

# PEOPLE'S MERCHANT FINANCE PLC

## FINANCIAL STATEMENTS

For the year ended 31<sup>st</sup> March 2022

STATEMENT OF PROFIT OR LOSS	Company			Group		
	2022 Rs. '000 Audited	2021 Rs. '000 Audited	Change %	2022 Rs. '000 Audited	2021 Rs. '000 Audited	Change %
For the year ended 31st March 2022						
<b>Gross Income</b>	<b>969,469</b>	<b>629,491</b>	<b>54.0</b>	<b>969,469</b>	<b>629,491</b>	<b>54.0</b>
Interest income	794,219	470,977	68.6	794,219	470,977	68.6
Less: Interest expense	300,022	237,591	26.3	300,022	237,591	26.3
<b>Net interest income</b>	<b>494,197</b>	<b>233,386</b>	<b>111.8</b>	<b>494,197</b>	<b>233,386</b>	<b>111.8</b>
Fee and commission income	19,238	11,001	74.9	19,238	11,001	74.9
Net income from financial assets at FVTPL	28,367	43,995	(35.5)	28,367	43,995	(35.5)
Other operating income	127,645	103,518	23.3	127,645	103,518	23.3
<b>Total operating income</b>	<b>669,447</b>	<b>391,900</b>	<b>70.8</b>	<b>669,447</b>	<b>391,900</b>	<b>70.8</b>
Less: Impairment (charges) / reversals and other losses	40,914	41,803	(2.1)	40,914	41,803	(2.1)
<b>Net operating income</b>	<b>710,361</b>	<b>433,703</b>	<b>63.8</b>	<b>710,361</b>	<b>433,703</b>	<b>63.8</b>
Less:						
Personnel expenses	260,703	174,111	49.7	260,703	174,111	49.7
Depreciation of property, plant and equipment	9,731	4,267	128.0	9,731	4,267	128.0
Amortisation of intangible assets	501	392	27.9	501	392	27.9
Amortisation of right of use assets	42,897	35,085	22.3	42,897	35,085	22.3
Other operating expenses	195,103	119,297	63.5	195,276	119,374	63.6
<b>Operating Profit / (Loss) before taxes on financial services</b>	<b>201,426</b>	<b>100,550</b>	<b>100.3</b>	<b>201,253</b>	<b>100,473</b>	<b>100.3</b>
Less: Taxes on financial services	61,252	33,148	84.8	61,252	33,148	84.8
<b>Profit/(Loss) before tax</b>	<b>140,174</b>	<b>67,402</b>	<b>108.0</b>	<b>140,001</b>	<b>67,325</b>	<b>107.9</b>
Less: Income tax (expense)/reversal	51,626	397	12,891.3	51,626	397	12,891.3
<b>Profit/(Loss) for the period</b>	<b>191,800</b>	<b>67,799</b>	<b>182.9</b>	<b>191,627</b>	<b>67,722</b>	<b>183.0</b>
Basic earnings / (loss) per share (Rs.)	0.55	0.32		0.55	0.32	

Figures in brackets indicate deductions.

STATEMENT OF COMPREHENSIVE INCOME	Company			Group		
	2022 Rs. '000 Audited	2021 Rs. '000 Audited	Change %	2022 Rs. '000 Audited	2021 Rs. '000 Audited	Change %
For the year ended 31st March 2022						
<b>Profit / (loss) for the year</b>	<b>191,800</b>	<b>67,799</b>	<b>182.9</b>	<b>191,627</b>	<b>67,722</b>	<b>183.0</b>
<b>Other comprehensive income/(expense) (net of tax)</b>						
Actuarial gain/(loss) on retirement benefit obligation	3,764	1,656	127.3	3,764	1,656	127.3
Deferred tax effect on actuarial gain/ (loss)	(903)	(397)	(127.3)	(903)	(397)	(127.3)
Other comprehensive income / (expense) for the period, net of taxes	2,861	1,259	127.2	2,861	1,259	127.2
Total comprehensive income/(loss) for the year attributable to the owners of the Company	194,661	69,058	181.9	194,488	68,981	181.9

Figures in brackets indicate deductions.

STATEMENT OF FINANCIAL POSITION	Company			Group		
	31.03.2022 Rs. '000 Audited	31.03.2021 Rs. '000 Audited	Change %	31.03.2022 Rs. '000 Audited	31.03.2021 Rs. '000 Audited	Change %
As at 31st March 2022						
<b>Assets</b>						
Cash and cash equivalents	660,873	707,190	(6.5)	661,116	707,437	(6.5)
Placements with banks and financial institutions	410,942	5,126	7,917.2	410,942	5,126	7,917.2
Financial assets measured at fair value	9,245	647,840	(98.6)	9,245	647,840	(98.6)
Financial assets measured at amortized cost - lease rental and hire purchase receivables	3,148,864	1,618,719	94.5	3,148,864	1,618,719	94.5
Financial assets measured at amortized cost - loans and receivables to other customers	3,527,744	1,537,849	129.4	3,527,744	1,537,849	129.4
Property, plant and equipment	82,027	24,879	229.7	82,027	24,879	229.7
Intangible assets	9,760	6,590	48.1	9,760	6,590	48.1
Right of use assets	123,822	68,787	80.0	123,822	68,787	80.0
Deferred tax assets	50,722	-	100.0	50,722	-	100.0
Other assets	255,817	86,872	194.5	255,817	86,872	194.5
<b>Total assets</b>	<b>8,279,816</b>	<b>4,703,852</b>	<b>76.0</b>	<b>8,280,059</b>	<b>4,704,099</b>	<b>76.0</b>
<b>Liabilities</b>						
Due to banks	1,842,767	-	100.0	1,842,767	-	100.0
Financial liabilities at amortised cost - Deposits due to customers	3,228,866	2,289,491	41.0	3,228,866	2,289,491	41.0
Debt securities issued	17,200	16,600	3.6	17,200	16,600	3.6
Lease liabilities	136,450	80,424	69.7	136,450	80,424	69.7
Employee benefit obligation	13,378	18,360	(27.1)	13,378	18,360	(27.1)
Other liabilities	207,460	167,776	23.7	208,062	168,208	23.7
<b>Total liabilities</b>	<b>5,446,121</b>	<b>2,572,651</b>	<b>111.7</b>	<b>5,446,723</b>	<b>2,573,084</b>	<b>111.7</b>
<b>Equity</b>						
Stated capital	3,762,054	3,252,159	15.7	3,762,054	3,252,159	15.7
Statutory reserve fund	20,239	10,649	90.1	20,239	10,649	90.1
Accumulated losses	(948,598)	(1,131,607)	16.2	(948,957)	(1,131,793)	16.2
<b>Total equity attributable to the owners of the Company</b>	<b>2,833,695</b>	<b>2,131,201</b>	<b>33.0</b>	<b>2,833,336</b>	<b>2,131,015</b>	<b>33.0</b>
<b>Total liabilities and equity</b>	<b>8,279,816</b>	<b>4,703,852</b>	<b>76.0</b>	<b>8,280,059</b>	<b>4,704,099</b>	<b>76.0</b>
Contingencies & Commitments	131,700	81,260	62.1	131,700	81,260	62.1
Net assets value per share (Rs.)	6.99	6.52		6.99	6.52	

SELECTED PERFORMANCE INDICATORS	Company	
	As at 31.03.2022	As at 31.03.2021
<b>Asset Quality (Rs. '000)</b>		
Total Gross Accommodations	7,061,666	3,569,929
Net Total Accommodation (Net of provision for bad and doubtful debts)	6,676,608	3,156,568
Gross Non- Performing Accommodations	441,951	496,167
Gross Non-Performing Advances Ratio (%)	6.26%	13.90%
<b>Liquidity (Rs. '000)</b>		
Required Minimum Amount of Liquid Assets	330,053	138,682
Available Amount of Liquid Assets	1,070,031	739,867
Required Minimum Amount of Government Securities	164,423	116,536
Available Amount of Government Securities	205,859	663,288
<b>Capital Adequacy</b>		
Core Capital (Tier1 Capital) - Rs.'000	2,833,695	2,131,201
Total Capital Base - Rs.'000	2,822,703	2,123,555
Core Capital to Risk Weighted Assets Ratio (Minimum 7.0%)	37.71%	44.39%
Total Capital to Risk Weighted Assets Ratio (Minimum 11.0%)	37.71%	44.38%
Capital Funds to Total Deposit Liabilities Ratio (Minimum 10%)	87.42%	92.75%
<b>Cap Imposed by the Central Bank of Sri Lanka</b>		
The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the Company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total deposits (with accrued interest) at Rs 3,500 Mn until such time the Company meets the required minimum core capital of Rs.2.5Bn on or before 31/12/2021 as per the Finance Business Act Direction No 2 of 2017 - Minimum Core Capital. The cap of Rs. 3,500 Mn imposed on Deposits has been removed by CBSL on 19 <sup>th</sup> January 2022 in terms of Section 2.2 of Finance Business Act (Minimum Core Capital) Direction No. 02 of 2017, considering the level of compliance with the cited Direction, subsequent to the successful completion of the rights issue in December 2021.		
<b>Profitability</b>		
Interest Margin	9.06%	7.22%
Return on Average Assets (before Tax)	2.16%	1.59%
Return on Average Equity (after Tax)	7.73%	3.68%
<b>Memorandum Information</b>		
Number of employees	217	168
Number of branches	11	11
Number of service centers	-	-
Number of pawning centers	1	1
External Credit Rating : [SL]B (Stable)		

**CERTIFICATION**  
These Financial Statements have been prepared in compliance with the requirements of the Companies Act, No. 07 of 2007.

(Signed)  
**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 :

(Signed)  
**Chandula Abeywickrema**  
Chairman

Date: 29<sup>th</sup> June 2022

(Signed)  
**Kokila Perera**  
Senior Manager Finance

(Signed)  
**Rangana Koralage**  
Director

# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC



**KPMG**  
NO: 32A, Sir Mohamed Macan Markar Mawatha,  
P.O. Box 186,  
Colombo, Sri Lanka.  
Tel : 0115 426426

## 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 March 31, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies set out on pages 6 to 77.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2022, and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

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

### Key Audit Matters

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

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 the reporting date March 31, 2022, 81% of total assets of the Group consisted of loans and lease rental receivables. As disclosed in Note 19 to the financial statements, the Group and the Company has recorded Rs. 6,676 Mn as loans and lease rental receivable. The Group uses the Expected Credit Loss (ECL) model to calculate the loss allowance in accordance with SLFRS 9 - Financial Instruments (SLFRS 9). High degree of complexity and judgment are involved in estimating ECL of Rs. 385 Mn against loans and lease rental receivables from customers as at the reporting date. SLFRS 9 "Financial Instruments" requires the application of the ECL model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required. This model is reliant on data and a number of estimates including the impact of multiple economic scenarios and other assumptions such as defining a significant increase in credit risk (SICR).	Our audit procedures included, <ul style="list-style-type: none"> <li>Assessment of the methodology of the models against the requirements of SLFRS 9</li> <li>Assessing the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates;</li> <li>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;</li> <li>Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD;</li> <li>Assessing how management had assessed the impact of changes in macro-economic environment, within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management's assessment of the likelihood of the prevailing uncertain and volatile macro-economic environment as at the reporting date with reference to the reasonable and supportable information available to management at that date;</li> <li>Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development.</li> <li>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, and economic development.</li> <li>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.</li> </ul>
Therefore, allowance for expected credit losses is a key audit matter due to the significance of the loans and rental receivables balances to these financial statements and the inherent complexity of the Group's ECL models used to measure ECL allowances	

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

**KPMG**  
**CHARTERED ACCOUNTANTS**  
Colombo, Sri Lanka

29<sup>th</sup> June 2022