



Corporate Services (Private) Limited

An affiliate of F. J. & G. de Saram

04th September, 2020

Uploaded via web portal

Colombo Stock Exchange,
#04-01 West Block,
World Trade Centre,
Echelon Square,
Colombo 01.

Attn: Mr. Renuke Wijeyawardhane
Chief Regulatory Officer

Dear Sirs,

PEOPLE'S MERCHANT FINANCE PLC
ERRATA ANNOUNCEMENT – INDEPENDENT AUDITOR'S REPORT AND
AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH
2020

We write for and on behalf of our client, People's Merchant Finance PLC (the "Company"), to inform you that the Independent Auditor's Report & Audited Financial Statements of the Company for the year ended 31st March 2020 have been changed due to the rectification in the details of the core capital included in the financial statements in order to comply with Finance Business Act No 42 of 2011 (FBA) and the Finance Business Act Direction No 03 of 2018 on capital adequacy requirements. As a result, Note 36 of Capital Management & Note 40 of Cap imposed by the Monetary Board of the Central Bank have been revised.

Summarized changes are as follows:

1. The amended Independent Auditor's report – please refer Annexure 01
(Cap on the total deposits and borrowing liabilities of the Company included as a key audit matter under the management's assessment of the Group's ability to continue as a going concern; new paragraph on Other matter – Reissue of financial statements; The Paragraph on 'Report on Other Legal and Regulatory Requirements has been changed.)
2. Prior Independent Auditor's report – please refer Annexure 02
3. The amended Note 36 of Capital Management in audited financial statements – please refer Annexure 03 (Tier 1 Capital, Total Capital & Capital ratio details has changed) and Note 36.4 on 'Reissue of financial statements.
4. Previous Note 36 of Capital Management in audited financial statements – please refer Annexure 04.

OR

5. The amended & previous Note 40 of Cap imposed by the Monetary Board of the Central Bank of Sri Lanka in the audited financial statements – please refer Annexure 05
(The paragraph excluded regarding the meeting of the minimum core capital requirement of Rs. 1.5 Bn as at the reporting date.)

Amended audited financial statements are uploaded to the CSE website as Audited Financial Statements for the year ended 31st March 2020 (amended).

Yours faithfully,



Chief Executive Officer

CORPORATE SERVICES (PRIVATE) LIMITED

Secretaries

PEOPLE'S MERCHANT FINANCE PLC

RSK/CS

Annexure 1

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financials of the Company and its subsidiary ("the Group"), which comprise the statement of financial position as at March 31, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance for loans and advances	
Risk description	Our response
As disclosed in Note 18 to the financial statements, the Group and the Company has recorded Rs. 1,658Mn as loans and advances net of Rs. 477Mn expected credit losses as at March 31, 2020.	Our audit procedures to assess impairment of loans and advances to customers included,
SLFRS 9 "Financial Instruments" requires the application of the expected credit loss (ECL)	- Assessment of the methodology inherent within the models against the requirements of SLFRS 9 - Financial Instruments; - Challenging the key assumptions in the ECL

model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required. As at the reporting date 43% of total assets of the Group consisted of loans and advances. Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak. We identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in the ECL model and the materiality of the reported amounts for loans and advances and impairment allowance. Refer to Note 18 and Note 35 to the financial statements and Note 4.17 in the accounting policies.	models, including, staging, PD and LGD and evaluating the reasonableness of Management's key judgements and estimates; • Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios; • Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD; • Challenging how management had assessed the impact of Covid-19 within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management's assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date; • Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development.
Management's assessment of the Group's ability to continue as a going concern	
Risk description	Our response
The financial statements of the Group have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company's 12-months cash flow projections prepared by management. The cash flow projections were based on management's assumptions and estimation of future cash inflows and outflows, taking into consideration the impact of COVID-19 related events. Note 42 describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company's, future prospects, performance and cash flows. The management has described how they plan to deal	Our audit procedures to assess the Group's ability to continue as a going concern included; • Obtaining the Company's cash flow projections covering a period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections; • Evaluating the sensitivity of the projected cash flows by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions; • Assessing correspondence with the Regulator in order to evaluate the potential impact and the

with these events and circumstances as the outbreak is still prevailing as at the date of this report. *As described in Note 40 to the financial statements, the Monetary Board of the Central Bank of Sri Lanka has imposed a cap on the total deposits and borrowing liabilities of the Company until the Company meets the Minimum Core Capital as per Finance Business Act Direction No. 02 of 2017. We identified the assessment of going concern as a key audit matter because the assessment of going concern involves consideration of future events and complying with the regulatory requirements of the Central Bank of Sri Lanka. Impact arising from COVID-19 requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential bias.	agreed rectifications for the non-compliances with regulatory requirements, and evaluating classification of additional cash infused as advances against future issue of shares during the year with the relevant supporting documents; Assessing disclosures in the financial statements.
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***Other matter – Reissue of financial statements**

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

****Further, as described in Notes 40 to the financial statements, the Company does not comply with the requirements of the directions issued by the Central Bank of Sri Lanka to Licensed Finance Companies for the Minimum Core Capital Requirement (Direction No. 02 of 2017) as at the reporting date.**

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

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

27 August 2020

* It has included Cap on the total deposits and borrowing liabilities of the Company included as a key audit matter under the Management's assessment of the Group's ability to continue as a going concern; New Paragraph on Other matter – Reissue of financial statements

**** It has included the Company does not comply with the requirements of the directions issued by the Central Bank of Sri Lanka to Licensed Finance Companies for the Minimum Core Capital Requirement (Direction No. 02 of 2017) as at the reporting date.**

Annexure 02

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PEOPLE'S MERCHANT FINANCE PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of People's Merchant Finance PLC ("the Company") and the consolidated financials of the Company and its subsidiary ('the Group'), which comprise the statement of financial position as at March 31, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at March 31, 2020, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Key Audit Matters

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

Impairment allowance for loans and advances	
Risk description	Our response
As disclosed in Note 18 to the financial statements, the Group and the Company has recorded Rs. 1,658Mn as loans and advances net of Rs. 477Mn expected credit losses as at March 31, 2020.	Our audit procedures to assess impairment of loans and advances to customers included, Assessment of the methodology inherent within the models against the requirements of SLFRS 9 - Financial Instruments;

SLFRS 9 “Financial Instruments” requires the application of the expected credit loss (ECL) model which takes into account judgements in setting the assumptions such as forward-looking probability of default (PD), loss given default (LGD), macroeconomic scenarios including their weighting and judgements over the use of data inputs required.

As at the reporting date 43% of total assets of the Group consisted of loans and advances. Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in Sri Lanka and, at the reporting date the potential impact of the global COVID-19 outbreak.

We identified the impairment of loans and advances to customers as a key audit matter because of the inherent uncertainty and management judgement involved in the ECL model and the materiality of the reported amounts for loans and advances and impairment allowance.

Refer to Note 18 and Note 35 to the financial statements and Note 4.17 in the accounting policies.

- Challenging the key assumptions in the ECL models, including, staging, PD and LGD and evaluating the reasonableness of Management’s key judgements and estimates;
- Testing the accuracy and completeness of the data inputs by testing reconciliations between source systems and the ECL model and assessment of economic information used within, and weightings applied to, forward looking scenarios;
- Recalculation of ECL for a sample using the key assumptions used in the models, such as PD and LGD;
- Challenging how management had assessed the impact of Covid-19 within the ECL model to assess whether it was appropriately considered in the measurement of ECL at the year end. In particular, we challenged Management’s assessment of the likelihood of a severe economic downturn caused by COVID-19 at the reporting date with reference to the reasonable and supportable information available to management at that date;
- Comparing the economic factors used in the models to market information to assess whether they were aligned with the market and economic development.

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

Risk description

The financial statements of the Group have been prepared on a going concern basis. In adopting the going concern basis of preparation of the financial statements, the directors have reviewed the Company’s 12-months cash flow projections prepared by management. The cash flow projections were based on management’s assumptions and estimation of future cash inflows and outflows, taking into consideration the impact of COVID-19 related events.

Note 42 describes the impact of COVID-19 outbreak to the current year financial statements and possible effects to the Company’s, future prospects, performance and cash flows. The

Our response

Our audit procedures to assess the Group’s ability to continue as a going concern included;

- Obtaining the Company’s cash flow projections covering a period of not less than twelve months from the reporting period end date and challenging these key assumptions used in preparing the projections;
- Evaluating the sensitivity of the projected cash flows by considering downside scenarios together with reasonably plausible changes to the key assumptions and considering whether there were any indicators of management bias in the selection of the assumptions;

management has described how they plan to deal with these events and circumstances as the outbreak is still prevailing as at the date of this report. We identified the assessment of going concern as a key audit matter because the assessment of going concern involves consideration of future events and complying with the regulatory requirements of the Central Bank of Sri Lanka. Impact arising from COVID-19 requires the exercise of significant management judgement in assessing future cash inflows and outflows which could be subject to potential bias.	- Assessing correspondence with the Regulator in order to evaluate the potential impact and the agreed rectifications for the non-compliances with regulatory requirements, and evaluating classification of additional cash infused as advances against future issue of shares during the year with the relevant supporting documents; - Assessing disclosures in the financial statements.
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Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

30 June 2020

Annexure 03

36 Capital management

36.1 Capital management

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

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

Capital consist of ordinary shares, retained earnings of the Company. The Board of directors monitor the return on capital as well as the level of dividends to ordinary shareholders.

The Company's main objective is when managing capital are:

- 01) to safeguarded the Company's ability to continue as going concern, so that it can continue to provide returns for shareholders
- 02) to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

Further, the Board seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing, and the advantages and security afforded by the strong capital position of the Company.

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

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

36.2* Re-issue of financial statements

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

*The paragraph included regarding the Re-issue of financial Statements.

36 Capital management (continued)

36.3 Capital adequacy

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

Total risk weighted assets computation

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

36 Capital management (continued)

36.4 Total Capital Base Computation

<i>As at 31 March</i>		2020	2019
		Amount Rs. '000	Amount Rs. '000
Tier I capital			
Stated capital		2,440,290	1,238,302
Reserve fund		7,259	7,259
Audited retained earnings/(losses)		(1,102,603)	(1,004,439)
Transaction cost related to rights issue		(12,020)	-
(less) Revaluation gains/surplus of investment property		-	-
General and other disclosed reserves		-	-
Current year's profit/(losses)		(80,425)	(98,164)
**Tier I capital		1,252,501	142,958
Adjustments to Tier I capital		(3,033)	(5,856)
Other intangible assets (net)		(2,483)	(5,125)
50% of investment in other banking and financial institutions		(551)	(731)
**Tier I Capital (after adjustments)		1,249,468	137,102
Tier 2 Capital			
Instruments qualified as Tier 2 capital		-	-
Revaluation gains (50% of eligible revaluation gains)		-	-
Eligible Tier 2 Capital		-	-
Total Adjustments to eligible Tier 2 Capital		551	(731)
Eligible Tier 2 Capital after adjustments		(551)	(731)
***Total Capital		1,248,917	136,371
Core Capital Ratio (Minimum 6%)			
Core Capital Ratio	=	$\frac{\text{Core Capital} \times 100}{\text{Risk Weighted Assets}}$	39.58% 4.85%
Total Risk Weighted Capital Ratio (Minimum 10%)			
Total Risk Weighted Capital Ratio	=	$\frac{\text{Capital Base} \times 100}{\text{Risk Weighted Assets}}$	39.56% 4.82%

36.5 Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements for other risks such as Market and operational risks. The new capital adequacy framework covers both credit risk and operational risk.

<i>As at 31st March</i>		Based on Direction No. 03 of 2018	
		2020	2019
Core Capital Ratio	Based on Direction No. 03 of 2018	39.58%	4.85%
Total Capital Ratio	Based on Direction No. 03 of 2018	39.56%	4.82%

** Advance against Stated capital excluded from Tier 1 Capital

*** Advance against Stated capital also excluded from Tier 2 & Total Capital

Annexure 4

36 Capital management

Capital consist of ordinary shares, retained earnings of the Company. The Board of directors monitor the return on capital as well as

The Company's main objective is when managing capital are:

- 01) to safeguarded the Company's ability to continue as going concern, so that it can continue to provide returns for shareholders and
- 02) to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and

Further, the Board seeks to maintain a balance between higher targeted returns that might be possible with higher level of borrowing, and the advantages and security afforded by the strong capital position of the Company.

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

Category	As at	As at
	31/03/2020	31/03/2019
	Rs.000	Rs.000
Total liabilities	2,262,441	2,750,425
Less: Cash and cash equivalents	291,440	226,281
Net debt	1,971,001	2,524,144
Total equity	1,552,501	142,958
Net debt to adjusted equity ratio at 31 March	1.27	17.66

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

36 Capital management (continued)

Capital adequacy

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

Total risk weighted assets computation

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

36 Capital management (continued)

Total Capital Base Computation

As at 31 March		2020 Amount Rs. '000	2019 Amount Rs. '000
Tier I capital			
Stated capital		2,440,290	1,238,302
Other components of equity		300,000	-
Reserve fund		7,259	7,259
Audited retained earnings/(losses)		(1,102,603)	(1,004,439)
Transaction cost related to rights issue		(12,020)	-
(less) Revaluation gains/surplus of investment property		-	-
General and other disclosed reserves		-	-
Current year's profit/(losses)		(80,425)	(98,164)
Tier I capital		1,552,501	142,958
Adjustments to Tier I capital		(3,033)	(5,856)
Other intangible assets (net)		(2,483)	(5,125)
50% of investment in other banking and financial institutions		(551)	(731)
Tier I Capital (after adjustments)		1,549,468	137,102
Tier 2 Capital		-	-
Instruments qualified as Tier 2 capital		-	-
Revaluation gains (50% of eligible revaluation gains)		-	-
Eligible Tier 2 Capital		-	-
Total Adjustments to eligible Tier 2 Capital		551	(731)
Eligible Tier 2 Capital after adjustments		(551)	(731)
Total Capital		1,548,917	136,371
Core Capital Ratio (Minimum 6%)			
Core Capital Ratio	= $\frac{\text{Core Capital} \times 100}{\text{Risk Weighted Assets}}$	49.09%	4.85%
Total Risk Weighted Capital Ratio (Minimum 10%)			
Total Risk Weighted Capital Ratio	= $\frac{\text{Capital Base} \times 100}{\text{Risk Weighted Assets}}$	49.07%	4.82%

Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements for other risks such as Market and operational risks. The new capital adequacy framework covers both credit risk and operational risk.

As at 31st March		Based on Direction No. 03 of 2018	
		2020	2019
Core Capital Ratio	Based on Direction No. 03 of 2018	49.09%	4.85%
Total Capital Ratio	Based on Direction No. 03 of 2018	49.07%	4.82%

36 Capital management (continued)

Total Capital Base Computation

As at 31 March	2020	2019
	Amount Rs. '000	Amount Rs. '000
Tier I capital		
Stated capital	2,440,290	1,238,302
Other components of equity	300,000	-
Reserve fund	7,259	7,259
Audited retained earnings/(losses)	(1,102,603)	(1,004,439)
Transaction cost related to rights issue	(12,020)	-
(less) Revaluation gains/surplus of investment property	-	-
General and other disclosed reserves	-	-
Current year's profit/(losses)	(80,425)	(98,164)
Tier I capital	1,552,501	142,958
Adjustments to Tier I capital	(3,033)	(5,856)
Other intangible assets (net)	(2,483)	(5,125)
50% of investment in other banking and financial institutions	(551)	(731)
Tier I Capital (after adjustments)	1,549,468	137,102
Tier 2 Capital	-	-
Instruments qualified as Tier 2 capital	-	-
Revaluation gains (50% of eligible revaluation gains)	-	-
Eligible Tier 2 Capital	-	-
Total Adjustments to eligible Tier 2 Capital	551	(731)
Eligible Tier 2 Capital after adjustments	(551)	(731)
Total Capital	1,548,917	136,371

Core Capital Ratio (Minimum 6%)	$\frac{\text{Core Capital} \times 100}{\text{Risk Weighted Assets}}$	49.09%	4.85%
Core Capital Ratio	=		
Total Risk Weighted Capital Ratio (Minimum 10%)	$\frac{\text{Capital Base} \times 100}{\text{Risk Weighted Assets}}$	49.07%	4.82%
Total Risk Weighted Capital Ratio	=		

Computation of Capital Adequacy Ratios

The previous capital adequacy directions was adopted in 2006 for LFCs in line with the Capital Adequacy Accord recommended by the Basel Committee on Banking Supervision (BCBS) issued for banks in 1988. Under this direction risks were confined to credit risk and no capital requirements for other risks such as Market and operational risks. The new capital adequacy framework covers both credit risk and operational risk.

As at 31st March		Based on Direction No. 03 of 2018	
		2020	2019
Core Capital Ratio	Based on Direction No. 03 of 2018	49.09%	4.85%
Total Capital Ratio	Based on Direction No. 03 of 2018	49.07%	4.82%

Annexure 5

Amended Note

40 Cap imposed by the Central Bank

The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the Company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total deposit and borrowing liabilities (with accrued interest) at Rs 2,500 Mn and Rs 39 Mn respectively, with immediate effect until such time the Company meets the required minimum core capital as per the Finance Business Act Direction No 2 of 2017 – Minimum Core Capital.

Previous Note

40 Cap imposed by the Central Bank

The Monetary Board of the Central Bank of Sri Lanka has issued a direction on the company under Section 12 of the Finance Business Act No 42 of 2011 to cap the total deposit and borrowing liabilities (with accrued interest) at Rs 2,500 Mn and Rs 39 Mn respectively, with immediate effect until such time the company meets the required minimum core capital as per the Finance Business Act Direction No 2 of 2017 – Minimum Core Capital.

However, due to the impact of COVID-19, the Central Bank of Sri Lanka has extended the minimum core capital requirement of Rs. 2.0 Bn to 01 January 2021. As a result, the Company is currently meeting the minimum core capital requirement of Rs. 1.5 Bn as at the reporting date.