

TRANSFORMATION

Transformation

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Financial Reports

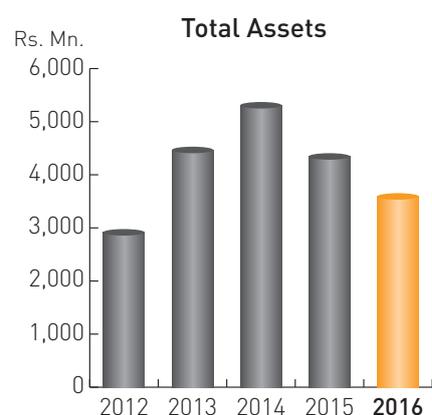
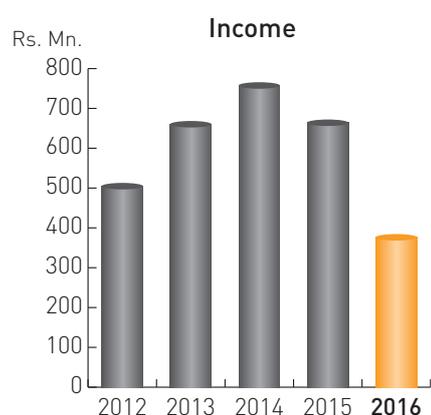
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Transformation is a continuous process, which gives impetus for the Company to reach its maximum potential. Through this process the Company has reached its full potential transcending all boundaries. This is a process, which enables us to make an impact and indomitable impression in the financial services sector.

Financial Highlights

For the year ended 31st March	Company			Group		
	2016	2015	Change (%)	2016	2015	Change (%)
Income (Rs.'000)	377,193	659,707	(43)	377,193	659,707	(43)
Loss before tax (Rs.'000)	(129,895)	(308,354)	(58)	(130,151)	(308,281)	(58)
Loss for the year (Rs.'000)	(86,874)	(337,486)	(74)	(87,308)	(337,225)	(74)
Loss per share (Rs.)	(1.29)	(5.00)	(74)	(1.29)	(5.00)	(74)
Return on assets (%)	(2.19)	(6.99)	69	(2.20)	(6.99)	69
Return on equity (%)	(14.52)	(44.32)	67	(14.70)	(44.53)	67
As at 31st March						
Total Assets (Rs.'000)	3,595,887	4,352,441	(17)	3,592,228	4,348,788	(17)
Equity (Rs.'000)	553,339	642,894	(14)	548,948	638,937	(14)



Chairman's Statement

The cumulative disbursements for the period August 2015 to March 2016 was Rs. 599.10 million due to the dedication and efforts extended by the existing staff. We have been able to achieve improved results during the period, which is a good achievement.

It is with a great deal of satisfaction that I report on your Company's financial performance for the financial year 2015/16.

Global Economic Environment

Global economic activities remained subdued despite a revival in the US economy. Other major economies continued to show slow growth in the year under review mainly due to the slowing of the Chinese economy and sharp decreases in crude oil price and other commodity prices. Consequently, the global economy grew, well below its potential, which at 3.1 percent was marginally down compared to the previous year as per the statistics published by the International Monetary Fund, in its World Economic Outlook, April 2016.

Local Perspective

The sluggishness of the global economy coupled with uncertainties due to the election atmosphere impacted the Sri Lankan economy resulting in a subdued growth of only 4.5%. This growth was mostly consumption driven, resulting from the low interest rate regime that prevailed throughout 2015, lower duties on small vehicles and public sector wage increases. Towards the end of 2015, the Central Bank began tightening

monetary policies citing concern over expansionary monetary aggregates fueling inflation, which grew from around 3.3% in 2014 to 4.5% as at end 2015. Furthermore, the CBSL reduced the permitted loan to value (LTV) ratios which had a negative impact on the growth of the leasing industry.

Company Performance

Your Company weathered a challenging period last year and is now poised for a turnaround. Since the appointment of People's Leasing & Finance PLC (PLC) to be the Managing Agent to look in to the functions of the Company, a decision was taken to grow the business immediately and the decision has proved to be a success. The cumulative disbursements for the period August 2015 to March 2016 was Rs. 599.10 million due to the dedication and efforts extended by the existing staff. We have been able to achieve improved results during the period, which is a good achievement. With the re-commencement of business, the non performing advances (NPA) ratio's on Lease and HP portfolio were closely monitored and prudent actions taken with regard to repossession of vehicles, disposal of vehicles and rescheduling of contracts with the objective of reducing the NPA ratio to a manageable level.

Chairman's Statement

Further, I wish to announce that we intend to merge with People's Leasing & Finance PLC within the FY 2016/17 complying with the directions issued by the Monetary Board of the Central Bank of Sri Lanka.

Appreciation

In conclusion, I wish to render my sincere gratitude and appreciation to our valued customers who have placed their trust in our Company for yet another year. I further wish to convey my gratitude to the Governor of the Central Bank of Sri Lanka and the Supervisory Division of the Non-Banking Financial Institutions for the continuous guidance and support. I also extend my appreciation to People's Bank, People's Leasing & Finance PLC and the Board of Directors for their valuable contribution and strong support throughout the year, as well as the Acting CEO, senior management team and all employees of People's Merchant Finance PLC for their hard work, dedication and passion in carrying out their duties and look forward your continued support and commitment as we work to turnaround the fortunes of the Company.



Hemasiri Fernando

Chairman

08th July 2016

Profiles of the Directors

Mr. Hemasiri Fernando

Non-Executive, Non-Independent Chairman

Possessing diverse experience in varied genres, Mr. Fernando's debut into the public sector was as Secretary to the Prime Minister. He later chaired Sri Lanka Telecom, Airport and Aviation Services and Telecom Services and has served as Secretary to the Ministry of Postal Services among other postings. His input as the longest serving President of the National Olympic Committee and in international office including as Vice President of the Olympic Council of Asia and Commonwealth Games Federation, in addition to representing Sri Lanka in rifle shooting as national champion, makes him the apt choice as Presidential Advisor on Sports to Sri Lanka.

With a B.A (Econ) from the University of Colombo, Associateship in the Institute of Travel and Tourism UK (A INST TT) and Fellowship of the British Institute of Management (FBIM), Mr. Fernando is also the present Chairman of People's Bank and People's Leasing & Finance PLC and the Honorary Consul for the Kyrgyz Republic in Sri Lanka. His tenure in the Sri Lanka Navy from which he retired with the rank of Commander having served in combat areas, deserves special mention.

His association with Sri Lanka Railways led to the penning of two books, The Viceroy Special based on the steam locomotive he created for tourism in Sri Lanka and The Uva Railway. Mr. Fernando has been conferred with the OCA Award of Merit by the Olympic Council of Asia and the ANOC Award of Merit by the Association of National Olympic Committees.

Mr. Anil Weerasinghe

Non-Executive, Independent Director

Mr. Weerasinghe is a Director of many companies including Silicon Valley Software solutions, J. P. Weerasinghe & Co. J.P. Weerasinghe Beverages and JSA Business Promoters (Pvt) Ltd. He was formally a Director of People's Bank and he has also served as a Director of the Export Development Board and

Lanka Cement. He also served as the Senior Deputy General Manager of Hyosung Corp Korea and he has overseas experience and exposure by having worked for Etacol in Hong Kong. Mr. Weerasinghe brings with him a wealth of experience in business and banking. Mr. Weerasinghe holds a degree with a second class honors in Textile Technology.

Mr. Michael Pradeep Amirthanayagam

Non-Executive, Non-Independent Director

Mr. Pradeep Amirthanayagam is a reputed advertising and media personality in Sri Lanka who counts over 30 years of experience in the advertising field. He is currently the Chairman and Managing Director of the leading advertising agency Holmes Pollard & Stott, which he was instrumental in setting up 25 years ago. Mr. Amirthanayagam is also a media icon. He presented the news on TV and radio (Rupavahini, ITN and SLBC), and was also an interviewer and cricket commentator. He has the distinction of having trained at Bush House - the headquarters of the BBC in London, and was the CNN correspondent for Sri Lanka.

Showing great promise from his early days, he was an outstanding product of St. Joseph's College, Colombo. He won gold medals for oratory and singing and also excelled academically, winning final year prizes for economics, commerce and finance, and accountancy. He was a member of the all-island under 12 champion cricket team in 1975, and went on to become head prefect of the college. He also played an active role in drama and debating and was placed first in the entire country in an oratory contest themed 'Rotary World Understanding and Peace' organized by Rotary International.

Having achieved success since his early days, Mr. Amirthanayagam went on to distinguish himself further. He became a member of the Chartered Institute of Marketing and an Associate of Trinity College of London (Speech and Drama).

Respected for his philanthropic endeavors, Mr. Amirthanayagam has been active in the Rotary

Profiles of the Directors

movement at the highest level. He is a Past President of the Rotary Club of Colombo West and was awarded the Rotarian of the Year in 2012. Over the years, he has made a notable contribution to the club, having been involved in almost every avenue of service.

Mr. Amirthanayagam is the Deputy Chairman of People's Leasing & Finance PLC and is also the Vice President of SUROL (Society for the Uplift and Rehabilitation of Leprosy Affected Persons) and a Director of the Anura Bandaranaike Foundation.

Mr. N. Vasantha Kumar

Non-Executive, Non-Independent Director

Mr. Vasantha Kumar currently functions as the CEO/General Manager of People's Bank. Mr. Vasantha Kumar also serves on the Boards of People's Leasing & Finance PLC, Lanka Financial Services Bureau Ltd., Sri Lanka Bank's Association (Guarantee) Ltd., Financial Ombudsman Sri Lanka Guarantee Ltd., Credit Information Bureau of Sri Lanka, Institute of Bankers of Sri Lanka, National Payment Council, People's Insurance Limited, People's Travels (Pvt) Limited, People's Leasing Havelock Properties Limited and People's Leasing Property Development Limited. Prior to joining People's Bank, he served as the Treasurer at ANZ Grindlays Bank, Colombo.

Mr. Vasantha Kumar holds a Master's Degree in Business Administration and counts over 32 years of experience in Treasury Management. He was the past President of the Association of Primary Dealers and of the Sri Lanka Forex Association.

Mr. D. P. Kumarage

Non-Executive, Non-Independent Director

Mr. D. P. Kumarage has been functioning as the Chief Executive Officer/GM of People's Leasing & Finance PLC since 1997. He is also the Managing Director of the subsidiary companies of People's Leasing & Finance PLC.

Mr. Kumarage has over 36 years of experience in Banking and Finance at People's Bank and retired as

a Deputy General Manager. He holds a Postgraduate Diploma in Modern Banking and is a Passed Finalist of the Chartered Institute of Management Accountants, UK.

Mr. Kumarage serves as the Vice President of the Asian Leasing & Finance Association and as a Director of Lanka Ashok Leyland PLC. He was also the former Chairman of the Leasing Association of Sri Lanka.

Dr. Dandeniya Walawwe Singhapathi Shelton Rahula Nanda Jayasena Dandeniya

Non-Executive, Non-Independent Director

Dr. Dandeniya is a Director and a Consultant at Adray Advertising and Senior Visiting Lecture at University of Sri Jayawardenepura and University of Kelaniya. He holds a Ph.d in Buddhist Philosophy from University of Kelaniya, Postgraduate Diploma in Media from University of Jayawardhenepura, Postgraduate Diploma and M.A in Buddhist Philosophy from University of Kelaniya, Postgraduate Diploma and Msc in Archaeology from University of Kelaniya Postgraduate Diploma in English Language from University of Colombo and also a Bsc in Development Planning and Administration from University of Colombo.

Dr. Dandeniya was attached to the government service for over 25 years and has also served in the private sector for 7 years in Tristar Apparel Sports and Samson Silva & Company Ltd.

Dr. Dandeniya is a fellow member of The Council of Sri Lanka Archeologists, Chairman to the Board of National Schools, General Secretary to the National Organization of Sri Lanka professionals, Member of United Professional Groups and also a Country Director of the Sri Lanka Europe Friendship Association. .

Mr. Lakshman De Fonseka

Non-Executive, Non-Independent Director

Mr. Lakshman De Fonseka is the Chairman & Managing Director of JF Packaging (Pvt) Ltd. Founded in 1987, JF Packaging is a pioneer manufacturing and supplying three layer films in Sri Lanka and a wide

range of packaging solutions to reputed clients both locally and internationally. JF Packaging pride itself in catering to multinationals such as Nestle and Unilever. With a turnover of \$ 1.5 billion p.a, JF Packaging (Pvt) Ltd owns the latest state of the art machineries from countries such as Italy, Germany, Singapore, Taiwan, India and China.

Having completed his primary education at Trinity College Kandy, Sri Lanka, Secondary and tertiary education in Australia, Mr. Lakshman De Fonseka returned to Sri Lanka to start the operations of JF Packaging (Pvt) Ltd which was then a LKR 14 million annual turnover company. With an experience of over 25 years in the flexible packaging industry, he has been the sole force in turning a then LKR 14 million worth annual turnover company at present. Today JF Packaging (Pvt) Ltd is the biggest flexible packaging converter in the flexible packaging industry. It is the only Sri Lankan company to be elevated to Nestle's "Global Supply Chain" that has enabled JF Packaging (Pvt) Ltd, to supply to Nestle worldwide, He was awarded the Bronze winner in the National level for the large scale category at the "Entrepreneur of the Year" organized by The Federation of Chambers of Commerce and Industry of Sri Lanka. He is also a member of the Chamber of Young Lankan entrepreneurs (C.O.Y.L.E).

Mr. Johnson Anthony Fernando

Non-Executive, Non-Independent Director

Being one of the founder-directors and co-owners of Expo Industrial Products (Pvt) Ltd, established in 1992, Mr. Johnson Fernando is a veteran and widely travelled business professional counting over 25 years' experience in senior management positions with the Expo Industrial Group which has diversified interests including in apparel, food packaging, industrial printing, commercial printing, logistics management, engineering and construction.

He presently serves as a Director of People's Leasing & Finance PLC, President of the Sri Lanka Association of Printers, the APEX body of printers in Sri Lanka, Vice President of the Sri Lanka China Business Council

Cooperation and an advisory Board Member of the Benedict XVI Cultural Institute.

Mr. Nishantha Gunasekara

Non-Executive, Non-Independent Director

Mr. Nishantha Gunasekara currently functions as a Senior Consultant/ Director at Emsolve Consultants and also serves as a Director at Sadaharitha Plantations Limited and Secretary to the Postgraduate Institute of Management Professionals Association.

Mr. Nishantha Gunasekara has over 20 years' experience in Banking and Finance Sector and has served at Seylan Bank, Nations Trust Bank, Standard Chartered Bank and Pan Asia Bank. He holds a Master's degree in Business Administration from the University of Sri Jayawardenepura, an Associateship in Banking from the Institute of Bankers of Sri Lanka (IBSL), a Diploma in Banking and Finance from IBSL and IFS School of Finance (UK), Certificate in Bank Compliance and Regulations from IBSL and also an Advanced Diploma in Management Accounting from CIMA.

Corporate Governance

Having obtained the Finance Business License in April 2012 under the Finance Business Act No.42 of 2011, People’s Merchant Finance PLC (“PMF” or “the Company”)has placed greater emphasis in complying with the Corporate Governance practices and procedures set out for the finance business sector under the Corporate Governance Direction No.03 of 2008 (as amended) issued to finance companies by the Central Bank of Sri Lanka. The Board of Directors of the Company is increasingly taking measures to reach for best Corporate Governance practices for proper direction and control of the Company’s operations.

PMF takes all initiatives to carry out its operations in an ethical and socially acceptable manner giving first priority to stakeholders’ interests. The Company considers Corporate Governance as an essential tool

to achieve its desired objectives, with effective market operations and creation of wealth for the shareholders. The Board provides corporate leadership, direction and instructions to the management for better performance. PMF closely monitors the Corporate Governance requirements issued by the Central Bank of Sri Lanka and other institutions and takes appropriate measures to comply with such requirements.

Following (Table 1.1) are the Corporate Governance measures and the appropriate compliance initiatives taken by the Company in order to comply with such requirements.

Table 1.1 Compliance with Corporate Governance Measures

Serial No.	Principle	Level of Compliance
A.	Responsibilities of the Board	<p>The Board of Directors is responsible for the strategic objectives of the Company for determining policies and performance criteria. The board had delegated the detailed planning and implementation of objectives and policies to the management. Further, the strategic objectives of the Company are predicted on the Vision and Mission Statements and the corporate values are also communicated to employees at all levels.</p> <p>The Chief Executive Officer of the Company represents the Key Management personnel of the Company at meetings held by the Board and the Board is appraised of the performance and operations of the Company towards the achievement of its goals and objectives.</p> <p>The Board also reviews the adequacy and integrity of the Company’s internal control system through the Board Audit Committee (BAC) formed for such purpose. The Audit Committee however was reconstituted by the Board on 13th January 2016 consequent to the reconstitution of the Board on 30th June 2015 as mentioned above.</p> <p>Although meetings of the IRMC and BAC have not been held quarterly, with the reconstruction of the said committees it is envisaged that future compliance will be enhanced and ensured.</p>

Serial No.	Principle	Level of Compliance
		<p>The Board ensures that there is appropriate oversight of the affairs of the Key Management Personnel through the review of affairs of the Company at Board meetings.</p> <p>The Board is apprised of and understands their duties and responsibilities in terms of the regulatory environment.</p> <p>The Board exercises due diligence in hiring and overseeing functions of the external auditors through the Board Audit Committee.</p> <p>The Board has appointed the Chairman and the Chief Executive Officer. Their roles are separate from each other.</p>
B.	Meetings of the Board	<p>Due to the reconstitution of the Board of Directors as stated above , there have been only Six (06) Board meetings during the year 2015/16.</p> <p>Page 14 Provides further details on the number of Board meetings held and the attendance of Directors thereat.</p> <p>All Directors are given an equal opportunity to include proposals for promotion of business and management of risk in the agenda for regular meetings.</p> <p>The date of the next Board meeting is decided collectively by the members present during the previous Board meeting and subsequently communicated to all the members, so as to ensure that required notice is given. Reasonable notice is given of any other special Board meeting.</p> <p>An Attorney-at-Law with adequate experience has been appointed by the Board as Company Secretary. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. The Chairman has also delegated the function of preparing the Agenda for a Board meeting and accordingly, the Company Secretary is responsible for the same.</p> <p>Sufficiently detailed minutes of all meetings of the Board are clearly documented and made available for inspection by the Directors.</p> <p>All Directors have access to seek advice of the Company Secretary who is an Attorney-at-Law.</p>

Corporate Governance

Serial No.	Principle	Level of Compliance
C.	Composition of the Board	<p>As at the year ended 2015/16, the Board comprised of Nine (09) Directors all of whom were Non-Executive. One (01) of the Nine (09) Non-Executive Directors was Independent. The Central Bank of Sri Lanka (CBSL) has confirmed that the absence of the required balance of Independent to Non Independent Directors will not be considered a noncompliance as the existing Board is an interim Board appointed by the Monetary Board of the CBSL.</p> <p>The period of service of all Directors during the Financial year ended 2015/16 was below nine (09) years.</p> <p>The Board of Directors possesses academic and professional qualifications in diverse fields which assist in bringing an objective judgment to bear on issues of strategy, performance and resources.</p> <p>The required quorum was met at all meetings of the Board convened for the Year.</p> <p>The Composition of the Board as at 31st March 2016 and names and category of other Directors who held office during the Financial year 2015/16 is given on page 12 & 13 together with the year of appointment and resignation where applicable.</p> <p>A formal and transparent procedure for the appointment of new Directors is in place. The Articles of Association of the Company provides for the general procedure applicable to the appointment and selection of Directors of the Company.</p> <p>Approval for the appointment of Directors was obtained from the Director Non-Bank Financial Institutions of the Central Bank of Sri Lanka upon being satisfied of the fitness and propriety of nominees to be appointed as Director of the Company.</p> <p>During the Financial Year 2015/16 Eleven (11) Directors were appointed and Eleven (11) Directors resigned, details of which are given on pages 12 & 13.</p> <p>CBSL approval was obtained for such appointments and resignations and the same has been communicated to all shareholders.</p>
D.	Fitness and Propriety of Directors	<p>The Board considers that the knowledge, skills, experience, diversity and attributes of the Directors as a whole are appropriate to carry out the duties and responsibilities of the Board.</p> <p>As at 31st March 2016 and as at present all Directors are below the age of 70 Years.</p> <p>There are no Directors who hold office as Director of more than 20 companies. None of the Directors hold office of a Director or any other equivalent position in more than 10 Companies that are classified as Specified Business Entities.</p>
E.	Delegation of Functions	<p>The Board has delegated authority to relevant Board Committees and the Chief Executive Officer while preserving its authority.</p>

Serial No.	Principle	Level of Compliance
F.	The Chairman and the Chief Executive Officer	<p>During the Year 2015/16, the Board was reconstituted as stated in page 12. Prior to reconstitution of the Board Mr. Govindasamy Ramanan held office as the Executive, Managing Director and CEO of the Company until he ceased to hold the said office with effect from 4th June 2015 consequent to a Direction of the Central Bank of Sri Lanka (CBSL). Pursuant to a Direction of the Monetary Board of CBSL, People's Leasing & Finance PLC was thereafter, appointed as the Managing Agent of the Company with effect from 14th July 2015. Mr. Hemasiri Fernando, Chairman of People's Bank and People's Leasing & Finance PLC (PLC) was appointed as Chairman of the Company with effect from 30th June 2015. Mr. Sanjeewa Bandaranayaka Chief Financial Officer/ Deputy General Manager Finance & Administration of the Managing Agent, PLC was appointed as Acting CEO of the Company with effect from 14th July 2015.</p> <p>Therefore the role of Chairman and CEO has been separated since reconstruction of the Board and remained the same as at 31st March 2016.</p> <p>Duties and responsibilities of Chairman and CEO have been stated at page 14</p> <p>The Chairman ensures, that all Directors are properly briefed on issues arising at Board meetings by the submission of the agenda and Board papers with sufficient time for their perusal prior to a meeting.</p> <p>The Chairman sets the agenda, style and tone of the Board deliberations and ensures that opinions of all Directors are appropriately considered in decision making, thereby promoting active contribution by the individual Directors to the Board's Affairs.</p> <p>The Chairman is a Non-Executive Director who does not get involved Directly in any of the Executive duties of the Company or the direct supervision of the Key Management Personnel.</p>
G.	The Board Appointed Committees	<p>During the Year 2015/16, four (04) Board Sub Committees were appointed to assist the Board in the discharge of Board responsibilities namely, the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Board Remuneration Committee (BRC) and the Related Party Transactions Review Committee. Details of Committees are given on page 15 & 16.</p>
H.	Related Party Transactions	<p>The Company has identified categories of persons who shall be considered as "related parties".</p> <p>Related Party Transactions Review Committee was appointed by the Board on 15th March 2016, and will continue to strengthen the Company's position in this aspect. Details of the Committee and its responsibilities are given at page 16.</p>

Corporate Governance

Serial No.	Principle	Level of Compliance
I.	Disclosures	<p>The Board ensured that the annual audited financial statement for the year ended 31st March 2015, and periodical financial statements of the Company during the year 2015/16 were prepared, and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards after review of the same by the Board Audit Committee in operation.</p> <p>Required information on preparation of the annual Financial Statements in line with applicable accounting standards and regulatory requirements ,inclusive of specific disclosures is given in the "Independent Auditors Report" on page 33 & 34.</p>
J	Transactional Provisions	The Board has complied with transitional provisions in this rule.

The Board of Directors

The Board is properly constituted of professionally qualified respected individuals with varied experience in different fields across finance, marketing and banking. The Board formulates and approves strategies and provides leadership for the Company while directing and controlling the operations of the Company within a prudent and effective internal control framework with continuous monitoring and feedback communication system.

The brief resumes of directors are provided in the annual report under Board of Directors on page 24 to 30. Appointments to the Board, names and their resumes are informed to the Colombo Stock Exchange in order

to make shareholders informed of the change in the directorate of the Company. The same is provided to the Central Bank of Sri Lanka as well and prior approval is obtained before the appointment of a Director.

The vacancies that arise from the resignations are filled by the remaining Directors collectively after taking into consideration the views of all the Directors at the Board meetings. The Board appoints the Chairman and the CEO and define and approve the functions and responsibilities for them. Details of names of individuals who served as Directors of the Company during the Year 2015/2016, is as follows;

Name of Director	Position held on the Board (Chairman / Director)	Nature of Appointment (Executive/ Non-Executive)	Date of Appointment	Date of Resignation
Jehan Prasanna Amaratunga	Director	Non-Executive	26th October 2010	19th May 2015
	Chairman	Non-Executive	01st September 2014	
Govindasamy Ramanan	Acting Managing Director/CEO from 25th March 2013	Non-Executive up to 24th March 2013	06th January 2012	As per CBSL Direction dated 04th June 2015
	Managing Director/ CEO from 28th January 2014	Executive from 25th March 2013		

Name of Director	Position held on the Board (Chairman / Director)	Nature of Appointment (Executive/ Non-Executive)	Date of Appointment	Date of Resignation
Mr. Piyadasa Kudabalage	Chairman	Non-Executive	9th July 2013	
	Director	Non-Executive	01st September 2014	23rd February 2015
Mr. Tushan H.M. Wickramasinghe	Director	Non-Executive Non Independent	06th January 2012	15th February 2016
Mr. Mark M.S.K Rajapakse	Director	Non-Executive Non Independent	14th February 2012	15th February 2016
Ms. Lakshmi .K Sangakkara	Director	Non-Executive	28th January 2013	19th May 2015
Mr. Anil .P. Weerasinghe	Director	Non-Executive, Independent	01st January 2012	*
Mr. N.C. Peiris	Director	Non-Executive Independent	20th August 2012	23rd February 2015
Ms. Sita Vinothini Amarasekara	Director	Non-Executive Independent	20th August 2012	19th May 2015
Mr. Rohan S. De Silva	Alternate Director to M.M.S.K. Rajapakse	Non -Executive	14th August 2013	27th February 2015
Mr. P. A. Ajith Panditharathna	Chairman (former)	Non-Executive	3rd June 2010	29th May 2013
Mr. Methmal Senevirathne	Director	Non-Executive Non Independent	19th May 2015	15th February 2016
Mr. Anura Chrishmal Sumedha Warnasuriya	Director	Non-Executive	19th May 2015	4th September 2015
Mr. Sivaaji Moditha De Zoysa	Director	Non-Executive Independent	19th May 2015	30th June 2015
Mr. Hemasiri Fernando	Chairman	Non-Executive Non Independent	30th June 2015	*
Mr. Michael Pradeep Amirthanayagam	Director	Non-Executive Non Independent	30th June 2015	*
Mr. Namasivayam Vasantha Kumar	Director	Non-Executive Non Independent	30th June 2015	*
Mr. Don Padmasiri Kumarage	Director	Non-Executive Non Independent	30th June 2015	*
Mr. Dandeniya Walawwe Singhapathi Shelton Rahula Nanda Jayasena Dandeniya	Director	Non-Executive Non Independent	19th May 2015	*
Mr. Lakshman De Fonseka	Director	Non-Executive Non Independent	19th May 2015	*
Mr. Udeni Nishantha Gunasekera	Director	Non-Executive Non Independent	30th June 2015	*
Mr. Johnson Anthony Fernando	Director	Non-Executive Non Independent	30th June 2015	*

*Currently in office.

Corporate Governance

Duties of Chairman and CEO

The roles of Chairman and CEO are separated and are performed by two unrelated individuals. The Chairman provides leadership to the Board and the CEO carries out leadership for day to day business operations.

The Chairman is responsible for leadership of the Board, conduct of Board's functions and meetings as per the agenda for each meeting. The Chairman ensures that all the Board members actively contribute to the matters taken up at the Board meetings, and work effectively in discharging their responsibilities. The Chairman also ensures that all key issues are addressed by the Board in a timely manner. The Chairman directs the Board to act in the best interest of the Company and encourage them to give their full commitment towards the Board's affairs.

The Chairman takes initiative to maintain active and effective communication with shareholders and that

the views of shareholders are communicated to the Board.

Board Meetings

PMF's Board continues to evaluate and monitor its performance on a monthly basis. This ensures effective discharge of duties and responsibilities owed to the Company. This complies with the Corporate Governance Direction No.03 of 2008, issued by the Central Bank of Sri Lanka. The information being provided to the Board allowing sufficient time for them to review and call for additional information. This enhances the performance measurement of operations and internal controls. These meetings also focus on risks faced by the Company and risk mitigation strategies adapted on a regular basis.

The participation of Directors and the Board at subcommittee meetings is depicted in table 1.3 as follows;

Table 1.3. Participation of Directors at Board and Board Sub Committee meetings

Name of Director	Board Committees attended during 2015/16				
	Board Meetings attended during 2015/16	Board Audit Committee Meeting	Integrated Risk Management Committee	Remuneration Committee	Related Party Transactions Review Committee
Mr. T.H.M.Wickramasinghe	4/5	N/A	N/A	N/A	N/A
Mr. Anil Weerasinghe	5/6	1/1	N/A	N/A	NM
Mr. Roshan S. De Silva	4/4	N/A	N/A	N/A	N/A
Mr. M.M.S.K.Rajapakse	4/4	N/A	N/A	N/A	N/A
Mr. Lakshman De Fonseka	3/6	N/A	NM	N/A	NM
Mr. Methmal Senavirathne	4/5	N/A	N/A	N/A	N/A
Mr. Hemasiri Fernando	5/5	N/A	N/A	N/A	N/A
Mr. M. P. Amirthanayagam	4/5	N/A	N/A	NM	NM
Mr. N.V.Kumar	4/5	N/A	N/A	NM	N/A
Mr. D. P. Kumara	5/5	N/A	N/A	NM	N/A
Mr. D. W. S. S. R. N. J. Dandeniya	5/6	N/A	NM	N/A	N/A
Mr.U. N. Gunasekera	3/5	1/1	N/A	N/A	N/A
Mr. J. A Fernando	4/5	1/1	NM	N/A	N/A

N/A – not a member of the Committee

NM – no meetings held during the year

Board Audit Committee (BAC)

People's Merchant Finance PLC has established Board Audit Committee (BAC) to review the performance and monitor the operations of the Company on a continuous basis. BAC was established by the Board in a formal and transparent manner and the Board ensures the maintenance of independence of the Committee which consists of three Non-Executive Directors. Out of the three committee members one member is independent. The Chairman of BAC is a Non-Executive, Non independent Director appointed by the Board, who possesses qualifications and experience in the field of Banking and Finance.

As the BAC was reconstituted on 13th January 2016 consequent to the reconstitution of the Board as Directed by the Monetary Board of the Central Bank of Sri Lanka, only one meeting of the BAC could be held during the year under review. BAC makes their recommendations based on the audit findings with the intention of enhancing internal controls, assessment of risk and review of the feedback and management response towards the recommendations.

The names of the BAC members during the financial year 2015/16 were:

Mr. U.N. Gunasekera –Chairman of the Committee

Mr. Anil Weerasinghe

Mr. Johnson A. Fernando

The main functions of the Audit Committee are:

- Review internal audits and maintain an appropriate relationship with external auditors;
- Keeping under review the scope, results of the audit, its effectiveness, independence and objectivity of the auditors;
- Dealing clearly with its authority and duties with terms of reference;
- Assist the Board on;

Preparation presentation and adequacy of disclosures in the financial statements and review of compliance with related regulations.

To ensure that the PMF's internal controls and risk management procedures are adequate to meet the standards.

- Assessing the Company's ability to continue as a going concern in the foreseeable future
- Continuous review of independence and performance of company's external auditors
- To make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remunerations and terms of engagement of external auditors;
- Discussion of the audit plan, key audit issues, resolutions, management responses and the annual audit of the Company.

Board Remuneration Committee (BRC)

The Remuneration Committee consists of three (03) Directors who are all Non-Executive Non-Independent Directors. The Remuneration Committee was established by the Board in a formal and transparent manner at a Board Meeting Held on 13th January 2016. However, no meetings were held during the financial year ended 31st March 2016.

The names of the BRC members during the financial year 2015/16 were;

Mr. M.P. Amirthanayagam Chairman of the Committee

Mr. N. Vasantha Kumar

Mr. D. P. Kumarage

The main functions of Remuneration Committee are;

- Developing a policy on executive remuneration and packages for directors and to ensure that no director is involved in deciding his own remuneration

Corporate Governance

- Recommendation to the Board on the Company's framework for remuneration packages for executive directors and senior management
- To seek appropriate professional advice as and when it is required as authorised by the Board

Directors allowances paid during the period are disclosed under Note 11.

Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee (IRMC) consists of three (03) Directors, The Acting CEO and the Head of Risk Management of the Company. Directors in the Committee are Non Executives. The Committee was established by the Board in a formal and transparent manner on 13th January 2016 and the Board ensures the maintenance of independence.

The names of the IRMC members during the financial year 2015/16 were;

Mr. Johnson A. Fernando

Mr. L. De Fonseka

Dr. R. Dandeniya

Acting CEO- Mr. Sanjeewa Bandaranayaka

Head of Risk Management

The main functions of IRMC are;

- To assess and evaluate all risks including operational, financial, Liquidity, credit interest rate, IT and security risks on a regular basis, following appropriate measures;
- Review the internal controls of the Company and take initiative to improve the effectiveness of these controls;
- Review the adequacy of all the management commitment such as ALCO, Credit, etc;

- To closely monitor and update Company's Business Plan.

Related Party Transactions Review Committee (RPTRC)

The main functions of the Related Party Transaction Review Committee are;

- To oversee related party transactions policy and monitoring procedures;
- Disclosure of related party transactions;
- Avoidance of conflicts of interests.

The names of the RPTRC members during the financial year 2015/16 were;

Mr. M.P. Amirthanayagam –Chairman of the Committee

Mr. L. De Fonseka

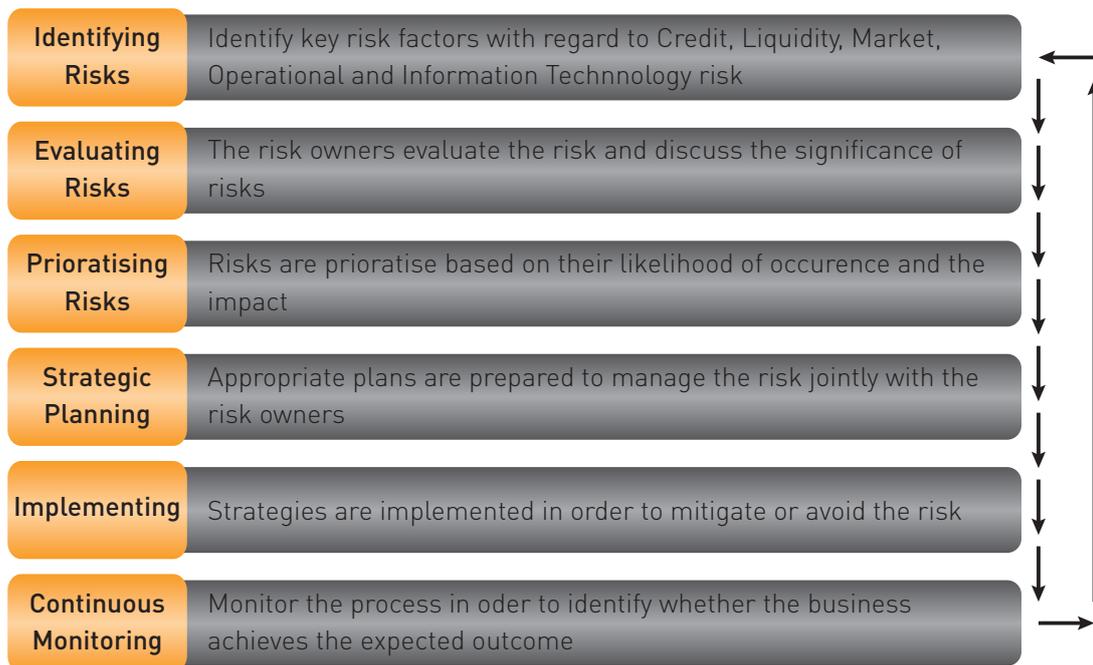
Mr. Anil Weerasinghe

Risk Management and Internal Control

Risk is the probability of occurrence of an uncertain event which damages or lowers the effectiveness of business processes; ultimately reduce the profitability of the Company. Being a finance company, PMF is taking extensive effort to identify the full spectrum of its risks

and also has a sound framework to manage the impact of those risks based on the concept “prevention is better than cure”. Hence the Company has embedded risk management practices in to daily operations in order to balance the tradeoff between the risks and returns.

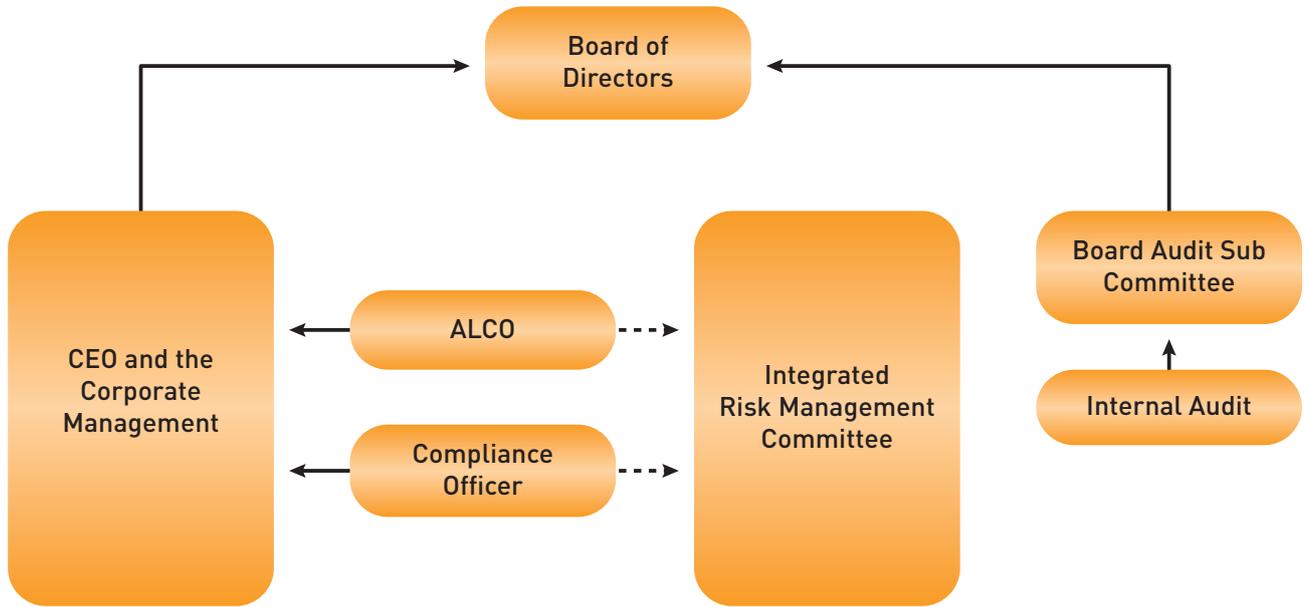
Risk Management Process



Effective Management of risk is vital to a business to reduce the possibilities of incurring losses and leaving out future opportunities to make profits. Risk Management process of PMF includes policies and practices to systematically identify the probable risk events of each risk category. It has set procedures to assess the risk and guidelines to mitigate or transfer risk factors appropriately. Our Company expects its Risk Management framework to encompass many features including following;

- being an integral part of organisational process;
- capturing a wide range of information to evaluate the uncertainty in the business process;
- being systematic but dynamic in responding to the changes in internal and external environment;
- being transparent and supportive in the decision making process.

Risk Management and Internal Control



Risk Management Framework

The Board of Directors identify the optimal risk – return policy at the strategic business level with the support of Integrated Risk Management Committee and the Board Audit Committee. Also the Board formulates comprehensive Risk Management policies and processes based on the recommendation of Management and Board Committees. The CEO bridges the Board and the risk owners by coordinating between the two parties. He is held responsible for continuously monitoring the risk generating from the business activities. Risk owners identify the sources of risks and hold the responsibility of reporting to the Board through Integrated Risk Management Committee and CEO.

The Board Audit Committee assists the Board in overseeing management compliance with related acts and regulations through internal and external audits. Further, the committee ensures the effectiveness of the system of internal controls.

Key Risks Faced by the Company

Credit risk arises from the potential that a borrower or counterparty of a financial transaction will fail to perform on an obligation. Credit Risk may result in

the losses of the principal and the interest amount which will adversely impact on profit and ultimately affecting overall performance of the Company. As a finance company there are different activities which will lead to credit risk including lending, leasing and treasury functions. Since lending and leasing being the main business lines of PMF, credit risk is the highest contributor of overall risk of the Company.

PMF manages credit risk through a well structured framework which provides guidelines to take credit decisions within the Company’s risk appetite. This framework defines and communicates risk acceptance criteria of the Company to avoid negative consequences when dealing with high risk generating parties.

PMF has set hierarchical delegation of authority limits to manage its credit risk. The ratification process of disbursement documents is centralised to Head Office and in order to mitigate the risk, clear segregation of duties has been in place between the originator and the approver. Establishing single borrower limits and exposure to various segments based on the industry performance are in place to manage the credit risk.

The responsibility of monitoring the credit risk evaluation process is held with Internal Audit and Risk management policy.

Liquidity Risk

Liquidity risk refers to the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due or will have to do at an extensive cost. This arises from mismatches in the timing or maturity of cash flows. For a finance company, ensuring adequate liquidity is maintained in all currencies to meet its obligations is crucial for a smooth flow of day to day operations.

Proactively taking necessary measures to mitigate liquidity risk exposure is critical to maintain customer confidence towards the Company. Our Company has a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process includes a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons. Senior management continuously review information on the Company's liquidity developments and report to the Board of Directors on a regular basis.

Treasury plays a strategic role in maintaining liquidity through having a balanced mix of deposits and money market funds. In order to comply with Central Bank guidelines on Liquidity Management, PMF calculates Statutory Liquid Asset Ratio on daily basis. Through this the Company measures the daily liquidity risk of the Company and takes necessary control actions. The Company forecasts Liquid Asset Ratio for future twenty working days to identify short term liquidity position and this forecast is further extended for next three years to have a clear picture on long term cash movement. Maturity mismatch analysis is another key liquidity risk indicator which assesses the liquidity risk exposure of the Company.

Market Risk

Market risk refers to the risk of decreasing the value of assets and liabilities arising from adverse movements in external market conditions such as changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices. Being a member of the financial services industry, it is extremely important to predict above fluctuations to gain a competitive advantage over the other competitors. Hence having a sound market risk management system which is well aligned with the Company's strategic objectives is essential when managing the adverse consequences arising from the market fluctuations.

In PMF market risk mitigation is mainly done through policies, limits and control measures such as segregation of duties. The risk tolerance limits are imposed by ALCO and are subject to regular reviews, adjustments according to the market fluctuations.

Key market risks can be categorised as follows:

Interest Rate Risk

This refers to the risk of losses resulting from changes in interest rates. As a result of a mismatch in interest rates on its assets and liabilities and/or timing differences in the maturity. As a financial institution, majority of the profits is based on the interest income and interest expense. Hence, a financial institution may suffer a loss in profit due to the adverse changes in interest rates.

The ALCO is held responsible to review interest rate gaps in order to identify the impact on capital and take actions to re-price the products to ensure the financial stability of the Company. Market interest rates and other macro economic indicators are monitored closely by the committee and necessary changes are made to mitigate the risk.

Price Change Risk

This refers to the risk of losses resulting from a decline in value of assets due to changes in the prices of

Risk Management and Internal Control

assets, securities etc. Commodity price risk and Equity price risk are the risk categories which mainly affect the business of PMF. Commodity price risk refers to the uncertainty of the expected value of profit raised from purchase and sale of different commodities. This includes price risk which is mainly due to price volatility and volume risks related to changes in demand and availability of resources. In PMF pawning business is mainly affected by this risk and to mitigate the adverse impacts, the Company has introduced a quicker re-pricing cycle.

Equity price risk refers to the losses due to changes in the prices of equity securities on the public market or stock exchange indices. PMF is a listed entity in the Colombo Stock Exchange; hence any adverse moments of share price directly affect the market capitalisation of the Company. PMF has set long term investment strategies to reduce its equity price risk.

Operational Risk/ Business Risk

The operational risk refers to the losses resulting from inadequate internal processes, people and systems, or the Company's inability to control external harmful events. Operational risk is a broad discipline which is extremely important in the development of integrated risk management programs which include compliance, business continuity planning, information security and other operational risk related data.

Due to the growing complexity of the financial industry such as new technology, network systems etc, frequent upgrading in regulatory requirements is essential. In this context, corporate governance and excellent management of operational risk of the Company is getting highlighted and increased attention.

Our Company has established a sound process of internal controls which is in accordance with the policies and procedures imposed by the Central Bank and other regulatory bodies. This process comprises of risk assessment, monitoring through Key Risk Indicators, reporting, control mechanisms and contingency planning.

The hierarchical risk management framework enables the Company to mitigate the risk in each layer. This hierarchy includes Board of Directors, Risk Management Committee of the Board, risk managers and support groups of risk management. The Board of Directors is the ultimate accountability holder and ensures the effectiveness of the integrated operational risk management framework.

Information Technology Risk

Managing information technology risk has been given a strategic importance within the financial industry due to the fact that all the financial institutions have become the members of the global network. Since the increased dependency on the systems, the chances of unauthorised access to the sensitive information and data theft also have continued to increase. Hence it's extremely important for a financial institution to have excellent IT controls to minimise risks arising from hardware and software failure, human error, spam, viruses and malicious attacks as well as natural disasters.

PMF has a comprehensive Information Security Policy which outlines how to select and implement countermeasure against information theft. The policy encourages everyone within the organisation to consistently behave in an acceptable frame with respect to information security. Information storage protection that safeguards system/data availability, integrity and confidentiality, operational controls such as personnel security, backup, contingency and off-site have been implemented to ensure sound IT controls.

Risk Owners

Different types of risk in an organisation should be identified effectively and risk ownership should be passed to the most appropriate people in order to avoid or mitigate the risk. Since our Company's risk is managed hierarchically, we have risk owners in each layer who is personally responsible for the effectiveness of the Risk Management Process.

Company Risk Matrix

A risk matrix is a tool used by PMF to calculate the level of risk in business activities. Most commonly a Risk Matrix is a mapping between the likelihood of

an event happening and the consequence if the event occurs. A scoring system for risks is a way to quickly see which activities of the Company to be treated as highly important and those that can be delayed or ignored completely.

Likelihood ↑					
	Negligible	Marginal	Moderate	Critical	Catastrophic
Certain	Medium	High	High	Extreme	Extreme
Likely	Medium	Medium	High	High	Extreme
Possible	Low	Medium	Medium	High	High
Unlikely	Low	Low	Medium	Medium	High
Rare	Low	Low	Low	Medium	Medium

→ Impact/ Severity

Based on the likelihood and the impact, PMF identifies the risk grade of each business operation. Risk owners closely examine the existing procedure that have been set to mitigate or avoid the risk and evaluate to see the set procedures are adequate to manage the risk. PMF introduces new set of policies and procedures to manage risk when and where needed to manage risk more effectively.





Financial Reports

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

Annual Report of the Board of Directors on the affairs of 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 People's Merchant Finance PLC ("the Company") have pleasure in presenting this report to the shareholders, together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31st March 2016 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 there under.

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

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

The Company's parent undertaking is People's Bank.

The ordinary shares were listed on the Main Board of the Colombo Stock Exchange (CSE) on 11th July 1994 and the Company obtained finance business license on 17th April 2012. (Refer Investor information section of this report for the details on ordinary shares)

This report provides the information as required by the Companies Act No.07 of 2007, Finance Business Act No.42 of 2011 and Directions issued there under, the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) and Listing Rules of the Colombo Stock Exchange. This report was approved by the Board of Directors on 8th July 2016.

Principal Business Activities

Company - The Company's principal business activities comprise finance leases, hire purchase, term loans, margin trading, Short Term Investments, Corporate Finance Services, pawning, real estate and issuance of debt instruments and mobilization of public deposits.

Subsidiaries - The Company has a fully owned subsidiary company (PMB Services Limited).

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

Changes to the Group Structure

On 28th October 2015, People's Bank and People's Leasing & Finance PLC (subsidiary of People's Bank) jointly acquired up to 87.21% of its ordinary shares. Accordingly the Company's parent and ultimate controlling party is People's Bank.

Branch Network

Total branch network of the Company as at 31st March 2016 was 10.

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, is contained in the Chairman's Message on (pages 03 to 04). 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 is disclosed in Notes to the Financial Statements on (pages 88 to 89) 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 Financial Officer and the Acting Chief Executive Officer and approved by the Board of Directors and signed by the Chairman and the one director, are appearing on pages 35 to 89 of this Annual Report.

Auditor's Report

The Company's Auditors, M/s.KPMG, Chartered Accountants performed the audit on the Consolidated Financial Statements for the year ended 31st March 2016 and the Auditor's Report issued thereon is given on page 33 to 34 of this Annual Report.

Accounting Policies and changes during the year

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Group and the Company during the year under review. Significant Accounting policies together with the notes adopted in preparation of the financial statements of the Group and the Company is given on the pages 41 to 58. These financial statements comply with the requirements of Lanka Accounting Standards 01 on "Presentation of Financial Statements" (LKAS 01) and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

Accounting Period

The financial accounting period reflects the information from 1st April 2015 to 31st March 2016.

Financial Results and Appropriations

Financial Results

The Group and the Company recorded a net loss of Rs. 87.308 million and Rs. 86.874 million respectively for the financial year 2015/16 (Rs. 337.225 million and Rs. 337.486 million in 2015). Details of the Company's performance and appropriation are tabulated as follows.

Company	2015/16 Rs.'000	2014/15 Rs.'000
Loss after taxation	(86,874)	(337,486)
Loss brought forward from previous year	(1,011,764)	(685,461)
Transfers from reserves	-	9,551
Profit available for appropriation	(1,098,638)	(1,013,396)
Appropriations		
Other comprehensive income	1,937	1,632
Total appropriation	1,937	1,632
Un-appropriated loss carried forward	(1,096,701)	(1,011,764)

Provision for Taxation

The income tax rate applicable on the profits earned during the year is 28 percent. Rate of VAT on financial services changed from 12 percent to 11 percent with effect from 1st January 2015. Accordingly, the current year income tax expense of the Company is Rs. (43,021) million and a more descriptive note on income tax charged and differed tax assets/ liability of the Company and its subsidiaries are disclosed in note 12 the Financial Statements.

Dividends on Ordinary Shares

The Directors have not recommended the declaration of dividend for the financial year ended 31st March 2016. (Nil as per share for FY 2014/15)

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

Preference Shares and Preference Dividend

Outstanding balance of the preference shares as at 31st March 2016 amounted to Rs. 10 million. Company has provided for preference share dividend payable amounted to Rs. 3.6 million during the financial year.

Intangible Assets, Property, Plant and Equipment

The details of property, plant and equipment are presented in note 20 (pages 68 to 69) to the Financial Statements.

The Directors confirms that there were no other significant changes in the Company's or its subsidiaries' fixed assets.

Information on Freehold Land and Building of the Company

Extents, locations, valuations of the entity's land holding are detailed on page 63 of this Annual Report and the net book values of freehold land and buildings owned

by the Company as at 31st March 2016 are included in the Financial Statement at Rs. 1029.5 million and Rs. 11.751 million respectively.

The details of freehold land and buildings owned by the Company and the Group are given in Note 15 to these Financial Statements.

Investments

Details of investments held by the Company are disclosed in note 16 on pages 64 and 65 to the Financial Statements.

Stated Capital and Shareholders' Funds

In compliance with the Companies Act No. 07 of 2007, the Financial Statements reflect the stated capital of the Company. The stated capital is the total of all amounts received by the Company in respect of the issued share capital. The Stated Capital of the Company and the Group as at 31st March 2016 amounted to Rs. 1078.227 million (Rs. 1078.227 million as at 31st March 2015).

Reserves

A summary of reserves of the Group and Company as at year ended 31st March 2016 as follows.

	Company		Group	
	2015/16 Rs. '000	2014/15 Rs. '000	2015/16 Rs. '000	2014/15 Rs. '000
Statutory Reserve Fund	7,259	7,259	7,259	7,259
Revaluation Reserve	573,598	573,598	573,598	573,598
Investment Fund	-	-	-	-
Available for Sale Reserve	(9,044)	(4,426)	(9,044)	(4,426)
Retained Earnings	(1,096,701)	(1,011,764)	(1,101,092)	(1,015,721)
Total	(524,888)	(435,333)	(529,279)	(439,290)

Share Information

Shareholder information and information on trading are provided under the title 'Investor Information' on pages 91 to 92 of this Annual Report and is presented to the shareholders.

Shareholdings

The list of top 20 shareholders, number of shares held by them, percentage of their respective holding and Public holding percentage are given under the title 'Investor Information' on page no 92.

Information to Shareholders

The Board strives to be transparent and provide accurate information to shareholders in all published material.

Board of Directors

The following were the directors of the Company during the financial year ended 31st March 2016 and subsequently;

Mr. Hemasiri Fernando	(appointed on 30th June 2015) - Chairman
Mr. N. Vasantha Kumar	(appointed on 30th June 2015)
Mr. D.P. Kumarage	(appointed on 30th June 2015)
Mr. J. A. Fernando	(appointed on 30th June 2015)
Mr. M.P. Amirthanayagam	(appointed on 30th June 2015)
Mr. U.N. Gunasekara	(appointed on 30th June 2015)
Mr. L. De Fonseka	(appointed on 19th May 2015)
Dr. D. W.S. S. R. N. J. Dandeniya	(appointed on 19th May 2015)
Mr. A.P. Weerasinghe	(appointed on 01st January 2012)

Mr. J.P. Amaratunga	(Appointed on 26th October 2010 and resigned from the post on 19th May 2015)
Mr. G. Ramanan	Managing Director/CEO (Resigned from the post on 04th June 2015)
Mr. P. Kudabalage	(resigned from the post on 23rd February 2015)
Mr. T.H.M. Wickramasinghe	(resigned from the post on 15th February 2016)
Mr. Rohan S. De Silva	(Alternate Director to Mr.M.M.S.K Rajapakse – resigned from the post on 26th February 2015.)
Ms. S.V. Amarasekara	(resigned from the post on 19th May 2015)
Mr. N.C. Peiris	(resigned from the post on 23rd February 2015.
Ms. L.K. Sangakkara	(resigned from the post on 19th May 2015)
Mr. M.M.S.K. Rajapakse	(resigned from the post on 15th February 2016)
Mr. M.A. Senevirathne	(appointed on 19th May 2015 and resigned from the post on 15th February 2016)
Mr. A.C.S. Warnasuriya	(appointed on 19th May 2015 and resigned from the post on 04th September 2015.
Mr. S.M. De Zoysa	(appointed on 19th May 2015 and resigned from the post on 30th June 2015)

All the Directors including the Chairman are Non-Executive Directors. One Director namely Mr. A.P. Weerasinghe is an Independent Director.

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

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 pages 76 to 77 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	
	2016 Rs.	2015 Rs.	2016 Rs.	2015 Rs.
Directors' Fees & Emoluments	294,300	6,668,000	294,300	6,668,000

Directors' Interest in Shares

In compliance with section 200 of the Companies Act, the Directors have disclosed to the Board their shareholding in the Company and any acquisitions or disposals thereof.

The Directors' individual shareholdings in the Company as at 31st March 2016 and 31st March 2015 are given on page 92 of this Annual Report.

Chief Executive Officer's Interest in Shares

The Chief Executive Officer's individual shareholdings in the Company as at 31st March 2016 and 31st March 2015 are given on page 92 of this annual report.

Director's Meetings

The details of Directors' meetings are presented in the Corporate Governance report on pages 14 to 15 of this Annual Report.

Board Sub Committees

All the Board Sub-Committees details are presented in the 'Corporate Governance' section on pages 15 to 16.

Board Audit Committee

All members of the Audit Committee are Non-Executive Directors. The Board Audit Committee Report is given on page 15 of this Annual Report.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company and the Group, which reflect a true and fair view of the state of its affairs. The Directors are of the view that the income statement, statement of profit or loss and other comprehensive income, statement of changes in equity, cash flow statement, significant accounting policies and notes for the year ended 31st March 2016 and statement of financial position as at that date have been prepared in conformity with the requirements of

the Sri Lanka Accounting Standards, the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Regulations made under Finance Business Act. No. 42 of 2011.

The “Statement of Director’s Responsibility for Financial Reporting” is provided on Page 31 forms an integral part of this report.

Donations

During the year, the Company haven’t made donations (2015 –Nil). The information given above on donations forms an integral part of the Report of the Board of Directors as required by the Section 168(1) (g) of the Companies Act No. 07 of 2007.

Related Party Transactions

There are no related party transactions which exceed 10 percent of the Equity or 5 percent of the total assets whichever is lower and the Company has complied with the requirements of the Listing Rules of the Colombo Stock Exchange on Related Party Transactions. However, the Directors have disclosed the transactions that could be classified as related party transactions which are adopted in the presentation of the Financial Statements and accordingly given in note 32 on pages 76 to 77 of this Annual Report.

System of Internal Controls

The Board of Directors has taken steps to oversee the implementation of an effective and comprehensive system of internal controls covering financial operations and compliance controls required to carry its operation in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the financial and other information. The Board has confirmed that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of the financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. The Board Audit Committee Report forms an integral

part of the Annual Report of the Board of Directors and is given on page 32 of the Annual Report.

Corporate Governance

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

In adopting the aforesaid Corporate Governance Charter, the Board 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 (CSE) and the Finance Companies (Corporate Governance) Direction No.03 of 2008, No.04 of 2008 and No. 06 of 2013. The Board is continuing to introduce better systems and procedures for the internal controls, risk management of the Company, and thereby improve accountability and transparency in the Company. The Corporate Governance report of the Company is given in pages 8 to 16.

Human Resources

Number of Employees as at 31st March 2016 was 108 (31st March 2015 – 96)

Environmental Protection

To the best of knowledge of the Board, 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.

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

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 a material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given on note 31 to the Financial Statements on page 76.

Events after the Reporting Date

Details of events after the reporting date are reflected in note 37 Page 89 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 for the Company. Accordingly, a resolution to re-appoint them as Auditors until the next Annual General Meeting at a remuneration to be agreed upon with them by the Board

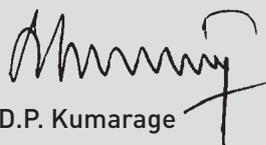
and to audit the Financial Statements of the Company for the accounting period ending 31 March 2017 will be proposed at the Annual General Meeting.

Auditors, Messrs. KPMG were paid Rs.1,614,000 as audit fee and expenses by the Company. Further they were paid Rs.590,000 as a 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 95 of this Annual Report.



D.P. Kumarage
Director



Hemasiri Fernando
Chairman



Inoka Jayawardhana
Company Secretary

08th July 2016
Colombo

Director's Responsibility for Financial Reporting

The Companies Act No. 7 of 2007 requires that the Board of Directors of a Company shall prepare Financial Statements which shall give a true and fair view of the state of affairs of the Company as at statement of financial position date and the profit or loss or income and expenditure as the case may be of the Company for the accounting period ending on that statement of financial position date. In preparing the above financial statements appropriate accounting policies and standards have been selected and applied consistently. Where necessary reasonable and prudent judgments and estimates have been made in line with Accounting Standards.

The Directors are responsible for ensuring that the Company maintains sufficient accounting records to disclose with reasonable accuracy the financial position of the Company. 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 and after 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.

The Company's external auditors KPMG have examined the Financial Statements made available by the Board of Directors together with all financial records, related data, minutes of shareholders and Directors meetings and express their opinion in the Auditor's Report on page 33 to 34 of the Annual Report.

By order of the Board

People's Merchant Finance PLC



Inoka Jayawardhana
Company Secretary

Colombo , Sri Lanka

Report of the Audit Committee

The audit committee is appointed by the Board of Directors of People's Merchant Finance PLC and is responsible to the same. The committee comprises of;

Mr. U.N. Gunasekera	Chairman – Non-Independent, Non-Executive Director
Mr. A. P. Weerasinghe	Independent, Non-Executive Director
Mr. Johnson A. Fernando	Non-Independent, Non-Executive Director

The Chairman Mr. U.N. Gunasekera has over 20 years' experience in Banking and Finance Sector and he holds a Master's degree in Business Administration from the University of Sri Jayawardenepura, an Associateship in Banking from the institute of Bankers of Sri Lanka (IBSL), a Diploma in Banking and Finance from IBSL and IFS School of Finance (UK), Certificate in Bank Compliance and Regulations from IBSL and also an Advanced Diploma in Management Accounting from CIMA.

Profiles of the Directors are given on pages 5 to 7.

Board Audit Committee Meetings

The Committee met one time during the year under review. The CEO and the financial officer attended meetings by invitation. Mrs. Inoka Jayawardhana acted as Secretary to the Audit Committee. The proceedings of the Board Audit Committee were reported to the Board of Directors on a regular basis.

Role of the Committee

The main objectives of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities of overseeing the financial reporting process, the system of internal controls and risk management, the independence and the audit process of the external auditors and the process for monitoring compliance with laws and regulations.

Accounting Package & Finance Division

The Audit Committee has recommended to the Board that the Accounting Package be revisited and amendments be carried out to the system as necessary to ensure that accurate and reliable Financial Statements can be extracted from the system without human intervention or with proper & effective controls.

The Committee has also recommended to the Board, the Finance Team be strengthened.

Internal Audit

The outsourced Internal Audit mainly focused on initiating and improving policies and procedures of the business processes during the year under review.

The Internal Audit is responsible for reviewing and reporting the accuracy and integrity of the financial statements, efficiency of the internal control systems and compliance with statutory and other regulations and the accounting and operational policies.

External Audit

The Audit Committee has recommended to the Board of Directors that Messrs. KPMG to be appointed as Auditors for the financial year ending 31st March 2017 subject to the approval of the shareholders at the Annual General Meeting.

Conclusion

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



Nishantha Gunasekara

Chairman

Audit Committee

Independent Auditors' Report



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

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
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+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

To the Shareholders of PEOPLE'S MERCHANT FINANCE PLC

Report on the Financial Statements

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, 2016, and the statement of income, 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 a summary of significant accounting policies and other explanatory notes set out pages 35 to 89.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Group as at March 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

We draw attention to note no 33.3 which describe the non-compliance with directions relating to capital adequacy and note 37 which describes the proposed amalgamation of the Company. Although these factors

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

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

Independent Auditors' Report



raise significant doubt about the Company's ability to continue its principle business activity and to continue as a going concern, no adjustments has been made in the financial statements as the board of directors is confident that the Company will continue as a going concern due to the matters explained in the note no 37 to these financial statements. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion, scope and limitations of the audit are as stated above
- b) In our opinion:
 - 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,
 - the financial statements of the Company give a true and fair view of its financial position as at March 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

We draw attention to note no 33.3 which describe the non-compliance with directions relating to capital adequacy and note 37 which describes the proposed amalgamation of the Company.

Although these factors raise significant doubt about the Company's ability to continue its principle business activity and to continue as a going concern, no adjustments has been made in the financial statements as the board of directors is confident that the Company will continue as a going concern due to the matters explained in the note no 37 to these financial statements. Our opinion is not qualified in respect of this matter.

- The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.
- As disclosed in Note 33.3 to the financial statements, the Company and Group's capital funds do not fulfill the requirements of the directions issued by the Central Bank of Sri Lanka to the finance companies for the capital funds (Direction no 01 of 2003), minimum core capital (Direction no 01 of 2011), the risk weighted capital adequacy ratio (Direction no 02 of 2006) and single borrower limit (Direction no 04 of 2006) as at the reporting date.

CHARTERED ACCOUNTANTS

Colombo

8th July 2016

Income Statement

For the Year Ended 31st March	Note	Company		Group	
		2016	2015	2016	2015
		Rs '000	Rs '000	Rs '000	Rs '000
Interest income		377,193	659,707	377,193	659,707
Less : Interest expense		281,622	475,897	281,622	475,897
Net interest income	4	95,571	183,810	95,571	183,810
Fee and commission income	5	2,700	3,962	2,700	3,962
Net trading income	6	1,465	1,158	1,465	1,158
Gain/(Loss) from financial assets	7	(352)	650	(352)	650
Other operating income	8	8,224	10,370	8,227	10,459
Total operating income		107,608	199,950	107,611	200,039
Less: Impairment charges on financial assets	9	68,842	264,238	68,842	264,238
Net operating income		38,766	(64,288)	38,769	(64,199)
Staff costs	10	79,487	79,135	79,487	79,135
Depreciation		14,723	15,229	14,723	15,229
Other expenses	11	74,451	149,702	74,710	149,717
Loss before tax		(129,895)	(308,354)	(130,151)	(308,280)
Less: Net tax expense	12	(43,021)	29,132	(42,843)	28,945
Loss for the year		(86,874)	(337,486)	(87,308)	(337,225)
Earnings per share					
Basic loss per ordinary share (Rs.)	13	(1.29)	(5.00)	(1.29)	(5.00)

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

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
Loss for the year	(86,874)	(337,486)	(87,308)	(337,225)
Other comprehensive income				
Items that are or may be reclassified to profit or loss				
Net change in fair value of Available For Sales reserve	(6,414)	(11,082)	(6,414)	(11,082)
Related Taxes	1,796	1,721	1,796	1,721
Items that will not be reclassified to profit or loss				
Actuarial gain on defined benefit plans	2,691	2,267	2,691	2,267
Revaluation of property, plant and equipment	-	108,100	-	108,100
Related Taxes	(754)	(635)	(754)	(635)
Other comprehensive income/ (loss) for the year	(2,681)	100,371	(2,681)	100,371
Total comprehensive loss for the year	(89,555)	(237,115)	(89,989)	(236,854)

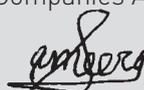
The notes to the Financial Statements form an integral part of these Financial Statements.

Statement of Financial Position

As at 31st March	Note	Company		Group	
		2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Assets					
Cash and cash equivalents	14	477,313	399,141	477,675	399,509
Investment in fixed deposits		220,378	3,310	220,378	3,310
Assets held for sale	15	1,041,251	-	1,040,828	-
Financial investments - held for trading	16	2,541	2,893	2,541	2,893
Loans and advances to customers	17	1,692,502	2,105,619	1,692,502	2,105,619
Financial investments - available for sale	18	55,661	681,869	55,661	681,869
Investments in subsidiaries	19	-	-	-	-
Property, plant and equipment	20	17,003	1,069,280	13,405	1,065,259
Intangible assets	21	988	1,479	988	1,479
Other assets	22	88,250	88,850	88,250	88,850
Total Assets		3,595,887	4,352,441	3,592,228	4,348,788
Liabilities					
Due to banks	23	39,335	31,829	39,335	31,829
Deposits from customers	24	2,841,104	3,546,680	2,841,104	3,546,680
Debt securities issued	25	10,000	10,000	10,000	10,000
Deferred taxation	26	-	44,064	-	43,885
Other liabilities	27	152,109	76,974	152,841	77,457
Total Liabilities		3,042,548	3,709,547	3,043,280	3,709,851
Equity					
Stated capital	28	1,078,227	1,078,227	1,078,227	1,078,227
Statutory reserve fund	29	7,259	7,259	7,259	7,259
Revaluation reserve		573,598	573,598	573,598	573,598
Available for sales reserve		(9,044)	(4,426)	(9,044)	(4,426)
Retained earnings	30	(1,096,701)	(1,011,764)	(1,101,092)	(1,015,721)
Total Equity		553,339	642,894	548,948	638,937
Total Equity and Liabilities		3,595,887	4,352,441	3,592,228	4,348,788
Contingent liabilities and commitments	31	3,498	2,498	3,498	2,498

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

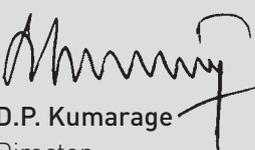
We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.


Sameera Madushan
 Finance Manager


Sanjeewa Bandaranayake
 Acting CEO

Approved and signed for and on behalf of the Board of Directors.


Hemasiri Fernando
 Chairman


D.P. Kumaraage
 Director

Colombo, Sri Lanka
 8th July 2016

Statement of Changes in Equity - Company

	Statutory Reserves					Total Equity	
	Stated Capital	Finance Lease Reserve Fund	Investment Fund	Revaluation Reserve	Available For Sale Reserve		Retained Earnings
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Balance as at 01st April 2014	1,078,227	7,259	9,551	465,498	4,934	(685,461)	880,008
Comprehensive income for the year							
Loss for the Year	-	-	-	-	-	(337,486)	(337,486)
Other comprehensive income for the year	-	-	-	108,100	(9,360)	1,632	100,371
Total comprehensive loss for the year	-	-	-	108,100	(9,360)	(335,854)	(237,115)
Transfer from Investment Fund (Note 29.2)	-	-	(9,551)	-	-	9,551	-
Balance as at 31st March 2015	1,078,227	7,259	-	573,598	(4,426)	(1,011,764)	642,894
Balance as at 01st April 2015	1,078,227	7,259	-	573,598	(4,426)	(1,011,764)	642,894
Comprehensive income for the year							
Loss for the Year	-	-	-	-	-	(86,874)	(86,874)
Other comprehensive loss for the year	-	-	-	-	(4,618)	1,937	(2,681)
Total comprehensive loss for the year	-	-	-	-	(4,618)	(84,937)	(89,555)
Balance as at 31st March 2016	1,078,227	7,259	-	573,598	(9,044)	(1,096,701)	553,339

Figures in brackets indicate deductions.

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

Statement of Changes in Equity - Group

	Statutory Reserves						Total Equity
	Stated Capital	Finance Lease Reserve Fund	Investment Fund	Revaluation Reserve	Available For Sale Reserve	Retained Earnings	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01st April 2014	1,078,227	7,259	9,551	465,498	4,934	(689,679)	875,790
Comprehensive income for the year							
Loss for the Year	-	-	-	-	-	(337,225)	(337,225)
Other comprehensive income for the year	-	-	-	108,100	(9,360)	1,632	100,371
Total comprehensive loss for the year	-	-	-	108,100	(9,360)	(335,593)	(236,854)
Transfer from Investment Fund (Note 29.2)	-	-	(9,551)	-	-	9,551	-
Balance as at 31st March 2015	1,078,227	7,259	-	573,598	(4,426)	(1,015,721)	638,937
Balance as at 01st April 2015	1,078,227	7,259	-	573,598	(4,426)	(1,015,721)	638,937
Comprehensive income for the year							
Loss for the Year	-	-	-	-	-	(87,308)	(87,308)
Other comprehensive loss for the year	-	-	-	-	(4,618)	1,937	(2,681)
Total comprehensive loss for the year	-	-	-	-	(4,618)	(85,371)	(89,989)
Balance as at 31st March 2016	1,078,227	7,259	-	573,598	(9,044)	(1,101,092)	548,948

Figures in brackets indicate deductions.

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

Statement of Cash Flows

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
Cash Flows from Operating Activities				
Loss before taxation	(129,895)	(308,354)	(130,151)	(308,280)
Adjustment for:				
Non-cash items included in profits before tax				
Reversal of interest from investing activities	(56,625)	(79,078)	(56,625)	(79,078)
Reversal of fair value change on shares	352	(650)	352	(650)
Depreciation reversal	14,722	15,229	14,722	15,229
Amortization reversal	628	1,335	628	1,335
Reversal of Impairment on Loans and advances to customers	(24,181)	196,522	(24,181)	196,522
Reversal of employee benefits	-	2,831	-	2,831
Changes in				
Loans and advances to customers	437,298	1,131,268	437,298	1,131,268
Other assets	600	26,290	600	26,498
Operating liabilities	76,947	(3,181)	77,197	(2,918)
Deposits from customers	(705,576)	(690,659)	(705,576)	(690,659)
Gratuity paid	(427)	(1,874)	(427)	(1,874)
Tax paid	-	-	-	(545)
Net cash generated from operating activities	(386,157)	289,680	(386,164)	289,679
Cash Flows from Investing Activities				
Interest income on short term investment	56,625	79,078	56,625	79,078
Investment in Available For Sale Securities	621,590	(192,768)	621,590	(192,768)
Investment in Fixed Deposits	(217,068)	20,430	(217,068)	20,430
Proceeds from sale of Available For Sale Securities	-	-	-	-
Acquisition of property, plant & equipment	(4,323)	(3,669)	(4,323)	(3,669)
Net cash used in investing activities	456,824	(96,929)	456,824	(96,929)
Cash Flows from Financing Activities				
Repayment of bank loan	(24,940)	(25,020)	(24,940)	(25,020)
Net cash from financing activities	(24,940)	(25,020)	(24,940)	(25,020)
Net cash change	45,726	167,730	45,721	167,730
Cash and cash equivalents at beginning of the year	392,252	224,522	392,620	224,890
Cash and cash equivalents at the end of the year	437,978	392,252	438,340	392,620
Cash and cash equivalents at the end of the year				
Cash, Current and Savings Accounts at the end of the year	477,313	399,141	477,675	399,509
Bank Overdraft at the end of the year	(39,335)	(6,889)	(39,335)	(6,889)
	437,978	392,252	438,340	392,620

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

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. REPORTING ENTITY

1.1 Corporate Information

People's Merchant Finance PLC ("Group"), regulated under the Finance Business Act No. 42 of 2011, is a Public Limited Liability Company incorporated on 26th January 1983 and domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007.

The registered office of the Group is situated at No.21, Nawam Mawatha, Colombo 02 and the principal place of business is situated at the same place.

The consolidated financial statements of the Group for the year ended 31st March 2016 include the Group and its Subsidiaries (together referred to as the "Group" and individually as "Group entities").

People's Bank and People's Leasing & Finance PLC (Subsidiary of People's Bank) jointly acquired up to 87.21% of its ordinary shares on 28th October 2015. Accordingly the Company's parent entity and ultimate controlling party is People's Bank which is a Government owned entity.

The staff strength of the Group as at 31st March 2016 is 110 (2015 - 96).

1.2. Principal Activities and Nature of Operations

1.2.1 Company

The principal activities of the Group continued to be Leasing, Hire Purchase, Pawning, Real Estate, Margin Trading, Short-term investments, Corporate Finance services and mobilization of public deposits.

1.2.2 Subsidiaries

The Company's only subsidiary is PMB Services Limited.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated Financial Statements of the Group and Company comprising the Statement of Financial Position, Income Statement, 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") are prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRSs) & 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.

The Financial Statements were authorised for issue by the Management on 8th July 2016.

2.2 Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with new Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying

Notes to the Financial Statements

appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Board of Directors acknowledges their responsibility as set out in the “Annual Report of the Board of Directors”.

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;

- Held for trading investments in quoted equity instruments are measured at fair value.
- Liability for Defined Benefit Obligations is measured at the projected unit credit method.
- Available-for-sale financial assets are measured at fair value.
- Land is measured at fair value. (Assets held for sale)

2.4 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.

2.5 Materiality and Aggregation

In complying with 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.

2.6 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Group in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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 of Financial Instruments	Note 2.6.1
Impairment Losses on Loans and Advances	Note 3.3.9
Defined Benefit Obligation	Note 3.5.3.2
Revaluation of land	Note 3.4.1.4
Deferred taxation	Note 3.8

2.6.1 Measurement of Fair Value

A number of the Group’s accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities. The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, the Company assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of SLFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Group’s

Audit Committee. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- I. Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- II. Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- III. Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies set out below have been consistently applied to all period presented in these Financial Statements.

3.1 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.

3.1.1 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 a subsidiary is treated as long-term investments and is valued at cost less any impairment losses.

The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

3.1.2 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date of control

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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.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

3.2 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 foreign exchange rate prevailing as 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 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 prevailing 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 prevailing at the dates that the value were determined.

Foreign exchange differences arising on translation are recognized in the Statement of Income.

3.3. Financial instruments

Initial Recognition, Classification and Subsequent Measurement

3.3.1 Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

Financial assets and liabilities are initially measured at their fair value plus transaction costs, except in the case of financial assets and liabilities recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Income Statement.

3.3.2 Classification and Subsequent Measurement of Financial Assets

At inception financial assets are classified into one of the following categories:

- At fair value through profit or loss
 - Held for trading ; or
 - Designated at fair value through profit or loss.
- Loans and receivables.
- Held-to-maturity.
- Available for sale.

The subsequent measurement of the financial assets depends on their classification.

3.3.2.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below.

3.3.2.1.1 Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term Profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss.

The Group evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances.

Financial assets held for trading comprises investment in shares.

3.3.2.1.2 Financial Assets Designated at Fair Value through Profit or Loss

The Group designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.3.2.2 Loans and Receivables

'Loans and receivables' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group, upon initial recognition, designates as at fair value through profit or loss
- Those that the Group, upon initial recognition, designates as available for sale
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration

Notes to the Financial Statements

'Loans and receivables' include Cash and Cash Equivalents, fixed deposits, Loans and advances to customers and other assets.

3.3.2.3 Held to Maturity Financial Investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

The Group has not designated any financial assets as held to maturity.

3.3.2.4 Available for Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as Available-for-Sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously

recognised in Equity is recognised in the Income Statement in 'Other operating income'. Where the Group holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding Available-for-Sale financial investments is reported as 'Interest Income' using the EIR.

Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Income Statement as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the 'Available for Sale reserve'.

3.3.3 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash in hand and cash at bank and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

3.3.4 Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss.

- At Amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.3.4.1 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Gains or losses on liabilities held for trading are recognised in the Income Statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.3.4.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Group that are not designated at fair value through profit or loss, are classified as liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Financial liabilities at amortised cost include Due to Bank, Deposits from customers, Debt securities issued and other liabilities.

3.3.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial

asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.3.6 Reclassifications

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets are transferred out of the held at fair value through profit or loss category in the following circumstances:

- To the available for sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or
- to the loans and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Financial assets are transferred out of the available-for-sale category to the loan and receivables category where they would have met the definition of a loan and receivable at the date of reclassification and to held to maturity when the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other

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than an insignificant amount of held-to-maturity assets prior to their maturity.

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in shareholders' equity prior to the date of reclassification is amortised to the income statement over the remaining life of the financial asset, using the effective interest method.

3.3.7 Derecognition

The group derecognises financial asset when the contractual rights to the cash flows from the financial asset expires, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the Consolidated Statement of Financial Position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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

3.3.8 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.

3.3.9 Identification, measurement and assessment of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity

security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

In assessing collective impairment the Group uses of historical trends of the probability of default, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available for- sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible.

3.4 Non financial assets and basis of measurement

3.4.1 Property, Plant & 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.

3.4.1.1 Basis of Recognition

Property, plant and equipment are recognized 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.

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3.4.1.2 Measurement

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

3.4.1.3 Cost Model

The Group applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

3.4.1.4 Revaluation Model

The Group applies the revaluation model to the entire class of freehold land. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated impairment losses. Freehold land of the group is revalued on a rollover basis to ensure that carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the Statement

of Income. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Statement of Income or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

3.4.1.5 Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are charged to the income statement as incurred.

3.4.1.6 Derecognition

The carrying amount of an item of property, plant and equipment is derecognized 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 income statement when the item is derecognized.

When replacement costs are recognized in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognized. Major inspection costs are capitalized. At each such capitalization, the remaining carrying amount of the previous cost is derecognized.

3.4.1.7 Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

The Group provides depreciation from the date the assets are available for use up to the date of disposal. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. 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 depreciation is provided at the following rates for each category.

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.

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 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 derecognized.

3.4.2 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.

3.4.2.1 Basis of Recognition

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.

3.4.2.2 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.

3.4.2.3 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.4.2.4 Amortization

Intangible assets, except for goodwill, are amortised on a straight line basis over four years in the Income Statement from the date

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when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Group.

3.4.2.5 Derecognition

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

3.4.3 Inventory – Real Estate

Real estate inventories are stated at cost or market values whichever is lower. These costs include cost of purchase of the land and expenses on development that are capitalized.

3.4.4 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial Assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related Cash-Generating unit (CGU) exceeds its estimated recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to

reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

3.5. Non Financial Liabilities and Provisions

3.5.1 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.

3.5.2 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of 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.

3.5.3 Employee Benefits

3.5.3.1 Defined Contribution Plan Employees' Provident Fund and Employees' Trust Fund

A Defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Defined Contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.5.3.1.1 Employees' Provident Fund (EPF)

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

3.5.3.1.2 Employees' Trust Fund (ETF)

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

3.5.3.2 Defined Benefit Plan – Retirement Benefit Obligations

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

The Company and the Group are liable to pay retirement benefits under the Payment of Gratuity Act, No. 12 of 1983. Provision has been made for retirement gratuities using "Project Unit Credit" (PUC) method as recommended by LKAS 19 "Employee Benefits". The present value of the defined benefit obligation is determined by discounting the estimated future cash flows based on the actuarial valuation carried out by an independent

qualified actuary. The actuarial gains and losses are charged or credited to the Income Statement in the period in which they arise. The assumptions based on which the results of actuarial valuation was determined are included in Notes to the Financial Statements. The liability is not externally funded.

However, according to the payment of Gratuity Act No. 12 of 1983, the liabilities for the gratuity payment to an employee arise only on the completion of 5 years of continued service with the Group.

3.5.4 Commitments and Contingencies

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

3.6 Income statement

3.6.1 Interest Income

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

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The calculation of the effective interest rate includes all transaction costs and fees 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 liability.

Interest income and expense presented in the Income Statement include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- 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 that the hedged cash flows affect interest income/expense;
- the ineffective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of interest rate risk; and
- fair value change in qualifying derivatives, including hedge ineffectiveness, and related hedged items in fair value hedges of interest rate risk.

Fair value changes on other derivatives held for risk management purposes, and all other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading income in the Statement of Comprehensive Income.

Interest income on available-for-sale investment securities calculated on an effective interest basis is also included in interest income.

Once a financial asset or a group of similar financial assets has been written down as a

result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.6.2 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. Fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are 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.

3.6.3 Profit on Real Estate Sales

Profit on real estate sales are recognized as follows:

- The non-refundable deposits are recognized as a liability in the year of receipt.
- The Company recognize the profit on sale of land and sale of houses constructed, when the Company has transferred the significant risk and rewards of ownership of the goods to the buyer upon settlement of the total value of the land.

3.6.4 Other Income

3.6.4.1 Dividend Income

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

3.6.4.2 Profit on disposal of property, plant & equipment

Net gains and losses of a revenue nature arising from the disposal of property, plant and equipment are accounted for in the Statement of Comprehensive Income, after deducting from the proceeds on disposal, the carrying amount of such assets and the related selling expenses.

All other income is recognized on accrual basis.

3.6.5 Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.

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

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

3.6.6 Income Tax Expense

Income tax expense comprise of current and deferred tax. Income tax expense recognized

in profit or loss except to the extent that it relates to items recognized directly in equity in which case it is recognized in equity.

3.7 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. Notes to Financial Statements include the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

3.8 Deferred Taxation

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward,

Notes to the Financial Statements

are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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.

3.9 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.

3.10 Basic Earning 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.

3.11 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 reviewed regularly by the Group's Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

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. (Refer note 35)

3.12 Cash Flow Statement

The cash flow statement has been prepared using the "Indirect Method" of preparing Cash Flows in accordance with the LKAS 07 - "Cash Flow Statements". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand and favorable balances with banks.

3.13 Comparative Figures

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

3.14 Regulatory Provisions

3.14.1 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 01 October, 2010.

3.14.2 Reserve Fund

The Company is maintaining a reserve fund and transfer reserves out of the net profits of each year, after due provision has been made for Taxation and Bad and Doubtful Debts on following basis,

so long as the capital funds are not less than twenty five (25) per cent of total deposit liabilities, a sum equal to not less than five (5) per cent of the net profits;

so long as the capital funds are less than twenty five (25) per cent of total deposit liabilities, but not less than ten (10) per cent thereof, a sum equal to not less than twenty (20) per cent of the net profits; and

so long as the capital funds are less than ten (10) per cent of the total deposit liabilities, a sum equal to not less than fifty (50) per cent of the net profits.

3.15 New Accounting Standards not Effective at the Reporting Date

The following SLFRSs have been issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) that have an effective date in the future and have not been applied in

preparing these Financial Statements. Those SLFRSs will have an effect on the accounting policies currently adopted by the Group and may have an impact on the future Financial Statements.

3.15.1 Standards issued but not yet adopted which may have significant impact

Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments Classification and Measurement” The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 is effective for annual period beginning on or after 1st January 2018 with early adoption permitted.

The Group is assessing the potential impact on its Financial Statements resulting from the application of SLFRS.

3.15.2 Standards issued but not yet adopted which may not have significant impact

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on ‘Revenue’ and LKAS 11 on ‘Construction Contracts’. SLFRS 15 is effective for annual reporting periods beginning on or after 1st January 2018.

Notes to the Financial Statements

- 3.15.3 Standards issued but not yet adopted which is not expected to have an impact
- (i) SLFRS 14 - Regulatory Deferral Accounts – effective from 1st January 2016
 - (ii) Agriculture: Bearer Plants (Amendments to LKAS 16 and LKAS 41) – effective from 1st January 2016

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
4 Net Interest Income				
Interest income				
Loans and advances to customers	320,568	580,629	320,568	580,629
Short term investments	56,625	79,078	56,625	79,078
Total interest income	377,193	659,707	377,193	659,707
Interest expenses				
Due to banks	2,026	5,854	2,026	5,854
Due to customers	279,596	470,043	279,596	470,043
Total interest expenses	281,622	475,897	281,622	475,897
Net interest income	95,571	183,810	95,571	183,810
5 Fee and Commission Income				
Fee and commission income	2,700	3,962	2,700	3,962
Comprising				
Guarantees	101	68	101	68
Others	2,599	3,894	2,599	3,894
Fee and commission income	2,700	3,962	2,700	3,962
6 Net Trading Income				
Foreign exchange gain	12	596	12	596
Profit on real estate sales	1,453	562	1,453	562
Net trading income	1,465	1,158	1,465	1,158
7 Gain/(Loss) from Financial assets				
Realized gain from financial assets - available for sale	-	-	-	-
Financial assets - held for trading	(352)	650	(352)	650
Gain/(Loss) from financial assets	(352)	650	(352)	650

Notes to the Financial Statements

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
8 Other Operating Income				
Dividend income	184	191	184	191
Staff loan Income	979	3,120	979	3,120
Bad debt recoveries	2,019	700	2,022	788
Sundry income	5,042	6,359	5,042	6,360
Other operating income	8,224	10,370	8,227	10,459
9 Impairment Charges on Financial Assets				
Loans and advances to customers (Note 9.1)	(24,181)	196,522	(24,181)	196,522
Losses on disposal of collaterals (Note 9.2)	93,023	67,716	93,023	67,716
Net impairment charges on financial assets	68,842	264,238	68,842	264,238
9.1 Provision for Bad & Doubtful Debts				
Individual Impairment				
Individual impairment reversal for bills of exchange	(19,750)	(87)	(19,750)	(87)
Individual impairment charges/ (reversals) for pawning	(6,033)	11,308	(6,033)	11,308
Individual impairment charges/ (reversals) for margin trading	-	(81)	-	(81)
Individual impairment charges/ (reversals) for loans	(16,229)	70,496	(16,229)	70,496
Individual impairment reversal for lease	(42,739)	(10,225)	(42,739)	(10,225)
Individual impairment charges/ (reversals) for hire purchase	(5,036)	35,340	(5,036)	35,340
	(89,787)	106,751	(89,787)	106,751
Collective Impairment				
Collective impairment charges for loans	23,546	32,181	23,546	32,181
Collective impairment charges for lease	33,450	55,676	33,450	55,676
Collective impairment charges for hire purchase	8,610	1,914	8,610	1,914
	65,606	89,771	65,606	89,771
Total impairment made/(reversal) during the year	(24,181)	196,522	(24,181)	196,522
9.2 Losses on disposal of collaterals				
Losses on disposal of collaterals of closed facilities	93,023	71,199	93,023	71,199
Reports difference identified during the year lease/ hire purchase	-	(3,483)	-	(3,483)
	93,023	67,716	93,023	67,716

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
10 Staff Costs				
Salary and bonus	69,663	70,354	69,663	70,354
Defined benefit plan cost	2,469	2,831	2,469	2,831
Contributions to defined contribution plans	6,376	2,830	6,376	2,830
Amortisation of prepaid staff loans	979	3,120	979	3,120
Total staff costs	79,487	79,135	79,487	79,135
11 Other Expenses				
Directors' fees and emoluments	294	6,668	294	6,668
Auditors' remunerations				
Audit fee and expenses	1,484	1,440	1,484	1,614
Audit related services and expenses	500	-	500	-
Non audit services and expenses	-	530	-	590
Professional and legal expenses	4,211	8,570	4,211	8,570
Amortisation of intangible assets	1,118	1,335	1,118	1,335
Reversal of Impairment of Real Estate	(2,937)	(4,834)	(2,937)	(4,834)
Office administration and establishment expenses	59,287	22,621	59,287	22,621
Overhead expenses	10,491	113,373	10,752	113,154
Total Other Expenses	74,451	149,702	74,710	149,717
12 Net Tax Expenses				
Current tax expense				
Current year	-	-	-	(363)
Prior years' under provision	-	26,769	-	26,769
Deferred tax (reversal)/provision (Note 12.1)	(43,021)	2,363	(42,843)	2,539
Total tax expenses	(43,021)	29,132	(42,843)	28,945

Notes to the Financial Statements

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
12.1 Deferred Tax Provision				
Deferred tax asset originated during the year	33,254	25,574	33,254	25,573
Deferred Tax liability (originated)/reversal during the year	10,810	(26,850)	10,631	(27,027)
	44,064	(1,277)	43,885	(1,454)
Deferred Tax Recognised in OCI	1,043	1,086	1,042	1,085
Deferred Tax Recognised in Income Statement	43,021	(2,363)	42,843	(2,539)
	44,064	(1,277)	43,885	(1,454)
a. Reconciliation of tax expenses				
Loss before tax	(129,895)	(308,354)	(130,151)	(308,280)
Tax at domestic rate of 28%	(36,371)	(86,339)	(36,442)	(86,318)
Tax effect on exempted income	(52)	(191)	(52)	(191)
Tax effect on disallowable expenses	(1,435)	20,070	(1,413)	20,049
Tax effect on capital allowances	(98,100)	(370,352)	(98,100)	(370,352)
Tax effect on leasing activities	90,987	349,263	90,987	349,263
Effect of taxable losses	44,970	87,549	44,970	87,549
Tax Expenses	-	-	-	-
Effective tax rate	-	-	-	-
12.2 Analysis of tax losses				
Opening tax loss	279,772	192,223	451,680	363,346
During the year tax loss	160,612	87,549	161,515	88,334
Closing tax loss	440,384	279,772	613,195	451,680
13 Earnings Per Share				
Net Loss attributable to ordinary equity holders	(86,874)	(337,486)	(87,308)	(337,225)
Weighted average number of ordinary shares	67,500	67,500	67,500	67,500
Basic loss per ordinary share (Rs.)	(1.29)	(5.00)	(1.29)	(5.00)

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
14 Cash and Cash Equivalents				
Cash in hand	4,517	2,298	4,517	2,298
Cash at Bank	25,797	54,660	26,159	55,028
Money at call and short notice				
Investment in Repos	446,999	342,183	446,999	342,183
Total cash and cash equivalents	477,313	399,141	477,675	399,509

Assets Held For Sale

As one of the measures to improve the Company's core capital status, the Board had decided and taken steps to sell the land and building of the Company accordingly these assets are classified as "Asset Held for Sale". Currently management has initiated an active program to locate a buyer at it's market value and is expected to complete the sale within one year period.

Location	Company		Group	
	Extent	Revalued amount Land & building Rs.000	Revalued amount Land & building Rs.000	Carrying Value Rs. '000
No. 21, Nawam Mawatha, Colombo 02 - Land	108.4 (Perches)	1,084,000	1,084,000	1,029,500
No. 21, Nawam Mawatha, Colombo 02 -Building	16000 (Sq.ft)	35,000	35,000	11,328
		1,119,000	1,119,000	1,040,828

The Company had revalued its land and building in 2016 and the fair value of the land and building was assessed using open market and contractor's test method by Mr.N.M. Jayathilake, Dip. In Val, B,Sc Est.Mat & Val., M.I.Q.S.N.C.T.(Q.S), an incorporated valuer. The value of the land and building has been recognized to the lower of the carrying value or fair value less costs to sell.

15.1 Fair Value Measurement**15.1.1 Fair Value Hierarchy**

The fair value of the land and buildings was determined by an external independent property valuer, having appropriate recognised professional qualifications and experience in the category of the property being valued. Fair value measurements of the property has been categorised as a level 3 fair value based on the valuation techniques used.

Notes to the Financial Statements

15.1.2 Valuation Techniques and Significant Unobservable Inputs

Description	Effective Date of Valuation	Valuation Technique	Significant Unobservable Inputs	Interrelationship between key unobservable inputs and Fair value measurements
Land	31st March 2016	Open Market Value	Market Value Per Perch	Positive Correlated Sensitivity
Building	31st March 2016	Contractor's Test	Cost Per square Feet Depreciated Percentage	Positive Correlated Sensitivity Negative Correlated Sensitivity

16 Financial Investments - Held for Trading

	Company		Group	
	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
Equity securities				
Cost (Note 16.1)	3,387	3,387	3,387	3,387
Fair value changes (Note 16.2)	(846)	(494)	(846)	(494)
Total	2,541	2,893	2,541	2,893

16.1 Quoted Equity Securities held by the - Company/ Group

Sector	2016			2015		
	No of Shares	Cost (Rs.000)	MV (Rs.000)	No of Shares	Cost (Rs.000)	MV (Rs.000)
Bank, Finance & Insurance						
Nations Trust Bank PLC	3,000	214	224	3,000	214	300
Vanik Incorporation PLC	61	3	0	61	3	0
People's Leasing & Finance PLC	69,000	1,242	1,105	69,000	1,242	1,532
Sampath Bank PLC	23	6	5	23	6	6
		1,465	1,333		1,465	1,838
Sector Percentage			53%			64%

Sector	2016			2015		
	No of Shares	Cost (Rs.000)	MV (Rs.000)	No of Shares	Cost (Rs.000)	MV (Rs.000)
Hotel & Travels						
Keels Hotels PLC	7,085	150	85	7,085	150	97
Hotel Services Ceylon PLC	43,500	1,320	653	43,500	1,320	599
		1,470	738		1,470	696
Sector Percentage			29%			24%
Manufacturing						
ACL Cabels PLC	4,700	452	470	4,700	452	359
		452	470		452	359
Sector Percentage			18%			12%
Total		3,387	2,541		3,387	2,893

16.2 Movements in fair value changes

	Company		Group	
	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
Opening balance	494	1,144	494	1,144
Charge/(Reversal) during the year	352	(650)	352	(650)
Closing balance	846	494	846	494

As at 31st March	Company		Group	
	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
17. Loans and advances to customers				
Gross loans and advances (Note 17.1)	2,364,121	2,801,419	2,364,121	2,801,419
(Less): Allowances for Individual impairment (Note 17.2)	(368,873)	(458,660)	(368,873)	(458,660)
Allowances for Collective impairment (Note 17.2)	(302,746)	(237,140)	(302,746)	(237,140)
Net loans and advances	1,692,502	2,105,619	1,692,502	2,105,619

Notes to the Financial Statements

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
17.1 Analysis				
By product				
Pawning	133,849	175,799	133,849	175,799
Leasing (Note 17.3)	1,170,220	1,119,246	1,170,220	1,119,246
Hire Purchase (Note 17.4)	335,829	615,468	335,829	615,468
Margin trading	242,725	386,282	242,725	386,282
Staff leases/ Loans	8,512	11,487	8,512	11,487
Bills of Exchange	170	19,920	170	19,920
Term loans	441,866	402,129	441,866	402,129
Cash Backed Loans	30,950	71,088	30,950	71,088
Gross total	2,364,121	2,801,419	2,364,121	2,801,419
By currency				
Sri Lankan Rupee	2,364,121	2,801,419	2,364,121	2,801,419
Gross total	2,364,121	2,801,419	2,364,121	2,801,419
17.2 Movements in Individual and Collective Impairment during the Year				
Individual impairment charges				
Opening balance	458,660	351,911	458,660	351,911
Charge/(Write back) to income statement	(89,787)	106,749	(89,787)	106,749
Closing balance	368,873	458,660	368,873	458,660
Collective impairment charges				
Opening balance	237,140	147,369	237,140	147,369
Charge to income statement	65,606	89,771	65,606	89,771
Closing balance	302,746	237,140	302,746	237,140
Total	671,619	695,800	671,619	695,800
17.3 Finance Lease Receivables				
Gross investment in finance leases				
Less than one year	502,023	582,074	502,023	582,074
Between one and five years	668,197	537,172	668,197	537,172
Total gross investment in finance leases	1,170,220	1,119,246	1,170,220	1,119,246

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
17.4 Hire Purchase				
Gross investment in hire purchases				
Less than one year	140,483	299,328	140,483	299,328
Between one and five years	195,346	316,140	195,346	316,140
Total gross investment in hire purchases	335,829	615,468	335,829	615,468
18 Financial investments – Available for sale				
Treasury Bills	-	616,223	-	616,223
Treasury Bonds	55,638	65,623	55,638	65,623
Equity securities	23	23	23	23
Debt securities	48	48	48	48
(Less): Impairment charges on debt securities	(48)	(48)	(48)	(48)
Net Available-for-Sale Investments	55,661	681,869	55,661	681,869
a. Movements in Impairment Charges during the Year				
Opening balance	48	48	48	48
Charge/ (Write back) to income statement	-	-	-	-
Closing balance	48	48	48	48
19 Investments in subsidiaries				
Unquoted equity share (Note 19.1)	175,000	175,000	-	-
(Less): Impairment charges	(175,000)	(175,000)	-	-
Net total	-	-	-	-

19.1 Unquoted Equity Shares

	2016		2015	
	Rs.'000	%	Rs.'000	%
PMB Services Ltd.	175,000	100	175,000	100
Closing balance	175,000	100	175,000	100

The investment on equity shares of PMB Services Ltd. was fully impaired due to the continuous losses incurred by the subsidiary.

Notes to the Financial Statements

20 Property, Plant and Equipment

Property, Plant and Equipment – Company

Rs. '000	Land	Buildings	Motor Vehicle	Furniture & Fittings	Computer	Office Equipment	Total 2016	Total 2015
Cost/fair value								
Opening balance	1,029,500	21,521	33,562	15,690	25,979	20,081	1,146,333	1,034,564
Additions	-	-	-	-	3,171	524	3,695	3,669
Disposals	-	-	-	-	-	-	-	-
Reclassification to assets held for sale	(1,029,500)	(21,521)	-	-	-	-	(1,051,021)	-
Revaluation gain	-	-	-	-	-	-	-	108,100
Closing balance	-	-	33,562	15,690	29,150	20,605	99,007	1,146,333
(Less): Accumulated depreciation								
Opening balance	-	7,737	23,511	11,549	22,121	12,135	77,053	61,824
Charge for the year	-	2,034	5,716	1,878	2,746	2,348	14,722	15,229
Reclassification to assets held for sale	-	(9,771)	-	-	-	-	(9,771)	-
Disposals	-	-	-	-	-	-	-	-
Closing balance	-	-	29,227	13,427	24,867	14,483	82,004	77,053
Net book value at 31/03/2016	-	-	4,335	2,263	4,283	6,122	17,003	-
Net book value at 31/03/2015	1,029,500	13,784	10,051	4,141	3,858	7,946		1,069,280

Property, Plant and Equipment - Group

Rs. '000	Land	Buildings	Motor Vehicle	Furniture & Fittings	Computer	Office Equipment	Total 2016	Total 2015
Cost/fair value								
Opening balance	1,029,500	21,098	30,182	17,956	31,795	25,141	1,155,672	1,043,903
Additions	-	-	-	-	3,171	524	3,695	3,669
Disposals	-	-	-	-	-	-	-	-
Reclassification to assets held for sale	(1,029,500)	(21,098)	-	-	-	-	(1,050,598)	-
Revaluation gain	-	-	-	-	-	-	-	108,100
Closing balance	-	-	30,182	17,956	34,966	25,665	108,769	1,155,672
(Less): Accumulated depreciation								
Opening balance	-	7,737	23,605	13,815	28,060	17,196	90,413	75,184
Charge for the year	-	2,034	5,716	1,878	2,746	2,348	14,722	15,229
Reclassification to assets held for sale	-	(9,771)	-	-	-	-	(9,771)	-
Disposals	-	-	-	-	-	-	-	-
Closing balance	-	-	29,321	15,693	30,806	19,544	95,364	90,413
Net book value at 31/03/2016	-	-	861	2,263	4,160	6,121	13,405	-
Net book value at 31/03/2015	1,029,500	13,361	6,577	4,141	3,735	7,945	-	1,065,259

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.

Notes to the Financial Statements

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
21 Intangible Assets				
Cost				
Opening balance	17,957	17,957	18,596	18,596
Additions	628	-	628	-
Closing balance	18,585	17,957	19,224	18,596
Accumulated Amortized Cost				
Opening balance	16,478	15,143	17,117	15,782
Charge for the year	1,118	1,335	1,118	1,335
Closing balance	17,596	16,478	18,235	17,117
Net Book Value	988	1,479	988	1,479
22 Other Assets				
Security Deposits	6,350	4,746	6,350	4,746
Prepayments	3,527	5,043	3,527	5,043
Real estate inventories (Note 22.1)	50,548	60,982	50,548	60,982
Prepaid staff cost	1,279	2,118	1,279	2,118
Stationary stock	787	685	787	685
Vehicle stock (Note 22.2)	-	-	-	-
ESC receivable	6,450	4,799	6,450	4,799
Recoverable from director (Note 22.3)	-	-	-	-
VAT recoverable (Note 22.4)	-	-	-	-
Others	19,309	10,477	19,309	10,477
Suspense Account (22.5)	-	-	-	-
Total	88,250	88,850	88,250	88,850
22.1 Real Estate Inventories				
Opening Balance	65,252	67,912	65,252	67,912
Disposals during the year	(13,371)	(2,660)	(13,371)	(2,660)
Closing balance	51,881	65,252	51,881	65,252
Impairment	(1,333)	(4,270)	(1,333)	(4,270)
Closing balance	50,548	60,982	50,548	60,982

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
22.2 Vehicle Stock				
Vehicle stock	14,076	14,076	14,076	14,076
Impairment provision made	(14,076)	(14,076)	(14,076)	(14,076)
Closing balance	-	-	-	-
22.3 Recoverable from Director				
Recoverable from Director	11,632	11,632	11,632	11,632
Impairment provision made	(11,632)	(11,632)	(11,632)	(11,632)
Closing balance	-	-	-	-
22.4 VAT Recoverable				
VAT recoverable balance	18,468	18,468	18,468	18,468
Impairment provision made	(18,468)	(18,468)	(18,468)	(18,468)
Closing balance	-	-	-	-

22.5 Suspense Account Balance

The Company had previously recognized a suspense account balance by identifying the cumulative difference between the sub ledger and general ledger as the general ledger did not agree with the sub ledgers which resulted in differences in relation to assets, liabilities, income and expenses in the Statement of Financial Position and Statement of Income, in the financial statements for the years ended 31st March 2013 and 2014. Any such un-reconciled differences were transferred to a suspense account to be investigated and reconciled by the Group. However the 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 31st March 2015.

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
Suspense Account Balance	138,552	138,552	138,552	138,552
Impairment Provision	(138,552)	(138,552)	(138,552)	(138,552)
Closing Balance	-	-	-	-
23 Due to Banks				
Borrowings (Note 23.1)	-	24,940	-	24,940
Overdraft	39,335	6,889	39,335	6,889
Total	39,335	31,829	39,335	31,829

23.1 Rs.100 million loan obtained from People's Bank on 30th March 2012 mortgaging the Company's property at No.21, Nawam Mw, Colombo 02, has been fully settled during the year.

Notes to the Financial Statements

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
24 Deposits from customers				
Deposits from customers	2,841,104	3,546,680	2,841,104	3,546,680
Total	2,841,104	3,546,680	2,841,104	3,546,680
24.1 Analysis				
By product				
Fixed deposit	2,075,731	3,042,637	2,075,731	3,042,637
Commercial paper	743,194	481,762	743,194	481,762
Savings	22,179	22,281	22,179	22,281
Total	2,841,104	3,546,680	2,841,104	3,546,680
By currency				
Sri Lankan Rupee	2,841,104	3,546,680	2,841,104	3,546,680
Euro	-	-	-	-
United States Dollar	-	-	-	-
Total	2,841,104	3,546,680	2,841,104	3,546,680
25 Debt Securities Issued - Company / Group				
Preference shares			10,000	10,000
Total			10,000	10,000
Due within 1 year			-	-
Due after 1 year			10,000	10,000
Total			10,000	10,000

25.1 Details of Debt Securities Issued - Company / Group

Type	Face Value Rs. '000	Interest Rate & Repayment Terms	As at 31st March	
			2016 Rs. '000	2015 Rs. '000
Issued by the Company				
Preference shares	10,000	6% cumulative non redeemable preference shares	10,000	10,000
Total	10,000		10,000	10,000

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
26 Deferred taxation				
Deferred tax assets (Note 26.1)	(116,382)	(83,128)	(116,382)	(83,128)
Deferred tax liabilities (Note 26.2)	116,382	127,192	116,382	127,013
Net Deferred tax liability	-	44,064	-	43,885
26.1 Deferred Tax Assets				
Balance as at 1st April	83,128	57,555	83,128	57,555
Originated during the year	33,254	25,573	33,254	25,573
Closing Balance	116,382	83,128	116,382	83,128
Deferred tax on gratuity	2,888	3,070	2,888	3,070
Deferred tax on tax losses	109,977	78,337	109,977	78,337
Deferred tax on AFS reserve	3,517	1,721	3,517	1,721
Closing Balance	116,382	83,128	116,382	83,128
26.2 Deferred Tax Liabilities				
Balance as at 1st April	127,192	100,342	127,013	99,987
(Reversal)/originated during the year	(10,810)	26,850	(10,631)	27,027
Closing Balance	116,382	127,192	116,382	127,013
Deferred tax on property plant & equipment	2,239	3,029	2,239	2,850
Deferred tax on intangible assets	277	414	277	414
Deferred tax on lease assets	113,866	123,749	113,866	123,749
Closing Balance	116,382	127,192	116,382	127,013

As at 31st March 2016, the Group has incurred a carried forward tax losses amounted to Rs. 613.2 Mn (2015- Rs. 451.7 Mn). The Group has utilized such tax losses to recognize a deferred tax asset only up to the extent of the deferred tax liability arising from taxable temporary differences. Deferred tax asset amounting Rs. 61.7 Mn has not been recognized on carried forward tax losses as it is not probable that the future taxable profits will be available to utilize carried forward tax losses in the foreseeable future.

Notes to the Financial Statements

As at 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
27 Other Liabilities				
Preference shares dividends payable	3,600	3,000	3,600	3,000
Employee benefits (Note 27.1)	10,312	10,961	10,312	10,961
Real Estate Advance	3,675	5,097	3,675	5,097
Other payables	106,591	57,508	107,323	57,991
Financial liabilities	27,931	408	27,931	408
Total	152,109	76,974	152,841	77,457
27.1 Employee Benefits				
Balance at the beginning of the year	10,961	12,271	10,961	12,271
Amount Recognised in the Income Statement				
Interest Cost	1,276	1,228	1,276	1,228
Current Service Cost	1,193	1,603	1,193	1,603
	2,469	2,831	2,469	2,831
Amount recognised in the Other Comprehensive Income				
Actuarial Gain	(2,691)	(2,267)	(2,691)	(2,267)
Payments made during the year	(427)	(1,874)	(427)	(1,874)
Balance at the end of the year	10,312	10,961	10,312	10,961

The Company carried out an actuarial valuation of the gratuity liability as at 31st March 2016 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.

Discount rate used 12% (2015-10%)

Future salary increase rate used 10.5% (2015-10%)

27.2 Sensitivity Analysis

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

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation (Rs'000)
1% point Increase	10.5%	9,816
1% point Decrease	10.5%	10,853
12%	1% point Increase	10,850
12%	1% point Decrease	9,827

28 Stated Capital

	No of shares '000	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
Issued and Fully Paid Ordinary Shares	67,500	1,078,227	1,078,227	1,078,227	1,078,227
Total	67,500	1,078,227	1,078,227	1,078,227	1,078,227

29 Reserve Fund

This represent a reserve fund created in FY 2005/06, as per the directions issued by the Department of Non Banking Financial institution of Central Bank of Sri Lanka, under the direction No. 06 of 2005 of Finance Leasing Act No. 56 of 2000.

After registering the Company under the Finance Business Act No 42 of 2011 in April 2012, this reserve fund is utilized for building up the reserve fund required under CBSL direction No 01 of 2003 Finance Companies (Capital Fund).

However, due to reporting losses for the year ended 31st March 2016, no transfer were made to the reserve fund.

29.1 Investment Fund Account

As proposed in the Government Budget 2011, every person or partnership that is in the business of banking or financial services is required to establish and operate an Investment Fund Account (IFA).

Investment Fund Account consist of 8% of the profits calculated for the payment of Value Added Tax on financial services and 5% of the Profit Before Tax calculated for payment of Income Tax purposes during the year.

Subsequently Central Bank of Sri Lanka has issued a guideline on the operation of the investment account on 7th August 2014. The operation of Investment Fund Account was ceased with effect from 1st October 2014 by the said guidelines. Accordingly, Licensed Finance Companies (LFCs)/ Specialized Leasing Companies (SLCs) transfer the remaining balance in Investment Fund Account to retained earnings through the Statement of Changes in Equity.

As at 31st March	Company		Group	
	2016 Rs '000	2015 Rs '000	2016 Rs '000	2015 Rs '000
29.2 Investment Fund Account				
Opening balance	-	9,551	-	9,551
Transfer from the fund to the Retained Earnings	-	(9,551)	-	(9,551)
Closing balance	-	-	-	-

Notes to the Financial Statements

For the Year Ended 31st March	Company		Group	
	2016	2015	2016	2015
	Rs '000	Rs '000	Rs '000	Rs '000
30 Retained Earnings				
Opening balance	(1,011,764)	(685,461)	(1,015,721)	(689,679)
Loss for the year	(86,874)	(337,486)	(87,308)	(337,225)
Actuarial Gain	1,937	1,632	1,937	1,632
Transfers from Investment Fund Account	-	9,551	-	9,551
Closing balance	(1,096,701)	(1,011,764)	(1,101,092)	(1,015,721)
31 Contingent Liabilities and Commitments				
Guarantees	3,498	2,498	3,498	2,498
Total	3,498	2,498	3,498	2,498

31.1 Litigation Against the Company

Lanka Tractors Limited has filed a case against the Company claiming the recoverable balance and accrued interest amounting to Rs. 5,995,048/- and Rs. 25,241,932 (as at 16th September 2014) respectively. Last hearing date of the case was 04th July 2016.

32 Related Party Disclosures

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 24 "Related Party Disclosures", the details of which are reported below.

32.1 Parent and Ultimate Controlling Party

The Company's parent and ultimate controlling party is People's Bank as at reporting date.

On 28th October 2015, People's Bank and People's Leasing & Finance PLC (Subsidiary of People's Bank) jointly acquired up to 87.21% of its ordinary shares. Accordingly company's parent and ultimate controlling party is People's bank.

Further according to the CBSL directions People's Leasing & Finance PLC become the managing agent of the Company with effect from 14th July 2015.

32.2 Amounts due from Related Parties

	2016	2015
	Rs.'000	Rs.'000
PMB Services Ltd	18,349	18,117
Less : Impairment provision	(18,349)	(18,117)
	-	-

32.3 Transaction with Subsidiaries

Name of Related Party	Relationship	Transaction Type	Amount Rs.000
PMB Services Ltd	Subsidiary	Expenses incurred by Parent	256

The Company has invested Rs.175mn in PMB Services Ltd. For which full provision has been made due to the impairment of the investment. Further the Company has fully provided for the amount receivable from PMB Services Ltd.

The Company has provided the letter of comfort to its subsidiary confirming its intention to continue to provide financial and other support and meet liabilities to enable the subsidiary to continue as going concern.

32.4 Transaction with Other Related Parties

Name of Related Party	Relationship	Transaction type	Value Rs. 000	Amount paid / Received Rs.000	Amount as at 31.03.2016 Rs.000
		Fixed Deposit	3,336	-	3,336
		Fixed Deposit Interest Income	-	240	-
		Term Loan (Secured)	100,000	24,940	-
People's Bank	Parent	Interest	-	1,576	-
		Preference Shares	10,000	-	10,000
		Repo investment	-	-	14,000
		Repo Interest Income	-	2,991	-
		Bank Charges	-	295	-

32.5 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard 24 "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the directors of the Company (including executive and non executive directors) are classified as KMP of the Company.

Remunerations paid to key management personnel are disclosed in Note No. 11. No other transactions are carried out with KMPs which need to be reported.

Notes to the Financial Statements

- 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) Investment in Fixed Deposits – The carrying amount of investment in fixed deposits approximate its fair value due to the relatively short maturity of the financial instruments.
- f) Security deposits - The carrying value is approximately its fair value of the financial instrument
- g) Due to banks - Fair value of these financial instruments with remaining maturity of less than 1 year approximate their carrying amounts due to the relatively short maturity of such instruments.
- h) Deposits from customers – The carrying amount reflecting amortised cost of Deposits from customers. Thus its carrying amount approximates to the fair value.
- i) Debt securities issued - Fair value of preference shares reflect market value with the consideration of 6% dividend rate.
- j) Financial liabilities - The carrying value is approximately its fair value of the financial instrument

33.2 Risk Management

Introduction and Overview

The Company has exposure to following risks from financial instruments:

1. Credit risk
2. Liquidity risk
3. Market risk
4. Operational risk.

This note provides information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout this financial statement.

Risk Management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies. The Board manages the risk through Integrated Risk Management Committee (IRMC) and the Audit Committee.

(a) Credit risk

'Credit risk' is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company's Credit management process includes the following:

- Credit evaluation, business feasibility, verifying CRIB status of clients, financing assets approved by CEO and Board of Directors depending on the quantum of the financial facility
- Setting up individual customer and item financing credit exposure levels.
- Formulating and regular review of credit policies for changing business requirements.
- Setting up and simplifying documentary and legal procedures and compliance with statutory requirements.

Exposure and Credit Quality by Class of Financial Assets

Credit quality of the Company based on the class of financial assets is analysed below.

As at 31st March 2016	Neither past due not individually impaired Rs.000	Past due but not individually impaired Rs.000	Individually impaired Rs.000	Total Rs.000
Company				
Cash and Cash Equivalents	477,313	-	-	477,313
Investment in Fixed Deposits	220,378	-	-	220,378
Financial Investments - Held for Trading	2,541	-	-	2,541
Loans and advances to customers	2,364,121			2,364,121
Less : Impairment	-	(302,746)	(368,873)	(671,618)
Financial Investments - Available for Sale	55,661	-	-	55,661
Security Deposits	6,350	-	-	6,350
	3,126,364	(302,746)	(368,873)	2,454,746
Group				
Cash and Cash Equivalents	477,675	-	-	477,675
Investment in Fixed Deposits	220,378	-	-	220,378
Financial Investments - Held for Trading	2,541	-	-	2,541
Loans and advances to customers	2,364,121			2,364,121
Less : Impairment		(302,746)	(368,873)	(671,618)
Financial Investments - Available for Sale	55,661	-	-	55,661
Security Deposits	6,350	-	-	6,350
	3,120,376	(302,746)	(368,873)	2,455,108

Notes to the Financial Statements

(b) Liquidity risk

Liquidity risk is that which the Company will encounter difficulties in meeting obligations associated with its financial liabilities which are settled by delivering cash or other financial assets. The Company ensures that sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions and maintain Company's reputation. The treasury division manages the liquidity of the Company by obtaining information from credit and other divisions regarding the liquidity requirements of their financial needs on a continues basis and with estimated cash flows from business operations. The Company maintains a portfolio of short-term liquid assets, made up of cash and cash equivalents, deposits and government securities, to ensure that sufficient liquidity. Further, Company maintains unutilized credit facilities from banks in order to use if the requirement arises.

Maturity analysis of the Company's interest bearing assets and liabilities disclosed in the Note 34 to the financial statements.

(c) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices ,exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters,

Interest Rate Risk

Interest Rate Risk arises due to fluctuations in the interest rate resulting in adverse impact to future cash flows or the fair values of financial instruments of the Company.

The Company holds interest bearing asset and liabilities such as Investment in fixed deposits, loans and advances to customers, financial investments - held for sale, due to banks, deposits from customers and debt security issued. However the Company's exposure to interest rate risk is minimum as the Company only holds instruments with fixed interest rates

The Company's main sources of funding lines are deposits and other debt instruments bearing fixed interest rates for various durations from one month to five years. The Assets and Liabilities Committee (ALCO) of the Company regularly reviews the current cost of borrowing with the market rates and Company's views on future trends in market rates along with the competitor rates in determining rates for borrowings funds for various tenors and lending rates. The typical period of Company's advances are for three/four years which leads to rate mismatches. With repayments on monthly basis this mismatch is reduced to a certain level.

Exchange Risk

Exchange Risk arises due to changes in exchange rates of currencies. The Company mitigates the exposure to exchange risk by matching foreign currency liabilities with corresponding assets in the same currency.

(d) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk in a cost effective manner for avoiding/minimizing financial losses and damages to the Company and without imposing restrictions on initiative and creativity. The senior management takes primary responsibility for the development and implementation of controls to address operational risk related to each division supported by the continuous improvement including:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements and keeping up to date with changes.
- Documentation of controls and procedures.
- Training and professional development.
- Risk mitigation, including insurance where it is effective.

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

Notes to the Financial Statements

33.3 Capital Management

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

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

Capital Adequacy

Total Risk Weighted Assets Computation

As at 31st March	Balance		Risk Weight Factor %	Risk Weighted Balance	
	2016 Rs'000	2015 Rs'000		2016 Rs'000	2015 Rs'000
Assets					
Cash and Cash Equivalents	477,313	399,141	0%	-	-
Deposits with Banks	220,378	3,310	20%	44,076	662
Sri Lanka Govt/ Central Bank Securities	55,638	681,846	0%	-	-
Financial Investments - Held for Trading (excluding items deducted from the total Capital)	2,541	2,893	100%	2,541	2,893
Loans and Advances to Customers	426,946	510,372	100%	426,946	510,372
Lease Rental and Hire Purchase Receivables	1,139,596	1,396,050	100%	1,139,596	1,396,050
Financial Investments - Available for Sale	23	23	0%	-	-
Loans and Advances against deposits with the Company	30,950	71,088	0%	-	-
Loans against Gold and gold jewellery	95,009	128,108	0%	-	-
Other Assets	89,238	90,329	100%	89,238	90,329
Property, Plant and Equipment	1,058,254	1,069,280	100%	1,058,254	1,069,280
Total Risk Weighted Assets	3,595,888	4,352,440		2,760,651	3,069,585

Total Capital Base Computation

As at 31st March	2016 Rs'000	2015 Rs'000
Tier I : Core Capital		
Stated Capital	1,078,227	1,078,227
Statutory Reserve Fund	7,259	7,259
Retained Earnings	(1,096,701)	(1,011,764)
Available For Sales Reserve	(9,044)	(4,426)
Total Tier I Capital (Core Capital)	(20,258)	69,296

As at 31st March	2016 Rs'000	2015 Rs'000
Tier II : Supplementary Capital		
Eligible Revaluation Reserves	-	-
General Provisions	-	-
Total Eligible Tier II Capital	-	-
Total Capital	(20,258)	69,296
Deductions		
Investments in capital of other banks	220	220
Capital Base	(20,478)	69,076

Computation of Capital Adequacy Ratios

Every finance company shall, subject to the provisions of the Finance Companies (Minimum Core Capital) Direction No. 1 of 2011, at all times, maintain its capital (adjusted for the items that may be specified by the Director) at a level not less than 10 percent of its risk weighted assets with the core capital constituting not less than 5 percent of its risk weighted assets, computed as per instructions issued by the Director.

As at 31st March	2016 Rs'000	2015 Rs'000
Core Capital Ratio (Minimum Requirement 5%)	-0.73%	2.26%
Core Capital X 100		
Risk Weighted Assets		
Total Risk Weighted Capital Ratio (Minimum Requirement 10%)	-0.74%	2.25%
Capital Base X100		
Risk Weighted Assets		

According to the finance companies direction No. 1 of 2011, registered finance company shall at all times maintain an unimpaired core capital not less than Rs. 400 million. However company's core capital stood at Rs. (20.26) million as at the reporting date.

Every finance company shall maintain capital funds which shall not at any time be less than ten (10) per cent of its total deposit liabilities as per the direction No. 1 of 2003. However Company's capital funds stood at Rs. (20.48) million, and accordingly company has not meet the said requirement. According to the finance companies direction No. 4 of 2006, the maximum of a single accommodation or the aggregate of accommodations granted by a finance company and outstanding of any point of time from and individual borrower or any group of borrowers shall not exceed 15% and 20% respectively, of the capital fund of such finance company as shown in the last audited statement of financial position. However the Company was not in compliance with the said direction due to the negative capital funds as at the reporting date.

Notes to the Financial Statements

34 Maturity Profile of Assets and Liabilities

Allocation of Amounts

Amounts were allocated to respective maturity groupings based on installments falling due as per contract. The amounts therefore represent total amount receivable or payable in each maturity grouping.

34.1 (a) Group

As at 31st March	2016			2015		
	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000
Interest bearing assets						
Cash & cash equivalent	477,675	-	477,675	399,509	-	399,509
Investment in fixed deposits	220,378	-	220,378	3,310	-	3,310
Financial investments - held for trading	2,541	-	2,541	2,893	-	2,893
Financial investments - available for sale	55,661	-	55,661	681,869	-	681,869
Loans and advances to customers	729,480	963,022	1,692,502	1,320,486	785,133	2,105,619
Total interest bearing assets	1,485,737	963,022	2,448,758	2,408,066	785,133	3,193,200
Total non - interest bearing assets	1,129,078	14,393	1,143,471	88,850	1,066,738	1,155,588
Total assets	2,614,813	977,415	3,592,228	2,496,916	1,851,871	4,348,788
Percentage	72.79%	27.21%	100.00%	57.42%	42.58%	100.00%
Interest bearing liabilities						
Due to banks	39,335	-	39,335	31,829	-	31,829
Deposits from customers	2,366,998	474,106	2,841,104	2,704,364	842,316	3,546,680
Debt securities issued	-	10,000	10,000	-	10,000	10,000
Total interest bearing liabilities	2,406,333	484,106	2,890,439	2,736,193	852,316	3,588,509
Total non - interest bearing liabilities	152,841	-	152,841	121,342	-	121,342
Equity	-	548,948	548,948	-	638,937	638,937
Total liabilities & equity	2,559,174	1,033,054	3,592,228	2,857,534	1,491,253	4,348,788
Percentage	71.24%	28.76%	100.00%	65.71%	34.29%	100.00%

34.1 (b) Company

As at 31st March	2016			2015		
	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000	Less than 1 Year Rs'000	More than 1 Year Rs'000	Total Rs'000
Interest bearing assets						
Cash & cash equivalent	477,313	-	477,313	399,141	-	399,141
Investment in fixed deposits	220,378	-	220,378	3,310	-	3,310
Financial investments - held for trading	2,541	-	2,541	2,893	-	2,893
Financial investments - available for sale	55,661	-	55,661	681,869	-	681,869
Loans and advances to customers	729,480	963,022	1,692,502	1,320,486	785,133	2,105,619
Total interest bearing assets	1,485,375	963,022	2,448,396	2,407,699	785,133	3,192,832
Total non - interest bearing assets	1,129,501	17,991	1,147,492	88,850	1,070,759	1,159,609
Total assets	2,614,874	981,013	3,595,887	2,496,549	1,855,892	4,352,440
Percentage	72.72%	27.28%	100.00%	57.36%	42.64%	100.00%
Interest bearing liabilities						
Due to banks	39,335	-	39,335	31,829	-	31,829
Deposits from customers	2,366,998	474,106	2,841,104	2,704,364	842,316	3,546,680
Debt securities issued	-	10,000	10,000	-	10,000	10,000
Total interest bearing liabilities	2,406,332	484,106	2,890,438	2,736,193	852,316	3,588,508
Total non - interest bearing liabilities	152,110	-	152,110	121,039	-	121,039
Equity	-	553,339	553,339	-	642,894	642,894
Total liabilities & equity	2,558,442	1,037,446	3,595,887	2,857,231	1,495,210	4,352,440
Percentage	71.15%	28.85%	100.00%	65.65%	34.35%	100.00%

Notes to the Financial Statements

35 Segmental Analysis - Group

For the Year ended 31st March 2016	Leasing & hire purchases Rs'000	Trade Bills, loans and Pawning Rs'000	Margin trading Rs'000	Other Rs'000	Total Rs'000
Interest income	249,028	21,039	50,501	56,625	377,193
Fee and commission income	2,599	-	-	101	2,700
Net trading income	-	-	-	1,465	1,465
Net gain/(loss) from financial assets - held for trading				(352)	(352)
Other operating income	-	-	-	8,227	8,227
Gross revenue	251,627	21,039	50,501	66,067	389,233
Interest expenses	185,931	15,708	37,705	42,278	281,622
Total operating income	65,696	5,331	12,796	23,789	107,611
Credit losses	74,787	(5,946)	-	-	68,842
Net operating income	(9,091)	11,276	12,796	23,789	38,770
Depreciation	10,453	1,031	1,472	1,767	14,723
Staff and other expenses	109,480	10,794	15,420	18,504	154,197
Segment results	(10,453)	(1,031)	(1,472)	(1,767)	(130,151)
Net tax expense					(42,843)
Loss for the year					(87,308)
As at 31st march					
Segment assets	2,550,482	251,456	359,223	431,067	3,592,228
Segment liabilities	2,160,729	213,030	304,328	365,194	3,043,280

Segmental Analysis - Group

For the Year ended 31st March 2015	Leasing & hire purchases Rs'000	Trade Bills, loans and Pawning Rs'000	Margin trading Rs'000	Other Rs'000	Total Rs'000
Interest income	470,653	44,725	65,251	79,078	659,707
Fee and commission income	3,962	-	-	-	3,962
Net trading income	-	-	-	1,158	1,158
Net gain/(loss) from financial assets - held for trading	-	-	-	650	650
Other operating income	5,278	880	-	4,302	10,460
Gross revenue	479,892	45,605	65,251	85,188	675,937
Interest expenses	337,887	33,313	47,590	57,108	475,897
Total operating income	142,005	12,292	17,662	28,080	200,040
Credit losses	253,098	11,221	(81)	-	264,238
Net operating income	(111,093)	1,071	17,743	28,080	(64,198)
Depreciation and amortisation	11,760	1,159	1,656	1,988	16,564
Staff and other expenses	160,056	15,926	22,752	27,302	227,518
Segment results	(282,909)	(16,015)	(6,666)	(1,209)	(308,280)
Net tax expense					28,945
Loss for the year					(337,225)
As at 31st march					
Segment assets	3,087,639	304,415	434,879	521,855	4,348,788
Segment liabilities	2,633,994	259,690	370,985	445,182	3,709,851

36 Directors Responsibility Statement

The Board of Directors take the responsibility for the preparation and presentation of the financial statements.

37 Subsequent Events and Going Concern

Board of Directors has decided to amalgamate the company with People's Leasing & Finance PLC within the 2016/17 financial year in pursuance of a direction issued by the Monetary Board of Central Bank of Sri Lanka, Subject to receiving all approvals required for this purpose. The modality of the proposed amalgamation is yet to be finalized. Until such time the parent entity and the Managing Agent, People's Bank and People's Leasing & Finance PLC respectively, will take necessary steps for the Company to continue its principle activities, considering that the Company is not meeting capital adequacy requirements as specified by the Central Bank of Sri Lanka which is more fully described in note 33.3 to these financial statement.

Ten Year Summary

Year ended 31st March	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
OPERATING RESULTS										
Income	381,358	664,827	757,861	661,236	505,096	586,830	543,749	540,922	376,090	303,306
Interest Income	377,193	659,707	750,661	640,259	492,823	550,215	501,796	497,933	351,071	270,372
Interest expenses	281,622	475,897	591,995	425,598	301,641	383,609	387,053	351,822	215,396	129,669
Profit/(Loss) before taxation	(128,387)	(308,354)	(216,891)	(89,740)	106,245	(215,320)	(14,286)	51,653	21,817	68,827
Profit/(Loss) for the year	(86,873)	(337,486)	(254,827)	(90,894)	92,740	(202,500)	(20,409)	28,849	14,791	44,789
Equity	554,876	642,894	880,008	1,268,155	893,551	470,553	673,653	460,291	442,042	459,101
SHARE INFORMATION										
Net asset per share (Rs)	8.22	9.52	13.03	18.79	13.24	12.28	17.70	18.01	17.28	17.96
Earnings/(Loss) per share (Rs)	(1.29)	(5.00)	(3.78)	(1.35)	1.88	(5.42)	(0.66)	0.95	0.57	2.38
Market value per share (Rs)	12.00	23.90	16.90	13.50	12.90	23.50	23.50	29.75	56.50	23.00
Dividend per share (Rs)	-	-	-	-	-	-	-	0.40	0.40	1.25
Gross ordinary dividend (Rs.'000)	-	-	-	-	-	-	-	10,000	10,000	31,250

Investor Information

Distribution of Shareholdings as at 31 March 2016

Range of Shareholding	Residents		Non-Residents		Total	
	No. of Shareholders	(%) of Shareholdings	No. of Shareholders	(%) of Shareholdings	No. of Shareholders	(%) of Shareholdings
1 - 1,000	9,509	2.15	10	0.00	9,519	2.15
1,001 - 10,000	719	3.40	6	0.03	725	3.43
10,001 - 100,000	88	3.43	2	0.17	90	3.60
100,001 - 1,000,000	8	3.30	1	0.31	9	3.61
1,000,000 & Above	2	87.22	-	-	2	87.22
	10,326	99.49	19	0.51	10,345	100.00
	1,449,678		2,350		1,452,028	
	2,292,802		21,500		2,314,302	
	2,312,519		116,500		2,429,019	
	2,228,403		206,000		2,434,403	
	58,870,248		-		58,870,248	
	67,153,650		346,350		67,500,000	

Categories of Shareholdings - Individuals/Institutions

	31.03.2016		31.03.2015	
	No. of Shareholders	(%) of Shareholdings	No. of Shareholders	(%) of Shareholdings
Individual	10,197	10.95	10,385	19.88
Institutions	148	89.05	145	80.12
Total	10,345	100.00	10,530	100.00
	7,389,715		13,418,316	
	60,110,285		54,081,684	
	67,500,000		67,500,000	

Categories of Shareholdings - Resident/Non-Resident

	31.03.2016		31.03.2015	
	No. of Shareholders	(%) of Shareholdings	No. of Shareholders	(%) of Shareholdings
Resident	10,326	99.49	10,509	89.89
Non-Resident	19	0.51	21	10.11
Total	10,345	100.00	10,530	100.00
	67,153,650		60,677,004	
	346,350		6,822,996	
	67,500,000		67,500,000	

Investor Information

Twenty Largest Ordinary Shareholders

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

Name of the Shareholder	No of Shares 31.03.16	%	No of Shares 31.03.15	%
People's Bank	33,856,246	50.16	17,639,984	26.13
People's Leasing & Finance PLC	25,014,002	37.06	8,819,992	13.07
Mr. L. De Fonseka	1,000,000	1.48	6,550,000	9.70
Frontier Capital Partners Limited	324,256	0.48	-	-
Mr. H.V. Pakianathan	282,233	0.42	302,000	0.45
HSBC International Nominees Ltd-SSBT-Deutsche Bank AG Singapore	206,000	0.31	6,680,046	9.90
Mr. Z.G. Carimjee	196,158	0.29	192,825	0.29
Mr. H. Beruwalage	116,200	0.17	116,200	0.17
Asha Financial Services Limited / Mr.C.N. Pakianathan	106,469	0.16	155,005	0.23
Mr. B.W. Kundanmal	102,100	0.15	102,100	0.15
Mrs. R.D. Jayawardana / Mr.S. Munaweera	100,987	0.15	-	-
Mr. P.K. Biswas	100,000	0.15	100,000	0.15
The Bishop of Galle	100,000	0.15	100,000	0.15
Mr. A.H. Munasinghe	84,084	0.12	84,084	0.12
Mrs. R.D. Jayawardana	77,667	0.12	100,987	0.15
Mr. S. Munaweera/Mrs.R.D. Jayawardana	77,667	0.12	-	-
Mr. M.D.W.J. Gunathilaka	77,021	0.11	-	-
Mr. S. Munaweera	70,900	0.11	-	-
Mr. W.P. Gunasena	59,769	0.09	-	-
Mr. M.S.A. Hussny	53,600	0.08	-	-
	62,005,359	91.88	40,943,223	60.64

Directors'/CEO's Holding in Shares as at 31st March	Position	No of Shares 2016	No of Shares 2015
Mr. H. Fernando	Chairman	Nil	Nil
Mr. M.P. Amirthanayagam	Director	Nil	Nil
Mr. N.V. Kumar	Director	Nil	Nil
Mr. J.A. Fernando	Director	Nil	Nil
Mr. D.P. Kumarage	Director	Nil	Nil
Mr. A.P. Weerasinghe	Director	Nil	Nil
Dr. D.W.S.S.R.N.J. Dandeniya	Director	Nil	Nil
Mr. L. De Fonseka	Director	1,000,000	6,550,000
Mrs. U.N. Gunasekara	Director	Nil	Nil
Mr. S. Bandaranayake	Acting CEO	Nil	Nil
		1,000,000	6,550,000

Public Holding

The percentage of ordinary share held by the public as at 31st March 2016 was 11.30% and number of shareholders representing the public holding was 10,342.

Share Information

Financial Year ended	31.03.16	31.03.15	31.03.14	31.03.13	31.03.12
Market value of shares					
Highest price during the year (Rs.)	30.00	29.30	17.1	17.90	42.00
Lowest price during the year (Rs.)	11.40	16.00	10.4	11.60	12.00
Closing price (Rs.)	12.00	23.90	16.9	13.50	12.90
Investor Ratios					
Price Earnings Ratio	-	-	-	-	6.86
Net Asset Value per share (Rs.)	8.22	9.52	15.57	18.79	13.24
Share Trading					
Number of transactions	2,863	3,054	2,434	3,086	27,194
Number of shares traded	10,376,995	13,235,837	4,349,773	10,078,311	89,795,017
Value of shares traded (Rs.000's)	241,262	317,620	63,075	139,207	2,132,042
Market Capitalisation (Rs.000's)	810,000	1,613,250	1,140,750	911,250	870,750

Our Services

Deposit Division

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

Asset Finance Division

Short/ Medium – Term Loans
Bank Guarantees
Leasing of Vehicle and Equipment
Hire Purchase
Margin Trading

Pawning

Gold Loans

Real Estate

Sale of Property Development

Branches

Kurunegala

183c, 02nd Floor, Colombo Rd, Kurunegala
Tel : 037 7389090-3 Fax 037 2220911

Matara

No. 213, Anagarika Dharmapala Mawatha, Nupe, Matara
Tel : 041 7389091-3 Fax 041 2220700

Negombo

51A, Thammita Road, Negombo
Tel : 0317389090-3 Fax 031 2228577

Awissawella

75, Yatiyantota Road, Awissawella
Tel : 0367389090-4 Fax 036 2233520

Matugama

74B, Neboda Road, Matugama
Tel : 034 7212933 Fax 0342243869

Elpitiya

10/5, Pituwala Road, Elpitiya
Tel : 091 7214505/508 Fax 091 2290499

Kandy

145, Kotugodella Street, Kandy
Tel : 081 7389090-3 Fax 081 2200798

Trincomalee

118, N.C Road, Trincomalee
Tel : 026 7389090-3 Fax 026 7389094

Anuradhapura

9, Maithripala Senanayake Mw, Town Hall Place,
Anuradhapura
Tel : 025 7389090-3 Fax 025 7389094

Gampaha

64, Queens Mary's Road, Gampaha
Tel : 033 7213414/16 Fax 033 2233633

Wellawatte Pawning Center

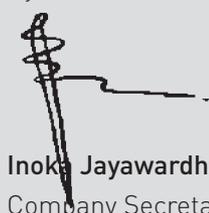
118D, Galle Road, Wellawatte
Tel : 0117500580-3 Fax 01175000584

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Thirty Second (32nd) Annual General Meeting of People's Merchant Finance PLC will be held on 29th December 2016 at 3.30 p.m. at People's Merchant Finance PLC office complex at No 21, Nawam Mawatha, Colombo 02, for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2015 and the report of the Auditors thereon.
2. To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2016 and the report of the Auditors thereon.
3. To reappoint Messrs KPMG, Chartered Accountants, as the External 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 financial year ending 31st March 2017.
4. To authorize the Board of Directors to determine contributions to charities and other donations for the financial year ending 31st March 2017.

By Order of the Board



Inoka Jayawardhana

Company Secretary

PEOPLE'S MERCHANT FINANCE PLC

Notes

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead. A form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company.

The completed form of proxy must be deposited at the office of the Registrars to the Company, SSP Corporate Services (Private) Limited at No.101, Inner Flower Road, Colombo 3 not less than forty eight (48) hours before the time appointed for the holding of the meeting.

Colombo, on this 24th day of November 2016.

Form of Proxy

I/We of
 being a member/s of People's Merchant
 Finance PLC hereby appoint Mr/Mrs/Miss
 (holder of N.I.C. No.....) of..... whom failing:

- | | |
|---------------------------------------|--------------|
| 1. Mr. Hemasiri Fernando | whom failing |
| 2. Mr. Michael Pradeep Amirthanayagam | whom failing |
| 4. Mr. Anil Weerasinghe | whom failing |
| 5. Mr. Namasivayam Vasantha Kumar | whom failing |
| 6. Mr. Don Padmasiri Kumarage | whom failing |
| 7. Dr. Rahula Dandeniya | whom failing |
| 9. Mr. Lakshman De Fonseka | whom failing |
| 10. Mr. Johnson Anthony Fernando | whom failing |
| 12. Mr. Nishantha Gunasekara | whom failing |

as my/ our Proxy to represent me/ us and vote on my/ our behalf at the Thirty Second Annual General Meeting of the Company to be held on 29th December 2016 at 3.30 p.m. at People's Merchant Finance PLC office complex at No 21, Nawam Mawatha, Colombo 02 and at any adjournment thereof and at every poll which may be taken in consequence thereof to vote.

Please indicate your preference by placing a 'X' against the Resolution No. –

	For	Against
(1) To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2015 and the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(2) To receive and consider the Annual Report of the Board of Directors together with the Financial Statements of the Company for the year ended 31st March 2016 and the report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
(3) To reappoint Messrs KPMG, Chartered Accountants, as the External 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 financial year ending 31st March 2017.	<input type="checkbox"/>	<input type="checkbox"/>
(4) To authorize the Board of Directors to determine contributions to charities and other donations for the financial year ending 31st March 2017.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2016

.....
 Signature

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

Notes:

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

Form of Proxy

INSTRUCTIONS AS TO COMPLETION

1. As provided for in Article 17(5) of the Articles of Association of the Company the instrument appointing a proxy should be in writing.
2. The full name and the address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy and duly signed and dated.
3. The Proxy shall -
 - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of that company or corporate body in accordance with the Articles of Association or the Constitution of that company or corporate body.
 - (c) in the case of joint-holders, be signed by the joint-holder whose name appears first in the Register of Members.
4. The completed Form of Proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of that Power of Attorney or other authority must be deposited at the office of the Registrars to the Company, SSP Corporate Services (Private) Limited at No.101, Inner Flower Road, Colombo 3 not less than forty eight (48) hours before the time appointed for the holding of the meeting.
5. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy.

Corporate Information

Name of Company

People's Merchant Finance PLC
(Subsidiary of People's Bank)

Legal Form

Public Limited Liability Company
(Incorporated and domiciled in Sri Lanka)

Date of Incorporation

26th January 1983

Company Registration Number

PQ 200

Stock Exchange Listing

The ordinary shares of the Company were quoted on the Colombo Stock Exchange (CSE) on 11th July 1994.

Ordinary Shares listed 67,500,000

Accounting Year-End

March -31

Registered Office & Principle Place of Business

No. 21, Nawam Mawatha, Colombo 02, Sri Lanka
Telephone +94112300191 / +94117666333
Fax +94112300190
Email; info@pmb.lk
Web Address; www.peoplesmerchant.lk

Company Secretary

Ms.I Jayawardhana

Registrars

SSP Corporate Services (Pvt) Ltd
No. 101, Inner Flower Road Colombo 03, Sri Lanka
Telephone; +94112573894, +94112576871
Fax; +94112573609
Email; sspsec@sltnet.lk

Auditors

M/s. KPMG
Chartered Accountants
32A, Sir Mohomed Macan Maker Mawatha,
Colombo 03.

Bankers

People's Bank
Bank of Ceylon
Pan Asia Banking Corporation PLC

Branch Offices

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

Board of Directors and Board Sub-Committees

Board of Directors

Mr. Hemasiri Fernando - Chairman
Mr. A.P. Weerasinghe
Mr. L. De Fonseka
Mr. D.W.S.S.R.N.J. Dandeniya
Mr. D.P. Kumarage
Mr. U.N. Gunasekara
Mr. M.P. Amirthanayagam
Mr. J.A. Fernando
Mr. N.Vasantha Kumar

Integrated Risk Management Committee

Mr. J.A. Fernando
Mr. L. De Fonseka
Mr. D.W.S.S.R.N.J. Dandeniya
Acting CEO - Mr. K.S.Bandaranayake

Board Audit Committee

Mr. U.N. Gunasekara
Mr. A.P. Weerasinghe
Mr. J.A. Fernando

Related Party Transactions Review Committee

Mr. M.P. Amirthanayagam
Mr. L. De Fonseka
Mr. A.P. Weerasinghe

Board Remuneration Committee

Mr. M.P. Amirthanayagam
Mr. N.Vasantha Kumar
Mr. D.P. Kumarage

Corporate Management

Mr. K.S.Bandaranayake - Acting CEO
Mr. Charith Gunarathne - DGM - Credit & Asset Finance
Mr. Yasas Ariyaratne -DGM - Business Promotions
Mrs. Muditha Jayawickrema - DGM - Legal & HR

Subsidiary Company

PMB Services Limited

Vehicle Yard

No. 21, Nawam Mawatha, Colombo 02, Sri Lanka

Tax Payer Identity Number (TIN)

134000228

VAT Registration Number

134000228 7000

Central Bank Registration Number

LFC/043 (Under the Finance Business Act No. 42 of 2011)

Credit Agency Status

An approved Credit Agency under the Mortgage Act No.6 of 1949 and the Trust Receipt Ordinance No.12 of 1947 by the department of Commerce



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Web: www.pmb.lk