	+94 11 230 0190
Email	info@pmb.lk
Web	www.peoplesmerchant.lk
Company Secretaries	**Corporate Services (Pvt) Ltd.** No. 216, de Saram Place, Colombo 10, Sri Lanka. Phone: +94 11 460 5100
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@sltnet.lk
Auditors	**Messrs KPMG Chartered Accountants** 32A, Sir Mohomed Macan Markar Mawatha, Colombo 03, Sri Lanka.

Branch Offices	Anuradhapura Kurunegala Negombo Trincomalee Kandy Matara Awissawella Matugama Elpitiya Gampaha Wellawatta Pawning Centre
Board of Directors	Mr C P Abeywickrama – Chairman Mr D N Daluwatte Mr K R P Madusanka Mr C S Manoharan Mr T Waas Mr R Kodithuwakku
Bankers	People's Bank
Subsidiary Company	PMB Services Limited
Vehicle Yards	• No. 21, Nawam Mawatha, Colombo 02, Sri Lanka. • Avinro Motors, Hiripitiya Road, Wellawa, Sri Lanka.
Tax Payer Identity Number (TIN)	134000228
Central Bank Registration Number	LFC/043 (Under the Finance Business Act No. 42 of 2011)
Credit Agency Status	An approved credit agency under the Mortgage Act No. 6 of 1949 and the Trust Receipt Ordinance No. 12 of 1947 by the Department of Commerce.
Credit Rating	[SL]B

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The ANNUAL REPORT Company
www.SmartAnnualReport.com

PARTNER 2021 Carbonfree Carbonfund.org 10 YEARS
www.carbonfund.org

http://peoplesmerchant.lk/

PEOPLE'S MERCHANT
FINANCE PLC

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