

Collecting Moments





Collecting
moments





Tomorrow's enterprise...

Collecting
moments





**...will enshrine
life's precious moments.**

Collecting
moments

Here's to a life full
of memories,...





Collecting
moments



The image features a soft, out-of-focus green background with a bokeh effect. In the bottom-left corner, a portion of a red, textured jacket sleeve is visible. Centered in the image is the text "...starting with now." in a white, serif font.

...starting with now.



At its core, PLC's enterprise provides ways and means for people from all walks of life to seize and collect precious moments in life. It always has been this way. Our products and services help millions craft a life for themselves – be it in the business or personal realm. We make moments happen for many... precious moments in life.



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Highlights

GRI 102-7

| | Page No. | 2016/17 | 2015/16 | Change (%) |
|--|----------|------------|------------|------------|
| Financial Capital | | | | |
| Income (Rs. million) | 277 | 23,859.04 | 19,186.23 | 24.36 |
| Profit before tax (PBT) (Rs. million) | 277 | 5,475.89 | 6,143.09 | -10.86 |
| Cost to income ratio (%) | 60 | 45.01 | 37.24 | 7.77 |
| Total assets (Rs. million) | 279 | 150,456.76 | 124,335.65 | 21.01 |
| Return on assets (ROA) (%) | 27 | 3.99 | 5.19 | -1.20 |
| Manufactured Capital | | | | |
| Branches (Nos.) | 71 | 103 | 92 | 11.96 |
| Service centres (Nos.) | 71 | 101 | 110 | -8.18 |
| Investment on ICT (Rs. million) | 29 | 246.88 | 213.79 | 15.48 |
| Intellectual Capital | | | | |
| Brand value (Rs. million) | 82 | 7,588.00 | 9,317.00 | -18.56 |
| Market share (%) | 83 | 12.44 | 12.17 | -0.06 |
| Goodwill (Rs. million) | 332 | 308.54 | 308.54 | - |
| Human Capital | | | | |
| Employees (Nos.) | 89 | 2,085 | 1,834 | 13.69 |
| Investment in training (Rs. million) | 93 | 28.33 | 22.80 | 24.25 |
| Staff remuneration and benefits (Rs. million) | 95 | 2,556.24 | 1,807.02 | 41.46 |
| Social and Relationship Capital | | | | |
| Customers (Nos.) | 103 | 306,358 | 277,515 | 10.39 |
| Supplier base (Nos.) | 111 | 23,982 | 22,633 | 5.96 |
| Payment to suppliers (Rs. million) | 111 | 51,805.29 | 51,818.26 | -0.03 |
| Earnings per share – Company (Rs.) | 121 | 2.54 | 2.75 | -7.64 |
| Dividend per share (Rs.) | 121 | 1.25 | 1.25 | - |
| Market capitalisation (Rs. million) | 120 | 24,645.85 | 25,277.80 | -2.50 |
| Return on equity (ROE) (%) | 115 | 16.89 | 19.80 | -2.91 |
| Investment on CSR (Rs. million) | 130 | 187.64 | 76.25 | 146.09 |
| Community-based initiatives (Nos.) | 130 | 105 | 158 | -33.54 |
| Staff volunteered hours (Nos.) | 130 | 8,496.50 | 29,659.00 | -71.35 |
| Core capital ratio (required minimum – 5%) (%) | 125 | 17.56 | 19.56 | -2.00 |
| Total risk weighted capital ratio (required minimum – 10%) (%) | 125 | 16.37 | 18.14 | -1.77 |
| Natural Capital | | | | |
| Carbon footprint (tCO ₂ eq) | 144 | 6,235.51 | 3,059.47 | 103.81 |
| Trees planted for carbon credits (Nos.) | 142 | 5,780 | 10,395 | -44.40 |
| Staff volunteered hours (Nos.) | 142 | 1,276 | 1,864 | -31.55 |
| Investment on natural environment (Rs. million) | 142 | 3.37 | 3.36 | 0.30 |
| Environment-based initiatives (Nos.) | 142 | 8 | 27 | -70.37 |

Highlights

Interest income grew by

23%

to reach

**Rs. 22,041
million**

Achieved
profit after tax of

Rs. 4 billion

Total assets topped

**Rs. 150
billion**

with a representation of

12%

of Industry

146%

Increase in community
investment to

**Rs. 188
million**

A walk towards a more
responsible corporate citizen

Maintained Retention Ratio

Above 90%;

Securing our position as
Best Place to Work

Total employee
strength reached

2,085

Over 200
Customer touchpoints with

103

Fully-fledged Branches

Bagged

**Sector
Gold Award**

for

**Nine
consecutive
years**

at the CA Sri Lanka Annual
Report Awards

Clinched

Gold Award
for the Best Disclosure in
**Corporate
Governance**

at the 52nd CA Sri Lanka
Annual Report Awards

Honoured as the

**Second
runner-up**

at Best Corporate
Citizen Sustainability
Awards 2016

A proud

**Carbon
Neutral**
company

Launched new products

**SelfeCash and
Crest Saver**

ICT investment
amounted to

Rs. 247 million

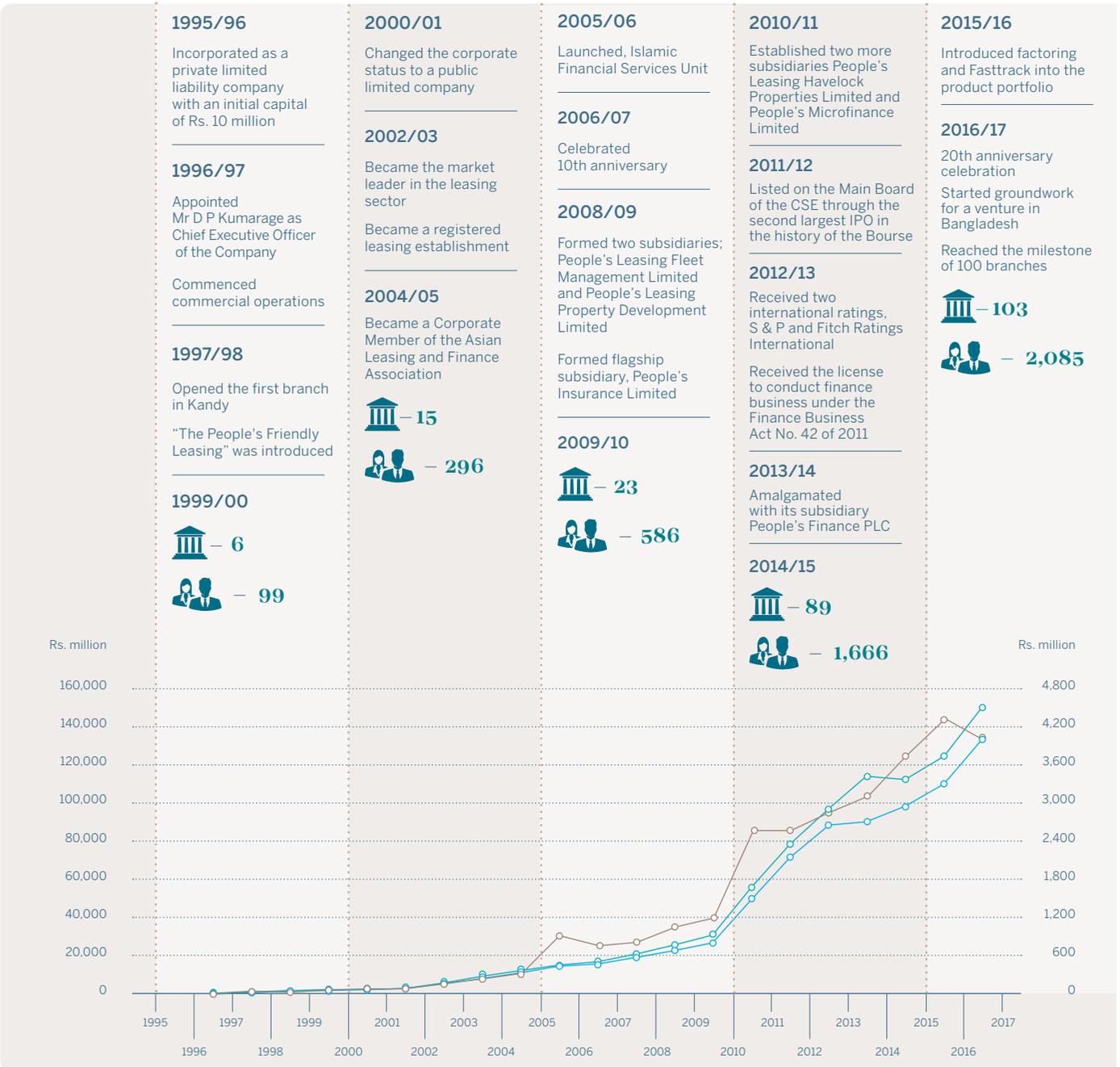
to Deliver Exceptional
Value Added Services

About PLC

GRI 102-1

Over the last two decades People's Leasing & Finance PLC has been the pioneer in providing value-added financial services to Sri Lankans. With over 100 branches island-wide and a strong team of dedicated employees, we have strengthened our offering in satisfying all our customers through a wide range of products and services in leasing, loans, Islamic products, deposits, margin trading and factoring.

In doing so, we understand that our success and future sustainability depend on placing all our stakeholders at the centre of everything we do, and ensuring that the outcomes of our initiatives are relevant for growth in Sri Lanka.

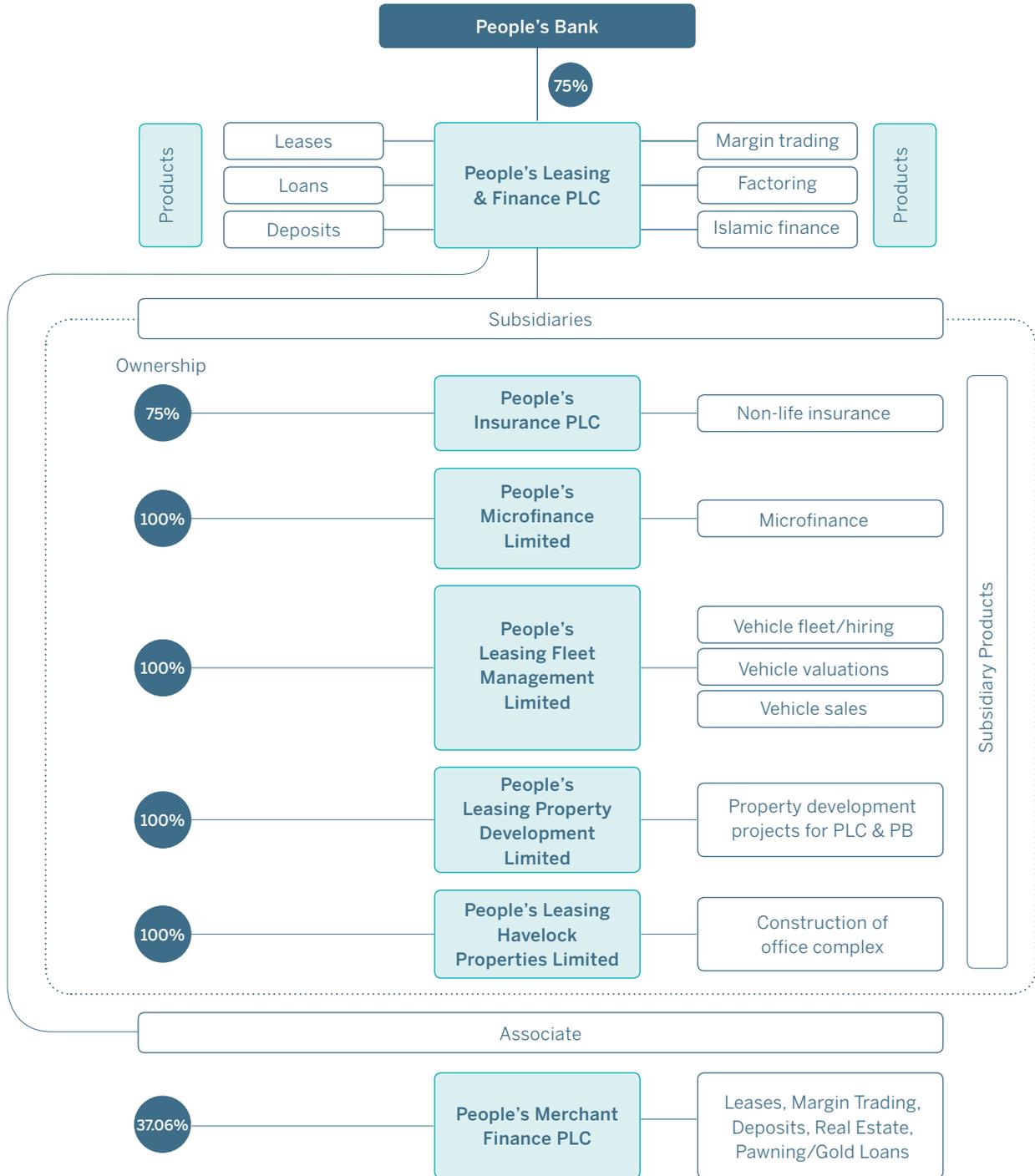


—○— Asset Base (LHS) —○— Loans (LHS) —○— PAT (RHS)



About PLC

OUR ORGANISATIONAL STRUCTURE



About PLC

GRI 102-1



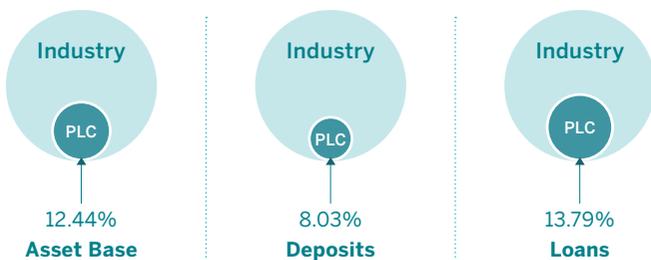
MARKET POSITION

PLC can proudly claim that it is the number one entity amongst all the Non-Bank Financial Institutions (NBFIs) in Sri Lanka. In terms of sector assets we account for approximately 12% of the market share and our branch network makes up 8% of the NBF total branch network. Our customer base stood at 306,358 as at 31 March 2017 with a brand value of Rs. 7.59 billion.

We have been listed on the Standard & Poor's Sri Lanka top 20 index since December 2014 and our market capitalisation stood at Rs. 24.65 billion as at 31 March 2017 with a capitalisation ranking of 26.

We have 9,176 ordinary shareholders with 6.72% of our shares held by foreign shareholders. Total equity stood at Rs. 24.70 billion and our capital adequacy ratios were consistently maintained well above the industry requirements. As at 31 March 2017, core capital ratio stood at 17.56% while total risk-weighted capital ratio stood at 16.37%.

Assets/ Deposits/Loans Industry VS PLC



Source: CBSL Annual Report 2016.

ORGANISATIONAL CULTURE, ETHICS AND VALUES

PLC strives to epitomise its core brand values; that of stability, customer-friendliness and reliability. More information can be obtained from the Intellectual Capital section of this Report on pages 77 to 84.

People's Leasing & Finance PLC possesses an open and supportive working culture that encourages teamwork. We offer a range of competitive benefits and promotions to our employees, and invest in their personal development and success. More information can be obtained from the Human Capital section of this Report on pages 85 to 98.

As a company, we ensure that we conduct all our operations in a fair and just manner, with adherence to all relevant guidelines issued by regulatory bodies. Further information on these matters can be obtained from the Social and Relationship Capital section of this Report on pages 99 to 134.

About the Report

GRI 102-12

People's Leasing & Finance PLC is pleased to present its fourth consecutive Integrated Annual Report.



This Report offers a detailed view into the strategy, governance and capital management processes of People's Leasing & Finance PLC. As such, it addresses the Company's value creation process over the short, medium and long-term towards its stakeholders. It will consequently address any and all queries that a stakeholder may have with regard to making sound decisions about the Company and its activities.

Finally, the Report presents detailed information about the Company's position with regard to its financial performance in the context of the surrounding economic, social and environmental conditions.

GRI 102-12

FRAMEWORKS AND CODES

- International <IR> Framework of the International Integrated Reporting Council
 - Sustainability Reporting Standards prepared by the Global Reporting Initiative (GRI)
- Preparer's Guide to Integrated Corporate Reporting issued by The Institute of Chartered Accountants of Sri Lanka
- The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka
 - Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka
 - Requirements of the Content of the Annual Report in Rule 7.6 of the Listing Rules of the Colombo Stock Exchange
- Sustainable Development Goals (SDGs) – The UN initiatives with 17 aspirational 'Global Goals'
- United Nations Global Compact Advanced Principles (UNGC)
- The Climate Disclosure Standards Board (CDSB) Framework for Reporting Environmental Information and Natural Capital

This fourth consecutive Integrated Annual Report of People's Leasing & Finance PLC has been prepared with reference to the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) guidelines as well as A Preparer's Guide to Integrated Corporate Reporting published by The Institute of Chartered Accountants of Sri Lanka.



SCAN to view the online version

About the Report

GRI 102-54

This Report has been prepared in accordance with the guidelines laid out by the Global Reporting Initiative (GRI) comprehensive. We are pleased to report on the latest GRI update; GRI Standards. The GRI Content Index is to be found, on pages 412 to 414. The table below gives a snapshot of where the specific GRI standards are featured in the Report.

| Highlights | About PLC | About the Report | Messages |
|---|---|---|--|
| 102-7 | 102-1 | 102-3/102-12/102-45/ 102-48/102-50/102-51/ 102-52/102-53/102-54 | Chairman's Report Chief Executive Officer's Review A Note from the Chief Executive Officer (Designate) 102-14 |
| Business Model | Management Discussion & Analysis | Stewardship | Financial Reports |
| Operating Environment | Financial Capital GRI 201 | Board of Directors 102-27 | 102-45 |
| Business Model for Value Creation and Capital Formation | Manufactured Capital 102-6/102-11 | Corporate Management | Supplementary Information |
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| Sustainability at PLC | Human Capital 102-8/102-17/102-41 | Corporate Governance 102-18/102-19/102-20/ 102-21/102-22/102-24/ 102-25/102-26/102-28/ 102-29/102-31/102-32/ 102-33/102-34 | 102-4/102-5/102-47/ 102-55/ 102-56/103-1/ 103-2/103-3/ |
| Stakeholder Engagement 102-40/102-42/ 102-43/102-44 | GRI 201/GRI 202/GRI 401/ GRI 402/GRI 403/ GRI 404/GRI 405/GRI 406/ GRI 408/GRI 409/ GRI 410/GRI 412 | Annual Report of the Board of Directors on the Affairs of the Company |  |
| Materiality 102-46/102-47/102-49 | Social and Relationship Capital 102-2/102-9/102-13 GRI 204/GRI 205/GRI 413/ GRI 414/GRI 417/GRI 418/ GRI 419 | Board Audit Committee Report | |
| | Natural Capital GRI 301/GRI 302/GRI 304/ GRI 305/GRI 306/GRI 307/ GRI 308 | Remuneration and Nomination Committee Report 102-35/102-36 | |
| | Future Outlook | Related Party Transactions Review Committee Report 102-25 | |
| | | Integrated Risk Management Committee Report | |
| | | Compliance Management | |
| | | Risk Management 102-11/102-30 | |

About the Report

FINANCIAL STATEMENTS AND EXTERNAL ASSURANCE

The Financial Statements of People's Leasing & Finance PLC have been prepared in accordance with the Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka. The Company has followed additional guidelines as established by the Finance Business Act No. 42 of 2011, the Finance Leasing Act No. 56 of 2000, the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange, Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka, and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

GRI 102-48

There were no restatements applicable for the information provided in the previous reports.

The Financial Statements and Notes to the Financial Statements are audited by Messrs Ernst & Young, Chartered Accountants, Sri Lanka and the corresponding Assurance Report is to be found on page 275 of this Report. External assurance for Corporate Governance has been obtained from Messrs Ernst & Young, Chartered Accountants. External Assurance on Sustainability Reporting is to be found on pages 405 and 406 of this Report. The Directors' Statement of Internal Control over Financial Reporting has been equally reviewed by the said Auditors.

A Certificate of Carbon Neutrality has been obtained from the Natural Capital Partners (NCP) of the UK, through their regional verification partner the Sustainable Future Group.

GRI 102-3

GRI 102-12

GRI 102-45

GRI 102-50

GRI 102-51

GRI 102-52

SCOPE AND BOUNDARY

This Annual Report covers the entirety of the Company's operations from the Head Office located at 1161, Maradana Road, Colombo 08 to its network of branches for the period 1 April 2016 to 31 March 2017. The Report immediately preceding this is for the year ended 31 March 2016. Suitable comparisons have been drawn between the activities of this year and the precedent as appropriate.

This Report additionally provides information on the five subsidiaries of People's Leasing & Finance PLC; to include People's Insurance PLC, People's Leasing Property Development Limited, People's Leasing Fleet Management Limited, People's Microfinance Limited and People's Leasing Havelock Properties Limited, for the year ended 31 March 2017.

The contents of this Report have been drafted with due consideration to the topics that are held to be of material importance for the Company as well as its stakeholders.

A detailed materiality assessment is accessible on pages 50 and 51 of this Annual Report.

FORWARD LOOKING STATEMENTS

This Integrated Report features several forward-looking statements and financial forecasts based on the information available in accordance with the date of publication of this Report. As the afore mentioned pertain to future events, it involves risks and uncertainties that are beyond the control of People's Leasing & Finance PLC. Consequently, readers are advised not to place undue reliance on these statements in making decisions. The Company is not under any obligation to update these forward looking statements to reflect any changes after the date of publication of this Report.

PRESENTATION

Printed copies of this Report will be made available to those who request for such in writing, in accordance with People's Leasing & Finance PLC's commitment towards reducing its carbon footprint. However, this Report in the form of a CD-ROM will be posted to all the shareholders of the Company. The Report will be equally available in PDF and HTML formats on our corporate website, www.plc.lk.

STATEMENT OF THE BOARD OF DIRECTORS OF THE COMPANY

The Board acknowledges its responsibility to ensure the integrity of this Integrated Annual Report. The Board understands that the report addresses all material issues and matters of the Company and that it presents a sound view of the Company's integrated performance for the period under review.



Hemasiri Fernando
Chairman



D P Kumarage
Chief Executive Officer

19 May 2017
Colombo

GRI 102-53

CONTACT

Any questions and queries on this Integrated Annual Report 2016/17 and the information presented therein are to be directed to:

The Chief Financial Officer
People's Leasing & Finance PLC
1161, Maradana Road, Colombo 08, Sri Lanka.
Postal Code: 00800 Tel: +94 11 2631631 Fax: +94 11 2631980

Investors can communicate with the Company via email on:
investor.relations@plc.lk

Any sustainability-related concerns can be addressed via email to:
sustainability@plc.lk and by filling in the Stakeholder Feedback Form.



Chairman's Report

GRI 102-14

A combination of factors including operational excellence and innovative products and services, helped the Company to report yet another year of noteworthy performance

We consistently maintained the improvements we had been making to our business volumes and operational results. This helped us further strengthen our position of leadership in the Non-Bank Financial Institution sector in Sri Lanka.

We accounted for a 12.4% market share in the industry as at the end of 2016 and our asset base topped Rs. 150 billion as at 31 March 2017. We recorded a profit before tax and a profit after tax for the year at Rs. 5.48 billion and Rs. 4.01 billion respectively.

Certain regulatory and macroeconomic developments, such as tax and regulatory changes and the hike in interest rates in the United States economy, which led to corresponding increases in Sri Lankan rates, were notable challenges that we had to contend with during the year. Given that the nature of our core business is based on long-term fixed rate leasing, this makes our sustained performance this year all the more creditable.

People's Leasing & Finance PLC has a proven track record of adapting and refining its strategies; be they in relation to products and services, delivery channels and touchpoints, diversification of risk, technological deployment or the streamlining of operations; to meet evolving trends and to deliver ever greater sustainable value to all our stakeholders. Accordingly, we are confident of maintaining this growth momentum in the years to come.

The macroeconomic and regulatory developments referred to above are likely to cause leasing to take a back seat in the industry. On the other hand, products such as business and mortgage loans are becoming more popular. This will open up new opportunities for NBFIs to expand their product portfolios.

We will expand our operations in factoring and margin trading too. We will continue to innovate, develop and expand our portfolio of products and services to suit these developments and match evolving customer needs, thereby helping them to avail of optimal solutions for their financing requirements.

We have considerably expanded our branch network; this widened reach will position us well to improve our market share. Hence, branch expansion will not be at the top of the agenda in the near future. In addition, existing branches will see upgrades and improvements to their infrastructure which will help enhance operational excellence and elevate standards of customer service.

As PLC has been the market leader in Sri Lanka for well over a decade, it was logical that we would seek to add more international flavour to our business. We have already established the groundwork for commencing business in Bangladesh. This will come into play in the very near future.

PLC has always been committed to deploying the latest technology to facilitate and streamline its operations for the ease of its customers. We will continue to develop and refine our web and mobile based applications, which are being increasingly used by the general populace in these times. We remain committed to being customer-centric and improving the customer experience further. This we believe, will further differentiate us from other entities in the competitive market we operate in.

It must be noted that the primary focus of People's Leasing & Finance PLC has always been and will continue to be, small and medium enterprises (SMEs). We have enjoyed great success in this sector, for we believe in understanding and developing products that address the specific needs of this sector and offering these solutions in the most efficient and reliable manner. Our comprehensive network of delivery channels and outlets, well-diversified product portfolio, highly committed personnel and a suite of new technology help us immensely in this regard.

To conclude, I wish to extend my deep appreciation and gratitude to my fellow members of the Board and our cherished employees for their contributions in continually elevating the standards of PLC. I must recognise our valued customers, who as the foundation for our existence, continue to inspire and drive us forward. Finally, I wish to reiterate that PLC is always committed to delivering ever greater value to our shareholders' investments and we look forward to continued success ahead.

I also wish to make a special vote of thanks to Mr D P Kumarage, the outgoing Chief Executive Officer of People's Leasing & Finance PLC, in recognition of his long-standing and tireless contributions to the Company. I wish him well in his future endeavours.

Going forward, we will continue to set new milestones in the industry as we remain steadfast in our goal of being the number one financial services provider of choice in Sri Lanka and beyond.



Hemasiri Fernando

Chairman

19 May 2017



Chief Executive Officer's Review

The outlook for tomorrow is bright as People's Leasing & Finance PLC forges ahead in the spirit of its endeavours. Our focus is strong and our strategies are aligned.

We remain ready and committed to deliver ever-greater value to our stakeholders in a continuous and sustainable manner. Nonetheless, we had to contend with several challenges in the past year.

Despite this, PLC reported a profit after tax of Rs. 4,009.25 million for the financial year ended 31 March 2017, with the net operating income of the Company growing by 7.53%. Our profit after tax did show a decline from the previous year, and this was mainly due to a rise in interest rates.

The asset base of People's Leasing & Finance PLC grew by 21.01% during the year, recording a figure of Rs. 150,456.76 million as at 31 March 2017, whilst the deposit base stood at Rs. 44,722.55 million.

Disbursements grew by 29.27% during the year, and PLC marked a historic milestone by striking a record of over Rs. 10 billion monthly disbursements in the second quarter of 2016/17 alone. The non-performing loan (NPL) ratio improved from 1.55% to 1.33%, which outperformed the industry average.

Consequently, the collection ratio improved to 95.98%. In testimony to the cumulative improvement in asset quality and our improved recovery efforts, impairment charge reduced by 16.48%.

Similarly we injected Rs. 100 million each into People's Microfinance Limited and People's Leasing Fleet Management Limited; two subsidiaries of PLC, to enhance their performance as well.

People's Leasing & Finance PLC is also pleased to mention that it was able to maintain both its local and international credit ratings during the year under review.

PLC strengthened its employee base in the year, and our team strength was recorded at 2,085 as at 31 March 2017.

As in the preceding years, we invested significant resources in the training and development of all our staff. Our employee retention rate, at 92.09%, was well above the industry average, representing another unique milestone for PLC.

We entered into several strategic business agreements with our suppliers. This will increase the value-added services that

we offer to our customers. We established our landmark 100th branch during the year and similarly expanded our branch network; in line with our 20th anniversary celebrations.

A suite of new products was added to our repertoire, to include selfecash, the clean loan, and the crest saver deposit.

Our sustainability and corporate social responsibility (CSR) activities showed further progress in the year under review with PLC recording an impressive increase of 146.09% in community investment from the preceding year. We continued our PLC-care initiative, whereupon we focused our CSR activities on five core areas, backed by our operations.

Reflecting our unwavering commitment towards ecological and environmental sustainability, PLC is pleased to report that this year too we continued being a carbon neutral company.

Our performance in the industry was duly recognised when we secured numerous awards from a multitude of awarding bodies. This year we bagged Second Runner-up Award of the Best Corporate Citizen Sustainability Award organised by the Ceylon Chamber of Commerce. This recognition is conferred on PLC for its best sustainability practices and implementations on environmental sustainability, social accountability, financial performance and contribution to the national economy. Adding more to the glory, PLC also bagged the Gold Award for the Best Disclosure on Corporate Governance at the 52nd CA Sri Lanka Annual Report Awards while at the same time successfully retaining the coveted Gold Award of the sector for the 9th consecutive year.

In conclusion, I wish to thank all our customers for their continuing patronage of our products and services, our employees for their tireless contributions throughout the years, and our regulators for guaranteeing the long-standing stability and success of our operations. As I stand to culminate a long-standing and fruitful journey with PLC, I wish to reiterate my gratitude and appreciation to all those who have made PLC what it is today. I extend my heartfelt wishes and congratulations to Mr A S Ibrahim, the incoming Chief Executive Officer of People's Leasing & Finance PLC, and wish him many years of success at this dynamic and resilient enterprise.



D P Kumara

Chief Executive Officer/General Manager

19 May 2017



A Note from the Chief Executive Officer (Designate)

It is my deep honour and privilege to assume the responsibility of Chief Executive Officer at People's Leasing & Finance PLC. I wish to extend my thanks to Mr D P Kumarage for his tireless efforts in spearheading the growth and operations of PLC since the inception of the Company. As the leading entity in its sector, I am deeply confident about the progress and successes of PLC that is to come.

Going forward, we will continue to address the issue of volatile market rates by developing variable rate products. We are also looking at the viability of introducing shorter-term products into the market. We are already in possession of a fully-diversified suite of products which are entirely geared to satisfy all our customers' requirements.

People's Leasing & Finance PLC will continue to redevelop and enrich its network of branches. We struck a unique milestone of 100 branches in the reporting year, and we can duly consolidate our efforts from thereon. This will be bolstered by developments in technology, which we already utilise to maximise our impact and which enjoys huge success amongst many individuals in our client base.

PLC remains wholly committed to sustainable business practices, tailored corporate social responsibility (CSR) efforts and uplifting the communities in which we conduct our business. The five-pillared approach that we utilise to devise our CSR efforts take into consideration the unique features of our operations; from improving road safety and reducing emissions to empower the entrepreneurs of tomorrow.

Finally, I wish to offer a vote of thanks to all stakeholders of PLC for their spirited contributions to our joint success, and our customers for their long-standing relationships to our enterprise. We will continue to grow and prosper together for many years to come.



A S Ibrahim

Chief Executive Officer (Designate)

19 May 2017

Our entire value creation process is empowered with sustainable best practices, which will ensure our success in the long run. The five-pillared approach that we utilise in designing and implementing our sustainability initiatives, has created a positive impact in thousands of Sri Lankan lives.



Business Model

| | |
|---|------|
| Operating Environment | — 20 |
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Operating Environment

GLOBAL CONTEXT

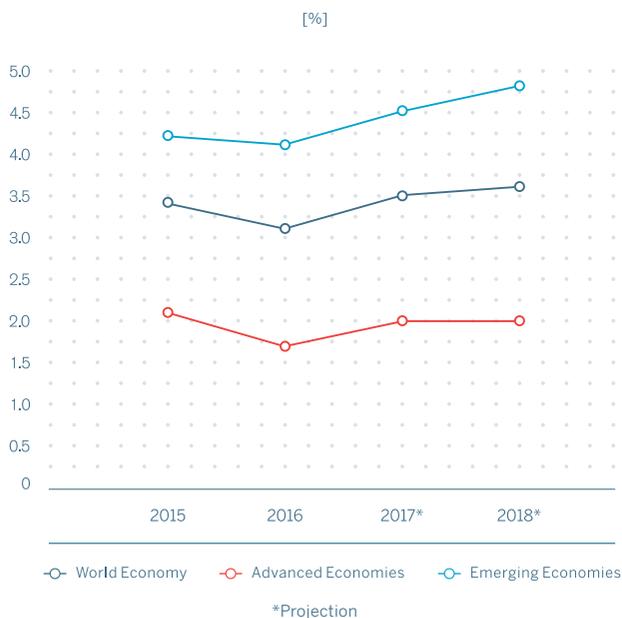
A STRUGGLING ECONOMY, WITH POTENTIAL FOR FUTURE GROWTH

World growth decreased in 2016 to 3.1% from 3.4% in 2015. It is projected to increase to 3.5% in 2017, and to progress further to 3.6% in 2018. The reasons for this expectation of increased growth are primarily an uplift in financial markets and recovery in manufacturing and trade which will support each other.

Nonetheless, structural impediments continue to affect a stronger recovery in advanced economies. Low productivity growth has been a persistent problem which hampers increasing competitiveness. High income inequality, which depresses demand, has been another constraining factor. Concentration on such problems would dampen expansion of global trade and cooperation, which has driven growth in emerging economies such as China in recent times.

Activity is expected to pick up in emerging economies as a result of improving commodity export conditions and the partial recovery in commodity prices. Growth is expected to remain strong in China and other commodity importers. For advanced economies, the rise is primarily due to higher projected growth in the United States, where activity was curtailed in 2016 by adjustments in inventory and weak investments.

GLOBAL ECONOMIC GROWTH



Following the U.S. Election and presidential inauguration, expectations of less tighter fiscal policy in the United States have contributed to a stronger dollar and increased treasury interest rates. Market sentiment has been strong with gains in equity markets in both advanced and developing economies.

Inflation has been picking up in advanced economies as a result of higher commodity prices. Consumer prices for advanced economies have shown an increase of 0.8% in 2016 from the preceding year, and for emerging markets this stands at a figure of 4.4%.

FUTURE OUTLOOK

Key risks are to be expected in the following areas. There is a marked shift towards protectionist policies being adopted by some advanced economies. This can affect trade and cross-border investment flows to negatively affect growth.

There is the prospect of roll back of financial regulations, introduced in advanced economies after the financial crisis, leading to increased interest rates. Protectionism in advanced countries could lead to financial tightening in emerging economies, particularly in China. A host of other non-economic factors could also influence the global economy; policy uncertainties particularly in the US and the UK in light of recent political developments; geopolitical tensions; issues of governance and corruption; terrorism and security concerns not to mention the vagaries of the weather.

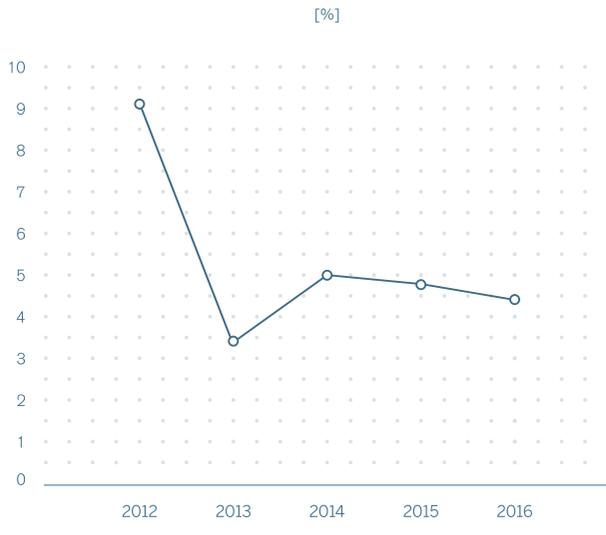
LOCAL CONTEXT

A SLUGGISH START, BUT A STEADY UPSWING AT THE END

Less favourable weather conditions and poor global economic recovery resulted in the Sri Lankan economy growing at a reduced rate of 4.4% in 2016 in real terms, compared to a rate of 4.8% in the preceding year. Nonetheless, a steady upswing in quarterly growth was observed from the second quarter of the year.

Operating Environment

SRI LANKAN ECONOMIC GROWTH



Service-related activities, representing 56.5% of real GDP grew by 4.4% in 2016, backed by an expansion in financial services, insurance, telecommunications, transportation, and wholesale and retail trade. Agriculture and related activities reported a contraction of 4.2% in 2016. The industry sector reported a similar low growth of 1.7% in manufacturing activities.

These trends had corresponding effects on PLC. We witnessed lower corporate confidence amongst SME customers, which impacted the growth potential of our portfolio.

FISCAL CONSOLIDATION

The Government undertook revenue-based fiscal consolidation measures, recognising that the low revenue mobilisation was leading to high budget deficits. The budget deficit was reduced to 5.4% of GDP from 7.6% in 2015 as a result of improved revenue collection combined with a reduction in total Government expenditure. Total revenues and grants increased from 13.3% as a percentage of GDP in 2015 to 14.3% in 2016.

Expenditure and net lending decreased from 20.9% as a percentage of GDP in 2015 to 19.7% in 2016.

Increase in Government revenue targets led to revision of taxes as well as imposition of new taxes. The VAT on financial services increased from 11% to 15% during the year. This led to a decrease in profitability as well as increased tax liability of the Company.

A RISE IN INFLATION

The general price level as measured by the Colombo Consumer Price Index (CCPI) increased from 0.9% in 2015 to 3.7% in 2016.

This was largely attributed to price movements in the food category. Price developments in the non-food category were the result of Government tax adjustments. The prices of imported consumer goods increased due to the depreciation of the Sri Lankan Rupee.

Rising interest rates tend to cause depreciation in the currency. The increase in exchange rates in turn drives up vehicle prices, which depresses customer demand.

MONETARY POLICY AND INTEREST RATES

In order to curtail the inflationary pressures in the economy, the Central Bank tightened its stance on monetary policy during 2016. In first quarter of 2016, the Central Bank increased the standing deposit facility rate and the standing lending facility rate by 50 basis points. Macro-prudential measures adopted in late 2015 were also continued. As at December 2016 the Standing Lending Facility Rate (SLFR) and the Standing Deposits Facility Rate (SDFR) stood at 8.5% and 7.0% respectively.

Increasing interest rates during the year brought about repricing risks which increased our interest expenses. This slowed the increase in our Net Interest Income, in turn impacting the growth of our bottom line.

EXTERNAL TRADE AND EXCHANGE RATE

The external sector of Sri Lanka was under pressure, as shown by modest foreign exchange inflows and increased outflows.

On the external front, the country's balance of payments (BOP) was affected by monetary policy normalisation in the US, a slow pace of economic growth in advanced economies and geopolitical uncertainties. The current account deficit increased to 2.4% of GDP from 2.3% in the previous year. The exchange rate depreciated at a higher rate during the second half of the year due to a curtailment of foreign exchange supply by the Central Bank.

The ban imposed against Sri Lanka by the EU prohibiting fish exports to the EU countries, over a period of one and a half years, commencing from January 2015, was lifted with effect from 17 June 2016. This is very likely to uplift fish exports.

The resulting demand for financing from the seafood exporting companies will create new opportunities for us boosting our volumes.

Operating Environment

MILLENNIALS ENTERING THE MARKET AND WORKFORCE

With the generation 'y' and the millennials gradually entering the market, businesses will be compelled to relook at most aspects of their operations. The new generations would have completely different expectations from their service providers and employers. They are more tech savvy, convenience oriented and have completely different spending habits when compared to their predecessors, which as a result would have profound implications on the HR practices, customer service approaches and product portfolios that PLC envisions in the coming years.

AGEING POPULATION

PLC will witness new product opportunities, a restructuring of its existing product portfolio and changes in its pool of employees with regard to the above trends.

REGULATORY CHALLENGES

Existing policies and practices were strengthened and streamlined. The maximum interest rates on deposits and debt instruments offered by Licensed Finance Companies (LFCs) was revised. The loan to value (LTV) ratio for credit facilities pertaining to automobiles was revised. The minimum core capital of LFCs is to be increased on a staggered basis.

Further tightening of loan to value to 50% on commercial vehicles, 70% on used vehicles, 90% on lorries and heavy vehicles and 25% on three wheelers affected the business volumes but at the same time enhanced the quality of the portfolio with a lower level of disposal losses to the Company.

Increase in maximum interest rates on deposits impacted the funding cost of the Company which reduced the NIM.

The slow rate of economic growth caused a dampening of business confidence and reduced growth and investment in both the corporate and the SME sectors. This had a negative effect on financing requirements of both sectors in turn constraining PLC's opportunities for growth.

RAPID TECHNOLOGICAL CHANGES AND DIGITISATION

A rapid increase in mobile and internet usage has resulted in a rise in e-transactions. The rise in digital currencies and payment systems are replacing traditional monetary transactions in Sri Lanka. PLC sees new opportunities in these domains.

Rapid improvements in technology facilitate business processes, communications, and operations, resulting in improved efficiency.

FUTURE OUTLOOK

The Sri Lankan economy is projected to grow at a subdued rate of 5% in 2017 amidst a number of challenges including adverse weather conditions. However, there is optimism that an annual growth rate of 7% would be achieved by 2020 and the private sector is poised to play a prominent role in this endeavour.

Investments from the private sector coupled with increased foreign investments in export oriented and service industries are thus expected to fuel this growth.

INDUSTRY CONTEXT

A NOTABLE ACHIEVEMENT AMIDST A CHALLENGING LANDSCAPE

Amidst a challenging business environment, the NBF sector recorded a strong performance. This was driven mainly by the combination of asset growth and branch network expansions during the year, whilst progressively shifting to other loan products from its core business of vehicle financing.

As at the end of December 2016 the sector comprised 53 players; 46 licensed finance companies and 7 specialised leasing companies with an extended branch network of 1,313. 67% of the total branch network is located outside the Western Province. It is notable that the sector assets surpassed the rupees one trillion milestone with a growth rate of 21.7% to Rs. 1,211.9 billion during the year. 77.3% of the asset growth was mainly attributable to lending activities and funding through borrowings.

Greater business expansion of the NBF sector into new areas of lending during the year enabled the sector to post an increased level of profits. Thus, the sector recorded a profit after tax of Rs. 31.5 billion compared to Rs. 15.2 billion in the previous year due to increased business volumes, other income and operational efficiency.

The sector's net interest income saw a sluggish increase of 12.0% to Rs. 92.1 billion compared to the previous year. The growth was retarded by the increased funding cost. This impacted negatively on the net interest margin of the sector which declined to 7.9% from 8.7% in 2015. The non-interest income recorded an increase in comparison to the previous year.

Operating Environment

Aggressive credit recovery policies adopted by LFCs and SLCs enhanced the quality of the loans portfolio. The NPL ratio witnessed a decline from 5.7% in 2015 to 5.3% in 2016.

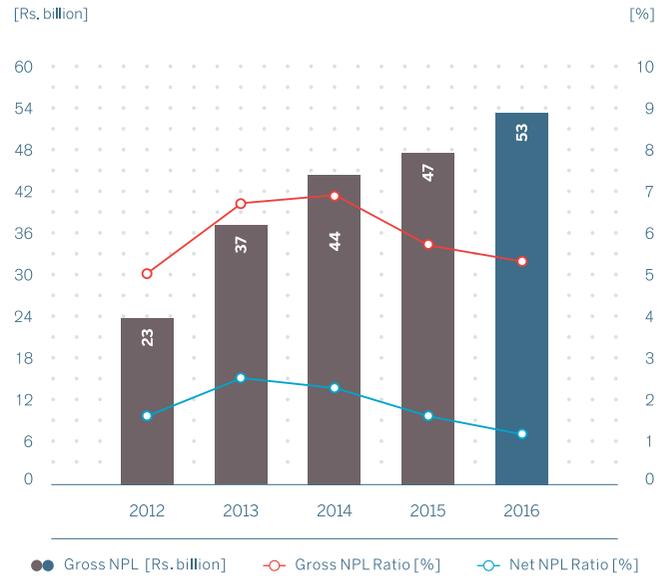
The sector continued to experience a minimal market risk due to the lower exposure to trading portfolio and foreign currency transactions. Market interest rates increased during the year, resulting higher 're-pricing risk', which reduced the sector margin due to prevailing negative assets and liabilities mismatch.

Core capital and total risk weighted capital ratio increased to 11.4% and 11.7% respectively as at the end of 2016 from 10.5% and 11.2% in the preceding year.

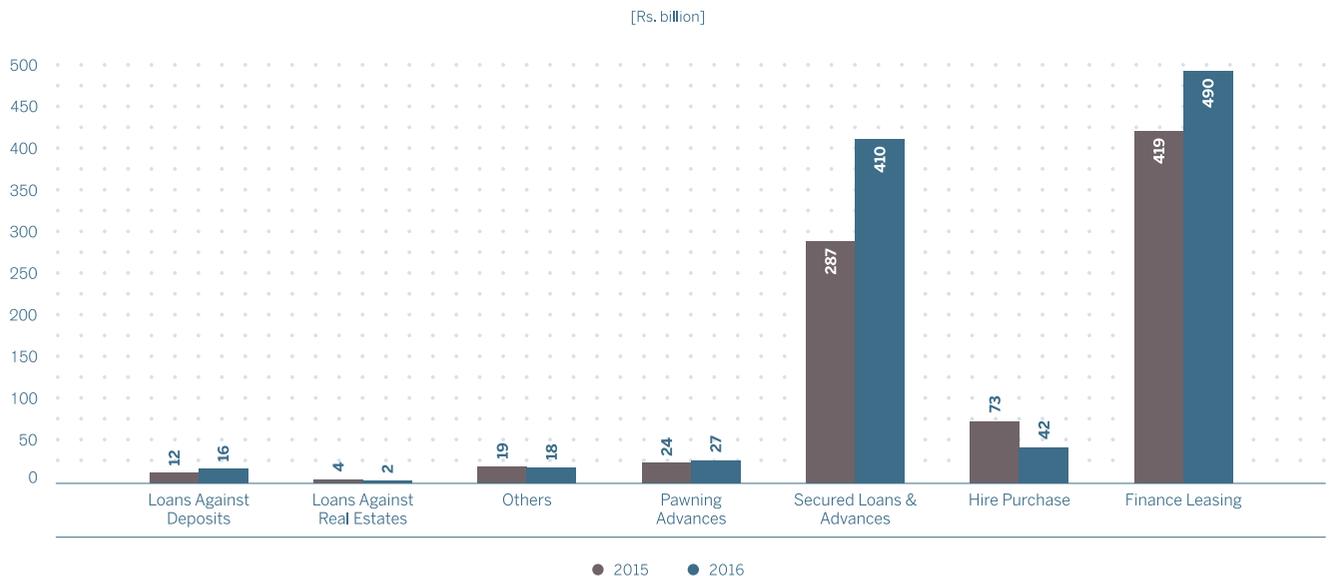
FUTURE OUTLOOK

The Central Bank expects to further strengthen the regulatory framework pertaining to all financial institutions as a means to ensure greater stability for the financial sector. This is to be done by identifying emerging vulnerabilities, adopting early corrective actions; and implementing a series of measures to further strengthen financial institutions, markets, infrastructure and safety nets. The measures in the medium term are expected to ensure that the financial system offers a full range of financial products and services to satisfy all economic sectors.

NON - PERFORMING LOANS OF THE LFCs/SLCs SECTOR



PRODUCT WISE LOANS AND ADVANCES OF THE LFCs/SLCs SECTOR



Source: CBSL Annual Report 2016

Business Model for Value Creation and Capital Formation

EXTERNAL ENVIRONMENT

INPUT



Financial Capital
[Refer pages 53 to 66]



Manufactured Capital
[Refer pages 67 to 76]



Intellectual Capital
[Refer pages 77 to 84]



Human Capital
[Refer pages 85 to 98]



Social and Relationship Capital
[Refer pages 99 to 134]



Natural Capital
[Refer pages 135 to 148]

VALUE CREATION

Vision

To become legendary in the financial-service scene as a provider of customer-friendly, creative and innovative total solutions.

Mission

Dedicated value added customer service to accomplish organisational service excellence whilst maintaining a sustainable competitive advantage.

Goal

Continue to be the most admired and socially responsible finance company.

↓

Core Values | Economic viability, environmental responsibility and social accountability

↓

Governance and Risk Management

[Refer pages 162 to 268]

↓

Funding

Equity

Borrowings

Securitisation

Debentures

Deposits

Lending

Lease

Loans

Islamic Finance

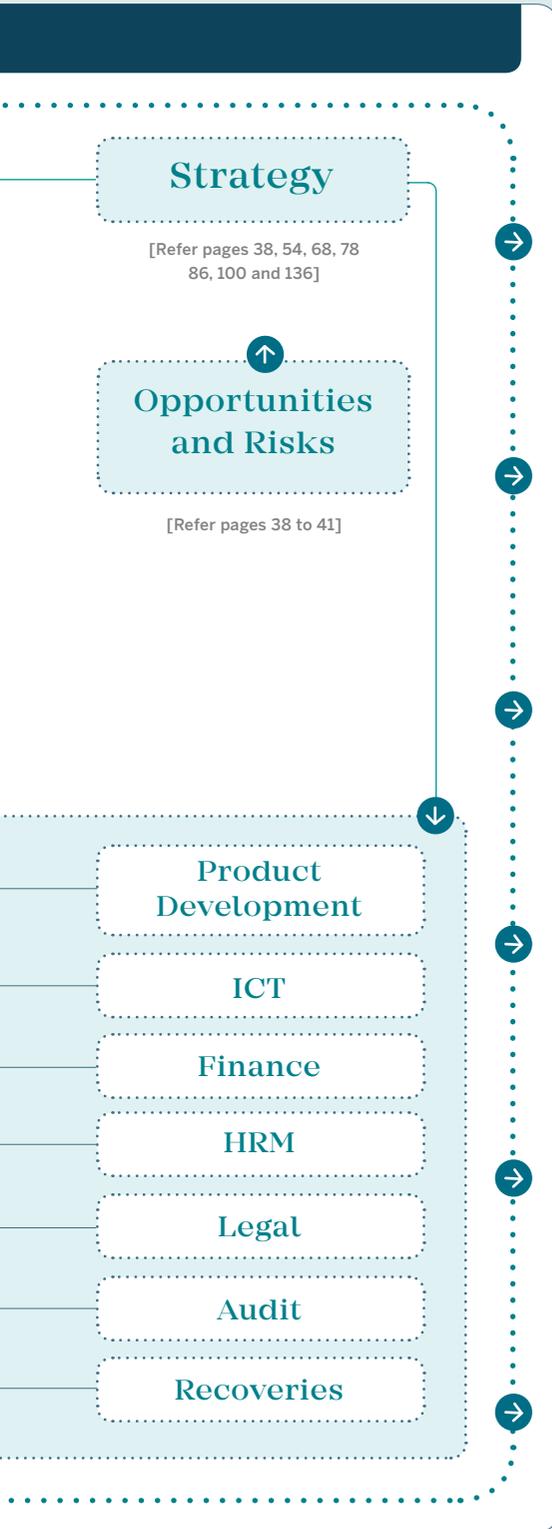
Margin Trading

Factoring

[Refer pages 58 and 103 to 106]

EXTERNAL ENVIRONMENT

Stakeholders



| OUTPUT |
|--|
| Profit after tax – Rs. 4 billion |
| Asset base – Rs. 150 billion |
| Return on equity – 16.89% |
| Lending portfolio – Rs. 134 billion |
| Branches – 103 |
| Service centres – 101 |
| ICT investment – Rs. 247 million |
| Fixed asset investment over Rs. 2 billion |
| Brand value – Rs. 7 billion |
| Credit ratings – Highest rated NBF1 |
| Ranked 14 Business Today top 30 |
| Employees trained – 93% |
| Employee benefits over Rs. 2 billion |
| Retention over 92% |
| Training investment over Rs. 28 million |
| Staff strength – 2,085 |
| Community investment over Rs 187 million |
| Customer base – 306,358 |
| Dividend paid approximately Rs. 2 billion |
| Tier 1 core capital over Rs. 24 billion |
| Carbon footprint – 6,236 tonnes |
| No. of trees planted/maintained – 5,780 |
| Investment over Rs. 3 million |
| Green training programmes – 31 |

| OUTCOMES |
|--|
| <ul style="list-style-type: none"> Shareholder wealth maximisation Financial stability Contribution towards economic growth |
| <ul style="list-style-type: none"> Enhance island wide presence State of art IT system Convenient and speedy service |
| <ul style="list-style-type: none"> Most admired and trusted brand Human talent towards invincibility |
| <ul style="list-style-type: none"> Greater employee wellbeing Equal opportunities Empowering human talent Greater satisfaction and loyalty |
| <ul style="list-style-type: none"> Financial inclusion Customer satisfaction and loyalty Social inclusion |
| <ul style="list-style-type: none"> Environmental friendly business culture Carbon neutral status through off setting |

EXTERNAL ENVIRONMENT

Business Model for Value Creation and Capital Formation



Financial Capital



Manufactured Capital



Intellectual Capital



Human Capital



Social and Relationship Capital



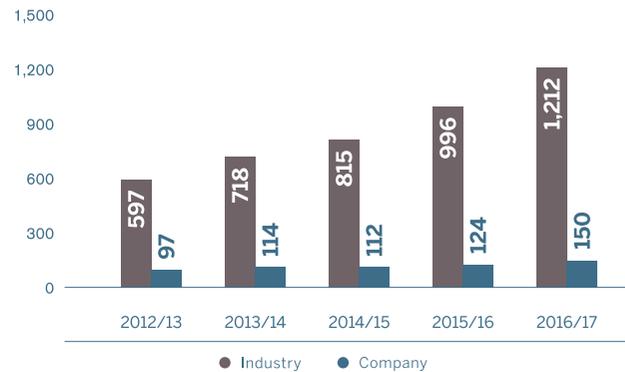
Natural Capital



As the largest NBFI in Sri Lanka, with an asset base of Rs. 150 billion, we are conscious of internal and external environmental changes in developing our sustainable growth strategies

Asset Base (Industry vs Company)

[Rs. billion]



Asset growth in 2016/17 of 21.01%, strengthened our position as the largest NBFI of the country, outperforming the competition with a healthy margin. Passing the Rs. 150 billion mark as at 31 March 2017 in assets is a milestone that we achieved by being vigilant to external environmental changes and adapting a focused strategic direction.

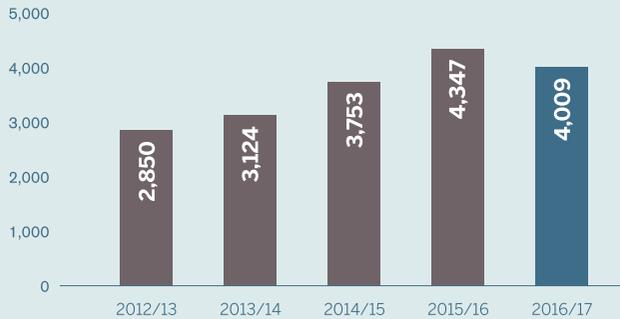
Delivering high returns remains at the heart of our financial model. We have achieved a robust bottom line through effective utilisation of resources and optimal distribution of value to our stakeholders over the last two decades.

Business Model for Value Creation and Capital Formation

Performance in 2016/17

PROFIT AFTER TAX

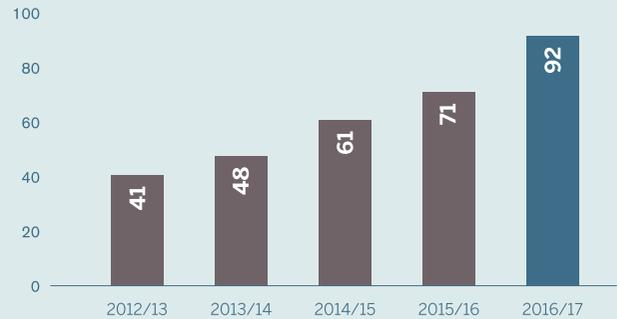
[Rs. million]



Amidst tightening measures exerted in the industry we achieved Rs. 4,009.25 million in profit after tax.

DISBURSEMENTS

[Rs. billion]



Surpassing budgeted disbursement figures, we achieved Rs. 91.61 billion in disbursement during the year.

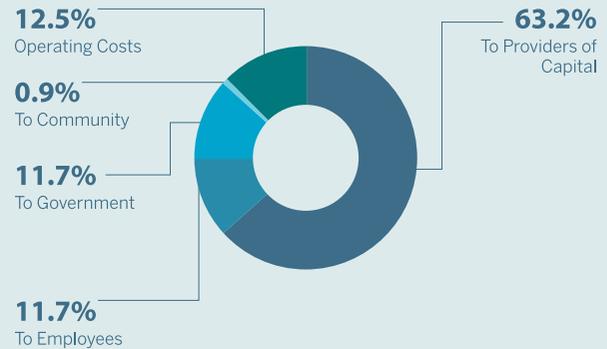
ROA AND ROE

[%]



We maintain well above industry-average ROA and ROE.

ECONOMIC VALUE DISTRIBUTED



We always ensure that a fair and increasing share of our value is assured for all our stakeholders.

Focus in 2017/18

Surpassing
Rs. 170 billion
in asset base

Maintaining the
non-performing ratio
below 2%

Achieving a ROE of
17.5%

Business Model for Value Creation and Capital Formation



Financial
Capital



Manufactured
Capital



Intellectual
Capital



Human Capital



Social and
Relationship
Capital



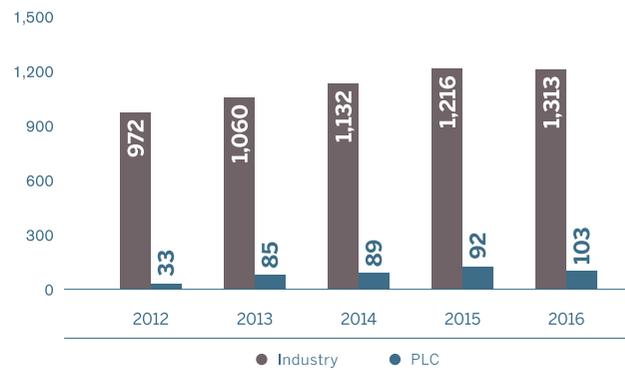
Natural Capital



We widened our network in order to enhance our customer convenience and experience through new branch openings and branch automation

Branch Expansion (Industry vs Company)

[Nos.]



We have expanded our reach by 11 new branches during the year to provide more convenient services to our customers across the country. Ensuring access to affordable financial services for every Sri Lankan is our objective.

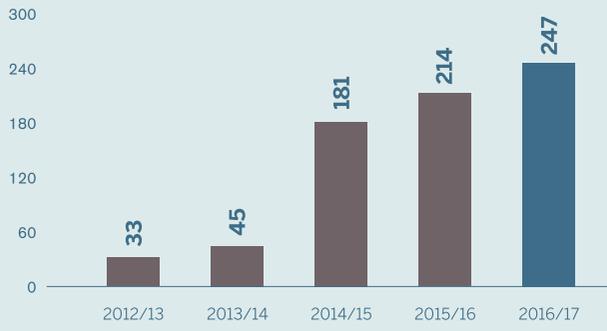
Through ICT based customer touchpoints like PLC online, PLC mobile banking application, corporate website and system connected mobile vehicles, we have widened our network while reducing the environmental footprint.

Business Model for Value Creation and Capital Formation

Performance in 2016/17

ICT INVESTMENT

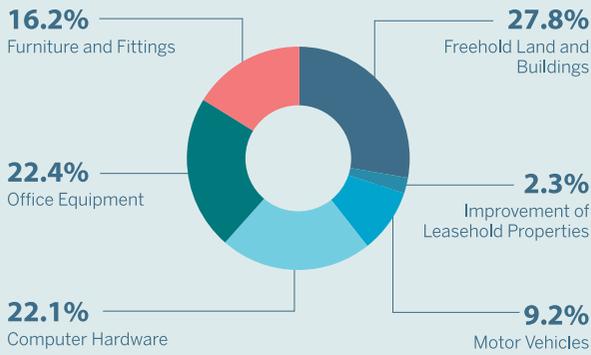
[Rs. million]



Investment on ICT has increased by 15% in 2016/17, to Rs. 247 million.

COMPOSITION OF PROPERTY, PLANT & EQUIPMENT (COST)

[%]



PLC's property, plant and equipment increased by 11.97% to Rs. 1.2 billion during the year.

NO. OF TOUCH POINTS ACROSS THE COUNTRY

[No.]



● No. of Branches ● No. of Service Centers

A - Central Province D - North Western Province G - Southern Province
 B - Eastern Province E - Northern Province H - Uva Province
 C - North Central Province F - Sabaragamuwa Province I - Western Province

We have expanded our branch network across the island, adding 11 new branches during the year.

**Renewed the
 ISO 27001:
 Information Security
 Management System
 Certification**

this year for the second time

Focus in 2017/18

Adoption of
**mobile
 financial services**

**Over Rs. 200
 million**

for upgrading software,
 licenses and networks

Provide many value added
 services through



Business Model for Value Creation and Capital Formation



Financial Capital



Manufactured Capital



Intellectual Capital



Human Capital



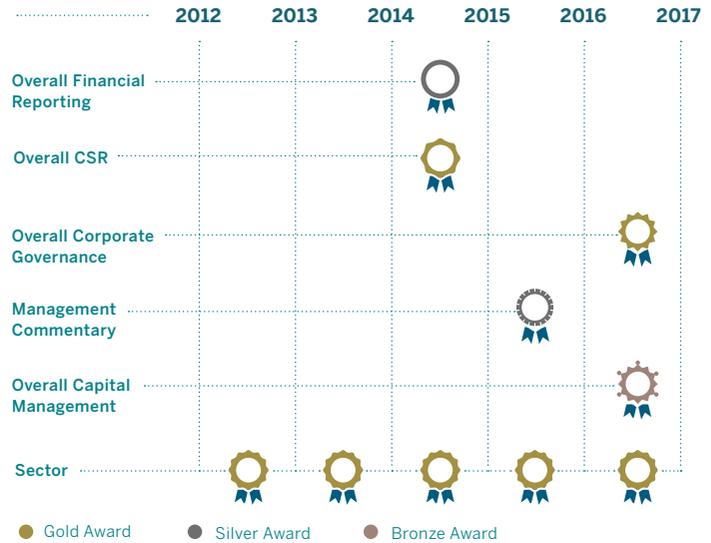
Social and Relationship Capital



Natural Capital

We have maintained our position in a dynamic and fast growing industry where we have been recognised in multiple occasions. To keep the momentum we further invest in technology and product development bringing new ideas to life

CA Sri Lanka Annual Report Awards



Innovation has become the key to be relevant to existing markets and in identifying untouched markets with new product development. We are always one step ahead of the competition with the latest technological developments and system upgrades which differentiates our service delivery for all our stakeholders.

The values and qualities of our brand is reflected on the Awards, Ratings and Rankings we have amassed over the years.

Business Model for Value Creation and Capital Formation

Performance in 2016/17

SYSTEM DEVELOPMENT

| 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------|----------------|-----------|------------|---------------------------|
| Micro Finance system | Margin Trading | Factoring | PLC Online | Margin Trading PMB |

We have continuously upgraded our IT systems and modules, in order to stay ahead of our competition and provide best solutions for our customer needs. Efficiency improvements are done organisation-wide periodically with the supervision of ICT Department officials.

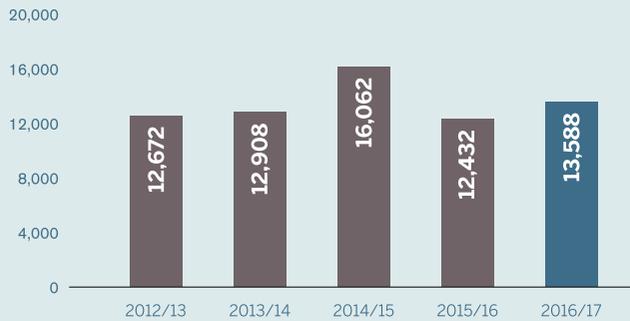
RATINGS

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|-----------------------------|----------|----------|----------|----------|-----------------|
| Fitch Ratings Lanka | AA-(lka) | AA-(lka) | AA-(lka) | AA-(lka) | AA-(lka) |
| Fitch Ratings International | B+ | B+ | B+ | B | B |
| Standard & Poor's | B+/B | B+/B | B+/B | B+/B | B+/B |

We were able to maintain both local and international credit ratings during the year under review. These ratings backed us to obtain a loan of USD 12 million further diversifying our funding mix.

TRAINING COST PER EMPLOYEE

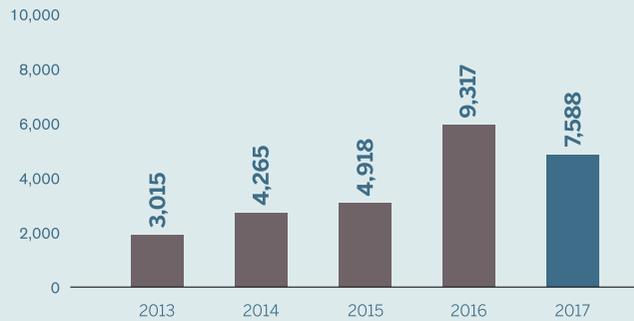
[Rs.]



Building expertise and enhancing the knowledge of our employees is a priority for us and the training cost per employee has increased by 9.30% during the year.

BRAND VALUE

[Rs. million]



Our brand value stood at Rs. 7,588 million.

Focus in 2017/18

Increase our overall market share up to
15%

Increase training cost per employee by
15%

Introduce
03
new product modules

Business Model for Value Creation and Capital Formation



Financial
Capital



Manufactured
Capital



Intellectual
Capital



Human
Capital



Social and
Relationship
Capital

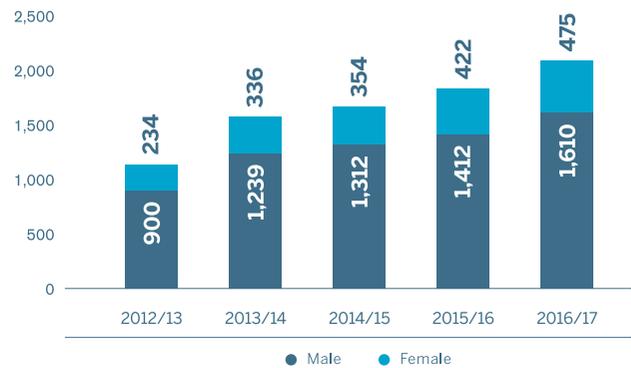


Natural Capital

The winning culture at PLC, has entrenched great values and attributes in every employee, empowering greater collaboration at operations in achieving shared objectives and goals

PLC Team

[Nos.]



We strive to be the most trusted partner for all our stakeholders and this is reflected in our culture, the way our employees work, behave and in the way we collaborate.

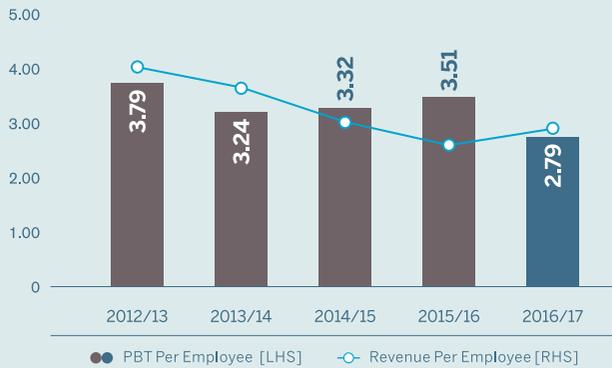
Attracting and recruiting the best suited talent while continuously developing and rewarding them with a view of motivating and retaining has been the key strategy for us to achieve our successes throughout the past years. We also invest heavily in leadership development as part of uplifting our future leadership pipeline.

Business Model for Value Creation and Capital Formation

Performance in 2016/17

STAFF EFFICIENCY

[Rs. million]

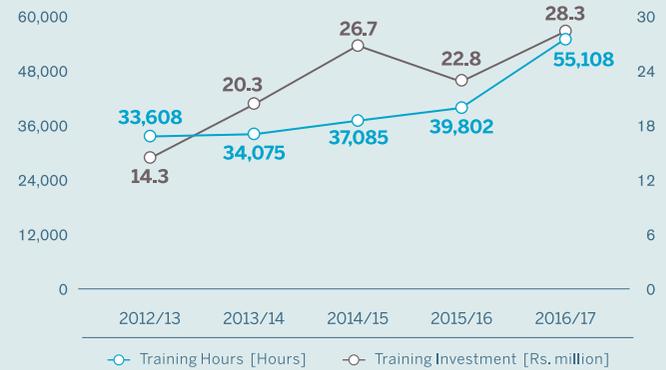


We always take measures to improve performance of our people for the growth of our Company.

STAFF TRAINING

[Hours]

[Rs. million]



To continue as a high-performing company, we have ensured the continuous development of our people.

STAFF TURNOVER

[No.]

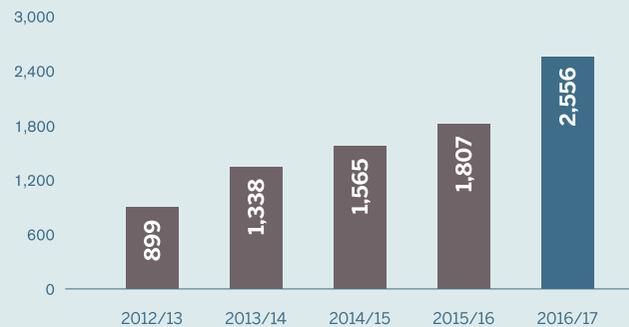
[%]



The consistent trend of falling staff turnover rates experienced over the years further solidifies the extent of our staff's commitment.

EMPLOYEE BENEFITS

[Rs. million]



As our business grows in strength so does our appreciation for those who make it happen.

Focus in 2017/18

Staff training investment to be increased to

Rs. 66 million

Employee benefits over

Rs. 3 billion

Maintain staff retention ratio above

92%

Business Model for Value Creation and Capital Formation



Financial
Capital



Manufactured
Capital



Intellectual
Capital



Human
Capital



Social and
Relationship
Capital



Natural Capital

We are committed to act responsibly in all our relationships and being positive in the communities we serve, while ensuring highest quality standards throughout our value chain activities

Ranking on Market Capitalisation



It is paramount for us to be responsible and sustainable in delivering value to our customers through our core business of lending, leasing and deposits, putting their needs at the heart of everything we do.

Investing in social and community development has been a priority for us from our inception. This has driven us to be a responsible corporate with high ethical standards in all our operations.

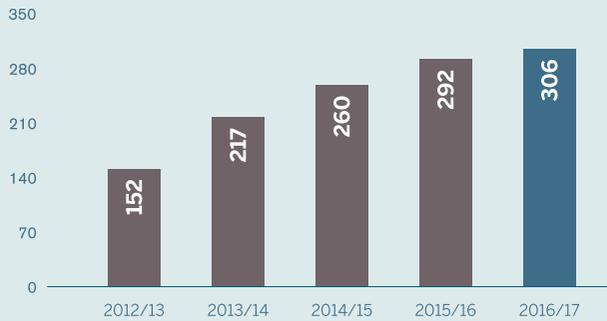
From this year onward, we will be committing ourselves to achieving the United Nations Sustainable Development Goals which will create a significant impact on developing the day-to-day lives of Sri Lankans.

Business Model for Value Creation and Capital Formation

Performance in 2016/17

NO. OF CUSTOMERS

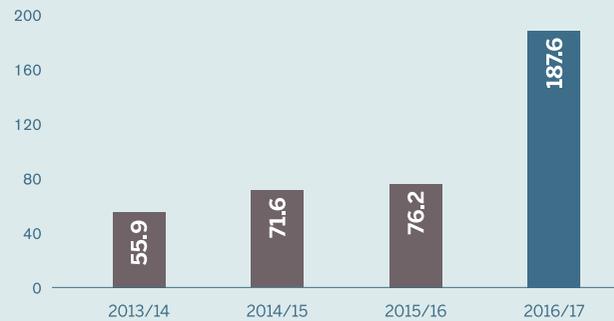
[No. '000]



Our customer base grew with diversified offering and the enhanced quality service provided.

COMMUNITY INVESTMENT

[Rs. million]



Through our unique sustainability initiatives, we contribute to thousands of Sri Lankan lives.

CAPITAL ADEQUACY RATIOS

[%]



Our core capital ratio and total risk weighted capital ratio stood at 17.56% and 16.37% respectively as at 31 March 2017.

EARNINGS PER SHARE AND DIVIDEND PER SHARE

[Rs.]



We have consistently delivered strong returns and sustainable value for our shareholders.

Focus in 2017/18

New product development to cater to changing customer needs

2.5% of our profits earned, invested in sustainability initiatives

Maximise shareholders wealth

Business Model for Value Creation and Capital Formation



Financial
Capital



Manufactured
Capital



Intellectual
Capital



Human
Capital



Social and
Relationship
Capital



Natural
Capital

Minimising our environmental footprint is a key priority for us in achieving set sustainable growth targets. We encourage our employees to develop innovative solutions in this regard through green training programmes

Our Journey Towards Carbon Neutrality

2014/15

Carbon Conscious

2015/16

Carbon Neutral

2016/17

Carbon Neutral



Across our business, we are working to minimise the carbon emission by improving energy efficiency, promoting alternative solutions and raising awareness among our employees.

For the first time, we are reporting on the CDSB (Climate Disclosure Standards Board) Framework for Reporting Environmental Information and Natural Capital voluntarily, to further develop our reporting practices and transparency of our environmental performance.

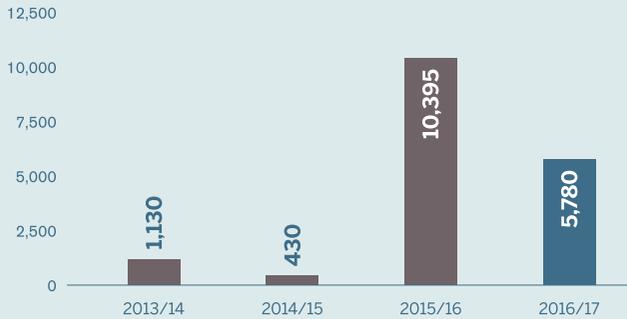


Business Model for Value Creation and Capital Formation

Performance in 2016/17

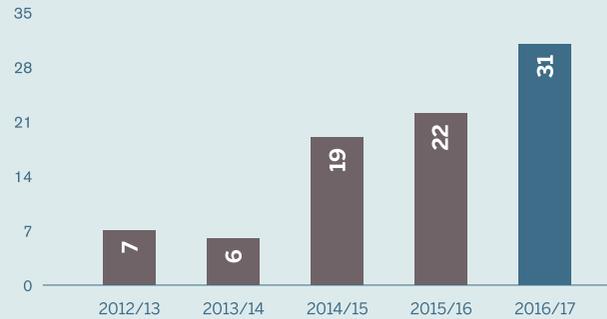
TREES PLANTED FOR CARBON SEQUESTRATION

[Nos.]



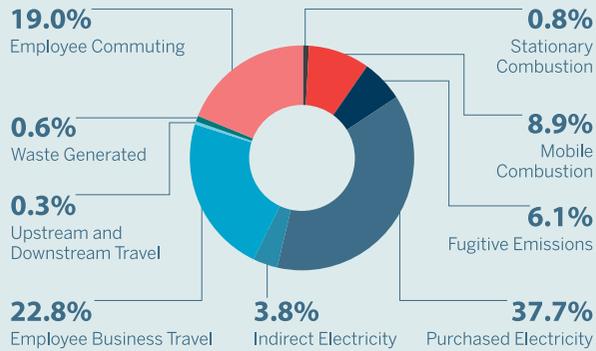
GREEN TRAINING PROGRAMMES

[Nos.]



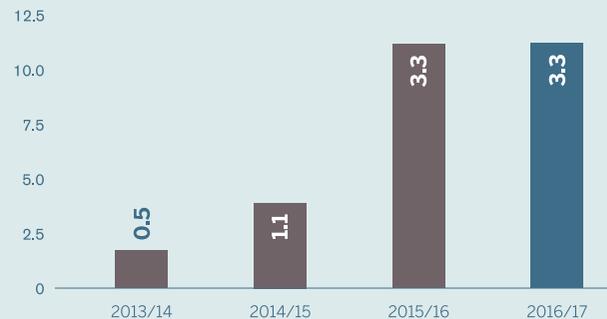
We are committed to enhance awareness among our employees on environmental-friendly best practices.

COMPOSITION OF CARBON FOOTPRINT



INVESTMENT ON ENVIRONMENT RELATED CSR

[Rs. million]



Focus in 2017/18

2,000
Hours of green
training for PLC staff

Reduce carbon
footprint by **1%**
through reducing
and insetting

Launch policy
on responsible
financing

Planting
5,000
saplings

Strategy and Resource Allocation

PLC is a dynamic and astute enterprise that is uniquely positioned to forge ahead. Our strategy is centered around sustainability. We remain extremely aware of the risks and opportunities that arise in the markets we operate in. Unaddressed risks could significantly affect our operations and even restrict our ability to create sustainable value in the long-term. Similarly, capitalising successfully on opportunities as they arise is instrumental in us being capable of delivering enhanced value to our stakeholders. As such, the strategies that PLC develops aim to address all these stipulations in successfully positioning ourselves as the market leader in the leasing and finance industry.

OUR STRATEGIES

PLC possesses three key strategies that are used to address any and all issues that may arise due to risks and uncertainties. These consist of a competitive strategy, a product market strategy and a growth strategy.

Competitive Strategy

This is what distinguishes ourselves from our competitors. Our competitive strategy is bolstered by the excellent service quality and value-added services we offer our customers. We possess expert knowledge of the industry we operate in, especially on the SME sector. Finally, we enjoy strong ties with our parent organisation, People's Bank which possesses a solid Brand that spurs recognition and trust in our services, and cultivate an equally strong Brand image.

Product Market Strategy

Under this strategy, we first seek to refine our products and services, which can then be used to penetrate our existing market. This is underpinned by developing strong relationships with our customer base and our tailored marketing and promotional campaigns also play a key role in this strategy.

We further envision to develop new markets. We penetrate into new locations through opening branches and service centres in strategically identified locations, as well as upgrading existing service centres into fully fledged branches.

We also oversee product diversification, upon which we devise new products which can address untapped customer needs and trends. For the year under review, we introduced new products in the form of SelfeCash, clean loans and the crest saver.

Growth Strategy

We channel growth through both organic and inorganic means. Organic growth is underpinned through using our internal resources to further the infrastructure we have established, to strengthen and improve our existing operations. In terms of inorganic growth, we are in the process of establishing our footprint abroad; most notably in Bangladesh; and have made significant efforts in furthering this goal.

PRINCIPAL RISKS AND STRATEGIC RESPONSES 2016/17

As detailed in the Operating Environment and the Risk Management sections of this report on pages 20 to 23 & 241 to 268, and in consolidation with the process below, we have identified key risks and uncertainties that could impact the operations of the Company.



Strategy and Resource Allocation

As detailed above, we commence the process by understanding the macroeconomic environment we operate in. Following from our inferences, we determine material issues that we deem to be of concern. These will warrant appropriate strategic responses, which in turn will affect our budgets, targets and resource allocation. The steps will culminate in us managing our value creation process accordingly, so as to maximise returns we propose to our stakeholders.

GRI 102-15

PRINCIPAL RISKS

Some of the principal risks that PLC has identified are featured below:

Socioeconomic environmental uncertainties

Changes in monetary policy, along with the introduction of the Government's loan to value ratio impact interest income, expenses and capital base.

Changes in corporate taxation.

Strategic focus:

Be responsive and focused in the formulation of strategies.

Be consistent in the implementation of action plans.

Key actions:

Adjusted lending rates.
Focused efforts to ensure credit evaluation controls and recoveries.

Introduced new products to the market.

Maintained risk exposure within prudent and prescribed levels.

Changing regulatory and compliance requirements

Changes in rules, regulations and policies set by regulatory and statutory bodies bring uncertainties to daily operations and future strategies.

Strategic focus:

Proactive to comply with changing requirements promptly and seek opportunities within the changes.

Key actions:

Consistently tracked and monitored compliance in accordance with statutory and regulatory requirements.

Effectively communicated to the employees on changes with regard to rules and regulations to ensure responsible conduct of business.

Increased competition

Crowded markets lead to both banking and non-banking institutions competing to offer similar or substitute products and services. This erases market share and margins.

Strategic focus:

Focus on offering best quality services to customers and strengthen group synergies to sustain market position as the leader in the industry.

Key actions:

Effectuated strategic branding and marketing promotions.

Upheld brand promises.

Reinforced collaborative ties with People's Bank.

Engaged closely with customers at networking events.

Evaluated stakeholder engagement survey results to refine products and services accordingly.

Introduced new products to the existing product portfolio.

PRINCIPAL OPPORTUNITIES

Some of the principal opportunities that PLC has identified are detailed below:

Creating demand instead of competing

As markets are saturated with financial institutions offering diverse products, we can create uncontested market space; 'blue oceans'; as an alternative.

Strategic focus:

Being cognisant of product market development.

Key actions:

Analysed markets carefully to identify trends in previously unseen areas.

Ventured into in establishing our footprint in Bangladesh.





Genuine

It's simply about being genuine in our desire to see our customers succeed that PLC has evolved and offers a prime product portfolio that offers authentic support for a variety of financial needs, under one roof.

Strategy and Resource Allocation

Attracting the millennial generation into our workforce

The millennial generation has vastly different attitudes and approaches to work that distinguish them from previous cohorts. Employers need to be mindful of these requirements and act accordingly. The millennial generation is technologically adept, highly educated and can be a huge asset in driving innovation within operations.

Strategic focus:

Deploy cross generational and cross-cultural workshops for employees to develop common ground and understanding.

Key actions:

PLC has made significant progress in attracting the new generation to its operations. For the year under review, over 55% of employees at PLC were below the age of 30 years.

Communicate successfully with employees to understand their requirements, views, and aspirations.

Utilise social media effectively, to highlight how PLC can be a 'great place to work' for potential recruits, as well as utilising it as a platform to inspire and reward existing employees.

Technological development and digitisation

Technological development is progressing in leaps and bounds; from self-driving cars to smart health monitors and artificial intelligence (AI). Similarly, analogue technology is being wiped out by digital equivalents. Although disparities may exist between developed and developing nations, this gap will continue to shrink in the years to come.

Strategic focus:

Understand and study new developments as they arise. Encourage the development of IT skills (coding, programming) amongst the workforce.

Key actions:

PLC has transferred much of its operations online, using a plethora of devices and mediums, to include PLC online, internal systems, and mobile applications, and is in the process of developing more ICT solutions.

Sustainability at PLC

SUSTAINABILITY POLICY

At PLC, we strive to develop guidelines that will meet the needs of the present as well as guarantee the success of the future. We envision growth that is holistic in nature and which underpins the distribution of shared value in a just and equitable manner amongst our stakeholders. In doing so, we will guarantee that we will build an environment that will further nourish and encourage sustainable growth amongst all our investors.

CREATING SHARED VALUES FOR OUR STAKEHOLDERS

PLC's growth strategy is founded on creating value for our stakeholders. Our shared values demonstrate the way in which we interpret and react to business opportunities and challenges and sets the framework on how we work with them.



OUR SUPPLIERS

We ensure that we conduct all our transactions and collaborations in a non-discriminatory and transparent manner, with respect to all relevant industry rules and regulations.



OUR ENVIRONMENT

PLC is committed to actively managing its environmental footprint and combating climate change through innovation and ingenuity.



OUR COMMUNITY

We invest resources and efforts in uplifting local communities for the two pronged benefits of all.



OUR INVESTORS

We provide our current and future shareholders with transparent and relevant information, so as to guide prudent decisions and to ensure sustainable returns for their efforts.



OUR CUSTOMERS

We understand the requirements of our customers and ensure that we provide high-quality, value-added financial services that appropriately address their needs.



OUR EMPLOYEES

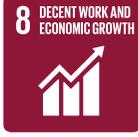
We ensure that we inspire our employees to achieve their very best and are committed to meeting their needs and guaranteeing a workplace that is safe and conducive to work.

PLC'S COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) of the United Nations are an upgrade of the Millennium Development Goals. They aim to eliminate poverty, reduce inequality and combat climate change at all levels of the society and throughout the world.

Sustainability at PLC

These goals are consequently broken down into 17 discrete entities as shown below:

| | | | |
|--|---|--|---|
| End poverty in all its forms everywhere |  |  | End hunger, achieve food security and improved nutrition and promote sustainable agriculture |
| Ensure healthy lives and promote well-being for all at all ages |  |  | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all |
| Achieve gender equality and empower all women and girls |  |  | Ensure availability and sustainable management of water and sanitation for all |
| Ensure access to affordable, reliable, sustainable and modern energy for all |  |  | Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all |
| Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation |  |  | Reduce income inequality within and among countries |
| Make cities and human settlements inclusive, safe, resilient and sustainable |  |  | Ensure sustainable consumption and production patterns |
| Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy |  |  | Conserve and sustainably use the oceans, seas and marine resources for sustainable development |
| Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss |  |  | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels |
| Strengthen the means of implementation and revitalise the global partnership for sustainable development |  |  | |

Source: www.un.org

Sustainability at PLC

PLC, as a responsible and sustainable corporate citizen, is wholly equipped to meet these goals in the conduct of its activities. We understand that it is only by benefiting individuals and communities that we can forge forward in the spirit of innovation and success.

The following table exemplifies our commitment to doing so. Our environmental policy consists of four discrete pillars of focus (more information can be accessed from Page 141 of Natural Capital). Consequently, our pillars are able to present sustainable and holistic solutions to some of the requisites of the aforementioned goals. Similarly, our corporate social responsibility (CSR) activities fall under four areas titled 'Community Focus Areas'. These entities can equally provide a range of solutions towards meeting the requirements of the SDGs. For example, under the Community Focus Area 01: Uplifting Education; we have provided scholarship schemes to deserving students, encouraged the habit of saving money amongst young school children and launched competitions to foster creativity and innovative thinking amongst students. All of these initiatives contribute to the United Nation's Sustainable Development Goal No. 4 of promoting quality education worldwide.

| Sustainable Development Goal | PLC's Commitment | Section of this Report |
|--|--|---|
| 1. End Poverty  | Community Focus Area 02: Enterprise Development and Financial Literacy Building | Social and Relationship Capital, pages 99 to 134. |
| 2. Zero Hunger  | Disaster Relief Initiatives | Social and Relationship Capital, pages 99 to 134. |
| 3. Good Health and Well-Being  | Community Focus Area 03: Accident Prevention and Post Accident Care Initiatives. Medical and Eye Camps for Senior Citizens. Providing Access to Safe Drinking Water. | Social and Relationship Capital, pages 99 to 134. |
| 4. Quality Education  | Community Focus Area 01: Uplifting Education | Social and Relationship Capital, pages 99 to 134. |
| 5. Gender Equality  | Promoting equality amongst our workforce. Developing a range of products and services for all socioeconomic strata. | Human Capital, pages 85 to 98. Social and Relationship Capital, pages 99 to 134. |
| 6. Clean Water and Sanitation  | Providing Communities with Access to Safe Drinking Water | Social and Relationship Capital, pages 99 to 134. |
| 7. Affordable and Clean Energy  | Pillar 2: Managing and Optimising our Direct Positive Impact on the Environment | Natural Capital, pages 135 to 148. |

Sustainability at PLC

| Sustainable Development Goal | PLC's Commitment | Section of this Report | Sustainable Development Goal | PLC's Commitment | Section of this Report |
|--|--|---|--|---|---|
| 8. Decent Work and Economic Growth  | Being a trusted and valued employer, geared towards employees' personal development, growth and success. | Human Capital, pages 85 to 98. | 13. Climate Action  | Pillar 4: Conserving the Environment | Natural Capital, pages 135 to 148. |
| 9. Industry, Innovation and Infrastructure  | PLC's direct contribution to the Government, which indirectly benefits the development of infrastructure and industry. | | 14. Life Below Water  | Pillar 2: Managing and Optimising our Direct Positive Impact on the Environment | Natural Capital, pages 135 to 148. |
| | Offering customers and clients a range of products and services geared towards their success. | Social and Relationship Capital, pages 99 to 134. | 15. Life on Land  | Pillar 2: Managing and Optimising our Direct Positive Impact on the Environment. Pillar 4: Conserving the Environment. | Natural Capital, pages 135 to 148. |
| 10. Reducing Inequalities  | Helping customers increase their socioeconomic prospects through our products and services. | Social and Relationship Capital, pages 99 to 134. | 16. Peace, Justice and Strong Institutions  | Conducting ethical, responsible transactions with customers. Conducting ethical, responsible transactions with suppliers. | Social and Relationship Capital, pages 99 to 134. |
| 11. Sustainable Cities and Communities  | Community Focus Area 04: Create Sustainable Communities | Social and Relationship Capital, pages 99 to 134. | 17. Partnerships for the Goals  | Complying with all regulatory and statutory requirements. Fostering strong relationships with Governmental and International bodies. | |
| 12. Responsible Production and Consumption  | Pillar 1: Promoting Green Consciousness Across our Value Chain. Pillar 2: Managing and Optimising our Direct Positive Impact on the Environment | Natural Capital, pages 135 to 148. | | | |

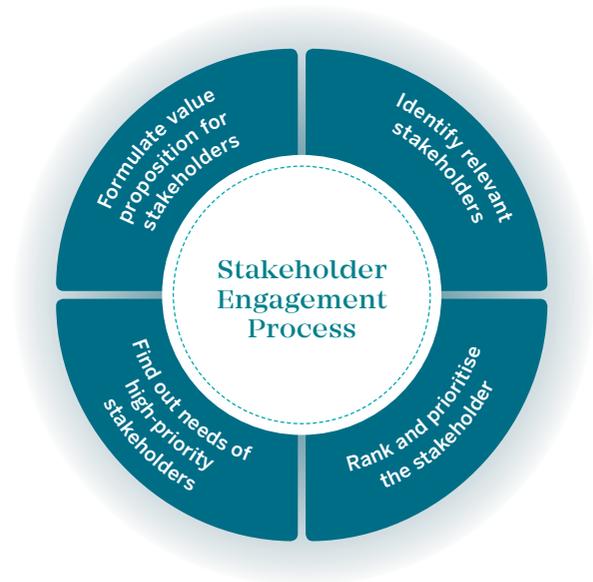
Stakeholder Engagement



The diverse stakeholders that are spread around the operations of PLC interact with, challenge and inspire us in diverse ways. We maintain proactive approaches in all our business activities and strive to continually address, respect and honour their diverse needs. Through successful conversation, and committed engagement, we assure sustainable benefits for the progress of all.

Stakeholders are those who are affected by our activities and who may reciprocally affect our operations. This comprises individuals and groups with whom we sustain direct relationships, as well as stakeholders along our chain of operations who are affected by our business decisions, and who may also, through their own decisions, impact our operations.

STAKEHOLDER ENGAGEMENT PROCESS

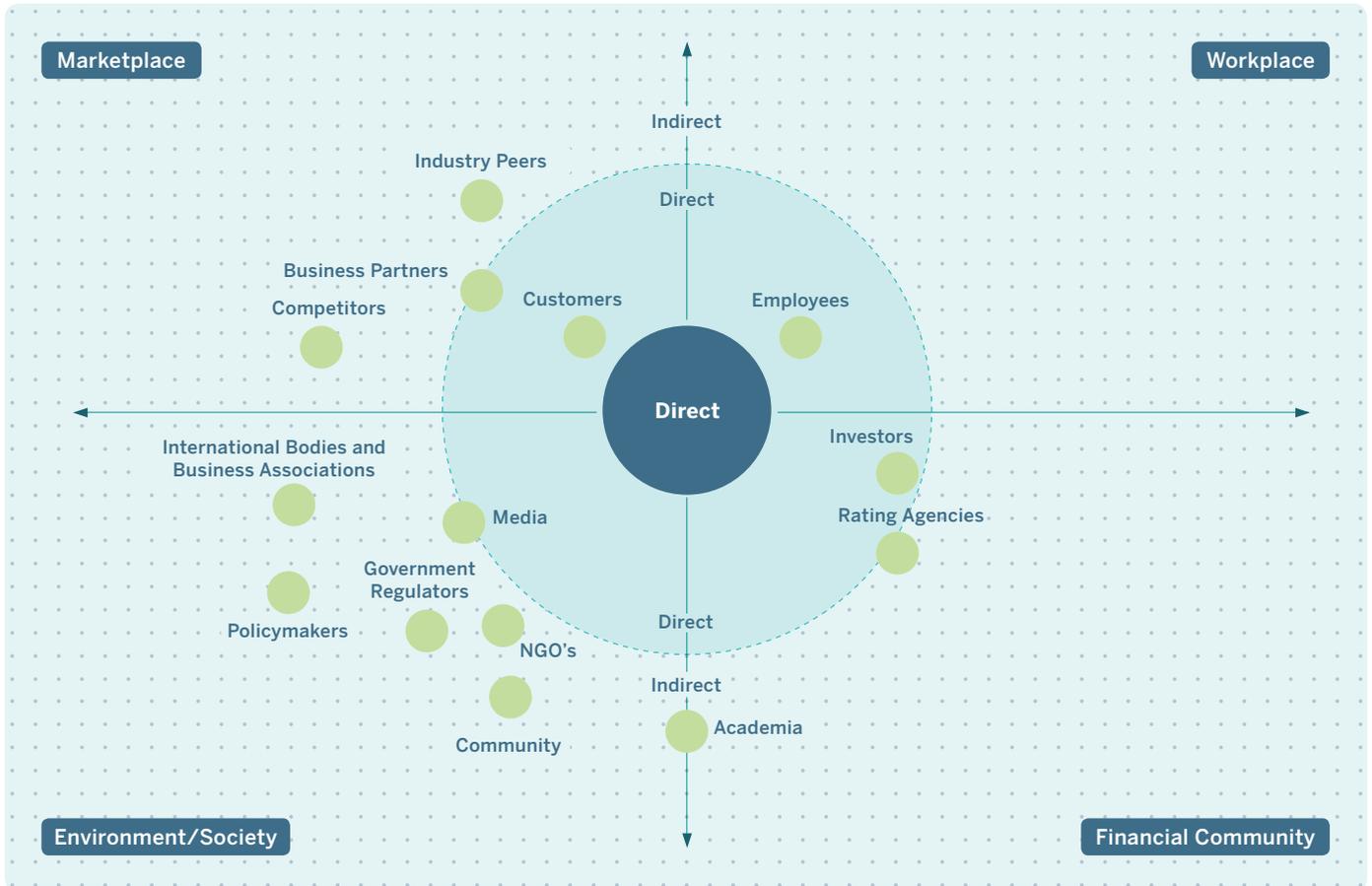


As shown above, stakeholders are involved in a circular process with us. They are identified, ranked and prioritised, following which the needs of the high priority stakeholders are singled out. This leads in value being put forward to the stakeholders, which again is responsible for identifying relevant stakeholders.

Stakeholder Engagement

IDENTIFYING, CATEGORISING AND MAPPING

PLC possesses stakeholders across the spectrum, and they can be categorised into the marketplace, workplace, environment/society and financial community as shown below:

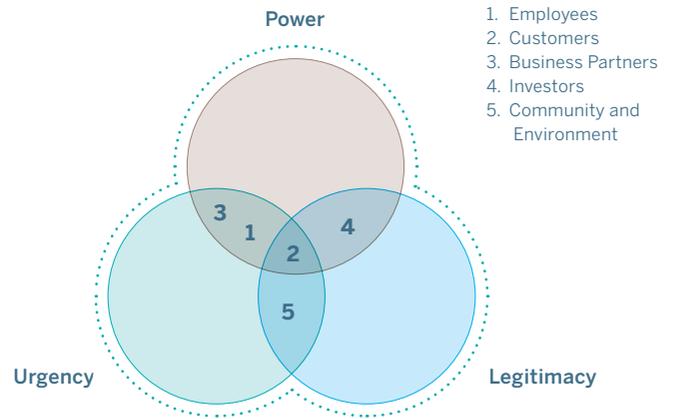


GRI 102-42

RANKING AND PRIORITISING

Our stakeholders are then ranked in accordance with the values of power, urgency and legitimacy.

Power refers to the relative importance of the stakeholder, urgency to degree in which a stakeholder might require swift action and legitimacy to the level at which such action is justified.



Stakeholder Engagement

GRI 102-40

We prioritise our stakeholders and they are as follows:

Employees: full-time employees

Customers: individual and corporate clients

Business Partners: banks, financial advisors, brokers, agents, financial intermediaries and suppliers of goods and services

Investors: parent, retail shareholders, institutional investors, bondholders, financial analysts and ratings agencies

Community and Environment: governmental organisations, non-governmental organisations, institutions, charities, regulators, international bodies and associations.

NEEDS IDENTIFICATION

Our varying stakeholders pose different requirements to us. It is in our best interests, and in theirs, that PLC meets these requirements in a holistic, efficient and timely manner.

In 2015, PLC conducted an independent three phased stakeholder engagement where both internal and external stakeholders were engaged through focus groups and one-to-one interviews with samples from different stakeholder groups based on well-structured and customised questionnaires including both open and close-ended questions.

PHASE ONE:

Interview with 23 corporate staff members including the heads of departments to ascertain the internal gap analysis in terms of stakeholder expectations and PLC's course of action.

PHASE TWO:

Brainstorm with the Corporate Management to identify key stakeholders and prioritise them in terms of importance and influence. Stakeholder importance deals with the quality of relationship links with core business activities whereas influence considers the level of their power over the organisation.

PHASE THREE:

Further brainstorm with the Corporate Management on the findings established from both internal and external stakeholder engagements and support to formulate an integrated plan interlinking sustainability facets into business strategy.

Stakeholder engagement is annually reviewed and in addition, an engagement was undertaken specifically in the preparation of this Report. Areas to be reported on, based on topics that have been deemed as being important, are also identified.

RESPONSIVENESS

Once the stakeholder engagement process is completed, the results of the two phases are combined to develop a synthesised plan for PLC. Feedback from internal and external stakeholders was the basis of the plan. Addressing the diverse needs of stakeholders is a crucial component of PLC's strategy.

This synthesised plan is then subdivided into two parts; as actions that will improve the systems and processes of the Company and other areas that are of concern to stakeholders.

Based on these results, improvements will be made to the systems and processes of the Company. Areas to be reported on, based on aspects that have been deemed as being important, are also identified.

Feedback from stakeholders has contributed to form and reinforce our strategy towards sustainable growth.

Based on the important extrapolations, corporate and departmental objectives are structured to effectively meet stakeholder requirements. Through PLC's performance management system, a KPI-based format is developed as a monitoring mechanism, which delivers stakeholder returns whilst responding to all their myriad other needs.

Stakeholder Engagement

GRI 102-43

GRI 102-44

STAKEHOLDER ENGAGEMENT TABLE

| Stakeholder | Method | Frequency | Key Expectations and Concerns |
|---|----------------------------------|----------------------|---|
| Customers  | One-to-one meetings | As and when required | <ul style="list-style-type: none"> Product Diversity Service Quality Identifying needs Pricing of products Efficient and speedy transactions/ Processing and responding time Product information Legal terms and conditions Confidentiality of information Complaints handling/ Customer grievance handling mechanism Integrity and responsibility Brand awareness |
| | Customer surveys | Once in two years | |
| | Feedback forms | Periodically | |
| | Official website | Regularly | |
| | Marketing & propaganda campaigns | As and when required | |
| | Press & electronic media | As and when required | |
| | Networking events | Periodically | |
| | CSR Projects | Periodically | |
| Value proposition offered by PLC in response to concerns: page 102 | | | |
| Suppliers  | Review meetings | As and when required | <ul style="list-style-type: none"> Ethical procurement practices Timely payments Support to develop the supplier chain Advocacy of best business practices Integrity and responsibility |
| | Site visits | As and when required | |
| | Networking events | Annually | |
| | Self-assessment questionnaire | Annually | |
| Value proposition offered by PLC in response to concerns: page 111 | | | |
| Investors  | Annual General Meeting | Annually | <ul style="list-style-type: none"> Safeguard sustainable earning growth Healthy financial returns Exploiting growth opportunities Timely payment of returns/Dividends and capital gains Enhance value creation Integrity and responsibility |
| | Annual Report | Annually | |
| | Interim financial statements | Quarterly | |
| | Updates | As required | |
| | Corporate website | Ongoing | |
| | Corporate disclosures to CSE | As required | |
| | Presentations & road shows | As required | |
| | Investor forums | As required | |
| | Corporate affairs department | As required | |
| | Stakeholder survey | Annually | |
| | Press releases | As required | |
| Value proposition offered by PLC in response to concerns: page 115 | | | |

| Stakeholder | Method | Frequency | Key Expectations and Concerns |
|---|--|----------------------|--|
| Employees  | Operational guidelines | Continuously | <ul style="list-style-type: none"> Recognition and reward Focused training Career progression Work life balance and wellbeing Grievance handling mechanism |
| | Code of conduct | Continuously | |
| | Open door policy interactions | As and when required | |
| | Staff meetings | Periodically | |
| | Intranet | Regularly | |
| | Staff circulars, memos & e-mails | Regularly | |
| | Company newsletter | Quarterly | |
| | Training evaluations | Periodically | |
| | Performance appraisals | Annually | |
| | Networking events | Periodically | |
| | Welfare events and activities | Periodically | |
| | Employee satisfaction surveys | Periodically | |
| | Value proposition offered by PLC in response to concerns: page 85 | | |
| Community  | Discussions with local government authorities | As and when required | <ul style="list-style-type: none"> Staff recognition for community-initiatives Social inclusivity Financial literacy Access to finance Community service & development Public/private partnerships Awareness and trainings Continuity of the initiatives Stakeholder engagement |
| | Discussions with non-government agencies, associations and societies | As and when required | |
| | Discussions with religious dignitaries | As and when required | |
| | 'Aruna' Newsletter | Quarterly | |
| | All staff mails | Periodically | |
| | Discussions with village and opinion leaders | As and when required | |
| | Meetings/ Conferences | As and when required | |
| | Networking | As and when required | |
| | Training seminars | As and when required | |
| | Strategic CSR | Ongoing | |
| Philanthropic initiatives | Periodically | | |
| Sustainability outreach programmes | Periodically | | |
| Value proposition offered by PLC in response to concerns: page 128 | | | |

Materiality Assessment

GRI 102-46

People's Leasing & Finance PLC conducts a stringent materiality assessment to identify issues that are of significant importance to the business and its stakeholders at both internal and external levels. The outcome of this will result in corresponding environmental, social and governance matters being identified. The results are equally used to determine any risks and opportunities that may be of concern to the operations of the Company.

IDENTIFICATION AND ASSESSMENT PROCESS

PLC takes into consideration:

- — stakeholder feedback,
- — independent employee and customer satisfaction research,
- — analysis of its operating environment,
- — and industry opportunities and threats
- — to make sound decisions on identifying issues of material importance.

INTERNAL PRIORITIES

The identified issues are weighted against:

- — our Vision, Mission and Values,
- — the operating environment we conduct our activities in
- — our strategy and business model
- — risk and capital management initiatives.

RESPONDING, MONITORING AND ASSESSING

Specific programmes are selected to respond to feedback by stakeholders.

These, along with Key Performance Indicators (KPIs) measure the progress of undertaken initiatives. Progress is monitored by the Sustainability Governance Steering Committee and the Board on a quarterly basis.

The issues that PLC identifies as being of material concern are then placed on a materiality matrix in accordance with GRI guidelines as displayed on page 51. The matrix shows the position of individual issues in relation to stakeholder interest and potential business impact.

For the first time in its history of sustainability reporting, PLC will map the aforementioned entities with the United Nation's Sustainable Development Goals (SDGs). This is supplemented by the table featured on pages 44 and 45 which addresses PLC's commitment to upholding the SDGs.

Any changes for the period 2016/17 are identified with their corresponding levels of priority in the following table. The allocation of a level of priority is outlined in the GRI Index on pages 412 to 414.

Materiality Assessment

GRI 102-49

GRI 102-47

GRI 103-1

No Significant change from previous reporting period in the list of material topics and topic boundaries.

| Supported sustainable development goal No. (Ref. page 43) | GRI standard no. | Material GRI topic | Topic Boundary/Stakeholder group 102-46 | | | | | Management approach |
|---|------------------|-----------------------------------|---|----------|------------------|-----------|-------------|--|
| | | | Employee | Customer | Business partner | Community | Environment | |
| 1, 5, 7, 8, 13 | 201 | Economic performance | ✓ | | | | ✓ | Financial Capital Refer pages 53 to 66. |
| 1, 5, 8 | 202 | Market Presence | ✓ | | | | | |
| 2, 5, 7, 1, 8, 18 | 203 | Indirect economic impact | ✓ | ✓ | | ✓ | | |
| 12 | 204 | Procurement practices | | | ✓ | | | Social and Relationship Capital Refer pages 99 to 134. |
| 16 | 205 | Anti-corruption | ✓ | ✓ | | | | |
| 8, 12 | 301 | Materials | | | | | ✓ | Nature Capital Refer pages 135 to 148. |
| 7, 8, 12, 13 | 302 | Energy | | | | | ✓ | |
| 6, 14, 15 | 304 | Biodiversity | | | | | ✓ | |
| 6, 14, 15 | 305 | Emissions | | | | | ✓ | |
| 3, 6, 12, 13, 15 | 306 | Effluents and waste | | | | | ✓ | |
| 16 | 307 | Environmental compliance | | | | | ✓ | |
| 12 | 308 | Supplier environmental assessment | | | | | ✓ | |
| 5, 8 | 401 | Employment | ✓ | | | | | Human Capital Refer pages 85 to 98. |
| 8 | 402 | Labour/management relations | ✓ | | | | | |
| 3, 8, 16 | 403 | Occupational health and safety | ✓ | | | | | |
| 4, 5, 8 | 404 | Training and education | ✓ | | | | | |
| 5, 8, 16 | 405 | Diversity and equal opportunity | ✓ | | | | | |
| 5, 8, 16 | 406 | Non-discrimination | ✓ | | | | | |
| 8, 16 | 408 | Child labour | ✓ | | | | | |
| 8 | 409 | Forced & compulsory labour | ✓ | | | | | |
| 16 | 410 | Security Practices | ✓ | | | | | |
| 1,11 | 413 | Local communities | | | | ✓ | | |
| 16 | 414 | Supplier social assessment | | | ✓ | ✓ | | Social and Relationship Capital Refer pages 99 to 134. |
| 12,16 | 417 | Marketing and labeling | | ✓ | | ✓ | | |
| 16 | 418 | Customer privacy | | ✓ | | | | |
| 16 | 419 | Socioeconomic compliance | | | | ✓ | | |

SUSTAINABILITY CONTEXT

The materiality matrix displays issues that PLC considers to be material within the context of the Company's strategic framework. Stakeholder concerns, both positive and negative, are considered to update the material issues. Identifying such issues aid in the Company's long-term strategic direction.

It helps People's Leasing & Finance PLC manage risks and opportunities and understand the complex relationships that exist between our operations and our stakeholders. Most importantly, the materiality analysis sets the sustainability context under which each capital is reported on in the Management Discussion and Analysis section of this Report.

CREATING SHARED VALUE

To reinforce our commitment to living by our values, the performance of our operations and employees are gauged against a set of established KPIs. By measuring performance indicators regularly and making necessary adjustments based on the measured values, PLC achieves its strategic objectives and succeeds in creating reciprocal value for its stakeholders.



Management Discussion and Analysis

| | |
|-----------------------------------|------------|
| Financial Capital — | 53 |
| Manufactured Capital — | 67 |
| Intellectual Capital — | 77 |
| Human Capital — | 85 |
| Social and Relationship Capital — | 99 |
| Natural Capital — | 135 |
| Future Outlook — | 149 |

Financial Capital



Living life to the fullest

To be able to have something beyond the basic necessities of life. To be able to take your family out for a weekend or to a restaurant for a meal. To be able to afford a comfortable house to live in. To be able to buy a book you would like to have or take a trip to a country you would love to see. This is what makes life worth living and brings you peace of mind.

At PLC, we understand that everyone has dreams and aspirations. We also realise that they sometimes need a helping hand to make them a reality.

MOMENTS

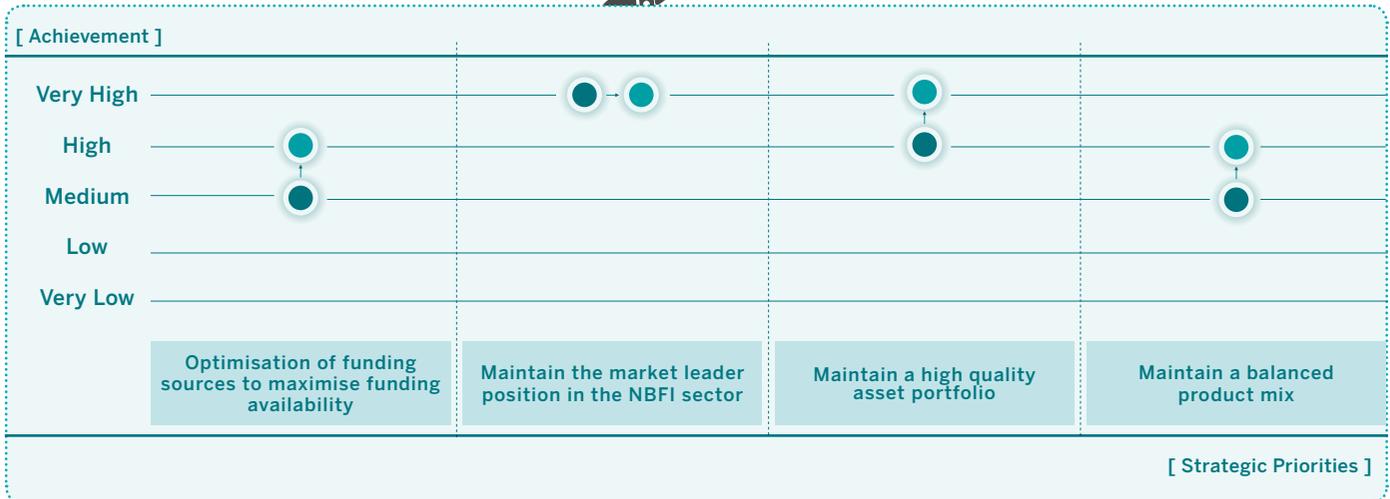
Achieved Rs. 4.01 billion profit after tax.

NPL reduced to 1.33% well reflecting quality of the portfolio.

Deposits grew by 32.17%.

Maintained healthy liquidity and capital position.

Our aspiration is to achieve a robust bottom line with adequate liquidity and comfortable capital levels through effective and efficient management of financial resources and ensure optimal distribution of this value to our esteemed stakeholders.



● Where PLC is now

● Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|---|--|
| The need to move away from traditional funding sources, gain access to more low cost funding and enhance product versatility. | To gain advantage of the infrastructure development and developments in the SME sector, amidst an ever intensifying competitive environment. |

| Strategic Priorities | Strategies |
|--|--|
| Optimisation of funding sources to maximise funding availability | Determine optimal mix between long-term funds and short-term funds to eliminate maturity mismatch and exploring the opportunity to raise foreign funding as an alternative. Adopting new mechanisms, new products, new monitoring mechanisms and allocate appropriate resources to prioritise to build up savings and fixed deposit base. |
| Maintain the market leadership position in the NBFIs sector | Implement a mass media campaign to enhance the corporate image. Expand window offices and enrich the existing branch network to enhance capacity and reach. Revisit existing customer service levels with the intention of enhancing service levels with value. |
| Maintain a high quality asset portfolio | Emphasis on the quality in the granting and initiating stringent recovery action. Further aligning of the performance based rewarding system with corporate objectives. |
| Maintain a balanced product mix | Consider fundamental changes to products which are more suitable for the volatile interest rate environment. Develop new products with high interest spread, developing markets and profitable niche markets. |

OUR
FINANCIAL
CAPITAL



Financial strength and growth

Staying on course amidst head winds



Portfolio quality

Minimising credit risk and safeguarding our depositors' funds



Bottom line

Strong growth in interest income



Capital resources

Capital maintained well above regulatory levels



Liquidity

Adequate liquidity to meet any demands for cash

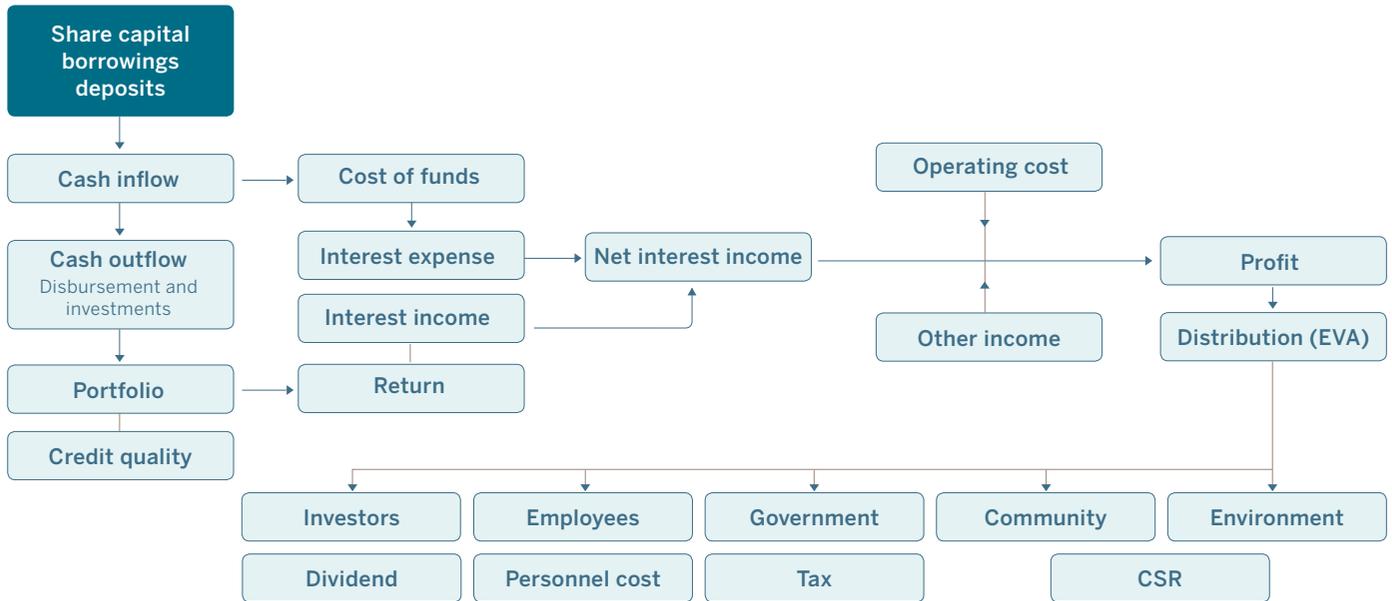


Contribution to the economy

Substantial contribution to the state's coffers

Financial Capital

Role of the Financial Capital



The year under review was challenging due to volatile market conditions, mainly in the form of rising interest rates and changes in tax rates.

The Company marked a strong performance in terms of asset growth, managing credit risk and maintaining healthy capital resources with sound growth levels in the year ended 31 March 2017. Notably, PLC was successful in continuing growth momentum in disbursement during the year. However, due to the volatile business environment the Company's net interest income increased at a slower rate. Operating cost increased substantially in the year 2016/17 over the preceding financial year mainly due to the business expansion and increased employee remuneration. Owing to these factors, the Company's profit after tax in the reporting year decreased compared to the previous year.

Our asset base has been affirmed as the highest amongst the non-bank financial institutions (NBFIs) as at 31 March 2017. Deposits recorded accelerated growth during the year in line with our funding strategy of the year under review, which was to promote deposits.

We also maintained healthy capital and liquidity positions during the financial year ended 31 March 2017.

Furthermore, we ensured equitable distribution among our valued stakeholders in the form of dividends, salaries and benefits, community and environmental investments in the reporting period.

COMPANY PERFORMANCE SNAPSHOT

| | 2016/17 | 2015/16 | Change (%) |
|---|-------------------|------------|------------|
| Profit before tax (Rs. million) | 5,475.89 | 6,143.09 | (10.86) |
| Profit after tax (Rs. million) | 4,009.25 | 4,347.35 | (7.78) |
| Assets (Rs. million) | 150,456.76 | 124,335.65 | 21.01 |
| Deposits (Rs. million) | 44,722.55 | 33,836.43 | 32.17 |
| Borrowings (Rs. million) | 74,257.69 | 60,819.31 | 22.10 |
| Net interest margin (%) | 7.89 | 8.92 | (1.03) |
| Return on equity (%) | 16.89 | 19.80 | (2.91) |
| Net assets value per share (Rs.) | 15.63 | 14.41 | 8.47 |
| Core capital ratio (minimum 5%) | 17.56 | 19.56 | (2.00) |
| Total risk weighted capital ratio (minimum 10%) | 16.37 | 18.14 | (1.77) |

Financial Capital

FINANCIAL STRENGTH AND GROWTH

ASSETS, LOANS AND RECEIVABLES PORTFOLIO

As the leasing giant in the industry, our asset base topped the Rs. 150 billion mark as at 31 March 2017, reaching Rs. 150,456.76 million with a growth of 21.01% compared to the assets as at 31 March 2016. Growth in asset base was mainly driven by the growth in the lending portfolio of the Company.

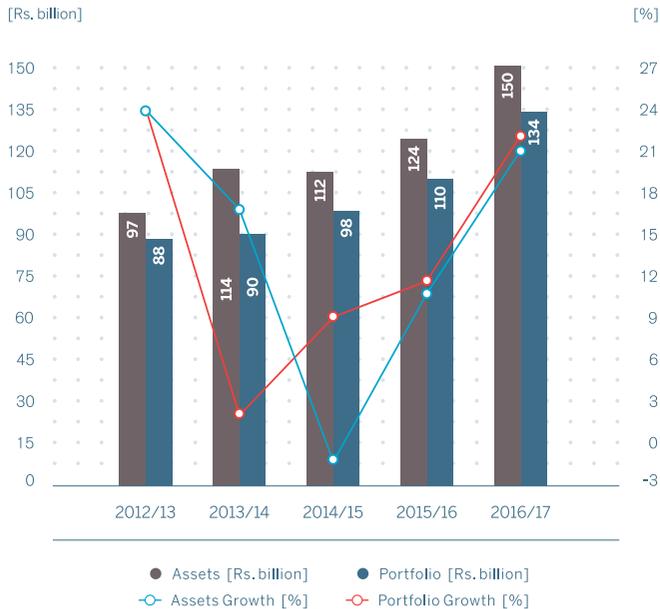
The Company's gross loans and receivable portfolio as at the end of financial year 2016/17 stood at Rs. 135,704.30 million reflecting a growth of 21.76% compared to the previous year. Net portfolio after accounting for impairment stood at Rs. 134,054.70 million as at 31 March 2017 compared to Rs. 109,872.40 million as at end of financial year 2015/16. Impairment charges for loans and receivables and other losses recorded Rs. 215.77 million compared to Rs. 258.35 million in the previous year. Disposal loss including write-offs reduced by over 80% to Rs. 147.03 million in the year under review reflecting the enhanced of the quality of the portfolio through recovery efforts of the Company.

previous year. This was amidst several macro-prudential measures implemented with respect to lending on motor vehicles mainly in the form of a loan to value ratio (LTV). Remarkably, we posted an impressive record of over Rs. 10 billion monthly disbursement in the second quarter of the year.

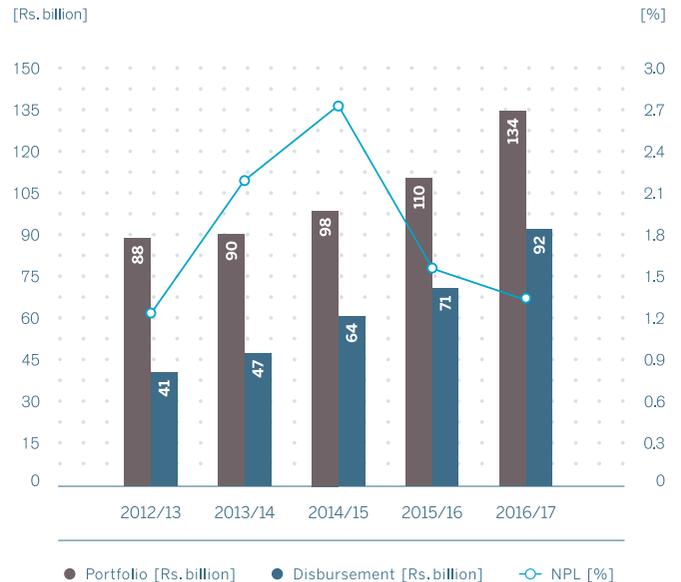
Our disbursement broken into major product types, also evidenced a gradual movement out of the core-business of vehicle financing to other loan products reflecting the general trend in the NBFi sector. The share of the lease disbursement out of total disbursement which stood at 57.70% in year 2015/16, reduced to 51.87% in the current year, while share of loan disbursement of the total disbursement increased to 47.79% in the current year from 39.60% in the preceding year.

Accelerated growth in loan disbursements was mainly due to increased demand for clean loans, and fast track loans. When considering the disbursement province-wise, the Western Province recorded the highest disbursement of Rs. 41.50 billion for the year ended 31 March 2017, followed by the Southern Province (Rs. 13.64 billion) and the Central Province (Rs. 9.10 billion).

ASSETS AND PORTFOLIO



PORTFOLIO, DISBURSEMENT AND NPL

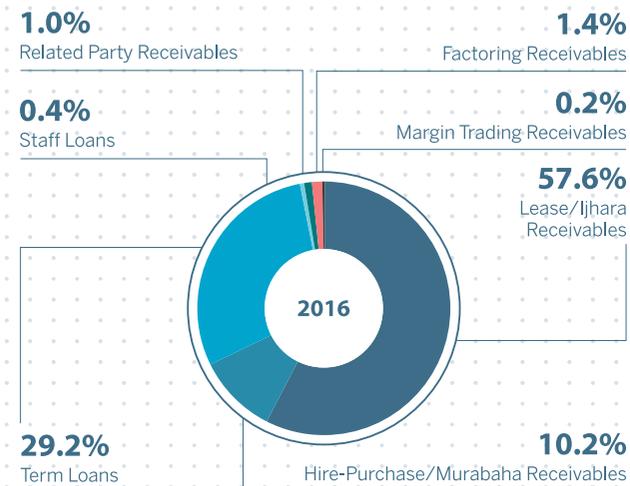
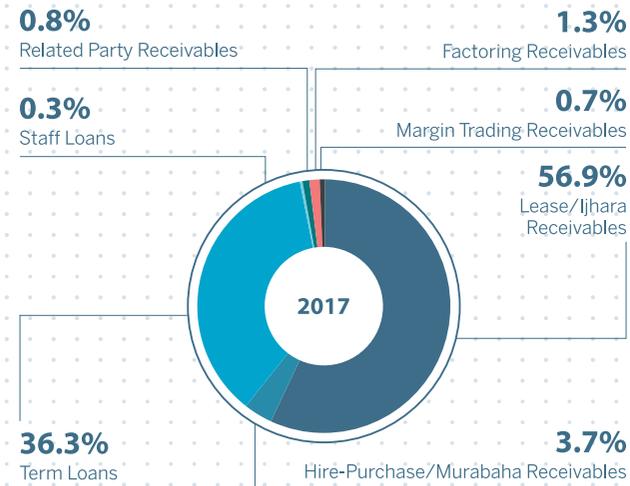


DISBURSEMENT

Successfully surpassing the budgeted disbursement, the Company's total disbursement reached Rs. 91.61 billion in the reporting year with a growth of 29.27% compared to the

Financial Capital

PORTFOLIO COMPOSITION AS AT 31ST MARCH



PORTFOLIO QUALITY

While leveraging our business growth, we maintained systematic credit evaluation and recovery procedures in enhancing credit quality. We pay considerable attention to changes in the industry in managing the credit risk we are exposed to in our business

operations and adapt accordingly. During the year under review, we rigidly maintained quality of the loan portfolio; further enriching it through close monitoring mechanism and policy measures initiated by the Central Bank of Sri Lanka.

Our non-performing loan ratio (NPL) improved to 1.33% as at 31 March 2017 compared to the previous year's ratio of 1.55%; well below the industry NPL ratio of 5.3%. Accordingly, total arrears ratio stood at 2.67% as at the end of financial year 2016/17 compared to the ratio of 3.30% as at 31 March 2016 clearly reflecting portfolio quality.

MANAGING FINANCIAL RESOURCES

FUNDING MIX

During the year, market interest rates gradually increased. As a result, we were exposed to re-pricing risk hence our funding strategy was to focus on stimulating deposits to mitigate asset liability mismatch.

To mark the 20 anniversary, the Company launched attractive savings products, 'Crest Saver' and 'Guardian Deposit' to boost the deposits. As at the end of March 2017, the Company's deposit-base comprising fixed deposits and savings deposits, both conventional and Islamic, notched Rs. 44,722.55 million reflecting a growth of 32.17% during the year. Fixed deposits grew by 34.6% during the year recording Rs. 41,171.24 million at the end of the year; savings deposits recorded Rs. 3,551.31 million as at the end of March 2017. Total deposits as a percentage of total funding mix stood at 37.59% as at the end of the reporting year compared to the 35.75% recorded as at 31 March 2016.

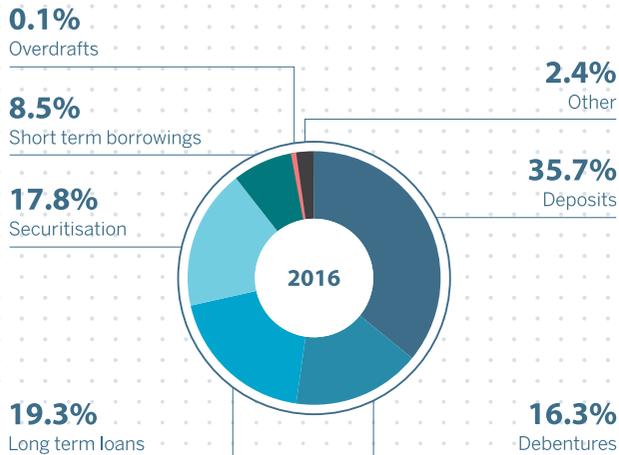
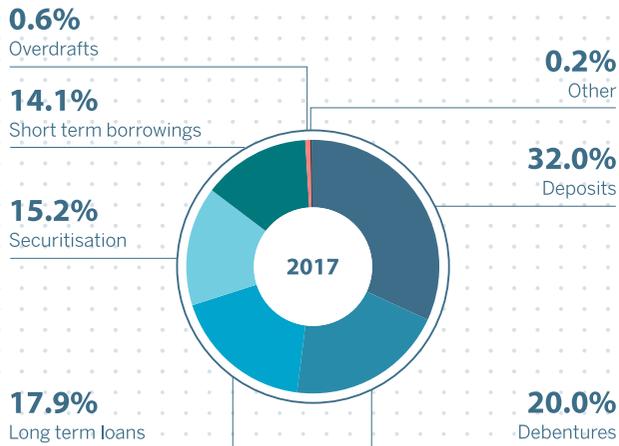
Debt funding, collectively representing long-term and short-term loans, debentures and securitisation, as a share of total funding mix stood at 62.41% as at 31 March 2017 compared to 64.25% reported in the previous financial year. During the year, we embarked on our fourth listed debenture issue to raise Rs. 8 billion for working capital requirements.

Significantly, reflecting the investors' confidence in the Company, the issue was oversubscribed. With the issue, debentures posted an increase of 41.47% over the previous financial year and stood at Rs. 21,877.66 million as at the end of 2016/17.

Our funding mix also included foreign borrowings; during the first quarter of the year we obtained a loan of USD 12 million with the backing of two international credit ratings of the Company. As at the end of 31 March 2017 the equivalent Rupee value of the loan stood at Rs. 1, 823.82 million.

Financial Capital

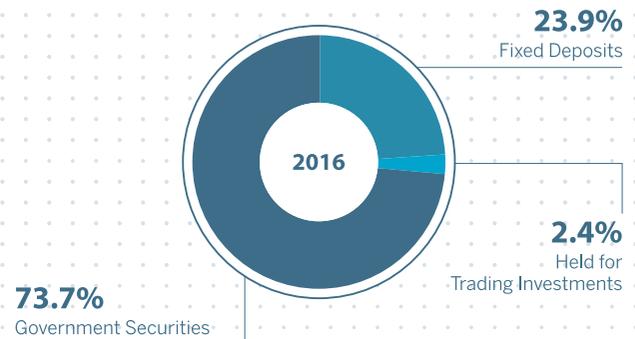
FUNDING MIX
AS AT 31 MARCH



INVESTMENT MIX

We invested 3.60% of the total assets in Treasury Bills, Treasury Bonds and reverse repurchase agreements which collectively accumulated Rs. 5.42 billion as at 31 March 2017. Investment in blue chip companies reduced by 4.93% and stood at Rs. 201.21 million as at the end of March 2017 due to the sluggish performance of the Colombo bourse during the year 2016/17. Investment in fixed deposits witnessed a decline of 59.45% and recorded Rs. 2,090.99 million.

INVESTMENT MIX
AS AT 31 MARCH



BOTTOM LINE

TOTAL OPERATING INCOME

Interest income reached Rs. 22,041.26 million with a growth of 23.30% in the year 2016/17 compared to the previous financial year. Interest cost increased by 48.97% and recorded Rs. 11,829.60 million in the year ended 31 March 2017. Re-pricing caused the Company's net interest income to increase at a slower rate of 2.78% and reach Rs. 10,211.66 million in the financial year

Financial Capital

2016/17. Hence, net interest margin reduced to 7.89% in the year from 8.92% reported in the preceding year.

Other income which comprises fees and commission income, net trading income and other operating income significantly increased to Rs. 1,817.78 million with a 38.75% growth in the year 2016/17. The increase was due to the improved dividend income of Rs. 371.89 million from our subsidiaries during the reporting year.

Total operating income rose by 6.97% to Rs. 12,029.44 million in the year under review compared to the year 2015/16.

OPERATING EXPENSES

Our operations during the year expanded in relation to Manufactured and Human Capitals. Our branch network increased to 103 branches with the opening of 11 new branches. In order to support the operations, our employee base expanded to 2,085 with 410 new recruits. Further, acknowledging our employees' enormous effort we effected substantial salary revisions in the beginning of the year. Owing to these factors, operating cost escalated by 29.29% to record Rs. 5,414.00 million in the year 2016/17 and personnel expenses increased by 41.46% to Rs. 2,556.24 million. Operating expenses increasing at a higher rate than the rate of increase in the total operating income caused the Company's cost to income ratio to rise to 45.01% in the year 2016/17 compared to 37.24% in the last year.

TAXATION

Income tax expenses for the financial year reported Rs. 1,466.64 million compared to the income tax for the previous year of Rs. 1,795.73 million. The hike in the VAT on Financial Services (FS) Rate from 11% to 15% with effect from the month of November 2016 and the gradual increase in attributable ratio with exemption of leasing income from Value Added Tax resulted in a significant increase in VAT on FS and NBT on FS to Rs. 923.78 million from Rs. 656.25 million during the financial year 2016/17.

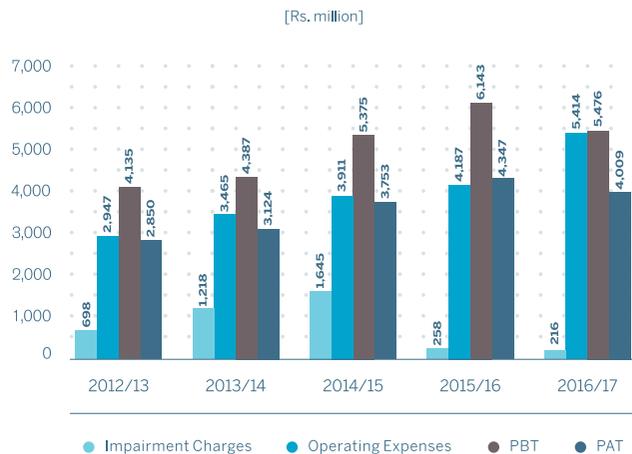
PROFITABILITY

Amidst aforesaid macro-prudential and other tightening measures exerted in the NBFi sector, the Company touched Rs. 4,009.25 million as profit after tax in the year 2016/17 compared to the profit after tax of Rs. 4,347.35 million in the previous year. Profit before tax of Rs. 5,475.89 million was recorded in the year ended 31 March 2017 compared to Rs. 6,143.09 million in the year 2015/16.

INTEREST INCOME, INTEREST EXPENSES AND NET INTEREST INCOME



PROFITABILITY, OPERATIONS COST AND IMPAIRMENT



Financial Capital

CAPITAL RESOURCES AND LIQUIDITY

We maintained a comfortable capital and healthy liquidity position during the financial year ended 31 March 2017. Adhering to stipulated capital adequacy requirements laid down by the CBSL, the Company's core capital ratio (minimum 5%) and total risk weighted capital ratio (minimum 10%) stood at 17.56% and 16.37% respectively as at 31 March 2017, compared to the ratios as at the end of March 2016 of 19.56% and 18.14%. Core capital and total capital base as at 31 March 2017 stood at Rs. 24,231.16 million and Rs. 22,581.12 million respectively which were well above the required capital levels. Liquidity position was maintained at an adequate level; advances to deposit ratios stood at 3.00 times as at 31 March 2017 compared to the ratio of 3.25 times reported as at 31 March 2016.

GROUP PERFORMANCE

The PLC Group generated Rs. 27,732.75 million income in the financial year 2016/17 with an increase of 22.82% compared to the previous year. The Group recorded Rs. 4,441.62 million profit after tax in the year ended 31 March 2017 compared to the profit after tax of Rs. 4,741.55 million in the financial year 2015/16.

Our flagship subsidiary People's Insurance PLC generated a noteworthy profit after tax of Rs. 745.94 million during the financial year ended 2016/17 with an increase of 56.24%.

People's Leasing Fleet Management recorded Rs. 25.43 million profit after tax compared to the profit after tax of Rs. 25.80 million in the year 2015/16. More information on performance of each subsidiary can be found on pages 407 to 411 of this Report.

Invigorating our subsidiaries People's Leasing Fleet Management Limited and People's Microfinance Limited, the Company infused Rs. 100 million capital into each during the year. People's Leasing Havelock Properties Limited completed the construction project of the new office complex in Havelock Town and is expected to commence operations in the near future. With groundwork for establishing Bangladesh operations in place, the required funds were remitted to Bangladesh with requisite approvals.

GROUP PERFORMANCE

| | 2016/17 | 2015/16 | Change (%) |
|---|------------------|-----------|------------|
| Profit after tax (Rs. million) | 4,441.62 | 4,741.55 | (6.33) |
| Net interest income (Rs. million) | 10,964.52 | 10,295.12 | 6.50 |
| Earnings per share (Rs.) | 2.69 | 2.98 | (9.73) |
| Return on equity (%) | 17.94 | 20.60 | (2.66) |
| Return on assets (%) | 4.27 | 5.40 | (1.13) |
| Gross Dividends (Rs. million) | | | |
| People's Insurance PLC | 315.00 | 120.00 | 162.50 |
| People's Leasing Property Development Limited | 60.50 | 22.00 | 175.00 |
| People's Microfinance Limited | 18.00 | 5.00 | 260.00 |
| People's Leasing Fleet Management Limited | 18.00 | 7.50 | 140.00 |

VALUE DISTRIBUTION

We acknowledge the equitable distribution of financial value generated among our foremost stakeholders. During the year, the Company distributed Rs. 1,974.83 million as dividend to the ordinary shareholders of the Company reflecting a 49.26% dividend payout ratio; remunerated Rs. 2,556.24 million to our loyal employees as salaries and other benefits; invested Rs. 191.01 million for community and environment well-being; invested Rs. 246.88 million in ICT to back new product development and other system improvements which will in turn enhance customer service and spent Rs. 55,925.90 million on purchases. More information on value distribution for each stakeholder can be found under the capital management sections of this Report.

FUTURE OUTLOOK

We strive to utilise financial capital economically to enhance the Company's profitability while maintaining sound capital and liquidity levels. Through continuous budgetary and other financial controls we will closely monitor the financial resource management within the Company. Our funding strategy will be constantly adjusted to keep pace with the development and changes in macro environment.

Leveraging business growth while maintaining portfolio quality will be our focus in the coming years as well. Financially backing the new product launches and subsequent system development will be seriously considered. Achieving operational efficiency through cost management will also be looked into to achieve a robust bottom line.

Financial Capital

Contribution to the Economy

PLC'S GEOGRAPHICAL PRESENCE

Our far flung network of branches and other service centres enables us to provide financial services to customer segments who are underserved by other organisations such as banks. Our geographical spread also ensures that we also service the less developed and less affluent areas of the country. Significantly, in the year under review, 63.3% of customers were from outside the Western Province while 54.6% of our disbursements were outside the Western Province. We also have achieved significant penetration in the Northern and the Eastern provinces, making our contribution to post war reconstruction and rehabilitation.

We are also proud of our position in driving start-up companies and entrepreneurial efforts around Sri Lanka. A well balanced pricing policy and customer friendly recovery approach help individuals succeed in their business endeavours.

| Province | Population '000 | GDP % | PLC's presence | | | | |
|---------------|--------------------|---------------|------------------|----------------|-----------------|------------|-----------------|
| | | | Disbursement | Customers | Portfolio (Net) | Branches | Service centres |
| | | | Rs. million | (Nos.) | Rs. million | (Nos.) | (Nos.) |
| Central | 2,690 | 10.30 | 9,100.53 | 12,765 | 13,038 | 12 | 9 |
| Eastern | 1,645 | 6.00 | 4,841.29 | 6,409 | 6,371 | 9 | 11 |
| North Central | 1,330 | 5.40 | 3,353.16 | 5,828 | 5,099 | 4 | 9 |
| North Western | 2,477 | 10.90 | 6,438.15 | 9,576 | 8,722 | 10 | 10 |
| Northern | 1,107 | 3.50 | 3,152.21 | 3,786 | 3,253 | 6 | 11 |
| Sabaragamuwa | 2,009 | 7.00 | 4,399.51 | 6,523 | 6,658 | 9 | 12 |
| Southern | 2,584 | 10.40 | 13,637.91 | 16,767 | 19,120 | 15 | 17 |
| Uva | 1,333 | 5.20 | 5,185.46 | 8,124 | 7,543 | 6 | 6 |
| Western | 6,028 | 41.20 | 41,499.11 | 40,451 | 60,313 | 32 | 16 |
| Total | 21,203 | 100.00 | 91,607.33 | 110,229 | 130,117 | 103 | 101 |

CONTRIBUTION TO DIVERSE SECTORS

As the market leader for 15 years in the non-bank financial services industry we have inculcated within us a strong sense of responsibility towards the sectors within which we operate. PLC currently accounts for a market share of 12.44% in the industry.

We also create an indirect impact by our networking activities. PLC is an active member of the Leasing Association of Sri Lanka and diverse other membership organisations. We also offer our assistance to the Central Bank of Sri Lanka in helping monitor distressed financial institutions to maintain confidence in the NBF1 sector.

Our portfolio comprises a balanced sectoral mix, thus, contributing to the development and overall economic growth.

Financial Capital

PLC'S CONTRIBUTION TO THE NBFIS SECTOR'S GROWTH

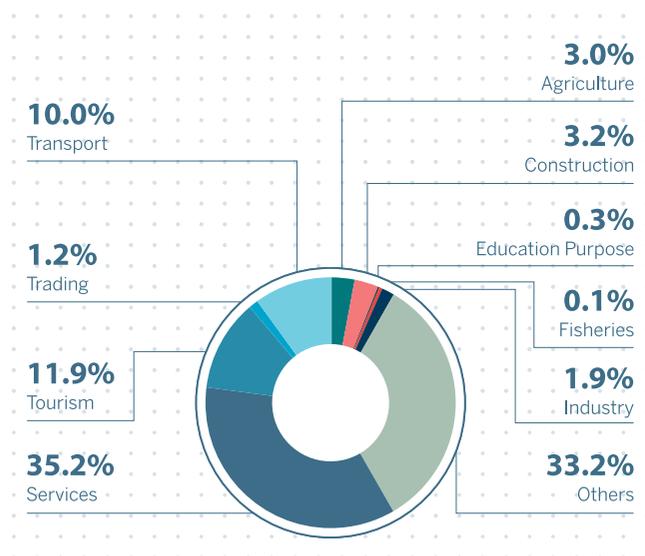
| | 2016 | | | 2015 |
|------------------------------|----------------------------|--------------------|----------------------------|----------------------------|
| | NBFI sector Rs. billion | PLC Rs. billion | PLC's contribution % | PLC's contribution % |
| Assets | | | | |
| Loans and advances (Net) | 962.70 | 132.76 | 13.79 | 13.50 |
| Total assets | 1,211.90 | 150.80 | 12.44 | 12.17 |
| Liabilities | | | | |
| Total deposits | 531.00 | 42.64 | 8.03 | 7.03 |
| Total borrowing | 438.70 | 75.62 | 17.24 | 18.33 |
| Capital elements | 146.10 | 23.73 | 16.24 | 17.74 |
| Total funds | 1,115.70 | 141.98 | 12.73 | 12.34 |
| Other | 96.20 | 8.82 | 9.17 | 10.26 |
| Total liabilities and equity | 1,211.90 | 150.80 | 12.44 | 12.17 |

Figures as at 31 December 2016

Source: CBSL, Annual Report

Considering the sector-wise distribution of our portfolio, Services took first place with 35.2% of the total. Tourism ranked second with 11.9% of the total while transport was in third place with 10%.

SECTOR-WISE NET PORTFOLIO



GRI 201-2

DIRECT AND INDIRECT ECONOMIC BENEFITS

Another highlight of the value addition we bring to the economy is the contribution we make to the agricultural sector. Our agriculture based portfolio in 2016/17 amounted to Rs. 3,854.70 million while a total of Rs. 2,329.72 million was disbursed to the sector. This evidences the impact we make at the grass roots level.

Agriculture represents 3% of our portfolio. Although not substantial, climate change has a bearing on our agriculture sector portfolio and affect our financial results. In 2016/17 the sector portfolio grew as below:

| Key indicator | 2016/17 Rs. million | 2015/16 Rs. million | Change % |
|--------------------------------|------------------------|------------------------|-------------|
| Agriculture based portfolio | 3,854.70 | 2,280.80 | 69.06 |
| Agriculture based disbursement | 2,329.72 | 1,014.12 | 131.10 |
| Agriculture NP portfolio | 53.51 | 68.84 | -22.27 |
| Agriculture NP portfolio (%) | 1.16 | 3.02 | 263.66 |

To combat climate change we take proactive measures towards environmental sustainability. During 2016/17 we invested Rs. 3.37 million on environment.

DRIVING EMPLOYMENT

The unemployment ratio of the Sri Lankan economy declined from 4.7% to 4.4% in 2016. PLC had in its employment 2,085 personnel as at 31 March 2017.

In order to boost employment prospects in local areas, we strive to recruit employees from the areas in which we operate.

| Province | Population | | PLC | |
|---------------|---------------|---------------|--------------|---------------|
| | '000 | % | Nos. | % |
| Central | 2,690 | 12.69 | 181 | 8.68 |
| Eastern | 1,645 | 7.76 | 97 | 4.65 |
| North Central | 1,330 | 6.27 | 84 | 4.03 |
| North Western | 2,477 | 11.68 | 137 | 6.57 |
| Northern | 1,107 | 5.22 | 73 | 3.50 |
| Sabaragamuwa | 2,009 | 9.48 | 109 | 5.23 |
| Southern | 2,584 | 12.19 | 229 | 10.98 |
| Uva | 1,333 | 6.29 | 110 | 5.28 |
| Western | 6,028 | 28.43 | 1,065 | 51.08 |
| Total | 21,203 | 100.00 | 2,085 | 100.00 |



Financial Capital

GRI 201-2

GENERATED ECONOMIC VALUE

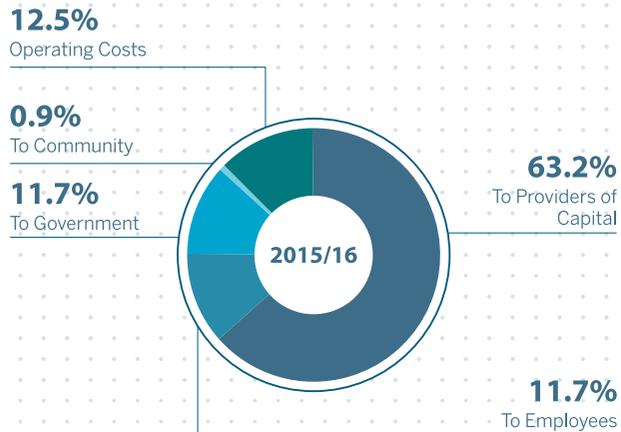
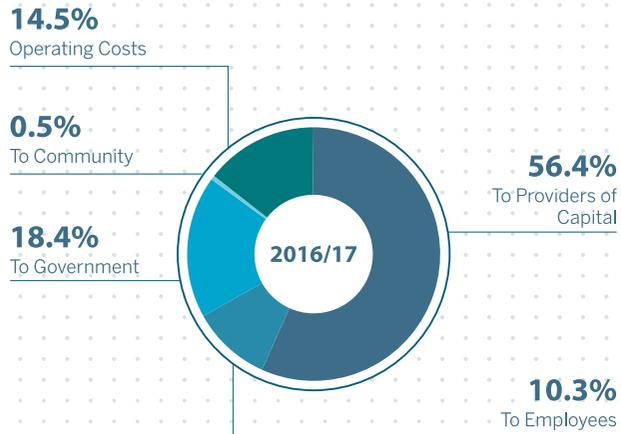
STATEMENT OF VALUE ADDITION

| | 2016/17 Rs. million | 2015/16 Rs. million |
|---|------------------------|------------------------|
| Direct economic value generated | | |
| Interest income | 22,041.26 | 17,876.08 |
| Fee and commission income | 1,133.74 | 952.35 |
| Other operating income | 684.04 | 357.79 |
| Economic value generated | 23,859.04 | 19,186.23 |
| Economic value distributed: | | |
| To providers of capital | | |
| Dividend to equity holders | 1,974.83 | 1,974.83 |
| Interest on borrowings | 7,821.47 | 5,168.42 |
| Interest to deposit holders | 4,008.13 | 2,772.65 |
| | 13,804.43 | 9,915.89 |
| To Employees | | |
| Salaries and other benefits | 2,556.24 | 1,807.02 |
| | 2,556.24 | 1,807.02 |
| To Government | | |
| Income tax expense | 1,466.64 | 1,795.73 |
| Super gain tax expense | - | 741.08 |
| VAT and NBT on financial services | 923.78 | 656.25 |
| Other Taxes paid | 165.76 | 42.25 |
| | 2,556.17 | 3,235.31 |
| To Community | | |
| On corporate social responsibility (CSR) and donations | 191.01 | 79.61 |
| | 191.01 | 79.61 |
| Operating costs | | |
| Depreciation of property, plant and equipment | 177.21 | 197.10 |
| Amortisation of intangible assets | 9.78 | 13.13 |
| Impairment charges for loans and receivables and other losses | 215.77 | 258.35 |
| Other operating expenses | 2,321.46 | 2,082.36 |
| | 2,724.22 | 2,550.94 |
| Economic value distributed | 21,832.07 | 17,588.77 |
| Economic value retained | 2,026.97 | 1,597.46 |

Respectful
It's simply about a culture and ethos of respect and empathy that PLC has embraced, that allows us to interact with the customer with warmth and closeness.

Financial Capital

DISTRIBUTION OF VALUE ADDED



GRI 201-4

During 2016/17 no financial assistance was received from the Government.

GENERATED ECONOMIC VALUE

ECONOMIC VALUE ADDED

| For the year | 2016/17 Rs. million | 2015/16 Rs. million |
|---|------------------------|------------------------|
| Shareholders' funds | 24,697.29 | 22,771.87 |
| Add: Accumulated provision for impairment charges | 1,649.60 | 1,580.86 |
| Add: Cumulative market building expenses | 1,014.13 | 743.71 |
| | 27,361.02 | 25,096.44 |
| Profit attributable to | | |
| Shareholders | 4,009.25 | 4,347.35 |
| Add: Market building expenses for the year | 385.77 | 318.86 |
| Add: Impairment provision | 68.74 | (543.95) |
| Add: Deferred tax charges for the year | 101.14 | (122.09) |
| | 4,564.90 | 4,000.17 |
| Economic cost % (Average Treasury Bill Rate + 2% risk premium) | 12.41% | 8.98% |
| Economic cost | 3,254.99 | 2,206.08 |
| Economic value addition | 1,309.91 | 1,794.09 |

MARKET VALUE ADDED

| For the year | 2016/17 Rs. million | 2015/16 Rs. million |
|--|------------------------|------------------------|
| Market Capitalisation/ Market Value of Equity | 24,645.85 | 25,277.80 |
| Less: Shareholders' funds | 24,697.29 | 22,771.87 |
| Market value added | (51.44) | 2,505.93 |

Manufactured Capital



Created by You

**The aroma of home-cooked food,
drifting gently in the evening air.
Sitting down to a meal, with your family and friends,
on one of the rare occasions when you can all
come together from your busy lives.**

At PLC, we understand the beauty of moments that are created by you. Moments that emphasise your hard work and effort. They truly belong to you.

MOMENTS

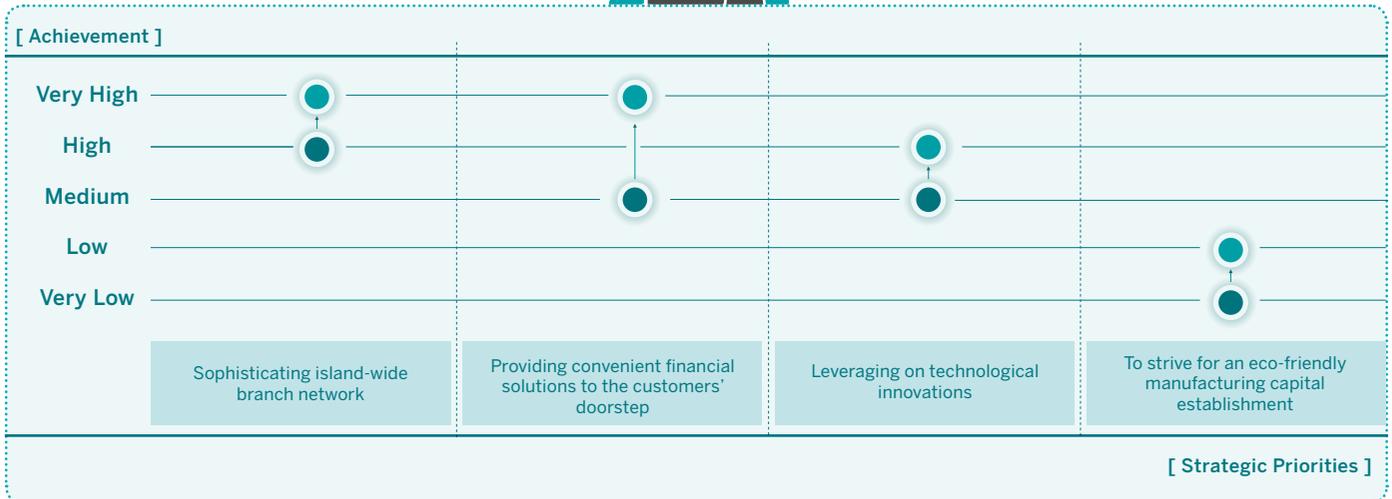
Branch network strengthened to 103 with the opening of 11 branches island wide during the year.

ICT investment of Rs. 246.88 million which is an improvement of 15.48%.

SelfeCash module, enhancement of core-banking application and a new online application module were introduced.

We renewed the ISO 27001: Information Security Management System Certification.

In as much the same way, the manufactured capital of PLC is its human-created and production-based infrastructure which indirectly drives the provision of products and services. PLC's manufactured capital essentially comprises of its extensive branch network and ICT infrastructure.



- Where PLC is now
- Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|---|---|
| There is a focus on continuous investment in updating hardware and software within the Company and leveraging our ICT and in-house team with this knowledge and process improvements. | With the rapidly changing technological landscape, digitisation plays a key role. And as our customers and competitors adopt the latest technologies and innovations there is a great need for PLC to consistently update its ICT standing. |

| Strategic Priorities | Strategies |
|---|--|
| Sophisticating Island wide branch network | Investing on technologies to strengthen connectivity. |
| Providing convenient financial solutions to the customers' doorstep | Enhancing the PLC website. Developing a comprehensive customer feedback mechanism. Reaching out to untouched markets. Improving the mobility of the marketing staff. |
| Leveraging on technological innovations | Improving training on ICT for employees to update their skills and knowledge. Investing in latest technologies and introducing mechanisms to share knowledge within the Company Revamping our Core system. |
| To strive for an eco-friendly manufacturing capital establishment | Promoting environment friendly measures in the establishment and maintenance of branch network. Being responsible when utilising manufactured capital. |

OUR
MANUFACTURED
CAPITAL



**Branch
network**

An island wide
network of products
and services



**IT
infrastructure**

Technology forms
the backbone of
our operations



**Information
security**

Guaranteeing a
safe place for
customers' data



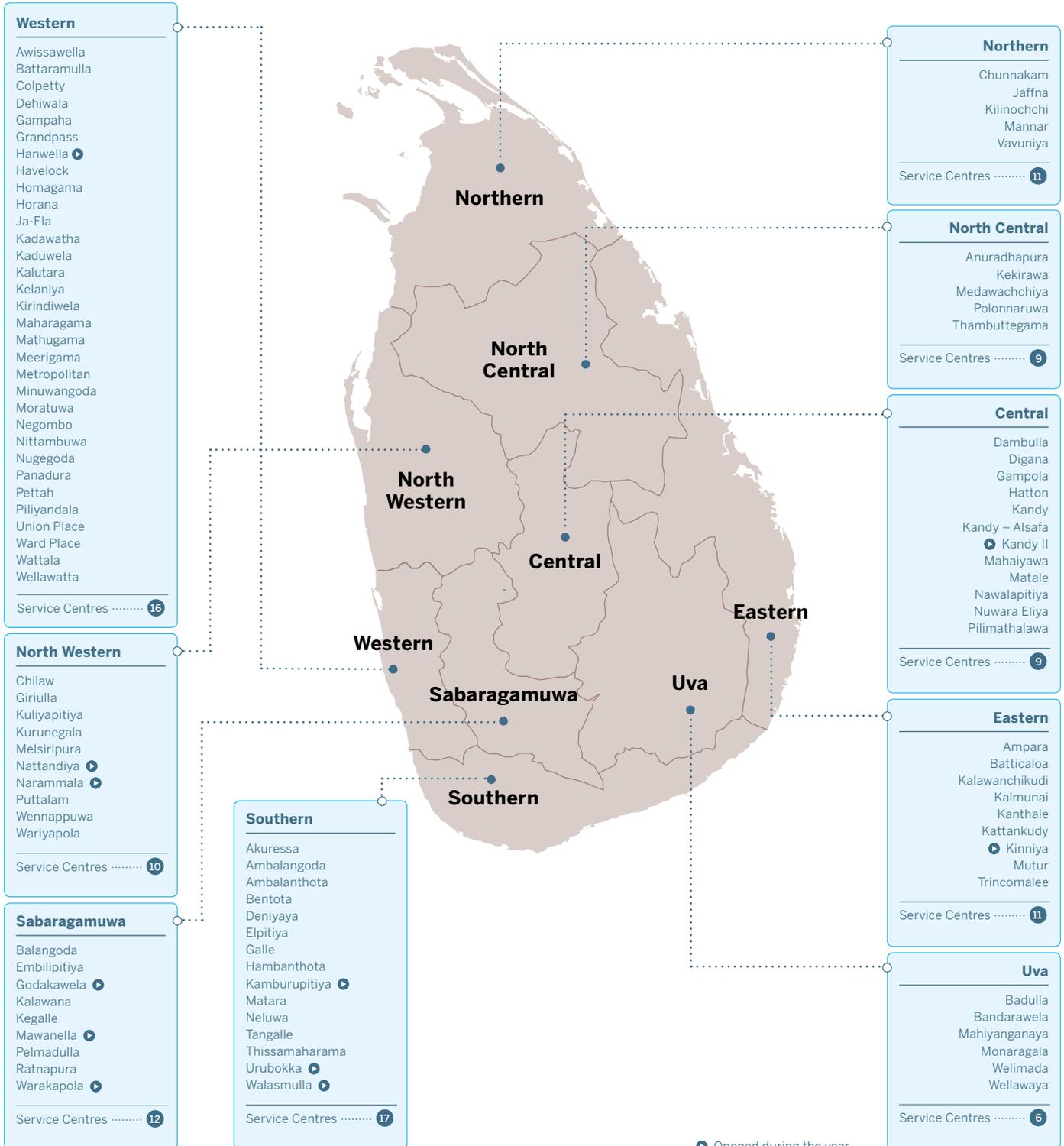
**Branch
automation**

Improving
efficiency and driving
productivity

Manufactured Capital

BRANCH NETWORK

We possess a well-dispersed network of branches at key strategic locations island-wide. This helps guarantee a cohesive approach in providing excellent customer service.



Manufactured Capital

For the period under review, we strengthened our branch network with the opening of new customer touchpoints in strategic locations. We similarly reorganised and relocated existing branches to maximise benefits and effectively manage our manufactured capital as a whole.

GRI 102-6

We currently possess 103 fully-fledged branches and 101 service centres across the island. Service centres allow us to immerse our operations into unexplored market segments in a more cost-effective manner.

Our VISA debit card operations have equally benefited from the wide-spread ATM network of our parent company People's Bank.

The Company will continue to explore new ways to reach customers.

In tandem with our 20th Anniversary Celebrations, the year under review saw the addition of 11 new branches to our portfolio, to bring our total number of branches to an impressive total of over 100

IDENTIFYING STRATEGIC LOCATIONS

We identify strategic locations that require our presence through the analysis of the market potential of the area in question, as well as any future prospects we discern. This is done through comprehensive market research initiatives.

OPERATING STRUCTURE

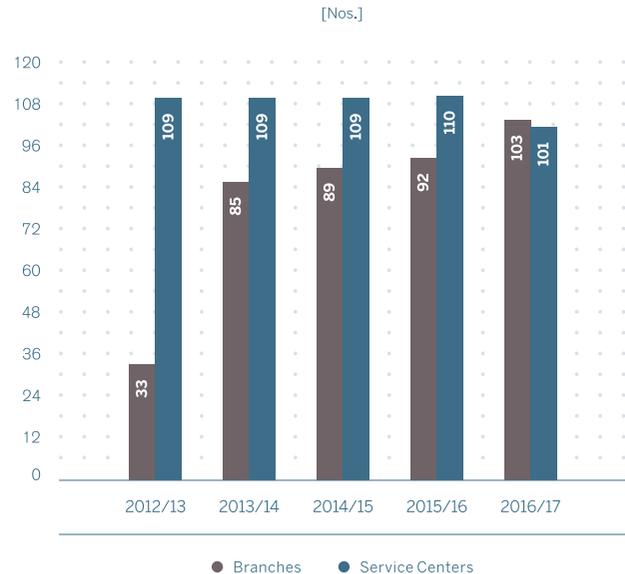
Our network of branches and operations are overseen by four Zonal Heads. These have been allocated appropriately covering all branches.

Our branch managers experience a decentralised credit approval process in approving loans that fall within a pre-determined limit of credit.

The Management and co-ordination of branches is also overseen through the use of technology.

The Company strives to ensure that branches and service centres are manned by employees sourced locally from the area. This guarantees that our clients receive a more personal touch in whatever transaction they wish to execute with us.

PLC'S SCUSTOMER TOUCHPOINTS





Convenient

It's simply about the convenience that multiple channels of access affords, that PLC and its customers can stay close to one another across the length and breadth of Sri Lanka.

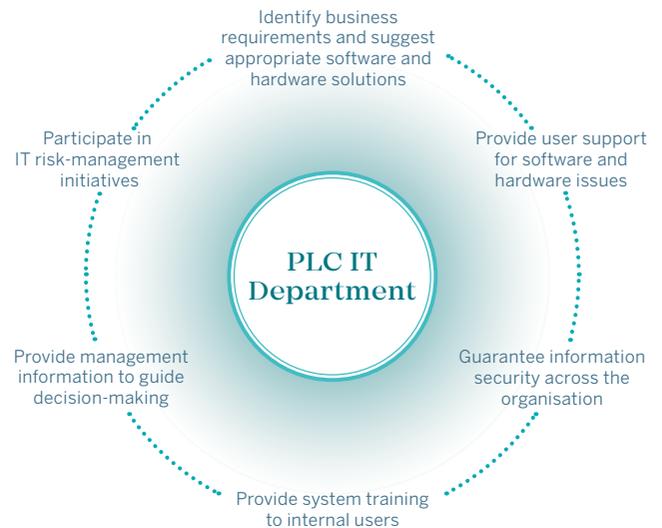
Manufactured Capital

IT INFRASTRUCTURE, SYSTEMS AND PROCESSES

Information technology forms the backbone of all systems at People's Leasing & Finance PLC, spanning the entire range of operations.

Our IT strategy aligns closely with our business strategy. We continuously strive to develop new products for our customers and markets. As such, these products require corresponding IT applications and support. Our IT Department is instrumental in assuring that these requirements are fulfilled in a prompt manner.

The key activities and functions of the IT Department at People's Leasing & Finance PLC are as follows:



We renewed the ISO 27001: Information Security Management System Certification this year for the second time. We have maintained this standard for six years. We have done two recertification audits. Every nine months, periodical audits take place. We undertake annual penetration tests for our communication channels as well.

Manufactured Capital

Our IT Department facilitates meeting changes in the business environment. We are unique amongst our competition in possessing such a dedicated and multi-disciplined IT Department that is capable of developing in-house solutions to address technological innovation as swiftly as possible.

We equally possess a reliable hardware team that oversees all the hardware requirements and help in troubleshooting issues of all the branches of People's Leasing & Finance PLC.

Our IT Department is equally committed to helping reduce the environmental footprint of PLC. We are consistently aspiring towards working in a completely virtual environment in order to reduce our energy consumption. And when it comes to new branch openings and the relocation of existing branches we always leverage on our expertise on energy efficiency to facilitate ways to reduce the power consumption.

PLC's ICT based customer touchpoints:

- — Island wide connected branch network
- — Branchless Banking (Palm top devices)
 - — PLC ONLINE
 - — Corporate website
- — System connected mobile vehicles
 - — PLC Mobile Application

ICT POLICY

People's Leasing & Finance PLC strives to ensure that ICT is utilised as a driving tool for refining future objectives within the constraints of relevant laws and regulations. We will develop, innovate and create our business to cater to the varying demands of our stakeholders by delivering responses that promise to be timely and efficient. This will be the cornerstone of excellent decision-making as well as the mitigation of risks posed by threats to information and security.

GRI 102-11

INFORMATION SECURITY POLICY

The information security policy of the Company is well-inculcated across our operations with equal emphasis on employee engagement.



The **incident management process** allows staff members to promptly report on any breach of security to the Chief Information Security Officer for immediate action.

The **separate disaster recovery site and disaster recovery plan**, covers all functions of the Company and assures that both on-site and off-site data and information is backed up and secured. The system is located in a remote location to further minimise any threat to safeguard systems, applications, business processes and associated collateral.

Manufactured Capital

The **periodical testing of the business continuity plan** ensures that data is securely backed. This is conducted every year with the participation of the information security team. We discuss relevant improvements based on audit and incident reports. Meetings are conducted every six months.

Information security risk management ensures that the risks involved in the systems and processes are duly noted, evaluated and addressed. We conduct regular internal security audits as well as external audits with the participation of Messrs DNV GL of Business Assurance India. This helps to assure the effectiveness of the safeguards and the soundness of our practices.

PLC also engages with Messrs KPMG Sri Lanka and Messrs PricewaterhouseCoopers Sri Lanka to effectuate assessments on vulnerability and conduct penetration tests.

Our IT platform is certified under the very latest ISO Information Security Management System Standard.



BRANCH AUTOMATION

The Company is committed to deploying the latest ICT infrastructure to its physical branches in line with providing an exceptional value-added service to customers. We undertook continuous initiatives throughout the year to equip new branches with relevant infrastructure and links to a centralised system.

We continually ensure that our employees' IT and mobile skills are honed to perfection. To this extent, we carry out regular training programmes to familiarise staff with new applications and the like. We circulate information manuals through our Intranet portal. A separate team in the IT Department is also available to handle queries.

Similarly, we encourage our employees to adopt IT solutions in executing transactions. In some situations, we have made it mandatory. For example, customer visits that our field staff make are to be conducted through mobile devices.

NEW SYSTEMS DEVELOPED DURING THE YEAR

MODULES

SelfeCash module: This product couples with a customer's ATM card to enable them to obtain loans from fixed deposits. The product is marketed as 'Your fixed deposit in your wallet'. With this application, customers can pledge their fixed deposits and obtain loans as required. The product offers a range of benefits. Further information can be accessed from our corporate website.

A new online application module was introduced to the existing factoring system to facilitate payments and other financing segments. This module utilises IntApp (the internal mobile application that is made available to employees of the Company). The IntApp application will equally speed up the processing of transactions.

We made several enhancements to the core-banking application, through the introduction of a commission module and a legal application module. The system was enhanced to facilitate Fast Track and Clean Loan which are diversified products.

Manufactured Capital

SYSTEMS

A new margin trading system was developed for People's Merchant Finance PLC. The existing margin trading system at PLC was equally enhanced.

We carried out in-house improvements to the People's General Insurance System (PGIns), specifically the online payment facility and online travel insurance.

A Takaful general system, in accordance with Islamic principles, was implemented for non-motor underwriting.

We have developed an advisory tracking system, that will be deployed for the use of our telephone operators. This was developed to serve our internal requirements.

UPGRADES

The existing firewall was upgraded and our IT network was restructured to increase the security of our IT environment as well as to manage network security more easily.

OTHER

A mobile application was developed for marketing officers to provide quotations to customers on the spot using their mobile devices.

A web-based strategic forum was developed to gather employee input for strategic planning sessions. This has shown remarkable success, with over 1,400 employee ideas and comments being logged in the system.

A mechanism was designed to allow customers to pay utility bills through any PLC Branch, mobile collection devices and the PLC online web portal.

FUTURE OUTLOOK

The following section details information on how our Branch network and ICT infrastructure will progress in the future.

We understand that the future is to be defined by mobile devices and applications. The challenge we experience is in getting

users, our customers, to utilise such innovative products. For we witness that many customers are averse to utilising the new technology that is available; voicing security and data protection concerns; even if an application or device is secure.

PLC has been looking into possibilities in improving cloud based services in order to facilitate the geographical expansion.

APPLICATIONS

- A SMS gateway will be designed to notify and alert our existing and potential customers on business promotions.

- We will develop a mobile application for RMV functions; to handle vehicle transfers and related matters through this application.

- A mobile application will be develop to generate online valuation reports for fleet management valuation officers.

- Business intelligence dashboards will be developed to enable Management to execute decisions through their mobile devices.

SYSTEMS

- The core-banking system will be upgraded to make best use of the new technologies available in improving the effectiveness and efficiency of operations.

- The existing web portal of PLC Online will see many value-added features being added, to enable customers to conduct online transactions with other Sri Lankan banks, execute utility bill payments, manage own ATM card services, and pose online requests for documentation.

- The websites of People's Leasing & Finance PLC and People's Insurance PLC will be revamped to enhance user-friendliness and to make the websites accessible on mobile.

- We plan to increase collection channels through People's Bank's extensive branch network which will make it easier for PLC customers to pay their leasing and loan rentals island wide.

- We will also see into developing separate websites for People's Microfinance Limited and People's Fleet Management Limited.

- We will develop an e-memo system for internal staff usage. This will facilitate speedy communications as well as minimising paper usage.

Intellectual Capital



Intangible. Priceless.

Seeing the face of your loved one shine,
as you spend a day together.
Feeling the fresh air on your face
and the muted light filtering through the trees.
The soft cadence of birdsong,
the smell of bruised blossoms and rain-soaked earth.
There is a lightness in your spirit and
a gentleness in your heart.

At PLC, we understand what sublime moments are.
They are intangible; they cannot be defined.
They are priceless; you will cherish them forever in your heart.

MOMENTS

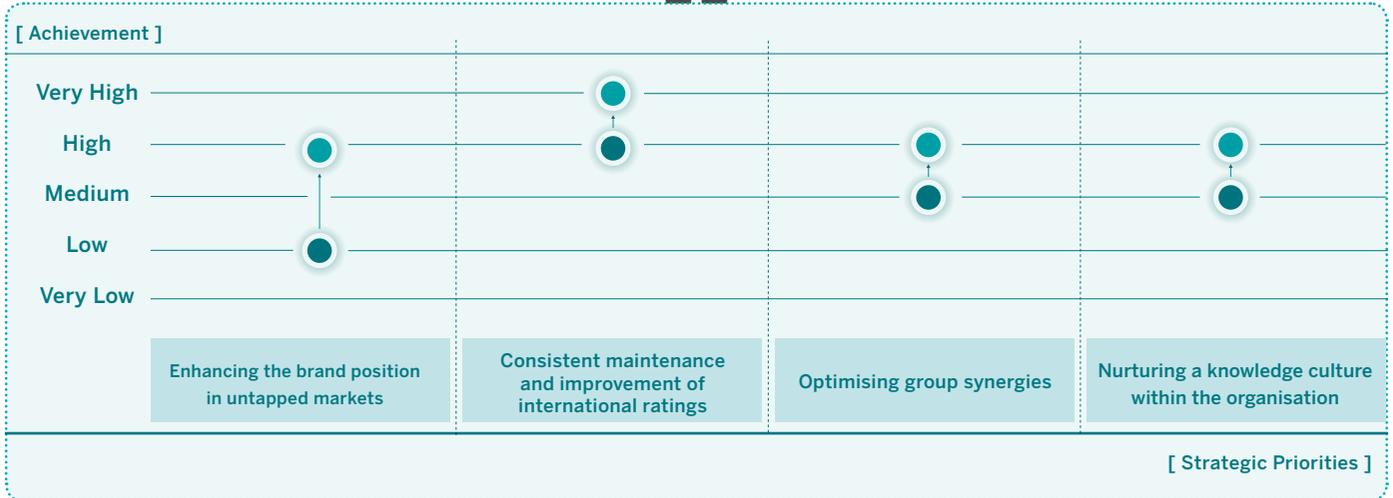
People's Leasing & Finance PLC unveiled a new anniversary logo with a corresponding tag-line as 'The Trusted Leader'.

We launched new products: 'Crest Saver Account', SelfeCash and Clean Loans.

PLC was ranked at 14th place in the Business Today Top 30 list of corporates in Sri Lanka.

Received Best Disclosure on Corporate Governance at the 52nd CA Awards Ceremony

In as much the same way, the Intellectual Capital of PLC comprises those intangible assets that sustain and grow our business. From the value that our IT systems generate in powering our operations, to the local and international awards that bear testimony to our achievements, all these invaluable constituents are instrumental in securing our long-standing success in the industry.



● Where PLC is now ● Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|--|--|
| There is a need to increase awareness among the employees on the importance of maintaining and enhancing intellectual capitals to ensure constant improvement. | With the rapid changes in the external environment, be it technological, demographical or increased competition there is a need to always be on par with emerging trends and not rest on your laurels. |

| Strategic Priorities | Strategies |
|---|---|
| Enhancing the brand position in untapped markets | Extending the Brand reputation by enhancing our reach and segmentation towards capturing: <ul style="list-style-type: none"> ● — The overseas markets ● — Emerging segments (Youth markets and SMEs) |
| Consistent maintenance and improvement of international ratings | Cultivating innovation and improved risk management in keeping on par with emerging trends. Strengthening governance practices, sustainable reporting, and compliance. |
| Optimising group synergies | Expanding the capacity of our subsidiaries thus exploring opportunities for collaboration. Island-wide presence through parent network. Enhance cross selling and product bundling among subsidiaries to improve the Group perception as a 'One stop solution' for customers. |
| Nurturing a knowledge culture within the organisation | Creating means for greater employee participation in decision-making. Cultivating unorthodox thinking, innovations and encouraging knowledge sharing. |

OUR
INTELLECTUAL
CAPITAL



Brand reputation

The trust our customers place in us



Brand value

What makes us stand out from the rest



IT system and processes

Innovation drives us forward



Knowledge and expertise

Learning and growing, for the benefit of all



Group synergies

We are stronger together



Working culture

Teamwork brings it all together



Innovation

The future in your hands



Ethics

Fairness and transparency in all our actions



Compliance

Playing by the rules, to win for all



Awards and accolades

Felicitations for our efforts

AWARDS AND RECOGNITION

A Gold Award in the Finance Companies and Leasing Companies Sector. This was our 9th consecutive award in this category hosted by CA Sri Lanka.

Second Runner-Up Award of the Best Corporate Citizen Sustainability Awards 2016. Hosted by the Ceylon Chamber of Commerce.

People's Leasing & Finance PLC has been recognised as one of Sri Lanka's Best Employer Brands at the Sri Lanka Best Employer Brand Awards 2016.

People's Leasing & Finance PLC secured a Silver Award at the National Human Resource Management Awards 2015/16.

Award for the Best Sustainable Performance in the Finance Sector at Ceylon Chamber of Commerce Awards 2016.



The PLC ICT Department secured a Bronze Award at the National Best Quality ICT Awards (NBQSA) 2016.

The Annual Report 2015/16 of the Company was adjudged as being one of the top ten integrated reports in Sri Lanka at the CMA Excellence in Integrated Reporting Awards.

PLC won a Silver Award at the JASTECA/CSR Sustainability Awards 2016.

A Bronze Award for Best Disclosure on Capital Management in Integrated Reporting at the 52nd CA Sri Lanka Annual Report Awards.

Intellectual Capital

In light of the industry megatrends that will shape the corporate business models in the near future, PLC is cognisant of the fact that intellectual capital is likely to become an even more relevant asset and driver in the value creation process.

Under such circumstances, we aspire to implement relationship-building and capital-enhancing activities in the year ahead continuing on from the celebration of our 20th anniversary.

We will make all required efforts to maintain our corporate rating in line with the sovereign rating under the challenging market environment we are operating in.



BRAND REPUTATION

For the last 20 years of our corporate journey, we have built strong relationships with our stakeholders and our ranking as the highest rated non-bank financial institution in the country, supplements our stakeholders' confidence in us.

Our brand image was initially conceived from our parent company of People's Bank. Today, this brand has evolved to demonstrate our three key brand values – stability, customer-friendliness and reliability. We continually ensure that we portray ourselves as the leading and number one non-bank financial institution in the industry.

PLC was recognised as being one of Asia's Best Employer Brands at the Asia Best Employer Brand Awards 2016.

Top Ten Corporate Citizens Award selected from all applicants under categories A and B conducted by the Ceylon Chamber of Commerce.



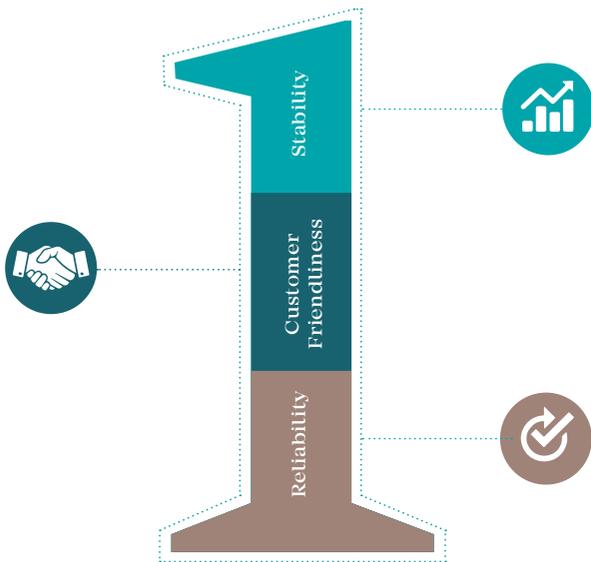
PLC was ranked at 14th place in the Business Today Top 30 Corporates of Sri Lanka.

A Gold Award for the Best Disclosure in Corporate Governance at the 52nd CA Sri Lanka Annual Report Awards.

PLC is also included in the revised list of Companies under the Standard & Poor's Sri Lanka 20 Index.

PLC was adjudged Second Runner-Up – Financial Sector at the SAFA Best Presented Annual Report Awards 2015.

Intellectual Capital



As People's Leasing & Finance PLC is renowned for its market leadership, our customers are assured of the stability of our operations and are guaranteed a stable, secure place for their deposits.

Customer-friendliness has been a core trait of ours since our inception; a feature that has been exemplified through our tag-line "People's Friendly Leasing". Connectivity with customers is a feature that we always encourage in our operations. Our corporate social responsibility (CSR) events and one-to-one customer service have been instrumental in driving this feature home.

Interaction is a key point in establishing customer-friendliness.

We believe in conducting our business on an interactive basis rather than on a mechanistic, transactional basis. We want to assure the personal development and progress of our customers.

True to our image, we have been successful in retaining a significant portion of our clients.

—○—

**For the period under review,
over 47% of our clients were
repetitive customers.**

—○—

Finally, in terms of reliability, we guarantee the execution of a service within a certain period of time. We assure reliability through the continual updating of our IT platforms as well as the training and education of our staff ensuring a speedy service.

We possess a 24-hour call centre for our customers' card-related inquiries.

All our future activities will continue to encapsulate these three values we have established.

BRAND VALUE RATINGS

PLC is the highest rated non-bank financial institution in the country with two international ratings: a 'B' rating from Fitch Ratings International, a rating one notch below Sovereign and 'B+/B' from Standard & Poor's, a rating equal to the Sovereign.

The Company also possesses a local rating of 'AA-(lka)' from Fitch Ratings Lanka Limited.

AA-(lka)

Fitch Ratings
Lanka Limited

B

Fitch Rating
Inc.

B+/B

Standard &
Poor's

RANKING

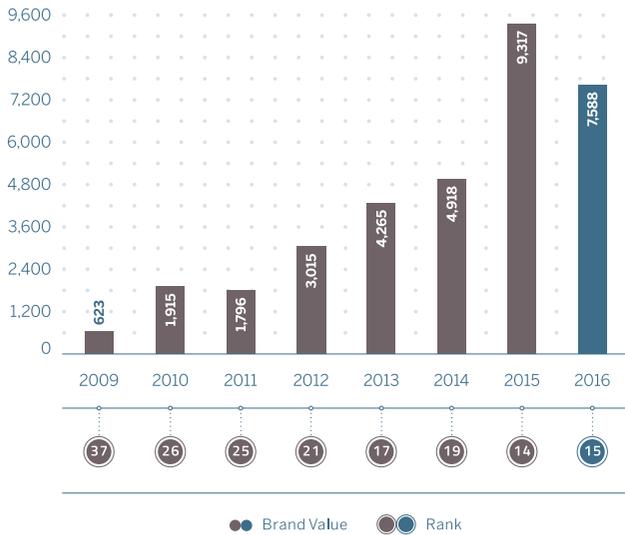
As demonstrated below, People's Leasing & Finance PLC has consistently ranked amongst the top corporates of Sri Lanka:

| Financial Year | Business Today | | LMD 100 | Brands Annual Ranking |
|----------------|----------------|--------|---------|-----------------------|
| | Rank | Remark | Rank | Rank |
| 2012/13 | – | – | 36 | 21 |
| 2013/14 | 18 | Top 25 | 35 | 17 |
| 2014/15 | 14 | Top 25 | 29 | 19 |
| 2015/16 | 17 | Top 25 | 32 | 14 |
| 2016/17 | 14 | Top 30 | 37 | 15 |

Intellectual Capital

BRAND VALUE & RANKING

[Rs. million]



MARKET SHARE

PLC accounts for 12.42% of the total asset base of non-bank financial institutions (NBFIs) in the country, thus securing it the leading market position.

We have been the market leader in the leasing sector for fifteen consecutive years.

In terms of profitability, the Company has equally been featured at the topmost echelons in the industry for the past years.

IT SYSTEMS AND PROCESSES

People's Leasing & Finance PLC makes best use of all available technology to deliver exceptional value-added services to customers. We continually monitor the security of our systems and services, and for the period under review we renewed the latest ISO 27001:Information Security Management System Certification. More information on IT systems, infrastructure and processes can be found under the Manufactured Capital section of this Report.

KNOWLEDGE AND EXPERTISE

A qualified and well-trained workforce forms the backbone of our operations and presents a unique competitive advantage for us in the industry. Our long-standing performance on the arena ensures that we possess an extensive knowledge of the leasing sector of the country. This expertise has enabled us to effectively cope with the many challenges imposed on us by shifting regulatory and economic conditions.

Our staff retention ratio, as exemplified in the Human Capital section of this Report, demonstrates our capability in retaining experienced and knowledgeable employees who can deliver outstanding service to customers. Our staff retention ratio stood at 92.09% in 2016/17 from 91.43% in 2015/16.

In testimony to this, as at 31 March 2017, 278 employees completed ten years of service with us. Amongst them, 102 employees have 15 years' of experience within the Company

GROUP SYNERGIES

Our parent company, People's Bank, has fortified our brand strength and reinforced our reputation. Their expertise has been equally instrumental in building up our own unique brand strength.

We maintain an island-wide presence; and have benefited from using innovative approaches to reach vast customer bases such as by the opening of service centres.

Intellectual Capital

Our five established subsidiaries, operating under shared business processes and ethics enable us to offer a diversified and holistic product portfolio to our customers. The streamlining of administrative and IT functions within these entities has further contributed to bolstering our levels of service.

We possess a shared distribution network that contributes to better outreach as well as allowing us to reduce our overhead expenses.

WORKING CULTURE

People's Leasing & Finance PLC possesses a working culture that is open, supportive and collaborative. We encourage our employees to voice opinions and take proactive actions to drive innovation and suggest change. For example, the virtual strategic forum that was established this year generated a record of 1,479 ideas in the form of employee input during the year.

Further information on the many initiatives that are in place to ensure that our staff can perform to the highest levels, is to be found in the Human Capital section of this Report.

INNOVATION

Suggesting new solutions to address the trends of today is a cornerstone of our operations. We design and implement new products and features for our customers on a continual basis. We are equally conscious about the ways in which we work, and are always ready to adapt new technologies to streamline and enhance our operations. More information on new products can be accessed from the Customer Capital section of this Report. Examples on how we utilise ICT to bolster our performance is available in the Manufactured Capital section of this Report.

ETHICS

It is in our best interests, as well as of all our stakeholders, that we conduct our operations in a fair, transparent and just manner. PLC is committed to upholding the highest levels of ethics in all its operations. Further information can be accessed from each of the relevant Capital sections of this Report.

COMPLIANCE

We ensure that our activities comply with relevant rules and stipulations laid down by regulatory bodies. In recognition of our efforts, we further secured a Corporate Governance Award for the year. Further information can be accessed from Compliance Management section of this Report on pages 239 to 240.

FUTURE OUTLOOK

In the coming year we will be deploying a more comprehensive island-wide advertising campaign on digital and print media that will reiterate our position as being number one in the finance and leasing industry.

We will also continue to continually update our IT systems and processes.

Our employees' knowledge and expertise will be enhanced through training-led initiatives and we will continue to innovate, by introducing new products into the market.

Continuing on from our virtual strategic forum, we will continue to foster an open and collaborative working culture at PLC.

Human Capital



Boundless Joy

Feeling the touch of another, as you dance, run, laugh and play. Friends and family, colleagues and strangers. Our world is alive with the gestures of people coming together. Every interaction is precious, a joy in itself, as we experience the collective breath of humanity.

At PLC, we understand that our life is a series of moments where we interact with others. We do not exist alone, as our existence depends on these interactions that stretch across the fabric of space and time.

MOMENTS

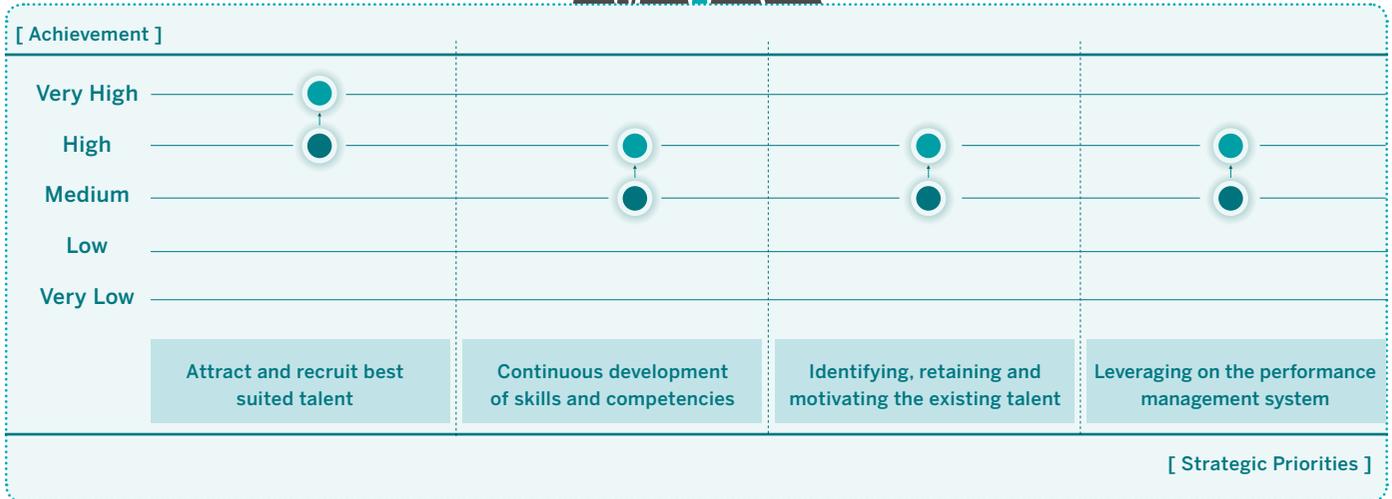
With 410 new recruits, our team strength surpassed the 2,000 mark this year.

Employment benefits increased by 41.46% during the year.

Our employee turnover rate reduced to 7.91%.

PLC's HR practices were honoured with diverse local and international accolades.

In as much the same way, the Human Capital of People's Leasing & Finance PLC consists of the individuals who engage with us, within diverse roles, and the skills, competencies and aptitudes they bring to their individual roles, as well as the ability they possess in adding to and enhancing their existing capabilities.



- Where PLC is now
- Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|---|---|
| Advanced methods to be used for attracting best suitable talents and the Island wide spread of the intranet can be better utilised in staff training. Decentralised decision-making, training, leave policy and rotational and cross functional training can be used to enhance staff productivity. | A more technologically-advanced training method can be used when training staff. Experienced employees available in the market could be recruited to serve the proposed products. |

| Strategic Priorities | Strategies |
|---|---|
| Attract and recruit best suited talent | Use extensive available options to strategically promote job openings. Identify required talent based on the proposed operational changes such as new product launches, network expansion giving priority to expertise. |
| Continuous development of skills and competencies | Introduce a job rotation policy and cross-functional training functions to develop a multi-skilled work force for the Company. Identify future Leaders within the organisation and groom them for the future expansions and business needs through comprehensive training. |
| Identifying, retaining and motivating the existing talent | Offer potential for advancement and competitive benefits for improving working environment. Promoting work life balance while achieving the Company objectives through training programmes, territorial recruitments and welfare measures. |
| Leveraging on the performance management system | A systematic review of the performance of employees and reward accordingly while introducing new mechanisms to develop the under performers of the Company. Conduct a salary survey to identify any anomalies in the present rewarding system and introduce a succession plan. |

OUR HUMAN
CAPITAL



Addressing demographic changes

Securing the talent of tomorrow



Building our talent pool

How we strengthen our team efforts



Rewarding efforts

The fruits of our labour



Performance management

How we strive for the very best



Well-being

Building a great place to work!



Retaining talent

Ensuring the retention

Human Capital

PLC'S POSITION

At People's Leasing & Finance PLC, we strive to ensure that our employees are motivated, respected and empowered.

We want to cultivate leaders who exceed as both individuals and teams. We aspire to possess the richest human talent within the industry and as such to be fully prepared to forge forward in the spirit of our endeavours.

The Human Resources (HR) strategy of PLC is always aligned with the corporate strategy. Any change in the corporate strategy is matched with a corresponding change in the HR strategy.

Our Human Resource operations are centralised at the Head Office.

We ensure that we maintain cohesive, fundamental HR principles across all our subsidiaries. A comprehensive detailing of our HR policies can be accessed online from our Intranet portal. These policies cover all Human Resources-related matters from recruitment to retirement.

PLC maintains an open and supportive working culture that encourages teamwork. Our performance based culture is the foundation on which employee rewards are assigned.

We understand that IT can play a key role in HR; and as such integrate IT systems into all relevant processes as appropriate.

We are continually improving our internal processes and evaluating our practices.

We are pleased to report that we have continuously adhered to levels of best practice as established in the industry we operate in. Our HR department undergoes continual audits every year.

Our efforts have been recognised by numerous local and international awarding bodies. Last year we were the recipient of a Sri Lanka Best Employer Brand Award as recognised by the World HRD Conference and Employer Branding Institute. We were equally recognised as one of Asia's Best Employer Brands by the afore-mentioned entity at an awards ceremony held in Singapore. We were also awarded the National HR Excellence Award by the IPM.



ADDRESSING DEMOGRAPHIC CHANGES

The generations that are coming of age in the times of the present have vastly different attitudes and approaches to work from the peers that preceded them.

The millennial generation is technologically adept, highly educated (with a greater proportion of their cohort possessing tertiary education qualifications) and well versed in utilising the Internet and social media.

As such, they pose distinct challenges to their employers. They are cognisant of issues that affect wider geopolitical and sociopolitical strata and as such want to work for employers who are concerned about ecological and ethical well-being. They are also highly independent individuals who value personalisation. Their job roles are to be crafted around them as a person, rather than they crafting themselves around a particular position. Finally, bolstered by their unique relationship to social media, they place greater emphasis on experiences and novelty as rewards, as opposed to material items.

To address such requirements and to be a key player in developing the talent of tomorrow, PLC has undertaken numerous initiatives such as encouraging the professional development of our Staff, the promotion of activities such as toastmasters and initiating training tie-ups with professional institutions.

Human Capital

OUR TEAM

The Company is committed to enhancing diversity amongst its workforce. It does not discriminate on the grounds of race, gender, age and any other socioeconomic factor in the recruitment, training and promotion of its employees.

In line with our increasing branch expansion, we duly recruited new staff to fit the new roles that were being created within our operations.

With new recruits, our cadre strength stood at 2,085 employees as at 31 March 2017. This represented an increase of 13.69% from the preceding year.

85.08% of our workforce are on permanent basis.

Due to the nature of PLC's operations, i.e. engaging in fieldwork and associated activities, the composition of the Company's workforce is skewed towards males in terms of gender.

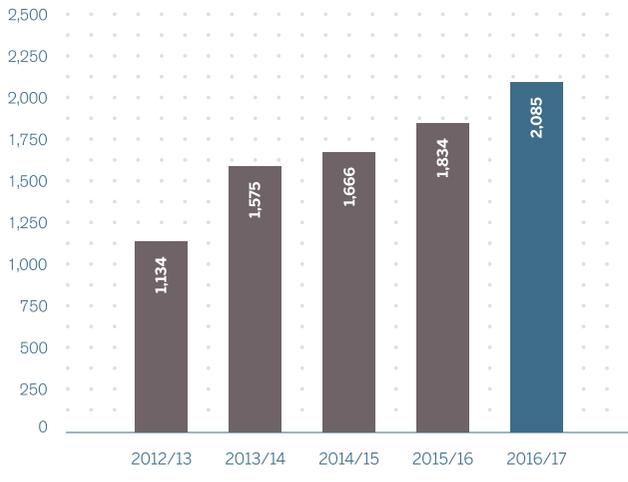
Men represent 77.22% of our pool of employees.

Our employees are primarily based in the Western Province, followed by the Southern and Central Provinces respectively.

We have made significant progress in attracting young talent to our operations. For the year under review, over 55% of our employees were below 30 years of age.

STAFF STRENGTH

[Nos.]



GRI 405-1

PLC TEAM BREAKDOWN BY GENDER

| | Gender | No. of Employees | | |
|--------------|---------------|------------------|--------------|---------|
| | | 2016/17 | % | 2015/16 |
| Permanent | Male | 1,351 | 64.80 | 1,223 |
| | Female | 423 | 20.29 | 352 |
| Probation | Male | 259 | 12.42 | 189 |
| | Female | 52 | 2.49 | 70 |
| Total | Male | 1,610 | 77.22 | 1,412 |
| | Female | 475 | 22.78 | 422 |

EMPLOYEES BREAKDOWN BY POSITION

| | No. of Employees | | | | |
|--------------------|------------------|---------|---------|---------|---------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
| Senior Management* | 36 | 30 | 28 | 24 | 27 |
| Line Managers | 124 | 112 | 84 | 78 | 59 |
| Executives | 377 | 320 | 282 | 271 | 225 |
| Non-Executives | 1,548 | 1,372 | 1,272 | 1,202 | 823 |
| Total | 2,085 | 1,834 | 1,666 | 1,575 | 1,134 |

*Senior management includes all senior management plus the members of corporate management.

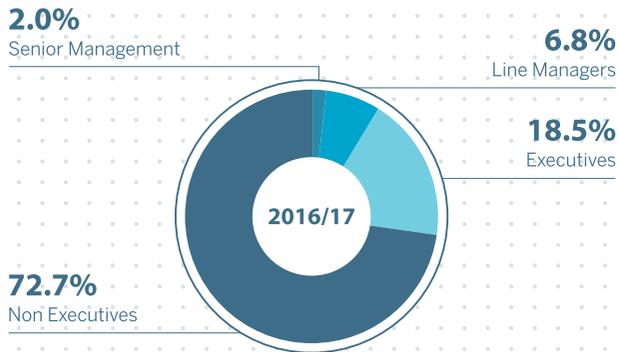
GRI 405-1

Percentage of Senior Management hired from the local community is reported 19.44% in 2016/17. Geographical definition of 'local' denotes the senior management surrounding duty station and the Senior Management includes all senior management plus the members of Corporate Management of PLC.

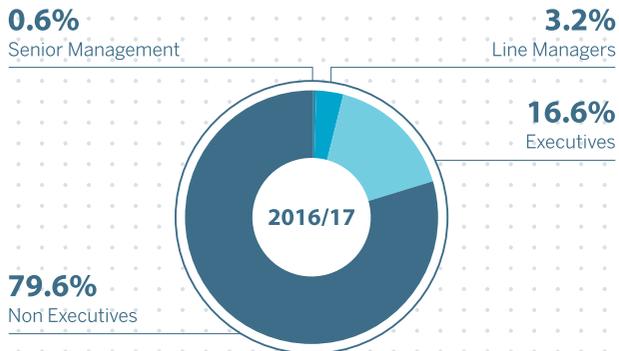
Human Capital

EMPLOYEE BREAKDOWN BY POSITION

MALE



FEMALE



PLC TEAM BREAKDOWN BY POSITION BY AGE

| | No. of Employees | | | | |
|--------------------|------------------|------------|------------|-----------|----------|
| | <= 29 | 30 - 39 | 40 - 49 | 50 - 59 | > 60 |
| Senior Management* | 0 | 1 | 23 | 9 | 3 |
| Line Managers | 0 | 59 | 59 | 6 | 0 |
| Executives | 39 | 247 | 88 | 3 | 0 |
| Non-Executives | 1,110 | 397 | 36 | 5 | 0 |
| Total | 1,149 | 704 | 206 | 23 | 3 |

PLC TEAM BREAKDOWN BY AGE

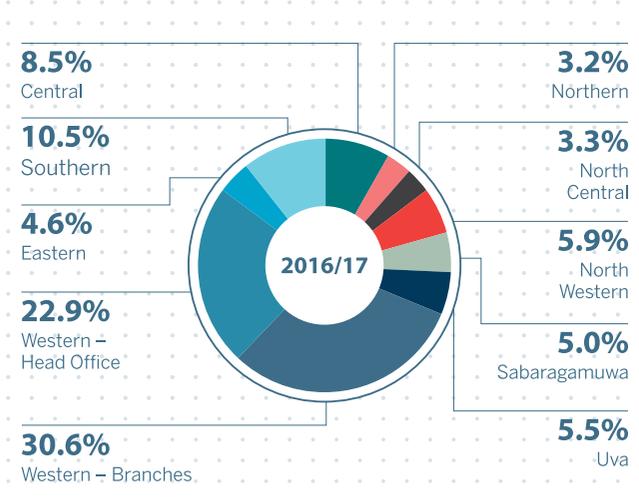
| Age | No. of Employees | | | | |
|--------------|------------------|--------------|--------------|--------------|--------------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
| <= 29 | 1,149 | 1,014 | 913 | 881 | 692 |
| 30-39 | 704 | 612 | 572 | 536 | 353 |
| 40-49 | 206 | 182 | 157 | 139 | 79 |
| 50-59 | 23 | 21 | 17 | 13 | 4 |
| >60 | 3 | 5 | 7 | 6 | 6 |
| Total | 2,085 | 1,834 | 1,666 | 1,575 | 1,134 |

PLC TEAM BREAKDOWN BY REGIONAL DISTRIBUTION

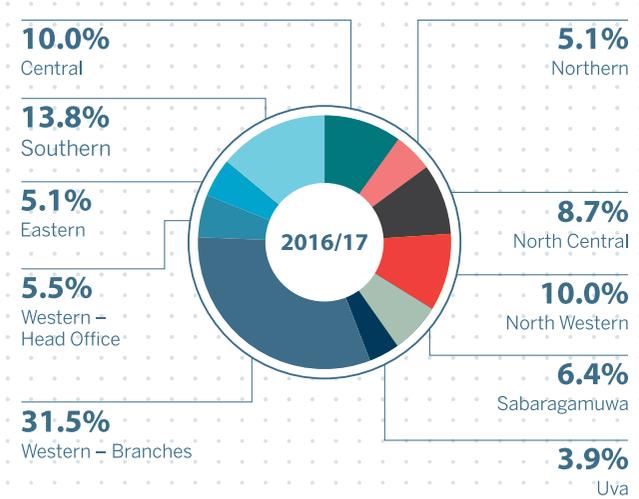
| | No. of Employees | | | | |
|-----------------------|------------------|--------------|--------------|--------------|--------------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
| Central | 181 | 158 | 148 | 134 | 90 |
| Northern | 73 | 62 | 57 | 52 | 44 |
| North Central | 84 | 65 | 60 | 63 | 55 |
| North Western | 137 | 110 | 103 | 88 | 83 |
| Sabaragamuwa | 109 | 90 | 76 | 69 | 74 |
| Uva | 110 | 104 | 91 | 91 | 83 |
| Western (Branches) | 641 | 557 | 527 | 517 | 206 |
| Western (Head Office) | 424 | 416 | 356 | 331 | 310 |
| Eastern | 97 | 91 | 87 | 87 | 62 |
| Southern | 229 | 181 | 161 | 143 | 127 |
| Total | 2,085 | 1,834 | 1,666 | 1,575 | 1,134 |

Human Capital

EMPLOYEE BREAKDOWN BY REGION PERMANENT



PROBATION



BUILDING OUR TALENT POOL

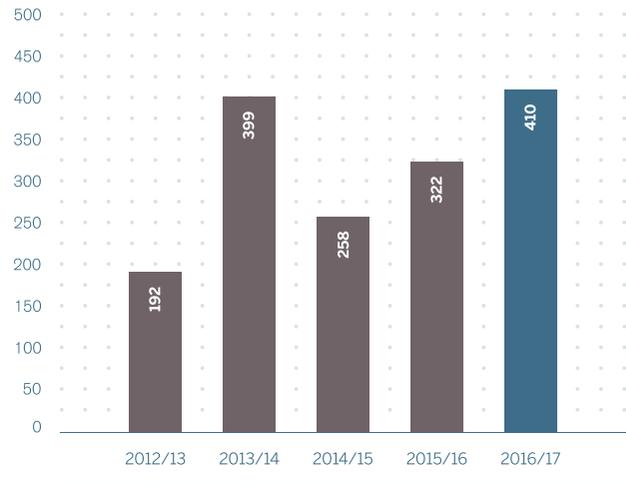
The Company possesses a comprehensive recruitment policy to guarantee that the right candidate is appointed to the position in question.

The Recruitment Policy at People’s Leasing & Finance PLC and its subsidiaries aims to enrich the Company’s talent pool by combining internal and external resources that strengthen its medium and long-term goals. This will enable it to sustain its position of leadership in the market and maintain a committed, motivated and empowered workforce. For the period under review, we witnessed a 27.33% increase in new recruitments of which 93.41% of our workforce are below 30 years of age.

GRI 401-1

RECRUITMENT

[Nos.]



NEW RECRUITS BREAKDOWN BY GENDER

| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
|--------------|------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | Nos. | % | | | | |
| Male | 329 | 80.24 | 233 | 214 | 325 | 148 |
| Female | 81 | 19.76 | 89 | 44 | 74 | 44 |
| Total | 410 | 100.00 | 322 | 258 | 399 | 192 |

Human Capital

GRI 401-1

NEW RECRUITS BREAKDOWN BY AGE

| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
|--------------|------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | Nos. | % | | | | |
| <= 29 | 383 | 93.41 | 302 | 245 | 344 | 177 |
| 30-39 | 24 | 5.85 | 19 | 10 | 52 | 14 |
| 40-49 | 2 | 0.49 | - | 1 | 3 | 1 |
| 50-59 | - | - | 1 | 2 | - | - |
| >60 | 1 | 0.25 | - | - | - | - |
| Total | 410 | 100.00 | 322 | 258 | 399 | 192 |

NEW RECRUITS BREAKDOWN BY REGIONAL DISTRIBUTION

| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
|--------------------------|------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | Nos. | % | | | | |
| Central | 35 | 8.54 | 24 | 25 | 35 | 10 |
| Northern | 19 | 4.63 | 10 | 15 | 13 | 8 |
| North Central | 27 | 6.59 | 11 | 7 | 16 | 10 |
| North Western | 35 | 8.54 | 22 | 16 | 22 | 14 |
| Sabaragamuwa | 29 | 7.07 | 21 | 9 | 16 | 8 |
| Uva | 20 | 4.88 | 24 | 11 | 18 | 19 |
| Western (Branches) | 124 | 30.24 | 84 | 82 | 130 | 38 |
| Western (Head Office) | 34 | 8.29 | 77 | 45 | 84 | 50 |
| Eastern | 25 | 6.10 | 18 | 13 | 28 | 14 |
| Southern | 62 | 15.12 | 31 | 35 | 37 | 21 |
| Total | 410 | 100.00 | 322 | 258 | 399 | 192 |

EMPOWERING TALENT

For the year under review, People's Leasing & Finance PLC spent Rs. 28.33 million on training and development needs of its staff. This training comprised both role-related and off role-related aspects.

Training needs are to be identified on an annual basis. As a policy, all training needs are to be derived from the performance management system and upon the recommendation of the immediate supervisor of an employee.

The assessment of skills is carried out through the performance management system to identify any gaps.

It is the responsibility of the immediate supervisors, the Heads of Departments and the Branch Managers/Officers in Charge to develop a multiskilled workforce within their respective Departments or Branches, through a combination of job rotation, on-the-job and off-the-job training.

We expect our staff to possess a detailed and varied understanding of our products, line and function relationships, processes, operations and the finance industry in general. In addition, they are to possess sound ICT and documentation skills, as well as all habitual corporate competencies such as:

- — Marketing investigation and analysis
- — Problem solving and decision-making
- — Credit and customer evaluation
- — Proposal preparation
- — Office management and staff-handling
- — Leadership skills and decision-making
- — Presentation and communication skills
- — Customer service

Internal and external training programmes are carried out in accordance with the training needs of the employees.

We equally reimburse employees who obtained professional accreditation and certification from recognised institutes. We continually encourage further education and training amongst our workforce.

INDUCTION

All new recruits will follow a detailed induction programme.

The objective of the programme is to familiarise new entrants with the Company's operational processes, systems, practices, culture and values.

Upon completion, employees will be expected to have a good grasp of the Company profile, organisational structure, HR policies, their individual roles and responsibilities, IT systems, the practices & policies and a brief understanding on subsidiary operations.

Human Capital

GRI 404-3

COMPETENCY AND SKILL DEVELOPMENT

The objective of competency and skill development is to ensure the continuous development of skills and competencies of all employees. This will be to improve their present and future standards of performance.

GRI 404-2

CONDUCTING TRAINING PROGRAMMES

The HR Department identifies programmes from internal sources, external sources and resource personnel in accordance with existing requirements.

Employees are nominated for programmes conducted by the HR Department or professional institutions based on the individual or departmental requirement.

A post training evaluation is conducted after the implementation of the training programme. This is to evaluate the outcomes with regards to improvements in skills and competencies as well as to gauge the return on investment.

Nominated participants must note that scheduled training programmes require mandatory attendance and that punctuality, dress code and active participation is to be maintained throughout the training sessions.

The Management will additionally nominate employees to attend select professional institutions to acquire the necessary knowledge and collateral in order to address gaps in performance and meet future challenges that may arise, given the Company's growth and expansions.

ADDITIONAL TRAINING OPPORTUNITIES

PLC conducts supplementary training programmes to equip its employees to actively participate in corporate social responsibility (CSR) activities. As of 2017, over 1,290 staff members have been trained under this initiative, with over 13 programmes being conducted during the period under review.

This training is handled by a separate team. CSR activities are developed at Branch level. The CSR programme is equally developed as such, with employees given opportunities to experience both individual and leadership training.

We also run a Toastmaster's Club, which aims to help individuals perfect their public speaking, communications and leadership skills. This is part of the international organisation of Toastmasters International.

GRI 404-1

TRAINING HOURS AND INVESTMENT

| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
|--|---------------|---------|---------|---------|---------|
| Training (Hours) | 55,108 | 39,802 | 37,085 | 34,075 | 33,608 |
| Training investment (Rs. million) | 28.33 | 22.80 | 26.76 | 20.33 | 14.37 |
| Average hours of training per employee | 26.43 | 21.70 | 22.26 | 21.63 | 25.50 |

AVERAGE TRAINING HOURS PER EMPLOYEE – BY GENDER

| | 2016/17 | 2015/16 |
|--------|--------------|---------|
| Male | 27.88 | 20.75 |
| Female | 21.52 | 24.90 |

AVERAGE TRAINING HOURS PER EMPLOYEE – BY POSITION

| | 2016/17 | 2015/16 |
|-------------------|--------------|---------|
| Senior Management | 11.90 | 27.77 |
| Line Managers | 18.14 | 17.43 |
| Executives | 23.70 | 24.18 |
| Non-Executives | 28.93 | 22.19 |
| Minor Staff | 13.57 | 6.60 |

Human Capital

RETAINING TALENT

Our employee retention policy is underpinned by a range of factors to include a performance-based recognition and reward system, strategic training opportunities, health and safety measures and Company guaranteed employee well-being policies.

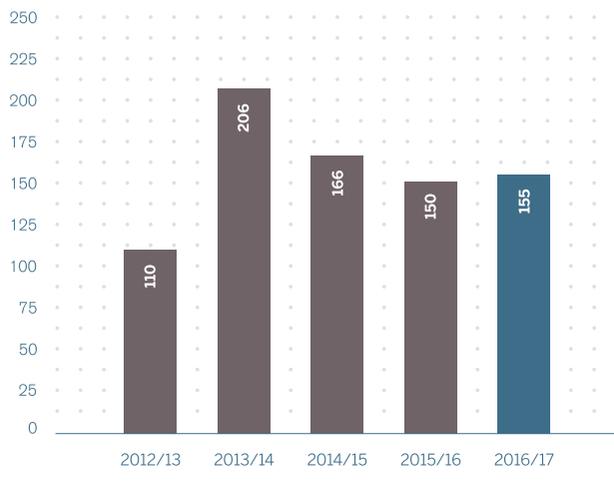
For the year under review, our employee turnover rate was at 7.91%; a further decrease from 8.57% reported in 2015/16.

Our employee retention rate for female employees following maternity leave stood at 100%.

GRI 401-1

EMPLOYEE TURNOVER

[Nos.]



EMPLOYEE TURNOVER BREAKDOWN BY GENDER

| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
|--------------|------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | Nos. | % | | | | |
| Male | 128 | 82.58 | 125 | 136 | 174 | 95 |
| Female | 27 | 17.42 | 25 | 30 | 32 | 15 |
| Total | 155 | 100.00 | 150 | 166 | 206 | 110 |

EMPLOYEE TURNOVER BREAKDOWN BY AGE

| | No. of Employees | | | | | |
|--------------|------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
| | Nos. | % | | | | |
| <= 29 | 118 | 76.13 | 129 | 118 | 145 | 77 |
| 30-39 | 32 | 20.65 | 18 | 44 | 53 | 27 |
| 40-49 | 1 | 0.64 | 1 | 3 | 6 | 3 |
| 50-59 | 1 | 0.64 | 2 | 1 | 2 | 2 |
| >60 | 3 | 1.94 | - | - | - | 1 |
| Total | 155 | 100.00 | 150 | 166 | 206 | 110 |

EMPLOYEE TURNOVER BREAKDOWN BY REGIONAL DISTRIBUTION

| | 2016/17 | | 2015/16 Nos. | 2014/15 Nos. | 2013/14 Nos. | 2012/13 Nos. |
|-----------------------|------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | Nos. | % | | | | |
| Central | 12 | 7.74 | 11 | 9 | 4 | 5 |
| Northern | 7 | 4.52 | 4 | 7 | 8 | 3 |
| North Central | 7 | 4.52 | 7 | 9 | 7 | 6 |
| North Western | 14 | 9.03 | 13 | 8 | 17 | 5 |
| Sabaragamuwa | 11 | 7.10 | 9 | 4 | 10 | 8 |
| Uva | 11 | 7.10 | 10 | 10 | 14 | 7 |
| Western (Branches) | 37 | 23.87 | 43 | 60 | 65 | 31 |
| Western (Head Office) | 24 | 15.48 | 33 | 33 | 48 | 21 |
| Eastern | 17 | 10.98 | 11 | 12 | 21 | 12 |
| Southern | 15 | 9.68 | 9 | 14 | 12 | 12 |
| Total | 155 | 100.00 | 150 | 166 | 206 | 110 |

EMPLOYEE TURNOVER BREAKDOWN BY POSITION

| | No. of Employees | | | |
|-------------------|------------------|---------|---------|---------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 |
| Senior Management | 2 | 1 | 1 | 4 |
| Line Managers | 2 | 0 | 4 | 3 |
| Executives | 9 | 15 | 23 | 22 |
| Non-Executives | 142 | 134 | 138 | 177 |
| Total | 155 | 150 | 166 | 206 |

Human Capital

GRI 401-3

EMPLOYEE RETENTION FOLLOWING MATERNITY LEAVE

As shown below, PLC enjoys a very high retention rate amongst its employees who have taken maternity leave. For the year under review, return to work rate and retention rate was at an impressive 100%.

| | No. of Employees | | |
|--|------------------|---------|---------|
| | 2016/17 | 2015/16 | 2014/15 |
| Entitled for maternity leave | 475 | 422 | 354 |
| Took maternity leave | 28 | 24 | 33 |
| Returned to work after maternity | 18 | 18 | 26 |
| Employed for the last 12 months after returning from maternity leave | 18 | 24 | 28 |

REWARDING EFFORTS

GRI 201-3

The Company acknowledges the efforts of its talent pool by maintaining a performance-based rewarding system while resting on par with market benefits. For the year under review, we effectuated a performance based salary revision of our employees, in order to be a competitive employer in the market.

We ensure that all employee EPF, ETF and gratuity payments are executed on time and as appropriate, in respect to all relevant guidelines and regulations. PLC contributes 12% to EPF and 3% to ETF. Employees contribution to EPF is 8%. As gratuity, PLC pays half a month's salary for each completed year of service for those employees who have completed five years or more in service, on their resignation/retirement.

We offer maternity leave to our female employees in line with the Shop and Office Employees Act. PLC equally provides a range of insurance benefits to its employees, which again sets it apart from similar organisations in the industry.

Our welfare measures include:

- A concessionary loan scheme for the purchase of vehicles for approved members of staff
- A concessionary housing loan scheme
- Reimbursements on the cost of mobile phones

- Death donations to employees and immediate family including spouse's family
- Concessionary rates for a holiday bungalow in Maradana and Bandarawela

We advocate healthy lifestyles through the following measures:

- Medical, accident and life insurance
- Critical illness fund for illnesses not covered by medical insurance
- A fully-equipped gymnasium at the Head Office
- Awareness programmes and training on health, nutrition and preventive care of serious diseases

GRI 401-2

GRI 201-3

EMPLOYEE BENEFITS

| | Rs. million | | | | |
|-------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
| Salaries & Bonus | 1,657.62 | 1,118.99 | 1,027.38 | 878.16 | 593.52 |
| E.P.F. | 141.06 | 94.82 | 85.85 | 75.84 | 51.10 |
| E.T.F. | 35.27 | 23.70 | 21.46 | 18.89 | 12.70 |
| Over Time | 40.75 | 32.93 | 30.69 | 18.18 | 8.30 |
| Leave Encashment | 42.31 | 27.96 | 24.15 | 20.75 | 15.10 |
| Allowances & Incentives | 441.56 | 346.07 | 257.76 | 248.55 | 157.65 |
| Casual Wages | 8.74 | 5.54 | 6.67 | 5.16 | 1.30 |
| Medical Insurance | 124.21 | 105.82 | 79.34 | 48.43 | 41.46 |
| Gratuity | 64.73 | 51.18 | 31.92 | 24.08 | 17.45 |
| Total | 2,556.24 | 1,807.02 | 1,565.23 | 1,338.05 | 898.58 |

The above benefits are offered to the permanent employees of the PLC staff. PLC does not recruit staff on a temporary basis. Subjected to a satisfactory probation period, staff on probation is absorbed to the permanent cadre of PLC.

GRI 202-1

Minimum wage for finance sector at entry level is not specified by the Department of Labour. However, PLC extends employees with due compensation on par with industry standards.

Human Capital

GRI 405-2

RATIO OF BASIC SALARY TO GENDER

| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 |
|-----------------------------|---------|---------|---------|---------|---------|
| Senior Management | | | | | |
| Male | 1.48 | 1.63 | 1.11 | 1.86 | 1.94 |
| Female | 1 | 1 | 1 | 1 | 1 |
| Line Managers | | | | | |
| Male | 1.08 | 1.13 | 1.1 | 0.9 | 0.94 |
| Female | 1 | 1 | 1 | 1 | 1 |
| Executives | | | | | |
| Male | 0.88 | 0.89 | 0.91 | 0.95 | 0.94 |
| Female | 1 | 1 | 1 | 1 | 1 |
| Non-Executives | | | | | |
| Male | 0.97 | 1 | 0.91 | 0.92 | 0.85 |
| Female | 1 | 1 | 1 | 1 | 1 |
| Minor Staff | | | | | |
| Male | 0.96 | 1 | 1 | 1.14 | 1 |
| Female | 1 | 1 | 1 | 1 | 1 |
| Average salary ratio | | | | | |
| Male | 1.26 | 1.33 | 1 | 1.35 | 1.34 |
| Female | 1 | 1 | 1 | 1 | 1 |

DIVERSITY AND EQUALITY

GRI 406-1

People's Leasing & Finance PLC is committed to ensuring that the distribution of its employees is representative of society. By engaging with and developing the talents of individuals across geopolitical and socio-economic strata, we can progress forward for the benefit of all. All recruitments, transfers and promotions are based on assessed and individual merit, and as an equal opportunities employer, we do not discriminate on the grounds of gender, age, race, cultural differences or any other applicable indicator. There were no incidents of discrimination reported during the year under review, hence no corrective actions were required.

PERFORMANCE MANAGEMENT

PLC maintains a performance-based working culture, that is based on Key Performance Indicators (KPIs).

We utilise Branch and Departmental KPIs to gauge employee performances. The minimum level of measurement is thus a Departmental KPI. We use a holistic system of assessment that takes into consideration both quantitative and qualitative factors.

PLC continually adapts the systems it utilises in this domain to reflect changing industry practices. We have conducted 180 degree appraisals for our employees.

—○—

We continually evaluate our assessment systems and make necessary improvements and upgrades as required.

—○—

In addition, we possess a rating system, which is utilised in the categorical allocation of increments and bonuses to employees (which are dependent on performance evaluations).

The Performance Management System is primarily meant to achieve the following:

To maintain a performance-based culture within the Company.

To provide a systematic review of the performance of an employee.

To assess the training and development needs of the employee, whilst assuring organisational development and satisfying the needs imposed by the expansion of our operations.

The Performance Management System consists of an annual performance planning, targeted quantitative evaluation against the KPIs, qualitative evaluation against the KPIs and the skills, competencies and assorted capabilities of our employees. The evaluation process is conducted twice every year.

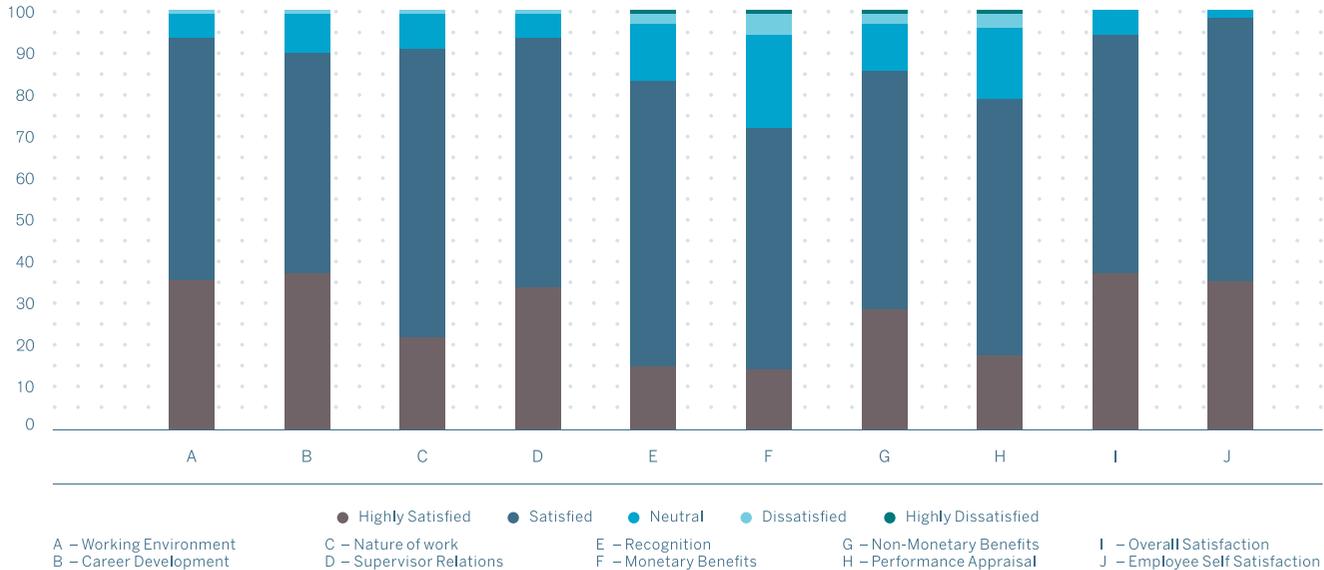
Human Capital

GRI 404-2

We also conduct an annual employee satisfaction survey. Employees can identify any issue they wish to highlight on the survey. We communicate results with relevant Departments and Branch Managers.

STAFF SATISFACTION SURVEY RESULTS

[%]



WELL-BEING

We strive to create a positive, healthy and safe workplace environment, which we understand as being key to securing the well-being of our employees. This helps reduce absenteeism, staff turnover and increases productivity in all levels of our operations.

We take a proactive approach to enable our employees to execute a balance between work and life. We offer comprehensive welfare benefits, advocate healthy lifestyles and adopt safety and preventive measures to reduce occupational injuries and illnesses.

We routinely conduct sporting events for the benefit of our employees and participate in events such as the Mercantile Tournaments and the Chartered Accountants Students' Sports Events.

Some other activities we conducted in the past year include interfaith sermons, a musical event titled 'Youth Forever' featuring renowned artists, a get-together themed 'Aloha Night' and a Christmas carol sing-along for the festive season.

During 2016/17 PLC Sport & Welfare Society also introduced swimming, yoga, zumba sessions at concessionary rates for employees of PLC Group.

GRI 403-1 GRI 403-2 GRI 403-3

OCCUPATIONAL INJURIES AND HEALTH ISSUES

As our operations are primarily conducted in an office-based environment, occupational injuries and health issues within the workplace are relatively insignificant.

However, our operational level staff, who constitute around 36% of our workforce, engaged in field marketing and recovery visits, are at the risk of road accidents. For the period under review, six of our employees met road accidents during work hours. In accordance with Company protocol, all medical expenses were covered by the Company through our insurance scheme and due leave was granted without any material changes in the employee's remuneration package.

Human Capital

GRI 403-4

Safety measures we undertake include:

- — Building maintenance system with fire safety options
 - — Fire safety equipment
 - — Fire drills
- — Extensive training for designated fire wardens
 - — First aid and training for volunteers
 - — Well maintained fleet of vehicles

GRI 102-17

GRIEVANCE REDRESSAL

In the event of any grievance, PLC possesses a comprehensive redressal mechanism to address such issues. Employee can voice grievances in two ways. They can utilise an anonymous approach or make use of the open door policy in place, whereupon any employee can access Management up to the CEO. PLC upholds its grievance policies to the highest levels of expectation.

The Whistle-blower Policy falling under the Internal Audit is a structured mechanism that enables employees to anonymously report concerns, violations or misdeeds.



For the period under review, no such employee grievances were directed to the HR Department for formal rectification. We equally did not witness any grievances pertaining to discordances in employees' human rights or fundamental rights.



GRI 412-3

GRI 412-1

GRI 412-2

GRI 408-1

GRI 409-1

GRI 404-3

GRI 102-41

LABOUR RELATIONS

People's Leasing & Finance PLC is not an unionised company and as such, does not possess collective bargaining agreements with its employees. Nonetheless, we are proactive in fostering solid relationships with our employees across our operations.

Freedom of association and expression is highly encouraged at PLC. We are not aware of any operations or suppliers in which the right to exercise freedom of association, child labour, forced or compulsory labour collective bargaining may be violated or at significant risk.

We maintain constant dialogue with our staff and ensure that they are well informed and engaged in any decision-making processes. These include discussions on material changes to the organisational structure and operations. We conduct regular staff meetings and utilise our Intranet portal and biannual performance appraisals to further this goal.

PLC upholds ideals in human rights.

FUTURE OUTLOOK

We aspire to take PLC to international levels in Human Resource Management to mirror global practices in our industry.

The years to come will bring many challenges and changes. Our HR Department will assure that it secures ample resources and technology to handle any and all challenges in line with forging forward.

Social and Relationship Capital



Committed. Always.

Holding your child's hand as they take their first steps. Guiding their gestures as they learn to play the piano. Being always behind them; through big and small and taking on the world together.

At PLC, we understand the commitment you show towards nurturing those precious moments with your loved ones.

MOMENTS

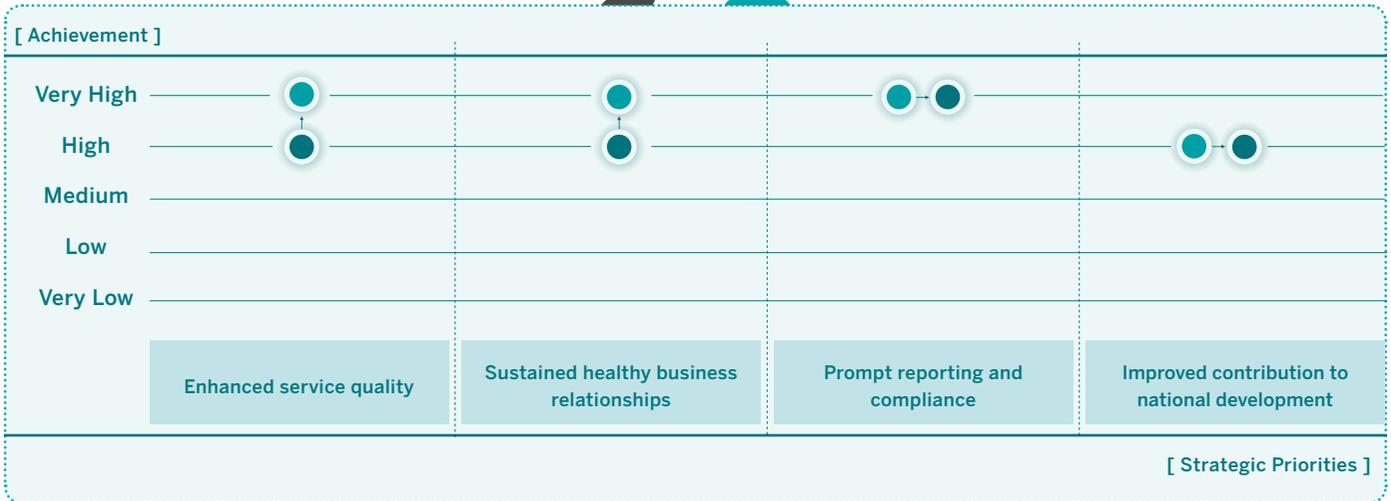
PLC 'LED Mobile Truck' launched bringing a new experience of modern technological marketing

Rs. 187 million invested on community developments

Established strategic-tie-ups with vehicle partners

Embarked on our 4th listed debenture issue, to raise Rs. 8 billion

In as much the same way, the social and relationship capital of People's Leasing & Finance PLC encompasses the myriad range of relationships that we develop and foster with diverse entities. These are; but not limited to; our customers, business partners, investors, community and regulatory bodies. The successful continuation of our operations are directly underpinned by the strength of these relationships.



● Where PLC is now ● Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|---|--|
| There is a need to educate employees on the importance of tapping into untapped market segments; introducing product diversification and mass media promotions. | Entering into markets, which are not exploited yet with the use of innovative products that cater to their needs and requirements, enabling to be the trendsetter in the industry. |

| Strategic Priorities | Strategies |
|---|---|
| Enhanced service quality | Extending versatile softskill development training opportunities for staff in delivering exceptional customer service. Upgrade the complaint management system. |
| Sustained healthy business relationships | Organise on and off gettogethers and invest on business promotions. Establish supplier tie-ups to gain a win-win situation. Conduct Stakeholder engagement periodically and satisfaction surveys to address their concerns. |
| Prompt reporting and compliance | Ensure timely reporting of all financials & filling returns. Comply with regulations to eliminate money laundering, terrorism related activities and fraudulent practices. Educate employees on corporate governance and code of best practice. |
| Improved contribution to national development | Prioritising local and SME suppliers. Embed appropriate sustainable development goals in company CSR Agenda. |

OUR SOCIAL
AND RELATIONSHIP
CAPITAL



Customer

As the reason for our existence, they underpin all our efforts



Business partner

Establishing strong relationships with our partners is essential for mutual success



Investor

We strive to provide reciprocal value to our investors, for the benefit of all



Community

Our CSR efforts and targeted activities uplift local communities, for the betterment of all



Regulator

We are indebted to them for providing a secure platform on which we can conduct our operations

Social and Relationship Capital

Customer Capital

We cherish the commitment that our customers show in us. It is their continuing support, in selecting our products and services, that guarantees the continuation of our business activities.

PLC'S POSITION

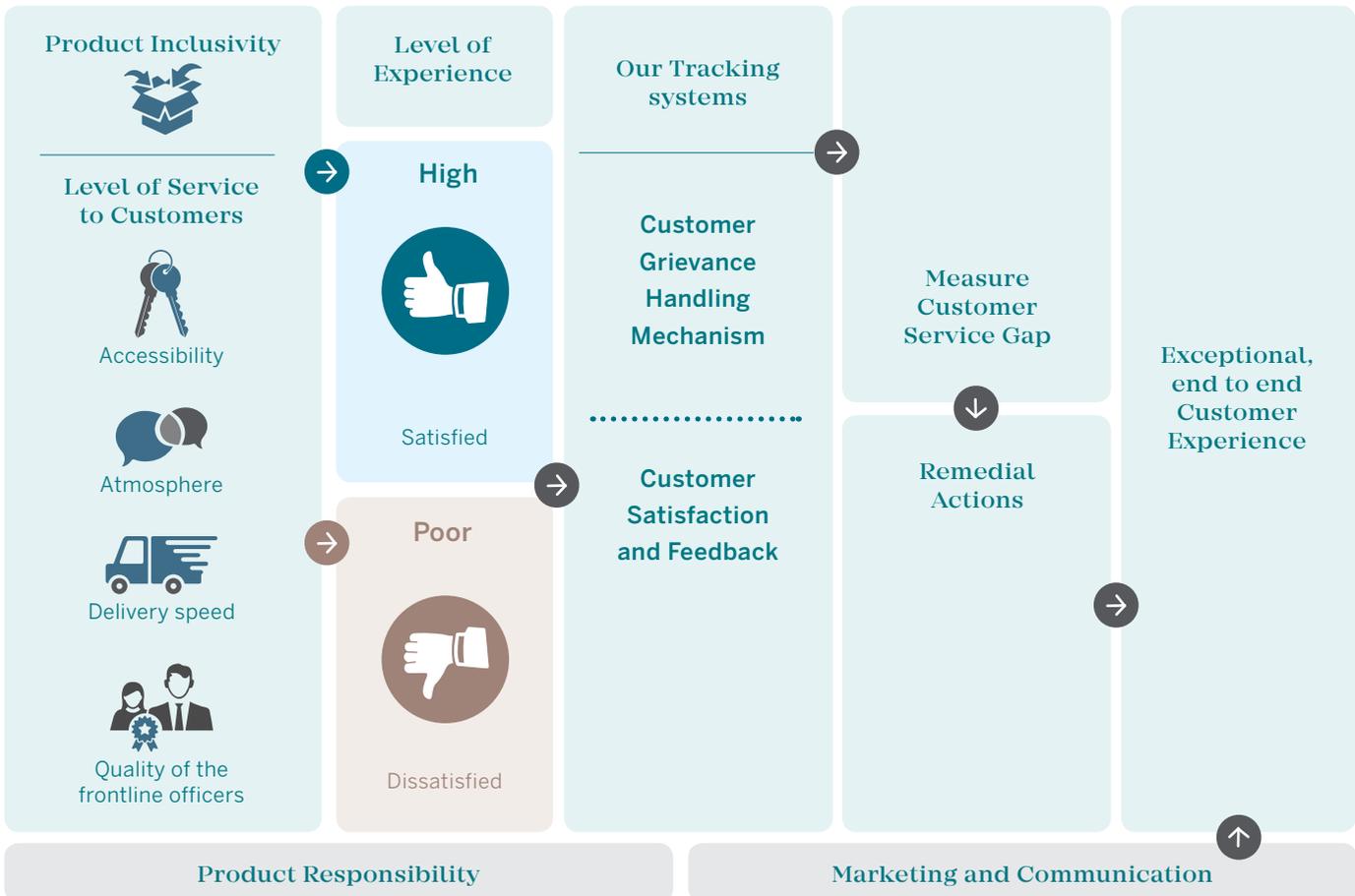
Our management approach centres on first identifying our customers' concerns. They value processing and responding times on us delivering what is promised, are concerned about our Brand and are aware of our grievance handling mechanism.

The product policy of PLC is geared towards expanding the reach of its operations, constantly improving service standards, redeveloping products, building strong relationships with customers and safeguarding our customers' rights.

We engage with our customers mainly through a relationship based approach and other numerous marketing initiatives. These include, but are not limited to: our corporate website; print, media and online advertising, social media campaigns, events and promotions, CSR activities etc.

We collect feedback from our customers and based on this, extrapolate KPIs that can refine our objectives and strategy. Our objectives are to excel in providing best customer service, guarantee quality assurance and assure customer satisfaction. Our strategy has similar objectives along with attracting new customers.

We ensure that our products and services comply with all statutory and legal requirements and that we conduct our activities in a responsible, ethical and transparent way.



Social and Relationship Capital

GRI 102-2

PRODUCT INCLUSIVITY

Inclusivity refers to the diverse product range, which caters to the diverse needs of a pool of customers.

We provide customers with a comprehensive suite of financial products to include leases, loans, deposits, Islamic finance, margin trading and factoring.

KEY DELIVERABLES

LEASES



Our leasing portfolio consists mainly of finance leases. We provide leasing facilities to individuals including professionals, businessmen and corporate bodies.

We provide easy payment schemes and fast and friendly service through island wide branch network.

Gross portfolio
Rs. 92,512.86 million

Disbursement
Rs. 44,662.62 million

NP
0.91%

Collection ratio
96.04%

No. of customers
79,210

LOANS



This is a revolving loan facility, which is very similar to an overdraft and the loan can be granted to businesses, individuals and corporates who are in need for short-term financing, especially working capital requirements

Gross portfolio
Rs. 10,150.17 million

Disbursement
Rs. 11,909.40 million

NP
0.84%

Collection ratio
97.48%

No. of customers
3,195

Term Loans

Term loans are given at fixed interest rates depending on the customer request, in a way of fixed property mortgage loans, that is secured against collateral.

Gross portfolio
Rs. 16,086.09 million

Disbursement
Rs. 12,109.01 million

NP
3.12%

Collection ratio
94.88%

No. of customers
4,676

Auto Loans

Auto loans are granted against vehicles through a mortgage, similar to property mortgage loans. The amount of the auto loan will depend on the valuation of the vehicle and the repayment capacity of the client.

Gross portfolio
Rs. 11,650.07 million

Disbursement
Rs. 4,138.87 million

NP
0.10%

Collection ratio
98.16%

No. of customers
6,622

Social and Relationship Capital

LOANS

Selfecash

Selfecash is a new product launched during the year. This enables customers to pledge their fixed deposit/s through hassle free documentation and obtain loans as and when they desire.

This can be applied either individually or jointly depending on the ownership of the fixed deposits.

Gross portfolio
Rs. 681.16 million

Disbursement
Rs. 1,314.48 million

No. of customers
1,713



Clean loan is a short-term loan based purely on the current account transactions and repayment capacity of the customers. This will be offered mainly to meet immediate financial needs of customers.

Gross portfolio
Rs. 7,802.40 million

Disbursement
Rs. 12,731.67 million

NP
0.62%

Collection ratio
98.58%

No. of customers
2,728



The quick cash loan scheme is designed mainly for customers who are in the permanent employment cadre to address their financial needs in a quick and hassle free manner. It is similar to a personal loan

Gross portfolio
Rs. 249.82 million

Disbursement
Rs. 170.34 million

NP
5.99%

Collection ratio
90.31%

No. of customers
950

DEPOSITS



Deposited for a fixed period of time ranging from 1 month to 5 years at a fixed interest rate, interest is payable monthly or at maturity. Deposit holder should be a Sri Lankan citizen or resident visa holder over 18 years of age.

Total deposits base
Rs. 38,872.72 million

No. of customers
17,540

SAVING DEPOSITS

Gross portfolio
Rs. 3,318.12 million

No. of customers
188,519



This is a regular savings account with a higher rate of interest. Deposit holder is entitled to an international visa debit card. This debit card enables customers to purchase products at any time of the day by electronically transferring money between accounts.



We strive to provide improved quality of life for senior citizens of the country through greater benefits. As a part of the Company's responsibility towards the nation, deposit holders above the age of 55 are eligible for an additional interest rate.



Children's savings product with a higher rate of interest. Any citizen of Sri Lanka, who is below the age of 18 years, is eligible. Minimum deposit amount is Rs. 250/-.

To inculcate savings habits in the minds of children, a till was introduced, 'voxy' the mini bus.



This account was introduced during the year targeting salaried employees' between 18 to 55 years of age and employed in a reputed organisation on a permanent basis.

Minimum monthly savings salary remittance is Rs. 1,000/-.

An additional interest of 0.25% p.a. for the savings.

Social and Relationship Capital

ISLAMIC FINANCE



The Ijarah product is the leasing counterpart and allows the lease of an article for a specified permissible benefit in the form of a usufruct for a specified period in return for a specified consideration or hiring a person's specified service for a specified consideration.

The ownership of the item remains with the Company throughout the facility period, while the customer has the right of use.

Gross portfolio
Rs. 5,224.81 million

Disbursement
Rs. 2,850.98 million

NP
0.70%

Collection ratio
95.53%

No. of customers
3,722



Murabaha/Trading Murabaha is a Shari'ah compliant product which provides short and medium-term financing for the purchase of commodity/assets.

This refers to sale of a vehicle/commodity with disclosing the cost and defining and agreeing on a profit.

Gross portfolio
Rs. 4,473.40 million

Disbursement
Rs. 3,034.44 million

NP
0.65%

Collection ratio
96.07

No. of customers
1,820



Mudharabah Deposits

Ideally Mudharabah is the trading of outside funds. It is where one party provides funds while another provides labour. The Islamic Financial Services Unit at People's Leasing & Finance PLC currently offers both Mudharabah Investments as well as Islamic Savings.

Gross portfolio
Rs. 2,526.71 million



Diminishing Musharakah is a profit and loss sharing contract based on a partnership in which parties contribute to the financing and management of a Shari'ah compliant project. This is a form of joint ownership in an asset or property in which any of the joint owners undertakes/promises to buy the ownership of share of the joint owner gradually until the ownership of the joint asset or property is completely transferred to the purchasing joint owner.



This is a unique savings account for minors that offers a reasonable return. The profit is calculated monthly and credited to the account.



Person/Company (Muwakkil) appoints an Agent (Wakil) to perform a certain task on behalf of the Muwakkil, usually against an agency fee.

Social and Relationship Capital

MARGIN TRADING AND FACTORING

Margin Trading

Margin Trading activities are licensed under the Securities and Exchange Commission of Sri Lanka and focus on small and medium investors within the retail sector, high net worth individuals and institutional clients. Margin trading facilities are currently only available at the Head Office and the Company expects to expand this service to its network of branches with the improvement of its infrastructure, marketing division, and back-office functions.

Gross Portfolio
Rs. 1,772.36 million

Disbursements
Retail:
Rs. 82.93 million

High net worth and institutional:
Rs. 1,698.19 million

Interest income
Rs. 216.71

No. of Customers
115

Factoring

Working capital solutions provider, continuous service, transfer of risk & sales ledger management. We analyse the creditworthiness of a portfolio before coming into a factoring agreement and establish a dedicated team to manage the receivables. Under this product we offer factoring, bill discounting, cheque discounting, invoice discounting and discounting for corporate, semi corporate and SME clients.

We intend to extend this service to branches

Portfolio
Rs. 893.99 million

Disbursements:
Rs. 2,316.26 million

Total factoring income:
Rs. 104.59 million

No. of Customers
35

SME
25

High Net worth:
10

Information on the products of the subsidiaries can be accessed from the Subsidiary Review section of this Report on pages 407 to 411.

LEVEL OF SERVICE TO CUSTOMERS

Professionalism mixed with a personal touch guarantees that we establish solid relationships with all our customers. This is a core value of ours and therefore guarantees the strength of our operations in the years to come.

The following factors are crucial in establishing a high level of service with our customers:



GRI 102-10

Accessibility is the ease of access to services. As at the end of the financial year, we have expanded our branch network to 103 branches by widening the accessible points where customers can easily engage with us. Nine branches and one service centre were relocated to improve customer service. We also maintain more convenient working hours for our customers' benefit.

Social and Relationship Capital

Our branches are equally supplemented with a network of service centres, which extend our geographical reach. Further information can be accessed from the Manufactured Capital Section of this Report on page 70. ICT plays a key role in increasing accessibility. Customers can access a comprehensive range of services from our website, PLC Online application, mobile application and call centre.

Our branch atmosphere consists of easy to navigate infrastructure and friendly officers. Instructions and supportive documents for transactions are clearly displayed at all branches.

We ensure our customers are given a speedy service when it comes to executing transactions or responding to their queries. We also have easy payment methods that reduce processing time, thereby increasing convenience to our customers.

The quality of the frontline officers lies on their respective knowledge on products and services as well as their perceived levels of experience and friendliness. We have been training frontline officers to this extent, to deliver ever exceptional customer service. Soft skill training amounting to a total of 20,769 hours were given during the year. The employees trained included frontline officers which would enhance customer service.

GRI 102-17

TRACKING SYSTEMS

We have in place, several tracking systems to measure and analyse any gaps in customer service:

- — Customer grievance handling mechanism
- — Customer satisfaction and feedback

CUSTOMER GRIEVANCE HANDLING MECHANISM

We have a structured customer complaint management process which comes under the purview of our Deputy General Manager of Operations. Complaints can be lodged through formal correspondence or at one-to-one meetings with staff and management.

Once a complaint is lodged, relevant officers, managers and even the Chief Executive Officer can be engaged for mediation and corrective action. If the internal mechanism is unsuccessful at grievance redressal, the complaint is formally forwarded to the Financial Ombudsman or to our regulator, the Central Bank of Sri Lanka.

This is supplemented by an in-house developed advisory tracking system, which will be rolled out to address customer complaints. Customers will be able to lodge complaints through the system, which will then be escalated to the notice of management for rectification.

CUSTOMER COMPLAINTS REPORTED

CBSL – 10
Financial Ombudsman – 14
Other – 24

The Company duly responded to and resolved these issues.

CUSTOMER SATISFACTION AND FEEDBACK

We did not conduct a formal customer satisfaction survey during the year. However, we obtain feedback on products, quality and standard of service through interactions in networking events. All feedbacks received are discussed in staff meetings, management meetings and if necessity arises at board level.

GRI 417-3

MARKETING AND COMMUNICATIONS

The head office takes on the responsibility of conceptualising and implementing promotional and branding campaigns. This is generally carried out in collaboration with operations at branch level. The Internal Audit and Compliance Office ensures that the marketing and communication initiatives meet product specific disclosures and compliance to contractual obligations and legal and regulatory requirements.

All marketing campaigns are endorsed by the Board of Directors, which are subsequently forwarded to the Central Bank of Sri Lanka for its concurrence prior to implementation.

During the year the business promotion expenditure was Rs. 147.63 million while in 2015/16 the expenditure was at Rs. 204.02 million.

Our marketing strategy is more skewed towards the use of below the line measures in the form of direct marketing, road shows, street promotions and events. The reliance on above the line measures is limited to advertisements and press releases on print media, sponsorships, electronic media and billboards. Apart from these structured initiatives, we also heavily rely on creating a positive word of mouth endorsement, as such focusing on a more relationship based marketing approach.

Social and Relationship Capital

MARKETING STRATEGY AND COMMUNICATION MIX

Our Company did not engage in unwarranted business or promote banned or disputed products for the period under consideration. Any incidents of non-compliance with regulatory bodies with regard to marketing and communications efforts were not reported during the year.

MARKETING INITIATIVES FOR THE YEAR

PRINT MEDIA AND ADVERTORIALS

Targeting corporate business initiative we are in an annual renewable agreement with LMD Magazine, Business Today & Business Management Digest Magazines which are monthly published. Through the advertisements published, we have been able to address local corporate sector successfully during the year.

We have successfully taken our message to international customers through Serandib Magazine and Living Magazine.

ELECTRONIC MEDIA

- — 'Jana Jaya Mawatha' with Sri Lanka Broadcasting Corporation (SLBC)
- — 'World News' of Sri Lanka Broadcasting Corporation (SLBC)
- — 'Rupees & Cents' with Independent Television Network (ITN)
- — 'Suratha' with Independent Television Network (ITN)

EVENTS & EXHIBITIONS

● — 37 National Conference of Chartered Accountants – BMICH

We promoted specially designed packages for professionals at The Institute of Chartered Accountants of Sri Lanka's National Annual Conference.

● — Build SL (Construction and Regenerating Expo 2016) – BMICH

PLC was the official leasing partner of the 'Build SL', Construction and Regenerating Expo 2016 was organised by the Chamber of Construction Industry, Sri Lanka.

● — LED Mobile Truck Launch

The launching of the Propaganda Mobile Truck was introduced in the second quarter at the PLC Auto Zone Premises. With the launch of the LED mobile truck, we're able to bring customers a new experience of modern technological marketing.

SPECIAL PROMOTION CAMPAIGN

For the 20 Anniversary, Special Promotion Campaigns were carried out. Customer Gettogethers, Religious Activities, Corporate Advertising Campaigns and opening of Metro Mini Museum in PLC Metropolitan branch.

PRODUCT RESPONSIBILITY

Product delivery at People's Leasing & Finance PLC is responsible and ethical. We ensure that we give due priority to the engagement process with timely and well-structured processes to protect our customers from any and all risks.

For instance PLC, in association with the State Ministry of Defense, introduced a special scheme for veterans of the country. Under this scheme, PLC provides concessionary rates for veterans in financing, leasing and insuring.

GRI 417-3, 418-1

FAIRNESS AND TRANSPARENCY

People's Leasing & Finance PLC only grants its services following a detailed evaluation to assess customer needs and their financial capacity. We are committed in helping customers manage their debts and obligations.

The recoveries are conducted from a humane perspective.

Due consideration is given for cases of default due to genuine hardship; interest rescheduling and waive off are considered in such cases.

We possess trained and qualified employees who assist customers from an advisory perspective.

Social and Relationship Capital

GRI 417-2

GRI 417-1

We are committed towards a fair and transparent product offering thus ensuring the provision of right information to customers for effective decision-making.

Our product information is published in English, Sinhala and Tamil. The multilingual skills of our employees and community-based recruitments have enabled us to effectively interact with customers for the holistic benefit of all.

During the year, the Company did not incur any incidents of non-compliance with regulations and applicable codes with respect to product and service information and labelling.

BUILDING FINANCIAL LITERACY

We remain committed to addressing issues of financial literacy in developing areas and sectors of Sri Lanka. This forms a direct pillar of our CSR approach. Further information can be accessed from the Social Capital section of this Report, on pages 130 to 132.

GRI 206-1

ANTI-COMPETITIVE BEHAVIOUR

PLC shies away from any and all anti-competitive behaviour and is committed to establishing a 'level playing field' in the industry. Pricing is objectively set in line with the country's monetary policy and the market trend. In testimony for this, for the year under review, the Company was not party to any fines or associated penalties for anti-competitive behaviour.

GRI 205-1

GRI 205-2

GRI 205-3

ANTI-CORRUPTION

PLC possesses a comprehensive Business Code of Ethics to protect customers from any unethical business practices. We utilise sound internal controls to prevent any improper activities and transactions from taking place.

Formal mechanisms are in place to investigate, redress and take due disciplinary actions for any complaints or allegations related to corruption. The Company has put in place a formal whistleblower mechanism which supports this process and which employees may use without fear of reprisals.

Our Internal Auditors, Integrated Risk Management Committee and the Compliance Officer are responsible for ensuring that best practices prevail at all levels of the Company.

During the year, no risks and incidents related to corrupt practices were reported from the head office and branch network.

During the year our total customer base stood at

306,358, an increase of **10.39%** from the previous year.

A total of

87 networking events were conducted with a cost of

Rs. 31.76 million

Spent

Rs. 147.63 million on business promotion during the year

'We ensure our customers are given a speedy service when it comes to executing transactions or responding to their queries. We have enhanced our IT capabilities in order to reduce processing time, thereby increasing convenience to our customers.'



Social and Relationship Capital

GRI 418-1

CUSTOMER PRIVACY

People's Leasing & Finance PLC does not share customer information with external parties. However, we disclose/share customer details with statutory bodies as stipulated and also to affiliated companies under the expressed consent of customers.

GRI 102-11

We have established a sound Business Continuity Plan and Disaster Recovery System to guarantee the security of stored data and information. A Document Management System supports disaster recovery with backup and off-site storage facilities. Further information can be accessed from the Manufactured Capital section of this Report on pages 67 to 76.

PLC possesses a certification from Det Norske Veritas (DNV) in information security management, which covers customer privacy and data protection.

GRI 102-11

PRODUCT PORTFOLIO SCREENING

PLC has put in place a detailed precautionary mechanism to address environmental and social impact in the structuring and delivery of products. We therefore follow a thorough screening process to factor in the environmental and social consequences of our operations with customers.

SOCIALLY AND ENVIRONMENTALLY RESPONSIBLE PRODUCTS

As a finance company engaged in the leasing of automobiles, we are conscious of the impact of vehicle emissions on the environment. We undertake detailed procedures to mitigate and offset such impacts. Further information on this can be accessed from the Natural Capital section of this Report, on pages 135 to 148.

Details on our Green Friends Facility is given in the table below:

| Green Friends Facility 2016/17 | No. of Facilities | Value Rs. million |
|---|-------------------|-------------------|
| Type of energy efficient vehicle | | |
| Hybrid Vehicles | 979 | 2,850.83 |
| Electric Vehicles | 53 | 94.22 |
| Total | 1,032 | 2,945.05 |

We also remain committed to uplifting the standards of living for disadvantaged communities in Sri Lanka. PLC, through its subsidiary People's Microfinance Limited, engages in developing the livelihood of individuals to further their personal development.

ACTIVE OWNERSHIP

People's Leasing & Finance PLC is committed to the sound governance and direction of its subsidiaries. This ensures that they are capable of delivering sustainable and long-standing value to all stakeholders they engage with.

GRI 419-1

COMPLIANCE

For the period under review, PLC was not party to any fines nor penalties regarding any issues of non-compliance with any applicable rules and regulations governing the distribution of our products and services.

FUTURE OUTLOOK

In accordance with the market trends of the future, our product portfolio will be changed and adapted as necessary.

We witness that some areas of our operations, such as leasing, are not displaying much growth; but we see potential in areas such as factoring. We intend to look into options to further enhance the quality of our customer service. We will duly analyse our portfolio and decide on which areas to capitalise on based on research and market outlook.

Social and Relationship Capital

Business Partner Capital

PLC understands the importance of securing solid relationships with its suppliers and the creation of long-standing and mutually beneficial relationships with its business partners. The value chain is greatly influenced by the strength of PLC's supplier framework.

PLC follows best industry practices and continually strives to refine its existing practices as necessary, in line with changing market circumstances, so as to benefit from all competitive advantages.

GRI 204-1

People's Leasing & Finance PLC possesses a diverse supplier base, ranging from micro level entities to international corporations. As of 31 March 2017, our supplier base amassed to 23,982. The cumulative payments to suppliers during the year under review, stood at a figure of Rs. 51,805.29 million, compared to Rs. 51,818.26 million in the preceding year.

Local means purchases made from a budget managed at Head Office.

PLC'S POSITION

As our chief product is leasing, vehicle suppliers constitute a major component of PLC's suppliers.

We possess trusted and long-standing contracts with our financial service providers, correspondent banks and local and international financial institutions. PLC upholds all industry regulations and debt obligations as required.

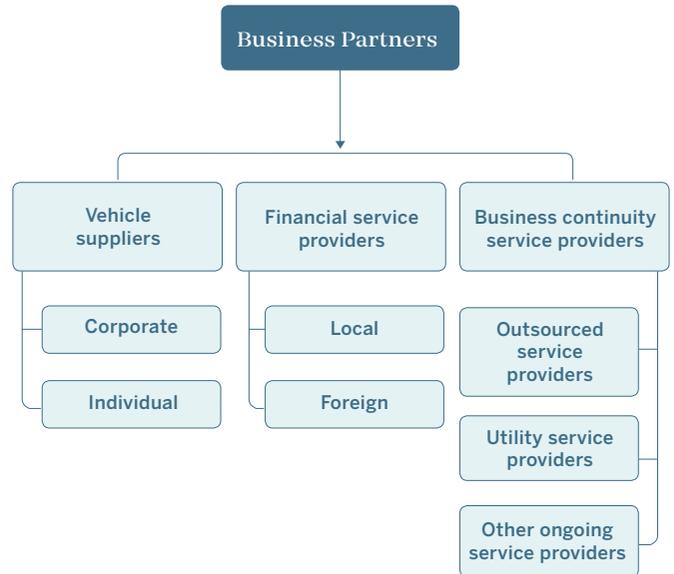
Our business continuity service providers play a vital role in assuring that we are able to deliver effective, uninterrupted services to internal and external customers. To this extent, we maintain cohesive procurement practices as amended to our requirements and the majority of our suppliers in this domain are long-standing clients. We enjoy reciprocal benefits from fostering such strong, long-lasting relationships.

The particular concerns of our business partners cover:

- — Ethical procurement practice.
- — Enhancing Company performance through cost-effective and quality procurement.
- — Giving fair and equal opportunities to suppliers.
- — Increasing engagement through participation in associations and organisations.
- — Enhancing sustainable relationships.
- — Giving preference to the local & SME suppliers.

GRI 102-9

OUR BUSINESS PARTNERS



Social and Relationship Capital

VEHICLE SUPPLIERS

By building direct partnerships with our vehicle suppliers, we can assure that our customers get the choicest financial solutions on offer in the market. This can further streamline our operations to improve efficiency.

As at 31 March 2017, PLC's vehicle suppliers stood at 23,234 entities. Corresponding payments to these entities were recorded at Rs. 50,411.33 million, compared to Rs. 50,647.55 reported in previous year. This additionally represents 97.31% of the total spending allocated to suppliers during the year of 2016/17. Among the total suppliers, 82 consisted of corporate suppliers.

STRATEGIC PARTNERSHIPS

During the year, the Company entered into several strategic partnerships with vehicle dealers and importers. As such, we engage in joint efforts with those entities to secure mutual benefits.

In accordance with these partnerships, we effectuate direct bookings and advertisements for the products they offer.

Promotional campaigns have also been carried out aiming at promoting PLC's operations in order to secure a solid customer base. These promotional activities were conducted through the participation of all Branches.

FINANCIAL SERVICE PROVIDERS

To maintain long-standing relationships with our local and international financial services providers, we ensure that we continuously adhere to all relevant agreements, mutual obligations and other terms and requirements. Further monitoring mechanisms are also continuously implemented.

A complete list of our correspondent banks is to be found on page 427 of this Report.

BUSINESS CONTINUITY SERVICE PROVIDERS

Our business continuity providers are essential in guaranteeing that PLC is able to conduct its operations without risk of interruption or inefficiency.

PLC strives to give preference to local service providers and SME suppliers.

We exercise prompt payments, maintain regular contact with our partners and assure that all sustainability related issues are equally addressed.

OUTSOURCED SERVICE PROVIDERS

PLC has outsourced non-core business operations to specialised companies having expertise on those areas. This includes security services, janitorial services, logistics, courier services, waste management services, tax consultancy services and financial advisory.

Most services are provided through local suppliers. We initiate sustainable practices to engage with them and continually recognise their efforts. We benefit from possessing long-standing relationships with these suppliers.

UTILITY SERVICE PROVIDERS

This mainly comprises electricity, water, telephone and Internet services. As stated previously, these service providers expect prompt payments for their services. PLC ensures that such requirements are fulfilled as satisfactorily as possible.

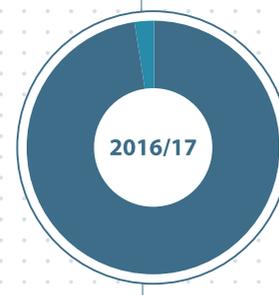
OTHER ONGOING SERVICE PROVIDERS

This comprises relationships we strike with organisations in the domains of premises and equipment maintenance, system development, computer software and hardware solutions, stationery, fuel and advertising & promotions etc.

PROCUREMENT EXPENDITURE

2.7%

Business Continuity
Services Providers



97.3%

Vehicle Suppliers

Social and Relationship Capital

| | 2016/17 | 2015/16 | Change (%) |
|---|------------------|-----------|------------|
| Business partners (Nos.) | 23,982 | 22,663 | 5.82 |
| Vehicle partners (Nos.) | 23,234 | 22,004 | 5.59 |
| Procurement expenditure (Rs. million) | 51,805.29 | 51,818.26 | (0.03) |
| Local procurement expenditure (Rs. million) | 51,754.78 | 51,780.40 | (0.05) |
| Foreign procurement expenditure (Rs. million) | 50.50 | 37.86 | 33.39 |

PROCUREMENT PRACTICES

The responsibility for major procurements such as vehicles, equipment, ICT hardware and software lies with the logistics department of the Head Office. Minor procurements are decentralised, i.e. handled directly at branch level. Selections are done by a technical evaluation committee-based on the quality cost method. A tender panel, represented by members of the Management Committee, chaired by the Deputy General Manager: Operations, validates the selection.

GRI 102-11

Supplier Selection and Monitoring Criteria

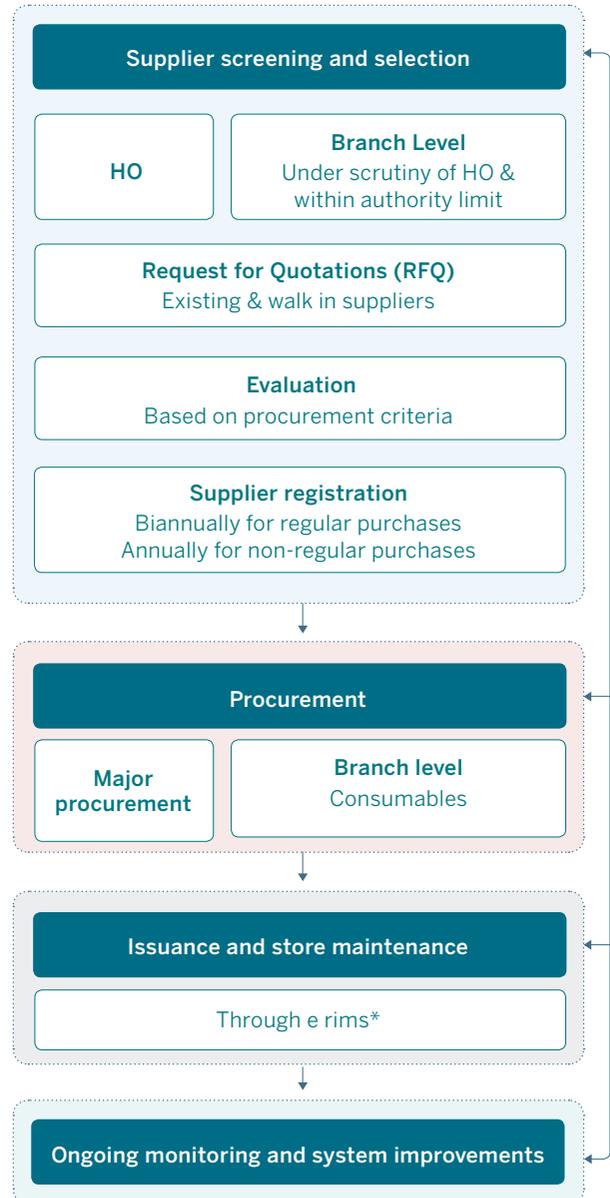


- Quality standards
- Cost-competitiveness
- On-time delivery
- Reliability
- Adaptability
- Prior industry experience
- Supplier capacity
- Compliance to applicable laws and regulations
- Compliance to relevant licenses, certifications and standards
- Sustainable practices of sourcing raw materials
- Adherence to environmental and social specifications
- Fair labour management practices

General procurement employs the three quotation method, where quotations are selected from a long list of recommended suppliers.

We also call for competitive proposals following well-accepted tender procedures, involving large-scale and specialised procurement.

Procurement process of business continuity services



* e rims is the online system used to request supplies from the Logistic Department.

Social and Relationship Capital

GRI 414-2

PROCUREMENT MONITORING

At PLC, we are consistent in monitoring the procurement process to be effective and efficient.

Supplier performance indicators; preagreed in most cases, and also included in procurement contracts; are measured and evaluated through regular review meetings. We also carry-out periodic site visits and do desk reviews on supplier annual reports including their Financial Statements to be aware of any bottlenecks that may hamper their delivery.

During 2016/17 no negative social impact was reported in the supply chain.

GIVING PREFERENCE TO LOCAL SUPPLIERS AND SME SUPPLIERS

Subject to basic evaluation criteria, we also give preference as a policy to national suppliers over foreign suppliers. Foreign suppliers are sourced only if the local suppliers are unable to meet the given procurement specifications. In the reporting year, almost 99% of our procurement expenses were accounted for by local suppliers. Foreign suppliers were sourced primarily to procure computer hardware and software, which represented less than 1% of the total procurement expenses.

ENGAGEMENT AND ASSESSMENT

Suppliers are encouraged to respond to self-assessment questionnaires on their sustainable business practices.

Our procurement contracts also include clauses on sustainability and ethics including best labour practices.

MEMBERSHIPS AND ASSOCIATIONS

People's Leasing & Finance PLC maintains relationships with several industry organisations, professional institutions, associations and societies.

These assist in:

- Maintaining industry unity.
- Enhancing industry standards.
- Improving networking opportunities.
- Helping employees benefit from the activities offered by the organisations.

GRI 102-13

People's Leasing & Finance PLC has corporate memberships in :

- The Leasing Association of Sri Lanka
- Asian Leasing & Finance Association
- The Finance House Association of Sri Lanka
- The Financial Ombudsman Sri Lanka
- Credit Information Bureau of Sri Lanka
- The Association of Margin Providers
- The Sri Lanka Institute of Directors
- Asian Financial Service Association
- CSR Lanka Guarantee Limited
- Biodiversity Sri Lanka (Patron Member) {Business and Bio diversity platform}

In addition, PLC maintains links with key professional institutes such as The Institute of Chartered Accountants of Sri Lanka and the Association of Accounting Technicians of Sri Lanka.

FUTURE OUTLOOK

In the years to come, we will develop a comprehensive procurement manual for our operations, which will streamline and document the current procurement practices of the Company.

We also wish to engage in more strategic partnerships and to strengthen our existing tie-ups with our suppliers to secure mutual benefits.

Social and Relationship Capital

Investor Capital

At People's Leasing & Finance PLC, our investors play a significant role in our value creation process. It is their contributions and efforts that generate the capital necessary to power our operations. We then offer them reciprocal returns, in a sustainable and continuous manner, for many years to come.

PLC'S POSITION

We ensure a successful two-way communication process with our investors by integrating finance, communication, marketing and compliance into a streamlined set of operations.

This section of the Annual Report will address queries from shareholders and investors, as well as parties who might be interested in the share and the financial stability of People's Leasing & Finance PLC.

PLC strives to ensure that its interactions are transparent and open, to guarantee that stakeholders and potential stakeholder concerns are addressed appropriately and in a timely manner.

To this extent, we communicate with our investors annually with the associated Annual General Meeting and the presentation of the Annual Report. Interim Financial Statements are released quarterly. We maintain ongoing updates on the investor relations section of our corporate website.

Other modes of information; to include; corporate disclosures to the Colombo Stock Exchange, presentations and road shows, participation in investor forums and press releases are disbursed on a basis as required.

The key expectations and concerns of our investors include safeguarding sustainable growth, maintaining healthy financial returns, utilising growth opportunities for maximum benefit, the timely payment of returns, enhanced value creation and maintaining integrity and responsibility in our operations.

As detailed earlier, we strive to honour these commitments, to guide sustained and informed decision-making amongst our investors, along with maximising the returns we propose forward.

We equally respect the rights of debt security holders and constantly ensure that we adhere to regulatory requirements.

SUSTAINING AND INFORMED DECISION MAKING

| For the Financial Year | 2016/17 | 2015/16 | % Change |
|--|--------------|---------|----------|
| Equity Information | | | |
| Earnings per share – Company (Rs.) | 2.54 | 2.75 | -7.64 |
| Dividend per share (Rs.) | 1.25 | 1.25 | – |
| Dividend payout (%) | 49.26 | 45.43 | 3.83 |
| Dividend yield (%) | 8.01 | 7.81 | 0.20 |
| Dividend cover (times) | 2.03 | 2.20 | -7.73 |
| Net asset value per share (NAVPS) (Rs.) | 15.63 | 14.41 | 8.47 |
| Price earning (PE) (Times) | 6.15 | 5.82 | 5.67 |
| Price to book value (PBV) (Times) | 0.99 | 1.11 | -10.82 |
| Return on equity (%) | 16.89 | 19.80 | -2.91 |
| Earnings growth (%) | -7.77 | 15.83 | -23.60 |
| Debt Information | | | |
| Debt to equity ratio (times) | 3.01 | 2.67 | 12.73 |
| Interest cover (times) | 1.46 | 1.77 | -2.35 |
| Current ratio (times) | 0.83 | 0.85 | – |

MACROECONOMIC FACTORS

The share market performance of Sri Lanka continued to stagnate in the past year. Attractive returns in the fixed income market drove out domestic investors, while foreign investors remained cautious amidst a backdrop of rising global rates. Political and policy uncertainties, coupled with a slow economic growth, added to the issues at hand, which made it increasingly difficult for equities to surpass the performance of fixed income securities.

Social and Relationship Capital

The Colombo Stock Exchange (CSE) has 295 companies listed on it, representing 20 business sectors. During the year, two new companies were listed and one company was delisted on the exchange.

The All-Share Price Index decreased slightly by 0.16% as compared to the preceding year and closed at 6,061.94 whilst the S&P SL 20 increased by 7.32% to close at 3,438.88. Market capitalisation rose by 2.97%, reaching Rs. 2,662.86 billion, whilst the sector market capitalisation witnessed a slight drop to Rs. 613.27 billion.

TOTAL MARKET CAPITALISATION VS SECTOR MARKET CAPITALISATION

[Rs. billion]



The Colombo Stock Exchange, in association with the Securities and Exchange Commission of Sri Lanka (SEC), with the participation of Stockbroker firms and Unit Trusts, hosted numerous investor forums to educate and attract foreign investors on the investment opportunities available in Sri Lanka.

For the year under review, foreign inflows dropped by 7.31% in comparison to the preceding year. Foreign equity turnover made up 44.53% of the total equity turnover. This indicated that domestic investors were exiting the market.

Social and Relationship Capital

TOTAL EQUITY TURNOVER VS FOREIGN EQUITY TURNOVER

[Rs. million]



The current increase in inflation is projected to revert to the desired mid single digit levels in the near future and stabilise thereafter, unless disrupted by adverse trends in weather conditions, tax structure and international pricing structures as detailed in the CBSL Annual Report 2016.

The Central Bank of Sri Lanka further tightened its monetary policies and conditions which impacted the credit growth of the private sector to some extent. The Average Weighted Prime Lending Rate (AWPLR) and the Sri Lanka Inter Bank Offer Rate (SLIBOR) increased by 2.69% and 1.75% respectively to 11.56% and 10.82% as at 31 March 2017.

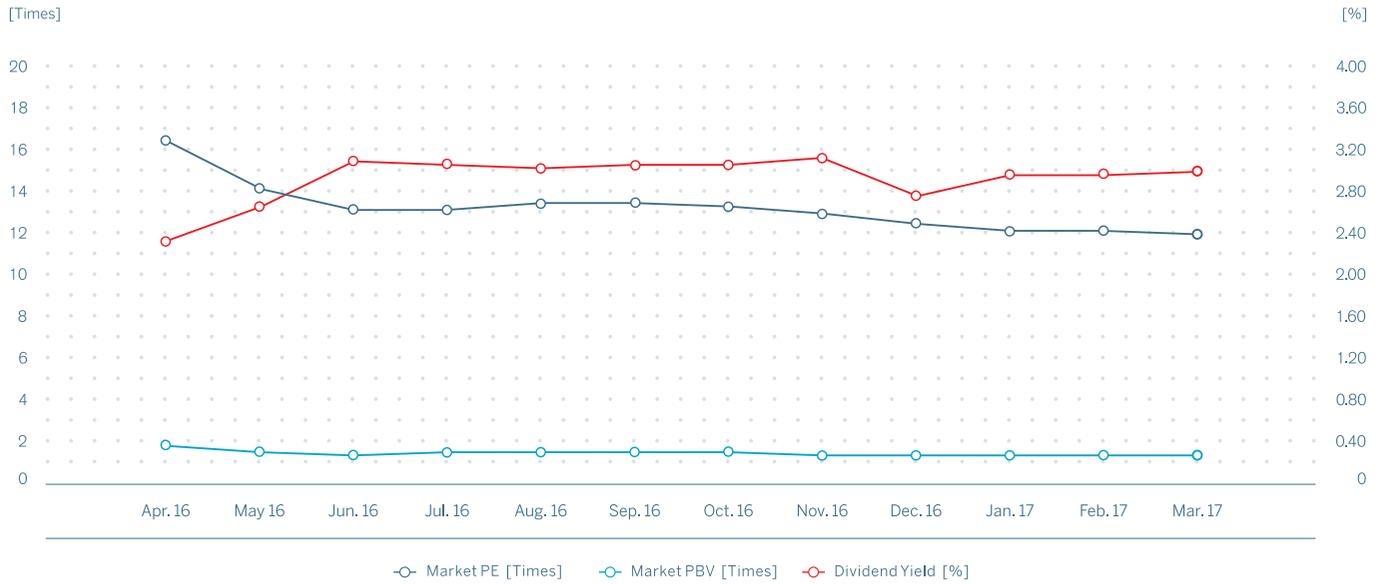
COMPARISON OF KEY RATIOS

As at 31 March 2017, the Market Price/Earnings (PE) ratio and Price to Book Value (PBV) decreased to 11.87 times and 1.35 times respectively in comparison to the previous year's 15.29 times and 1.74 times. Market dividend yield increased slightly from 2.48% to 2.98%.

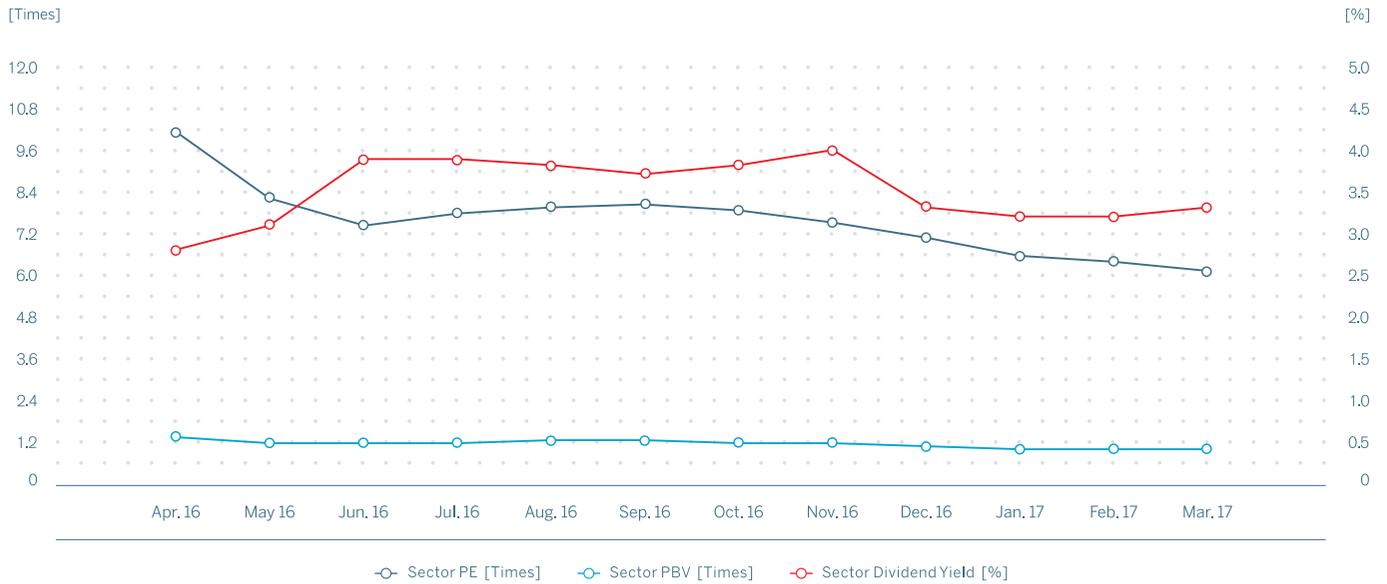
The Bank, Finance & Insurance Sector PE ratio and PBV reduced to 6.2 times and 1.0 times from 9.3 times and 1.2 times. The dividend yield stood at 3.30% as at 31 March 2017 a minute increase of 0.2% in contrast to the previous year.

Social and Relationship Capital

MOVEMENT IN MARKET RATIOS



BANK FINANCE & INSURANCE SECTOR RATIOS



Social and Relationship Capital

SHAREHOLDER WEALTH MAXIMISATION

While maintaining transparency, the Company at all times focuses on shareholder wealth maximisation in all decision-making, without compromising on satisfying other stakeholder needs. We at PLC follow a sound dividend policy, enabling investors a constant return on their investment. Investors can also gain a return through capital gains.

THE PLC SHARE

The ordinary shares issued of People's Leasing & Finance PLC are listed on the Colombo Stock Exchange. The Stock Exchange Code for the shares of People's Leasing & Finance PLC is 'PLC.N0000'.

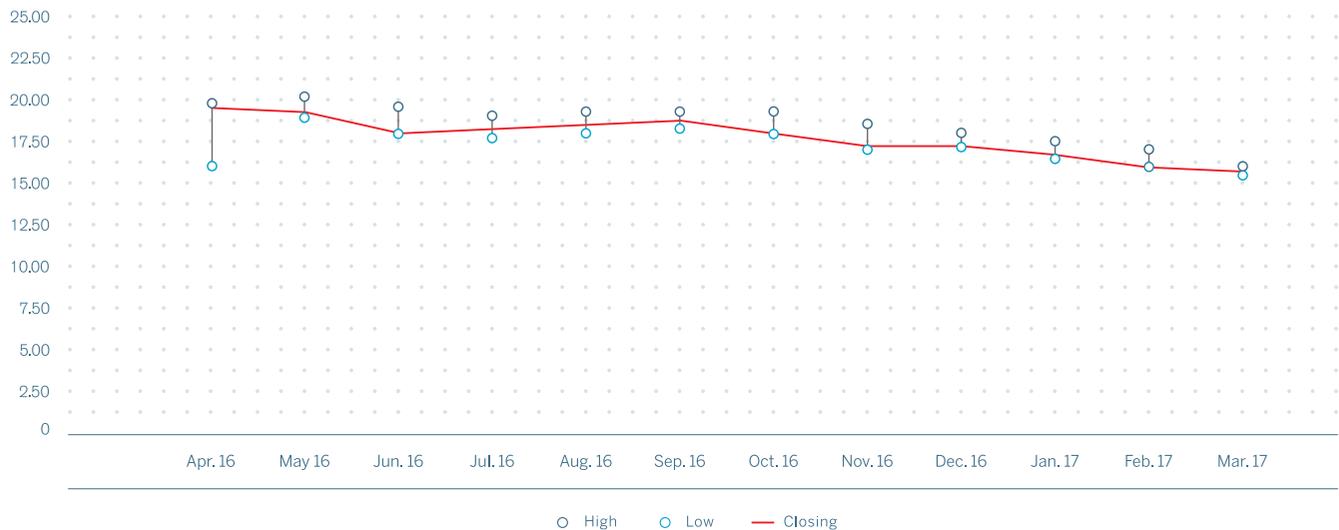
In compliance with the requirement to submit the Audited Financial Statements within three months from the reporting date, such Financial Statements for the year ended 31 March 2017 are included in this Annual Report.

PLC witnessed foreign outflows of 23.02% in foreign shares held last year owing to market uncertainties. This was a major cause of the reduction in overall share price.

As at 31 March 2017, PLC shares closed at Rs. 15.60 indicating a decline of 2.50% in comparison to the previous year. The highest recorded share price was Rs. 20.10 (11 May 2016) and the lowest was Rs. 15.30 (30 March 2017).

PLC SHARE PRICE MOVEMENT

[Rs.]

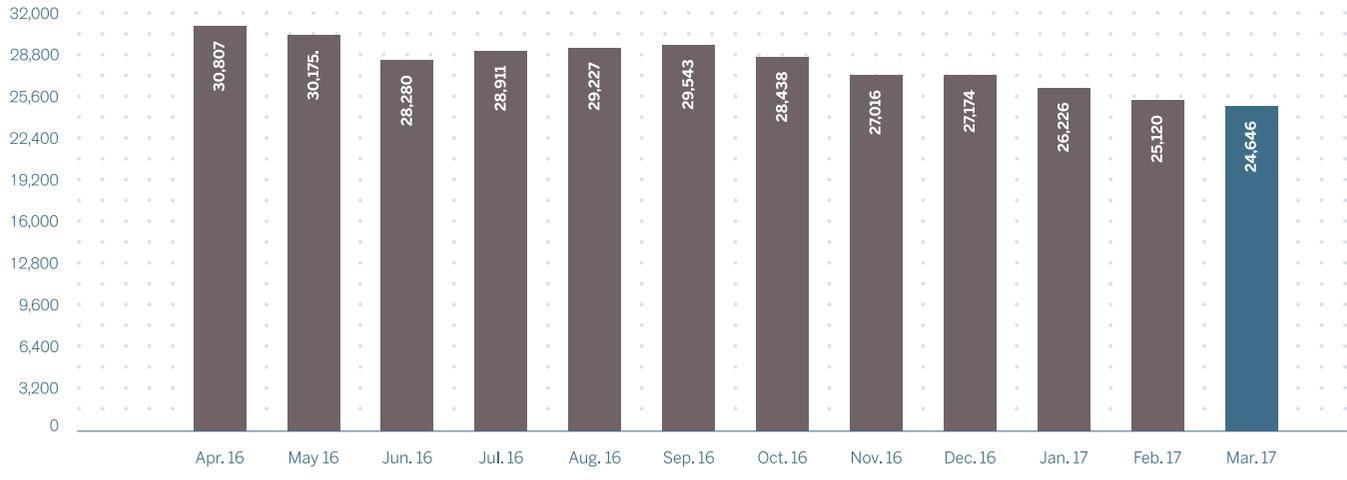


Social and Relationship Capital

The Company contributed Rs. 1,698.53 million towards the CSE turnover, trading approximately 95 million shares. The average daily turnover was recorded at Rs. 6.96 million, indicating a decline of 48.28%. PLC's market capitalisation stood at Rs. 24.65 billion, standing at the 26th position amongst all listed companies as at 31 March 2017.

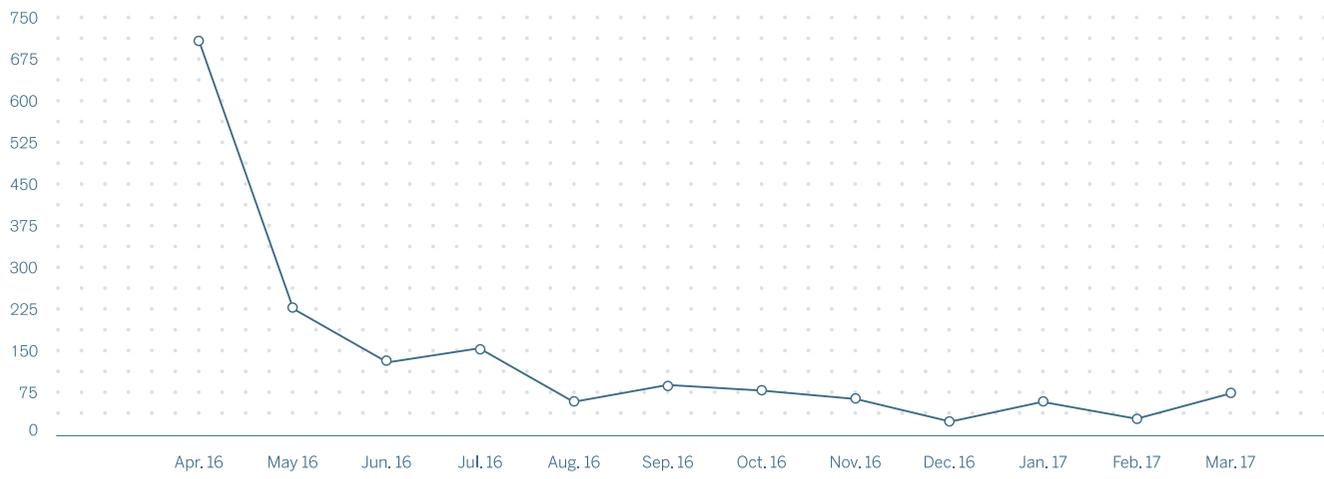
PLC'S MARKET CAPITALISATION

[Rs. million]



PLC TURNOVER

[Rs. million]



Social and Relationship Capital

SHARE INFORMATION

| | 2016/17 | Q4 | Q3 | Q2 | Q1 | 2015/16 |
|--|-----------------|----------|--------|--------|----------|----------|
| Share price (Rs.) | | | | | | |
| Highest | 20.10 | 17.50 | 19.20 | 19.30 | 20.10 | 26.50 |
| Lowest | 15.30 | 15.30 | 16.90 | 17.80 | 15.80 | 15.40 |
| Closing | 15.60 | 15.60 | 17.20 | 18.70 | 17.90 | 16.00 |
| No. of transactions | 10,547 | 1,644 | 1,959 | 1,992 | 4,952 | 13,624 |
| No. of shares traded (million) | 95.82 | 10.24 | 9.31 | 16.45 | 59.82 | 141.07 |
| Shares traded to total shares (%) | 1.40 | 0.58 | 0.79 | 0.72 | 3.70 | 1.58 |
| Turnover (Rs. million) | 1,698.53 | 167.01 | 169.08 | 303.14 | 1,059.31 | 3,062.48 |
| PLC turnover to total market turnover (%) | 0.96 | 0.37 | 0.41 | 0.63 | 2.49 | 1.32 |
| No. of days traded | 244 | 62 | 61 | 61 | 60 | 241 |
| Average daily turnover (Rs. million) | 6.96 | 2.69 | 2.77 | 4.97 | 17.66 | 12.70 |
| Market capitalisation – CSE (MC) (Rs. billion) | 2,662.86 | 2,662.86 | 2,745 | 2,786 | 2,677.63 | 2,586.15 |
| Market capitalisation – PLC (MC) (Rs. billion) | 24.65 | 24.65 | 27.17 | 29.54 | 28.28 | 25.28 |
| PLC MC to CSE MC (%) | 0.93 | 0.93 | 0.99 | 1.06 | 1.06 | 0.98 |
| PLC market capitalisation ranking | 26 | 26 | 24 | 21 | 24 | 24 |

FINANCIAL ANALYSIS

The Company and the Group posted sound results in terms of growth in assets, business and credit risk control, amidst prevailing challenges in the macroeconomy. A more comprehensive analysis is given in the Financial Capital section of this Report on pages 56 to 61.

EARNINGS

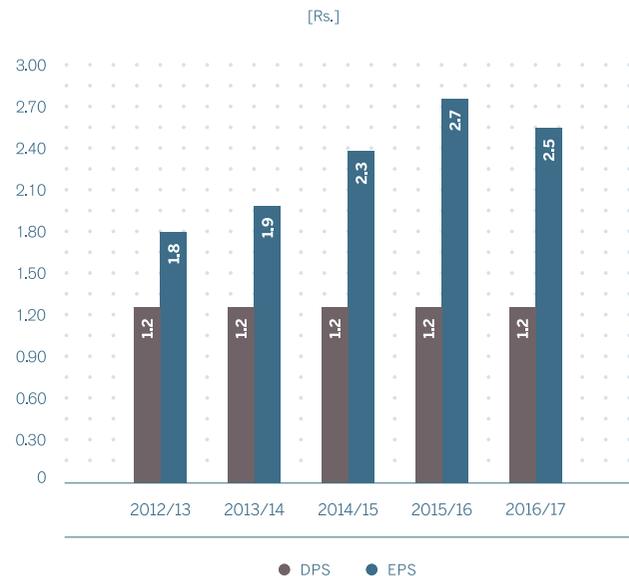
The Company managed to achieve a Profit after tax of Rs. 4,009.25 million during the year amidst unfavourable market conditions. On this setting, EPS was underpinned at Rs. 2.54 while the PE ratio stood at 6.15 times.

DIVIDENDS

In the year under review, the Company paid a sum of Rs. 789.93 million and Rs. 1,184.90 million as final dividend for the financial year of 2015/16 and interim dividend for the current financial year respectively. Due to the drop in market price, the dividend yield increased by 7.81% to 8.01%. PLC maintains a sound dividend payout ratio.

The Company managed to uphold a balance between dividend payment and retention to ensure shareholder wealth maximisation.

MOVEMENT IN EPS & DPS



Social and Relationship Capital

SHARE CAPITAL

During the year under review, the total number of ordinary shares of the Company remained unchanged at 1,579,862,482. In line with the increase in reserves, total equity grew to Rs. 24,697.29 million against Rs. 22,771.87 million recorded in the preceding year.

INFORMATION ON MOVEMENT IN NUMBER OF SHARES REPRESENTED BY STATED CAPITAL

| Year ended | No. of shares at the beginning of the financial year | | Addition/(Redemption) of shares during the financial year | | Cumulative shares at the end of the financial year | | Issued capital at the end of the financial year Rs. |
|------------|--|-------------------|---|-------------------|--|-------------------|--|
| | Ordinary shares | Preference shares | Ordinary shares | Preference shares | Ordinary shares | Preference shares | |
| 1995/96 | 2 | – | – | – | 2 | – | 20 |
| 1996/97 | 2 | – | – | – | 2 | – | 20 |
| 1997/98 | 2 | – | 2,500,000 | – | 2,500,002 | – | 25,000,020 |
| 1998/99 | 2,500,002 | – | – | – | 2,500,002 | – | 25,000,020 |
| 1999/00 | 2,500,002 | – | 1,500,000 | – | 4,000,002 | – | 40,000,020 |
| 2000/01 | 4,000,002 | – | 2,000,006 | – | 6,000,008 | – | 60,000,080 |
| 2001/02 | 6,000,008 | – | 4,000,000 | – | 10,000,008 | – | 1,000,000,080 |
| 2002/03 | 10,000,008 | – | – | – | 10,000,008 | – | 1,000,000,080 |
| 2003/04 | 10,000,008 | – | 10,000,000 | 50,000,000 | 20,000,008 | 50,000,000 | 700,000,080 |
| 2004/05 | 20,000,008 | 50,000,000 | – | – | 20,000,008 | 50,000,000 | 700,000,080 |
| 2005/06 | 20,000,008 | 50,000,000 | 30,000,000 | – | 50,000,008 | 50,000,000 | 1,000,000,080 |
| 2006/07 | 50,000,008 | 50,000,000 | – | (5,000,000) | 50,000,008 | 45,000,000 | 950,000,080 |
| 2007/08 | 50,000,008 | 45,000,000 | – | (10,000,000) | 50,000,008 | 35,000,000 | 850,000,080 |
| 2008/09 | 50,000,008 | 35,000,000 | – | 90,000,000 | 50,000,008 | 125,000,000 | 1,850,000,080 |
| 2009/10 | 50,000,008 | 125,000,000 | – | (10,000,000) | 50,000,008 | 115,000,000 | 1,850,000,080 |
| 2010/11 | 50,000,008 | 115,000,000 | – | (10,000,000) | 50,000,008 | 105,000,000 | 1,850,000,080 |
| 2011/12 | 50,000,008 | 105,000,000 | 1,510,000,152 | (15,000,000) | 1,560,000,160 | 90,000,000 | 12,958,000,800 |
| 2012/13 | 1,560,000,160 | 90,000,000 | – | (20,000,000) | 1,560,000,160 | 70,000,000 | 12,736,073,308 |
| 2013/14 | 1,560,000,160 | 70,000,000 | 19,862,322 | (20,000,000) | 1,579,862,482 | 50,000,000 | 12,736,073,308 |
| 2014/15 | 1,579,862,482 | 50,000,000 | – | (20,000,000) | 1,579,862,482 | 30,000,000 | 12,936,073,308 |
| 2015/16 | 1,579,862,482 | 30,000,000 | – | (20,000,000) | 1,579,862,482 | 10,000,000 | 13,136,073,308 |
| 2016/17 | 1,579,862,482 | 10,000,000 | – | (10,000,000) | 1,579,862,482 | – | 13,236,073,308 |

Social and Relationship Capital

ANALYSIS OF SHAREHOLDERS

DISTRIBUTION OF ORDINARY SHAREHOLDERS

| | 31 March 2017 | | | | 31 March 2016 | | | |
|-----------------------------|---------------------|---------------|----------------------|---------------|---------------------|---------------|----------------------|---------------|
| | No. of shareholders | Shareholder % | No. of shares | Share % | No. of shareholders | Shareholder % | No. of shares | Share % |
| Less than or equal to 1,000 | 4,222 | 46.01 | 2,510,835 | 0.16 | 4,324 | 45.97 | 2,742,758 | 0.17 |
| 1,001 – 10,000 | 3,600 | 39.23 | 14,268,818 | 0.90 | 3,633 | 38.62 | 14,902,462 | 0.94 |
| 10,001 – 100,000 | 1,129 | 12.31 | 34,959,309 | 2.22 | 1,211 | 12.87 | 37,902,324 | 2.40 |
| 100,001 – 1,000,000 | 199 | 2.17 | 61,172,446 | 3.87 | 209 | 2.22 | 60,169,158 | 3.81 |
| Over 1,000,000 | 26 | 0.28 | 1,466,951,074 | 92.85 | 30 | 0.32 | 1,464,145,780 | 92.68 |
| Total | 9,176 | 100.00 | 1,579,862,482 | 100.00 | 9,407 | 100.00 | 1,579,862,482 | 100.00 |

COMPOSITION OF ORDINARY SHAREHOLDERS

| | 31 March 2017 | | | | 31 March 2016 | | | |
|-----------------------------|---------------------|---------------|----------------------|---------------|---------------------|---------------|----------------------|---------------|
| | No. of shareholders | Shareholder % | No. of shares | Share % | No. of shareholders | Shareholder % | No. of shares | Share % |
| Resident – Individuals | 8,812 | 96.03 | 79,576,119 | 5.04 | 9,024 | 95.93 | 82,277,729 | 5.20 |
| Resident – Institutions | 300 | 3.27 | 1,394,003,113 | 88.24 | 314 | 3.34 | 1,359,568,393 | 86.06 |
| Non-Resident – Individuals | 50 | 0.55 | 3,839,379 | 0.24 | 50 | 0.53 | 3,382,561 | 0.21 |
| Non-Resident – Institutions | 14 | 0.15 | 102,443,871 | 6.48 | 19 | 0.20 | 134,683,799 | 8.53 |
| Total | 9,176 | 100.00 | 1,579,862,482 | 100.00 | 9,407 | 100.00 | 1,579,862,482 | 100.00 |

PUBLIC HOLDING

The Company's public holding stood at 24.89% as at 31 March 2017. There was no significant change in the Company's public holding compared to the previous year.

Social and Relationship Capital

TWENTY LARGEST SHAREHOLDERS

The 20 largest shareholders held 92.35% of the Company's shares. People's Bank, our parent Company, continued to be our majority shareholder holding 75% of the shares.

| No. | Name of the shareholder | 31 March 2017 | | Comments | 31 March 2016 | |
|-----|---|----------------------|---------------|-----------------|---------------|--------|
| | | No. of shares | % | | No. of shares | % |
| 1. | People's Bank | 1,184,896,862 | 75.00 | No change | 1,184,896,862 | 75.00 |
| 2. | Employees' Provident Fund | 85,748,846 | 5.43 | 1 Position up | 59,430,552 | 3.73 |
| 3. | BNYM SA/NV-Neon Liberty Lorikeet Master Fund LP | 64,180,467 | 4.06 | 1 Position down | 63,069,853 | 3.99 |
| 4. | National Savings Bank | 43,668,157 | 2.76 | No change | 43,668,157 | 2.76 |
| 5. | Citibank Newyork S/A NORGES Bank Account 2 | 23,775,303 | 1.50 | No change | 21,775,303 | 1.38 |
| 6. | Bank of Ceylon No. 1 Account | 11,453,600 | 0.72 | 1 Position up | 11,453,600 | 0.72 |
| 7. | Sri Lanka Insurance Corporation Limited – General Fund | 7,022,962 | 0.44 | 6 Positions up | 4,033,000 | 0.26 |
| 8. | AIA Insurance Lanka PLC A/C No. 07 | 5,626,721 | 0.36 | 2 Positions up | 5,476,721 | 0.35 |
| 9. | Ceylon Investments PLC A/C #01 | 4,954,891 | 0.31 | 1 Position up | 4,954,891 | 0.31 |
| 10. | Union Assurance PLC/NO-01 A/C | 3,821,672 | 0.24 | 4 Positions up | 3,821,672 | 0.24 |
| 11. | BNYM SA/NV-NLCF Fund LP | 3,805,389 | 0.24 | 1 Position up | 4,916,003 | 0.31 |
| 12. | The Ceylon Guardian Investment Trust PLC A/C #02 | 3,340,505 | 0.21 | New entrant | - | 0.00 |
| 13. | CACEIS BANK LUXEMBOURG – Intereffekt Investments Funds NV | 2,887,743 | 0.18 | 7 Positions up | 1,887,743 | 0.12 |
| 14. | Rubber Investment Trust Limited A/C #01 | 2,562,033 | 0.16 | New entrant | - | 0.00 |
| 15. | Employees' Trust Fund Board | 2,356,087 | 0.15 | 2 Positions up | 2,388,804 | 0.15 |
| 16. | Deutsche Bank AG as Trustee to Candor Opportunities Fund | 2,000,000 | 0.13 | 2 Positions up | 2,000,000 | 0.13 |
| 17. | Sampath Bank PLC/Dr T Senthilverl | 1,909,975 | 0.12 | New entrant | - | 0.00 |
| 18. | Akbar Brothers (Pvt) Limited A/C No. 1 | 1,882,829 | 0.12 | New entrant | - | 0.00 |
| 19. | Elgin Investments Limited | 1,747,884 | 0.11 | New entrant | - | 0.00 |
| 20. | Seylan Bank PLC/Lasantha Chandika Ranaweera Pathirana | 1,672,710 | 0.11 | New entrant | - | 0.00 |
| | Subtotal | 1,459,314,636 | 92.35 | | 1,413,773,161 | 89.45 |
| | Other Shareholders | 120,547,846 | 7.65 | | 166,089,321 | 10.55 |
| | Total | 1,579,862,482 | 100.00 | | 1,579,862,482 | 100.00 |

Social and Relationship Capital

DIRECTORS' AND CEO'S SHAREHOLDINGS

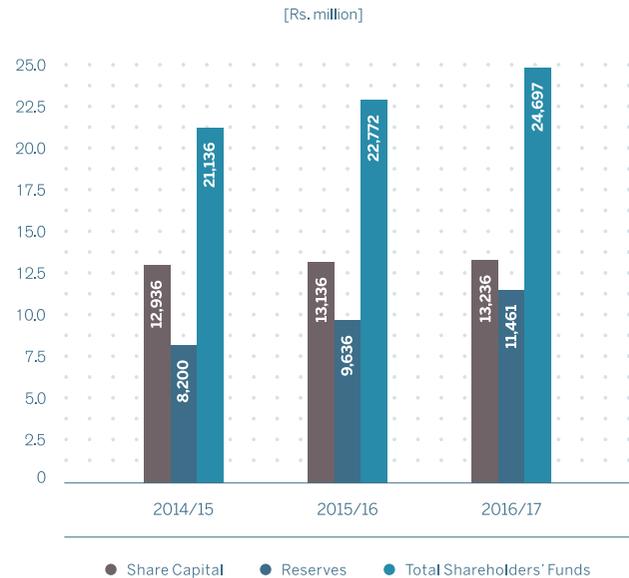
| Name | Position | No. of shares as at | |
|------------------------|-------------------------------------|---------------------|------------------|
| | | 31 March 2017 | 31 March 2016 |
| Mr Hemasiri Fernando | Chairman | - | - |
| Mr M P Amirthanayagam | Deputy Chairman | 10,000 | 10,000 |
| Mr J A Fernando | Director | - | - |
| Mr J P Amaratunga | Director | - | - |
| Mr M A M Rizwan | Director | - | - |
| Mr N V Kumar | Director (Resigned on 24 July 2016) | - | 1,000,000 |
| Mr R M Jayasena | Director | - | - |
| Mr G H A A Shabbir | Director | 110,000 | 110,000 |
| Mr G B R P Gunawardana | Director | - | - |
| Mr D P Kumaraige | CEO | 713,258 | 683,258 |
| Mr A S Ibrahim | CEO – Designate | - | - |
| Total | | 833,258 | 1,803,258 |

SOLVENCY AND DEBT CAPITAL

The debt to equity ratio stood at 3.01 times; an increase of 12.73%; due to increased borrowings that took place in order to fund our rapid business expansion. Interest cover condensed from 1.77 times to 1.46 times over the same period, owing to the tightening of interest rates in the country.

The Company's core capital ratio and total risk-weighted capital ratio stood at 17.56% and 16.37% respectively. This was maintained well above the regulatory requirements of 5% and 10%. This indicates that the Company preserves sufficient capital to act as a cushion against future risks.

COMPOSITION OF EQUITY



RESPECTING RIGHTS OF DEBT SECURITY HOLDERS

We at PLC, safeguard debt security holders' rights; enabling them to make improved decisions. We ensure that all debt security holders' payments are made timely, therefore, strengthening confidence placed on the Company. This was clearly visible in the past and recent debenture issues, which were oversubscribed on the first day of the opening of the issue.

PLC DEBENTURE

PLC issued 60 million; listed, rated, senior, unsecured and redeemable debentures of Rs. 100 each, with an option to issue a further 20 million in the event of an over subscription.

These were listed on the debt securities board of the CSE; and rated AA- by Fitch Ratings during the year. The issue was oversubscribed, confirming that the offered investment plan was favoured by many.

The proceeds were utilised to finance the budgeted lending portfolio and satisfy working capital requirements.

Social and Relationship Capital

DEBENTURES – MARKET INFORMATION

| Type | 2016/17 | | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Option 2 | Option 3 | Type A | Type B | Type A | Type B | Type A | Type B | Type C |
| Tenure (Years) | 5 Years | 5 Years | 3 Years | 4 Years | 4 Years | 5 Years | 3 Years | 4 Years | 5 Years |
| Issue date | 13-Mar | 13-Mar | 14-Sep | 14-Sep | 15-Nov | 15-Nov | 16-Nov | 16-Nov | 16-Nov |
| Maturity date | 18-Mar | 18-Mar | 17-Sep | 18-Sep | 19-Nov | 20-Nov | 19-Nov | 20-Nov | 21-Nov |
| Interest rate | Fixed |
| Coupon rate (%) | 16.75 | 17.00 | 8.75 | 9.63 | 9.60 | 9.65 | 11.9 | 12.25 | 12.6 |
| Effective annual yield (%) | 17.45 | 17.00 | 8.75 | 9.63 | 9.83 | 9.95 | 12.25 | 12.63 | 13 |
| Interest rate comparable Government Security (%) | 10.98 | 10.98 | 10.62 | 12.30 | 11.62 | 11.94 | 11.62 | 11.94 | 12.89 |
| Frequency of interest payable | Semi Annual | Annual | Annual | Annual | Semi Annual | Annual | Semi Annual | Semi Annual | Semi Annual |
| Rating | | | | | | | | | |
| Amount (Rs. million) | 1,584 | 2,430 | 1,800 | 1,200 | 2,176 | 3,824 | 542 | 659 | 6,799 |
| ISIN No. | LK0399D19136 | LK0399D19144 | LK0399D22494 | LK0399D22510 | LK0399D23229 | LK0399D23237 | LK0399D23732 | LK0399D23740 | LK0399D23757 |
| Market Value (Rs.) | | | | | | | | | |
| Highest | 105.50 | 105.50 | | | | | | 100.00 | 100.00 |
| Lowest | 105.50 | 107.00 | | | Not traded | | | 100.00 | 100.00 |
| Closing | 105.50 | 105.50 | | | | | | 100.00 | 100.00 |
| Current Yield (%) | 15.88 | 15.81 | 8.59 | 9.27 | 9.60 | 9.95 | 11.9 | 12.25 | 12.6 |
| YTM (%) | 12.48 | 11.22 | 7.97 | 8.36 | 9.60 | 9.95 | 11.9 | 12.25 | 12.6 |

| Type | 2015/16 | | | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Option 1 | Option 2 | Option 3 | Type A | Type B | Type A | Type B | Type B |
| Tenure (Years) | 4 Years | 5 Years | 5 Years | 3 Years | 4 Years | 4 Years | 4 Years | 5 Years |
| Issue date | 13-Mar | 13-Mar | 13-Mar | 14-Sep | 14-Sep | 15-Nov | 15-Nov | 15-Nov |
| Maturity date | 17-Mar | 18-Mar | 18-Mar | 17-Sep | 18-Sep | 19-Nov | 20-Nov | 20-Nov |
| Interest rate | Fixed |
| Coupon rate (%) | 16.50 | 16.75 | 17.00 | 8.75 | 9.63 | 9.60 | 9.65 | 9.65 |
| Effective annual yield (%) | 17.18 | 17.45 | 17.00 | 8.75 | 9.63 | 9.83 | 9.95 | 9.95 |
| Interest rate comparable Government Security (%) | 9.90 | 10.00 | 10.00 | 10.00 | 10.00 | 11.87 | 11.42 | 11.42 |
| Frequency of interest payable | Semi Annual | Semi Annual | Annual | Annual | Annual | Semi Annual | Annual | Annual |
| Rating | | | | | | | | |
| Amount (Rs. million) | 1,987 | 1,584 | 2,430 | 1,800 | 1,200 | 2,176 | 3,824 | 3,824 |
| ISIN No. | LK0399D19128 | LK0399D19136 | LK0399D19144 | LK0399D22494 | LK0399D22510 | LK0399D23229 | LK0399D23237 | LK0399D23237 |
| Market Value (Rs.) | | | | | | | | |
| Highest | | | | | | | | |
| Lowest | | | | | Not traded | | | |
| Closing | | | | | | | | |
| Current Yield (%) | 14.90 | 14.11 | 13.84 | 8.59 | 9.27 | 9.60 | 9.95 | 9.95 |
| YTM (%) | 9.51 | 9.42 | 8.77 | 7.97 | 8.36 | 9.60 | 9.95 | 9.95 |

Social and Relationship Capital

ADHERING TO REGULATORY REQUIREMENTS

At PLC, we are at all times committed to acting in accordance with regulatory requirements, ensuring that all our shareholders are safeguarded from risks. Apart from mandatory regulatory requirements, we disclose voluntary information to guide our investors' decision-making. Our disclosures are accurate, timely and transparent.

A breakdown of the shareholders of the Company can be found on Page 123 of this Report.

SUBSIDIARY IMPACT

During the year under review, the subsidiaries of PLC contributed positively to the consolidated results. Further details are included in the Subsidiary Information.

RELATED PARTY TRANSACTIONS

There were no individual transactions exceeding 10% of the equity or 5% of total assets during the year under review with any related party of the Company.

All related party transactions at an aggregate level are disclosed under Note 50 on Pages 357 to 361 in the Financial Statements.

EMPLOYEE SHARE OPTION SCHEME

PLC does not currently possess such a scheme.

FORESEEABLE RISK FACTORS

Information pertaining to the material foreseeable risk factors that require disclosures as per Rule No. 7, 6 (vi) of the Listing Rules of the CSE are discussed in the section on Risk Management on pages 241 to 268 of this Report.

MATERIAL ISSUES: EMPLOYEES AND INDUSTRIAL RELATIONS

There were no material issues pertaining to employee and industrial relations concerning the Company, for the year under review, which require disclosure as per Rule No. 7.6 (vii) of the Listing Rules of the CSE.

SHAREHOLDER INQUIRIES

Shareholders may, at any time, contact the Company Secretary, to direct questions/comments or request for publicly available information.

In addition, a separate investor relations function has been established at Senior Management level to assist shareholders.

A Senior Independent Director is also available to resolve major issues that cannot be resolved through habitual channels.

CONTACT INFORMATION

Monday to Friday
8.30 a.m. to 4.45 p.m.
+94 11 2631631
Investor.relations@plc.lk

THE COMPANY SECRETARY

People's Leasing & Finance PLC
1161, Maradana Road, Colombo 08,
Sri Lanka.

LINKS

PLC share price, announcements, financials, company profile, quotes, charts:

Colombo Stock Exchange
<http://www.cse.lk>

Fitch Ratings Lanka Limited
<http://www.fitchratings.lk/>

Fitch Ratings International
<https://www.fitchratings.com/>

S&P Rating
https://www.standardandpoors.com/en_US/web/guest/ratings/ratings-actions

CBSL (Weekly economic indicators)
http://www.cbsl.gov.lk/htm/english/_cei/ei/e_1.asp

People's Leasing & Finance PLC
www.plc.lk

Social and Relationship Capital

Community Capital

GRI 103-1

GRI 103-2

GRI 413-1

GRI 413-2

COMMUNITY POLICY

PLC is mindful of its business impact on the community and strives to minimise the impact the company's, operations and the supply chain have on the community. These priorities, which are based on the ideals behind PLC's sustainability policy, are ingrained in PLC's culture.

PLC'S POSITION

PLC considers its responsibilities to the environment and community as being beyond mere regulatory compliance.

Being a financial services provider, impact of PLC on environment or community is minimal. In identifying strategic locations we ensure no negative impact on environment/community. In developing new products and services we ensure no negative impact for community/environment while providing superior customer service. Further, we engage our stakeholders to ensure that we do not impact environment and community negatively. Our open door policy encourages our stakeholders to bring grievances (if any) to the attention of our corporate management. During 2016/17, no grievance incidence was reported on significant environmental/social/human rights related areas. PLC contributes to the national economy by mainly financing for income generation purpose and promoting enterprise growth. PLC has created job

opportunities island wide and invests in training and lifelong skill building for our staff. PLC has enabled inclusive finance through our fully owned microfinance subsidiary. Cluster based microfinance solutions promote entrepreneurship, while empowering females of low income households. A dedicated CSR department, with 4 full time staff based in the Head Office, oversee CSR operations of PLC. A Sustainability Governance Steering Committee, comprised the functional heads and CEO/GM, reviews CSR performance as the Board delegated to it.

In partnership with the identified partner organisations PLC implements the programmes through the Head Office or clusters of branches. PLC generates stakeholder feedback in addition to pre identified KPIs. Quarterly progress is communicated to the Board with measured KPIs.

In 2016/17, whilst adhering to our focused CSR areas that were prioritised-based on our direct/ indirect business impact on the community, we mapped SDGs to our existing framework.

We aspire to creating shared, sustainable value for our:



Suppliers



Employees



Investors



Customers



Community



Environment

Social and Relationship Capital

GRI 415-1

GRI 103-3

GRI 413-1

GRI 413-2

GRI 419-1

COMMUNITY ENGAGEMENT

As a responsible corporate, we continue to give top priority and follow through with best business practices.

With due engagement with community leaders, Local Governmental and Non-Governmental agencies, we are committed to synergising our everyday activities with the aspirations of the communities we operate in.

Our network of branches provides us with details on critical issues that need to be addressed within their respective geographical areas.

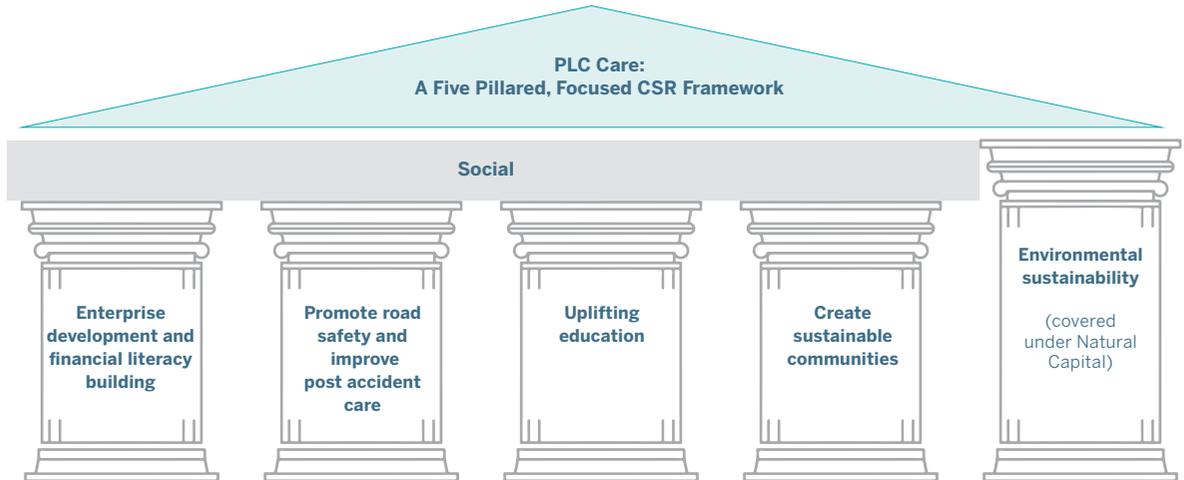
Based on the information provided by the respective branches, the CSR Department located at the Head Office, selects the projects which can contribute the most benefits. The CSR Department duly communicates on its activities to the Head Office on a quarterly basis.

For the period under review, we conducted several community development programmes, with the aim of maximising the potential benefits arising from such.

PLC has not made any monetary or in kind political contribution directly or indirectly.

We also note that no incidence of non-compliance pertaining to laws and regulations in the social and economic domains occurred within the reporting period.

The basis of our social engagement is our five-pillared PLC Care Framework



Social and Relationship Capital

GRI 203-1

CONTRIBUTION TO COMMUNITY PERFORMANCE

| | 2016/17 | 2015/16 | Change (%) |
|---|---------|---------|------------|
| Overall | | | |
| Community Investment (Rs. million) | 187.64 | 76.25 | 146.09 |
| Community Investment as a percentage of profit after tax (%) | 4.68 | 1.75 | 2.93 |
| Community based initiatives (Nos.) | 105 | 158 | -33.54 |
| Beneficiaries (Nos.) | 256,122 | 392,765 | -34.79 |
| Employee volunteerism (Hours) | 8,496.5 | 29,659 | -71.35 |
| Enterprise development and financial literacy building | | | |
| Enterprise development initiatives (Nos.) | 4 | 7 | -42.86 |
| Entrepreneurs trained/educated (Nos.) | 184 | 575 | -68 |
| Investment (Rs. million) | 1.67 | 1.53 | 9.15 |
| Promote road safety and improve post accident care | | | |
| Initiatives on road safety (Nos.) | 17 | 22 | -22.73 |
| Stakeholders educated on road safety (Nos.) | 8,695 | 3,666 | 137.18 |
| Investment (Rs. million) | 8.17 | 31.60 | -74.15 |
| Uplifting education | | | |
| Initiatives related to education (Nos.) | 27 | 26 | 3.85 |
| Scholarships continued (Rs. million) | 0.44 | 0.46 | -4.35 |
| School infrastructure development projects (Rs. million) | 0.85 | 1.50 | -43.33 |
| Investment (Rs. million) | 4.99 | 6.45 | -22.64 |
| Create sustainable communities | | | |
| Initiatives (Nos.) | 57 | 103 | -44.66 |
| Healthcare investment (Rs. million) | 2.57 | 3.92 | -34.44 |
| Community infrastructure development (Nos.) | 3 | 4 | -25.00 |
| Community infrastructure development (Rs. million) | 156.22 | 18.03 | 766.44 |
| Other community investments (Rs. million) | 14.03 | 14.72 | -4.69 |

Social and Relationship Capital

COMMUNITY FOCUS AREA 01: ENTERPRISE DEVELOPMENT AND FINANCIAL LITERACY BUILDING

Being in the business of providing financial solutions, mainly for SMEs for livelihood development, PLC has witnessed how entrepreneurs fail to sustain their businesses in the absence of financial literacy skills.

A. DIVI DIRIYA: WIN LIFE, WITH RIGHT FINANCIAL PLANNING

PLC developed a flagship programme, *Divi Diriya* in partnership with the Industrial Services Bureau (ISB) for SMEs effective from January 2016. The programme boosts entrepreneur morale whilst equipping them with skills to make them financially literate.

A total of 184 customers have been beneficiaries of this initiative at a total cost of Rs. 567,316. Up to 334 hours were volunteered by the staff for this initiative.



"I am a small-scale food seller in Melsiripura and I participated in this programme with the expectation of gaining more knowledge to develop my business.

As I expected, this programme has been very informative and interesting. I gained lot of insights to improve my business and become a successful entrepreneur, thanks to People's Leasing & Finance PLC." said Mr G P G M Wimalasena, one of the loyal customers of PLC Melsiripura.

COMMUNITY FOCUS AREA 02: ACCIDENT PREVENTION AND POST ACCIDENT CARE

PLC being in the business of financing for vehicles, considering the increasing prevalence of road accidents, the following initiatives were implemented with the aim of promoting responsible road use.

A. SURAKIWA AKURATA

Capacity building on school traffic control for student traffic wardens.

The *Surakiwa Akurata* programme was launched as a flagship initiative aimed at developing awareness on road safety amongst Schools Island wide in partnership with National Transport Commission.

Each programme is designed to build capacity in students serving as traffic wardens and teachers overseeing this function in each school. A one day programme comprises two lecture sessions on road safety and fundamentals in first aid. These sessions are followed by a demonstration on common mistakes on the road, performed by the street drama team of the Police Traffic Head Quarters. The lecture sessions are conducted by personnel from the Sri Lanka Police, Sri Lanka Traffic Police and specialists in the first aid field.

Participating schools are presented STOP/GO Boards, safety cones, safety jackets and awareness posters on road signs to strengthen the school traffic control units. Participating students and teachers are given certificates and memorabilia.

A total of 2,595 student and 265 teachers participated in the event where up to 742 hours were volunteered by employees. PLC incurred a cost of Rs. 1,974,808 for this event.



Social and Relationship Capital

B. AWARENESS WALK

An awareness walk was organised in collaboration with the National Hospital, Colombo in tandem with the 20 anniversary of PLC.

C. ISLAND WIDE SCHOOL POSTER COMPETITION

An island wide school poster competition was held marking the 20 anniversary of PLC and the 25 anniversary of the Accident Service of the National Hospital Colombo. 26 all island and 304 District wise winners were recognised and rewarded.

D. POST ACCIDENT CARE

To develop post accident care in the country, the following sustainability initiatives were implemented:

- — Presentation of critical surgical equipment to 15 accident wards of Government hospitals island wide.
- — Completed Renovation of the National Training Centre of the Accident Service Unit of the Colombo National Hospital, where approximately 25,000-30,000 professionals are trained annually in the fields of healthcare, armed forces and disaster relief.

COMMUNITY FOCUS AREA 03: UPLIFTING EDUCATION

Quality education being the 4th Sustainability Development Goal and a fundamental human right, PLC invests in education by giving away scholarships, improving school infrastructure and facilities/capacity building to provide a quality learning environment.

A. SENEHASA: FLAGSHIP SCHOLARSHIP SCHEME

Geared towards extending a helping hand towards students who display outstanding academic achievement, but lack necessary financial means, the PLC scholarship scheme *Senehasa* was launched in August 2008 with the initial awarding of two scholarships. This scheme has extended to six scholarships per year. Two students who were receiving the scholarship, have now completed their education. We aspire to extend this scholarship scheme to 50 students island wide.

Story of Ms Navanathan Janani

Ms Janani won first place at the GCE Advanced Level 2011 examination (Arts; Tamil medium) from the Kurunegala District. She was offered a place at the Faculty of Law, University of Colombo to pursue her undergraduate studies. However, her family found it difficult to meet the costs of her education. PLC offered her a monthly scholarship of Rs. 3,500/- since June 2013 to August 2016 until she completed her final year.

B. SENEHASAN ITHURUM – PRESCHOOL TEACHER TRAINING TOWARDS HOLISTIC EARLY CHILDHOOD DEVELOPMENT

PLC spearheaded a preschool teacher training realising the importance of early childhood development. The flagship initiative aims at capacity building for preschool teachers in partnership with the children's monthly magazine *Bilindu*.

360 preschool teachers were beneficiary to this programme. PLC incurred a cost of Rs. 133,459.



“The entire programme was a great learning experience. The knowledge we gained throughout the programme will enable us to mould our preschoolers to become creative and responsible future citizens. We are grateful to PLC and *Bilindu* children's newspaper for their efforts” said Ms Chintha Morawaka, preschool teacher of Dinanetha preschool, Dehiwala.

Social and Relationship Capital

B. MOST CREATIVE TILL COMPETITION

PLC hosted an island wide till competition under the theme of 'Most Creative Till' in collaboration with the childrens' newspaper Wijeya. Over 200 entries were received and the winners were recognised at the PLC Head Office.

In addition, a winning entry was selected to be used as the design for the complimentary item given to individuals opening 'minor savings' accounts at PLC.

COMMUNITY FOCUS AREA 04: CREATING SUSTAINABLE COMMUNITIES

A. SUWA SATHKARA – MEDICAL AND EYE CAMPS FOR SENIOR CITIZENS

PLC explored avenues to assist senior citizens to live a healthy life. Thus the *Suwa Sathkara* mobile medical clinic for senior citizens was launched in June 2015 and continued throughout 2016/17.

The programme covers a minimum of 150 senior citizen members of the community. Advice on healthcare, medical and eye screening are provided. Patients who are in need of cataract surgery are identified and the operations are done free of charge. Customised bifocal spectacles and reading glasses are provided for the identified people.

Having commenced in 2015/16, the programmes have provided medical screening for 606 patients, eye screening for 783 people and free cataract operations for 69 senior citizens.

Further, 563 bi focal spectacles and 48 reading glasses were provided.

B. DIYAWARA – PROVIDING ACCESS TO QUALITY DRINKING WATER WITH A MISSION TO COMBAT CHRONIC KIDNEY DISEASE

PLC presented a reverse osmosis (RO) based water purification machine to Hirigollagama village and offered concessionary finance schemes for individuals to buy RO filters to ensure that the inhabitants of the village had a safe water supply.

In October 2016, PLC provided 10,000 litre capacity Reverse Osmosis (RO) water purification plant under a finance scheme, benefitting 500 households in Kumaraeliya.

In January 2017, PLC presented 10,000 litre capacity Reverse Osmosis (RO) water purification plant at Hirigollegama, benefitting 500 households in Hirigollegama.

C. SAHANA – LENDING A HELPING HAND DURING TIMES OF DIFFICULTY

Cyclone Roanu hit Sri Lanka on 15 May 2016, causing severe flooding and landslides. Our staff in the affected areas, actively participated in disaster relief activities for the flood and landslide affected communities by partnering with other stakeholders including the Divisional Secretariat. Staff who were residing in the affected areas were also provided with aid.

- 17 initiatives conducted by PLC for 8,045 victims of landslides and flood affected, contributing 1,302 volunteering hours and Rs. 1.26 million.
- PLC provided relief for flood affected 25 staff members of PLC Group at a cost of Rs. 2.05 million.



Social and Relationship Capital

Regulatory Capital

PLC makes certain that all its business activities are conducted in accordance with the stipulations promulgated by relevant regulatory bodies, with zero tolerance for any deviations or violations.

Incorporated in August 1995, the Company was registered in 2012 as a Licensed Finance Company under the Finance Business Act No. 42 of 2011.

The finance industry underwent many changes over the past few years; edging down the number of companies through mergers or acquisitions to strengthen the Financial Sector.

In this milieu, PLC amalgamated with its then subsidiary People's Finance PLC in April 2013.

GOVERNING REGULATORY BODIES

The Corporate Governance Framework of the Company accords the highest priority to compliance with all applicable rules, regulations and codes of guidance.

Accordingly, PLC has complied in both letter and spirit with the rules and regulations of the Finance Business Act No. 42 of 2011; Finance Leasing Act No. 56 of 2000; Companies Act No. 07 of 2007; Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995; Listing Rules of the Colombo Stock Exchange; Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Central Bank of Sri Lanka and 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.

This has enabled the Company to reach the highest echelons of respect and credibility amongst its regulators.

BEING A RESPONSIBLE CORPORATE CITIZEN

PLC actively supports all relevant regulatory bodies in their initiatives in strengthening the financial systems of the country and in preventing fraudulent activities that inhibit healthy economic growth.

Our business activities are transparent in all respects we adopt a zero-tolerance policy towards any illegal or unwholesome activities. The Company conducted training programmes to further educate its staff on transparency and best industry practices.

We further possess a comprehensive code of written policies, addressing all issues of malpractices and concerns. Further information can be accessed from the Corporate Governance section of this Report.

FUNCTIONS AND ACTIVITIES

All activities pertaining to regulators are handled at the compliance and legal divisions of the Company, while compliance with all statutory requirements is being monitored monthly at Board level as well. Information with regards to these engagements is provided in the Corporate Governance Report and the Compliance Management on pages 162 to 235 and pages 239 to 240 of this Report.

Natural Capital



You. And the World.

Do you remember what it feels like to be born?
Or reborn? Feeling beach sand on your toes, the crash of
waves on the shore, the flutter of a bird's wings and the
hundred glorious colours of a sunset spreading over the
ocean seen through your own eyes...

At PLC, we understand that some of the most sublime moments
we can enjoy in life are to be found in nature.

MOMENTS

PLC completed first
ever mass training
on transformative
CSR across all levels
of PLC staff

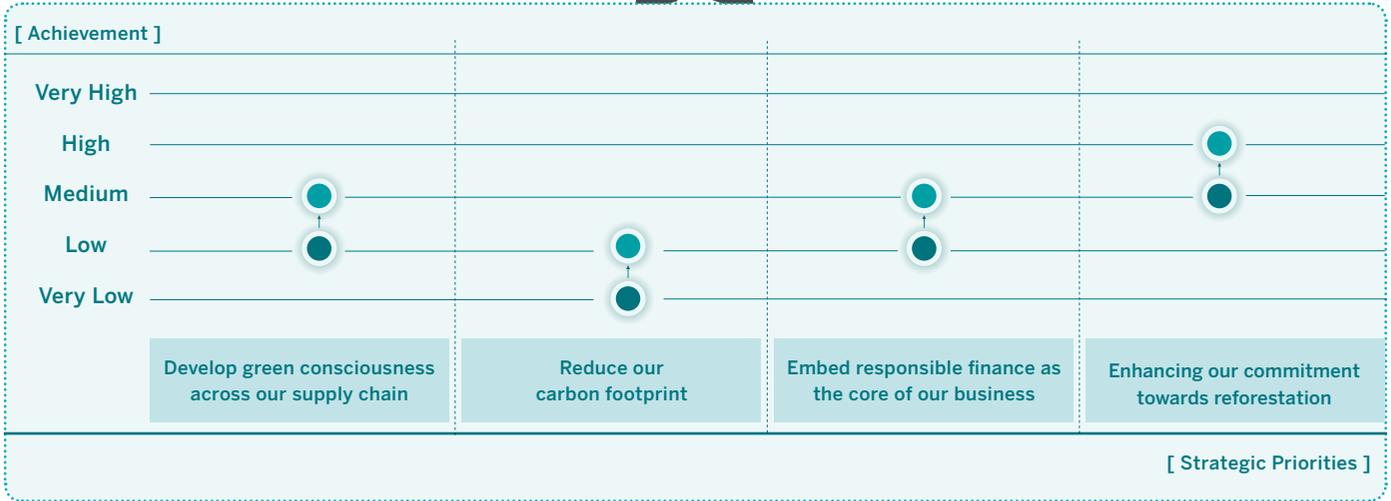
Conducted
a comprehensive
GHG assessment for
PLC Group

Continued status as a
Carbon Neutral company

Work in progress to
obtain ISO 14064-2
Certification for the
reforestation programme
in Udawatta

In as much the same way, the Natural capital of People's Leasing & Finance PLC consists of those resources that we derive from the environment; that can be utilised by us for our internal processes in the value creation process. Natural capital also encompasses the myriad ecological processes that help sustain, both directly and indirectly, the successful execution of our activities.

CDSB REQ 5



● Where PLC is now ● Where PLC aspires to be in 3 years

| Performance Gap | Opportunity Gap |
|---|--|
| Embed continued innovation into PLC culture, to convert environmental challenges of tomorrow to business opportunities that provide solutions to our stakeholders whilst gaining competitive advantage as a responsible finance company | Be proactive in identifying multi stakeholder strategic partnerships that are in line with PLC values and commit to work together to achieve Sustainable Development Goals |

| Strategic Priorities | Strategies |
|---|--|
| Develop green consciousness across our supply chain | Guided by the Board and spearheaded by the CEO, awareness/capacity building among all levels of staff and supply chain enhance. |
| Reduce our carbon footprint | Promoting green practices, efficiency improvements, leveraging on green/smart technology to service our customers and system based tracking of group wide resource consumption related KPIs. |
| Embed responsible finance as the core of our business | Guided by the Board and spearheaded by the CEO, develop policies/guidelines, sensitise all staff and build capacity in relevant staff to advocate customers, measure progress through system and monitoring. |
| Enhancing our commitment towards reforestation | Invest more on reforestation/related academic research, identify strategic partnerships, encourage staff volunteerism in reforestation work, monitor/measure progress. |



OUR
NATURAL
CAPITAL



Environmental sustainability

Embedding SDGs in 4 pillared framework



Green training and awareness

How we build green consciousness across value chain



'Reduce first' approach

Demonstrated environmental stewardship



Responsible finance

Reducing our negative environmental impact



Green partnerships

Contributing to achieve SDGs as an environmentally responsible corporate







Personal
It's simply about the highly personalised ethos that allows PLC to optimise value to the customer via a customised pricing regime.

Natural Capital

OUR POSITION

The future of our planet and indeed our lives, is only to be guaranteed if there is a sustainable consumption of natural resources.

CDSB REQ 1 CDSB REQ 2

Global warming is a pervasive threat of our times and estimates predict that the earth's temperature could rise by 4 degrees Celsius in the years to come. Rising temperatures will lead to the melting of ice caps and glaciers, which in turn would contribute to a rise in sea levels. Climate related issues are already having widespread effects on humanity, with changes in rainfall patterns contributing to droughts, heat waves and floods, which are causing massive displacements of populations.

Under such dire circumstances and vehicle leasing being our core business, PLC fully understands that environmental sustainability is a non-negotiable issue. Sustainability can be used as a strategic opportunity to call for and adopt increasingly efficient and smarter ways of living in a resource constrained world. Put quite simply, this will guarantee a future for us all.

OUR ENVIRONMENTAL STRATEGY

GRI 103-3

For the period under review, PLC continued to prioritise environmental sustainability as one of the core areas of its CSR framework and followed a four pillared management approach to preserve the environment and achieve carbon neutrality at all its business locales and supply chain.

Underpinned by a 'reduce first, then offset' approach, PLC achieved carbon neutrality in 2014/15.

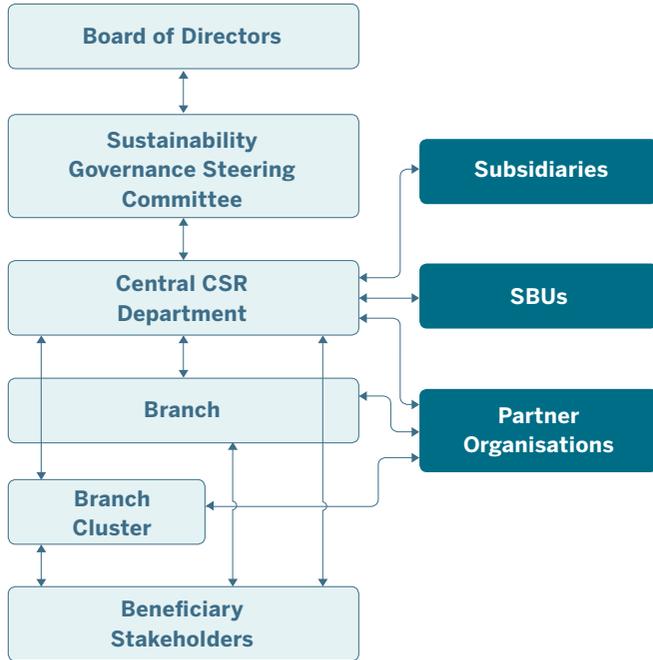
PLC continues to reduce its carbon footprint through in-house carbon reduction efforts, backed by a rise in internal awareness and behavioural changes. PLC offsets the remaining carbon through carbon credits from local carbon offsetting projects that possess verified credits. These projects help in both environmental and social causes.

An analysis of the risks and opportunities in its external operating environment, issues identified through engaging with stakeholders and consultation of the UN's Sustainable Development Goals (SDGs), has led PLC to devise Sustainability Key Performance Indicators (SKPIs).

Natural Capital

CDSB REQ 1 CDSB REQ 3 CDSB REQ 7

The identification process is detailed in the diagram below:



CDSB REQ 8 CDSB REQ 9 CDSB REQ 10 CDSB REQ 11

PLC has a dedicated Director in its Board, who oversees sustainability related performance. A quarterly report on the progress of sustainability related initiatives is submitted to the Board. Our GRI based environmental performance is subjected to an external audit upon which an assurance statement is provided.

The Board then delegates authority to the Sustainability Governance Steering Committee (SGSC). The CSR Department, which falls under this unit, is the centralised unit that monitors sustainability performance at PLC through programme level KPI measures. The Department can also identify partnerships to scale the impact of flagship programmes, which are developed in line with the focused areas.

The branch network will then, on its own or through the participation of clusters of branches, implement the designated CSR activities as such.

GRI 103-2 CDSB REQ 1

ENVIRONMENTAL POLICY

As a carbon conscious corporate PLC is committed to find ways in which we could be a responsible financial solutions provider in line with our 'four pillared' environmental strategy. Overseen by a DGM, PLC voluntarily complies with local and international environmental legislation, guidelines and standards by annually reviewing the environmental policy to ensure that it is fit and proper under the 'four pillared' environmental strategy of PLC.

CDSB (CLIMATE DISCLOSURE STANDARDS BOARD) FRAMEWORK



We are reporting on CDSB Framework for the first time, voluntarily in order to provide environmental information on natural capital dependencies, environmental results, environmental risk, opportunities, our environmental sustainability strategies, policies and performance against targets.

Enhancing environmental information presentation, comprehensive reporting, ensuring transparency in environmental information reporting with regard to Company operations are a few of the key objectives of this reporting initiative.

Details on how we have adhered to CDSB Framework's twelve key reporting requirements is provided on page 418.

In reporting under CDSB, principles of relevance, materiality disclosures are adhered to. Disclosures are faithfully represented and where possible linked with other sectors. Content is comparable and can be negotiated easily.

ENVIRONMENTAL ENGAGEMENT

We continued to prioritise environmental sustainability as one of the core areas of our CSR framework and follow a four pillared management approach to preserve the environment and achieve carbon neutrality underpinned by a 'reduce first, then offset approach' at all our business locales and supply chain.

With due engagement with community leaders, local Governmental and Non-Governmental agencies, we are committed to synergising our everyday activities.

Our GRI based environmental performance report is subjected to an external audit, upon which an assurance statement is provided.

Natural Capital

CDSB REQ 1

CDSB REQ 2

CDSB REQ 6

The basis of our environmental engagement is our four pillared environmental sustainability framework.

| Environmental sustainability dimension | Commitment | Our progress 2016/17 |
|---|--|---|
|  <p>Promote green consciousness across our value chain</p> | <p>By 2020: Develop an environmentally-</p> <ul style="list-style-type: none"> — conscious workforce and a supply chain through — regular green training across all levels of staff — responsible procurement | <p>Continued Group-wide mass employee awareness for 706 staff through 8 programmes.</p> <p>Orientation programmes of 441 new recruits towards sustainable practices.</p> <p>Included supplier assessment on violation of environmental criteria as a green procurement practice at PLC.</p> |
|  <p>Manage and optimise PLC's direct positive impact on environment</p> | <p>By 2020: Reduce carbon footprint by 5% through-</p> <ul style="list-style-type: none"> — Green practices — Efficiency improvements — Green technology track — System improvements to progress — Waste management | <p>Completed Group-wide comprehensive assessment of carbon footprint followed by 'reduce first, then offset' approach and became a carbon neutral company.</p> |
|  <p>Optimise green impact of products and services offered by PLC</p> | <p>By 2020: Embed responsible finance as the core of our business through-</p> <ul style="list-style-type: none"> — Policies and guidelines — Capacity building — Green investment and planting | <p>Disbursed 1,032 green facilities and reduced negative impacts on the environment through responsible lending and leverage on green technologies.</p> |
|  <p>Conserving the Environment</p> | <p>Conserve environment through-</p> <ul style="list-style-type: none"> — Reforestation — Supporting environment researches — Staff volunteerism — Capacity building | <p>Continued reforestation programmes in Udawatta, Kanneliya, along Trinco-Habarana Road side.</p> <p>Work in progress to inset the carbon footprint of the PLC Kandy Branch with a 10 year reforestation programme.</p> |

Natural Capital

SUMMARY OF ENVIRONMENTAL PERFORMANCE KPIs FOR 2016/17

| For the financial year | 2016/17 | 2015/16 | Change % |
|--|-----------|-----------|----------|
| Overall | | | |
| Environment related initiatives (Nos.) | 8 | 27 | -70.37 |
| Environment related investment (Rs. million) | 3.37 | 3.36 | 0.30 |
| Beneficiaries (Nos.) | 7,226 | 4,447 | 62.49 |
| Employee volunteerism (Hours) | 1,276 | 1,864 | -31.55 |
| Pillar 1: Promoting green consciousness across our value chain | | | |
| Green training programmes (Nos.) | 31 | 22 | 40.91 |
| Employees trained (Nos.) | 706 | 500 | 41.20 |
| New recruits trained (Nos.) | 441 | 468 | -5.77 |
| Pillar 2: Managing and optimising our direct positive impact on the environment | | | |
| Paper recycled (kg) | 5,678 | 6,355 | -10.65 |
| Energy usage (kwh) | 5,037,259 | 4,959,885 | 1.56 |
| Carbon footprint (Tonnes of CO ₂ equivalent) | 6,235.51 | 3,059.47 | 135.56 |
| Pillar 3: Optimising the green impact of products and services offered by PLC | | | |
| Green financing facilities (Nos.) | 1,032 | 689 | 49.78 |
| Green financing disbursements (Rs. billion) | 2.95 | 2.02 | 46.04 |
| Pillar 4: Conserving the environment | | | |
| Trees planted/maintained (Nos.) | 5,780 | 10,395 | -44.40 |
| Stakeholders educated on sustainable living (No.) | 386 | 1,482 | -73.95 |



PROMOTING GREEN CONSCIOUSNESS ACROSS OUR VALUE CHAIN

We undertook the following actions during the period under review to promote green consciousness across our chain of operations.

TRANSFORMATIVE CSR

A one-day training programme series titled 'Transformative CSR, which aimed to raise awareness amongst all employees on responsible business. This programme has been running continuously since January 2016. We have carried out 12 such programmes in total.

GREEN CLEANER WORKPLACE

This has been to educate our janitorial staff on environmentally friendly practices. This programme has been operating annually since 2014.

GRI 308-1

GRI 308-2

SUPPLIER SCREENING

We promote green consciousness across our supply chain and engage our new and existing suppliers to ensure that they meet our standards in environmental sustainability. From 2017/18, the Heads of SBUs that deal with suppliers will be asked to report on the new and existing customers they screen on pre listed environmental criteria prioritising on the suppliers who could pose significant environmental impacts on a quarterly basis.

Action to address negative impacts identified will include assistance to prevent or mitigate the impacts; failing which, the supplier will be delisted from the list.

For the period under review, we did not encounter any violation of environmental standards.

LIST OF ENVIRONMENTAL CRITERIA INTRODUCED TO SCREEN SUPPLIERS

- — Impact of own operations on environment (land, air, water, eco system)
- — Impact created as a result of the business relationship with supply chain

Natural Capital

- — Due diligence to prevent/mitigate negative environmental impact
- — Inputs used in manufacturing/packaging (non-renewables: minerals, metal, oil, gas, coal & renewables: wood, water)
 - — Dependency on natural resources
- — Commitment to manage waste (reduce, recycle, and reclaim products/packaging)



MANAGING AND OPTIMISING OUR DIRECT POSITIVE IMPACT ON THE ENVIRONMENT

EFFICIENT USE OF RESOURCES:

GRI 302

GRI 302-1

GRI 302-2

GRI 302-3

MANAGING ENERGY

In accordance with the nature of our operations, much of the energy we consume is in the form of electricity, which is used to power our premises.

Outside our habitual range of operations, energy is consumed in the form of fuel used for transport between our Branches and the Head Office.

| Energy source | Energy type | Consumption level (Joules) | |
|---|-------------|---------------------------------|---------------------------|
| | | 2016/17 | 2015/16 |
| Renewable | Electricity | 1.81 x 10¹³ | 1.79 x 10 ¹³ |
| Non renewable | Fuel | 0.46 x 10¹³** | 0.30 x 10 ¹³ * |
| Total | | 2.27 x 10¹³ | 2.09 x 10 ¹³ |
| Energy intensity ratio per employee | | 10.89 x 10⁹ | 11.40 x 10 ⁹ |
| 1 kwh electricity = 3.60 x 10 ⁶ in Joules * | | | |
| 1 litre of fuel (Petrol) = 34.46 x 10 ⁶ in Joules* | | | |
| 1 litre of fuel (Diesel) = 38.31 x 10 ⁶ in Joules* | | | |

* In 2015/16, type of the fuel was not tracked and fuel type was assumed as petrol

** Since some of the vehicle details are in Km basis, 1 Km in petrol consumed vehicle was assumed as 0.1 litres and 1 Km in diesel consumed vehicle was assumed as 0.17 litres.

GRI 302-4

GRI 302-5

PLC managed to ensure that no noticeable increases in the consumption levels of electricity or fuel at both an organisation level and a product/service level were incurred during the year.

A four pillared management approach to

preserve the environment

and achieve carbon neutrality.

50% increase

in green financing facilities

optimising the green impact

of products and services offered by the Company.

31 green training programmes

to promote green consciousness.

Ensuring transparency in environmental information; we are voluntarily reporting on the

CDSB framework

for the first time this year.



Natural Capital

MANAGING FUEL AND EMISSIONS

Each day, we transport materials from our business units to customers. Much of this distribution involves third-party service providers. We do our best to ensure that these providers help us to mitigate our direct and indirect environmental impacts by reducing mileage, the consumption of fuel and the emission of greenhouse gases, route planning, bulk delivery, off peak delivery.

For our own fleet operations, we are working at optimising route planning. In avoiding unnecessary mileage as such and by making better use of space in our vehicles, in addition to using more efficient forms of transport, we will further reduce our fuel consumption and GHG emissions.

GRI 305-1

GRI 305-2

GRI 305-3

GRI 305-4

GRI 305-5

CDSB REQ 3

BREAKDOWN OF EMISSIONS – PLC GROUP

| Reporting scope | Emissions source | Emissions component | General composition of emission scope* | Emissions total (tCO ₂ eq) | | |
|---|---|---|---|---------------------------------------|-----------------|-----------------|
| | | | | PLC only** | Subsidiaries*** | Total**** |
| Scope 1 – Direct Emissions | Stationery Combustion | Generator Fuel | Following gases were considered as applicable; Carbon dioxide (CO ₂), Methane (CH ₄), Nitrous oxide (N ₂ O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfurhexafluoride (SF ₆) | 56.72 | 0.40 | 57.12 |
| | Mobile Combustion | Owned and Controlled Vehicle Fuel Consumption | | 215.44 | 424.09 | 639.53 |
| | Fugitive Emissions | A/C Refrigerant & Fire Extinguisher CO ₂ Leakages | | 390.69 | 45.25 | 435.94 |
| | Scope 1 Total Emissions | | | 662.85 | 469.74 | 1,132.59 |
| Scope 2 – Indirect Emissions | Purchased Electricity | Electricity Consumption | Following gases were considered as applicable; Carbon dioxide (CO ₂), Methane (CH ₄), Nitrous oxide (N ₂ O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfurhexafluoride (SF ₆) | 2,467.69 | 216.79 | 2,684.48 |
| | Scope 2 Total Emissions | | | 2,467.69 | 216.79 | 2,684.48 |
| Scope 3 – Indirect Emissions | Purchased Electricity | Electricity Transmission and Distribution Losses | Following gases were considered as applicable; Carbon dioxide (CO ₂), Methane (CH ₄), Nitrous oxide (N ₂ O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfurhexafluoride (SF ₆) | 246.53 | 21.65 | 268.18 |
| | Employee Business Travel | Employee Fuel Allowance; Hired Vehicles (Local); Air Travel (Foreign) | | 1,652.42 | 92.71 | 1,745.13 |
| | Upstream & Downstream Transportation/Distribution | Third Party Inbound and Outbound Deliveries | | 16.88 | 3.24 | 20.12 |
| | Waste Generated in Operations | Waste Disposal | | 40.81 | 3.20 | 44.01 |
| | Employee Commuting | Employee Commuting to and from Work | | 1,148.33 | 164.07 | 1,312.40 |
| | Scope 3 Total Emissions | | | 3,104.97 | 284.87 | 3,389.84 |
| Total Scope 1, 2 & 3 Carbon Footprint for entities | | | | 6,235.51 | 971.40 | 7,206.91 |
| GHG emission intensity per employee | | | | 2.99 | 1.48 | 2.63 |

* Based on the Kyoto Protocol of the United Nations Framework Convention on Climate Change, and the Global Warming Potential was taken as per the 5th Assessment Report published by the Intergovernmental Panel on Climate Change.

** PLC: PLC HO, PLC Zone 1-4, PLC Service Centers

*** Subsidiaries: Fleet Mgt., Insurance, Micro, Property, Havelock property

**** Total no. of subsidiary staff was taken as at Carbon Footprint calculation period

Natural Capital

PLC Group's actual carbon footprint is 7,206.91 tCO₂eq.

GRI 305-7

PLC does not possess any significant releases of ozone-depleting substances. Similarly, our release of nitrogen oxides and sulphur oxides is not significant.

GRI 307-1

CDSB REQ 1

CDSB REQ 2

CDSB REQ 10

ENVIRONMENT COMPLIANCE

No significant fines/non-monetary sanctions were reported for non-compliance with environmental laws and regulations.

GRI 306-2

GENERATE LESS WASTE AND MANAGE WASTE

WASTE MANAGEMENT

PLC tracked the waste generation at group level for the first time during the year.

WASTE MANAGEMENT – PLC & SUBSIDIARIES

| Type of waste | Volume (tonnes) | | |
|------------------------------------|-----------------|----------------|-------|
| | PLC* | Subsidiaries** | Total |
| Food Waste/tonnes | 56.75 | 4.16 | 60.91 |
| Plastic and Polythene Waste/tonnes | 3.58 | 0.16 | 3.74 |
| Paper and Cardboard Waste/tonnes | 22.62 | 0.98 | 23.60 |
| Mixed Waste/tonnes | 23.72 | 0.35 | 24.07 |
| Electronic Waste/tonnes | 0.67 | 0.11 | 0.78 |

* PLC: PLC HO, PLC Zone 1-4, PLC Service Centers

** Subsidiaries: People's Leasing Fleet Management Limited, People's Microfinance Limited, People's Leasing Havelock Properties Limited, People's Insurance PLC.

At our Head Office (HO), we sort waste as paper, food, electronic and non-degradable before disposal. Non-degradable waste (such as polythene sheets) are collected and disposed by the Colombo Municipal Council. Paper waste is collected by the organisation Neptune Recyclers. Similarly, food waste is appropriately handed over to be utilised as animal feed. We run periodic eWaste collection campaigns throughout our network of branches, as well as community based eWaste campaigns that are conducted island wide.

WASTE MANAGEMENT – PLC HEAD QUARTERS

| Type of waste | Method of disposal | No. of Kilograms | | Partners |
|---|--------------------|------------------|---------|-------------------------------|
| | | 2016/17 | 2015/16 | |
| Food waste generated at HO premises | Reuse | 4,125 | 4,125 | Local animal farm |
| Paper waste generated at HO premises and Colombo suburb branches | Recycle | 5,678 | 6,355 | CEA endorsed paper recycler |
| Electronic waste generated at HO premises and Colombo suburb branches | Recycle | 264 | N/A | CEA endorsed eWaste collector |
| CFL & fluorescent bulb recycling | Recycle | 259 Bulbs | N/A | CEA endorsed recycler |

PLC promotes group wide waste segregation as a green practice to be implemented in partnership with local authorities and other waste management solution providers.

—○—

In 2016/17, as a green practice, PLC signed a MOU with Asia Recycling (Pvt) Limited to recycle burnt CFL and fluorescent bulbs collected at PLC as waste.

—○—

GRI 306-1

GRI 306-3

GRI 3 306-4

GRI 306-5

Due to the nature of our business, we do not release any significant effluents or spills nor do we encounter any issues pertaining to the transportation of hazardous waste. Also, our business operations or business locations do not affect water bodies or related habitats.

All used water is discharged in accordance with the guidelines of the National Water Supply and Drainage Board.

Natural Capital

ENCOURAGING MINDFUL CONSUMPTION

GRI 301-1

GRI 301-2

GRI 301-3

Being an automated service organisation, we encourage paper-less transactions.

We minimise the use of paper through our systematised operations and online approval based document management system.

Double-sided printing, segregated office waste management, switching off of appliances when not in use, smarter air conditioning solutions, sensor lighting and LED bulbs are some of the myriad ways by which we strive to be more ecologically conscious.

Our paper recycling initiative has saved approximately:

- — 97 fully grown trees
- — 9,965 litres of oil
- — 22,712 kWhs of electricity
- — 180,447 litres of water
- — 17 cubic meters of landfill
- — Reduced greenhouse gas emission by 5,678 kg of carbon equivalent

GROUP-WIDE CARBON FOOTPRINT ASSESSMENT

In line with our commitment to being mindful of our impact on the environment, we outsourced the service of the Carbon Consulting Company to independently measure the Greenhouse Gas (GHG) emissions of our operations for the period under review.

This comprehensive assessment included our Head Office, branches, service centres and our five subsidiaries, with previously overlooked components such as employee fuel allowance, hired vehicles, third party deliveries and waste disposal being taken into consideration.

Hence the benchmark for comparisons is considered as the financial year 2016/17.

This assessment was conducted in accordance with the globally accepted emissions accounting standard – the GHG Protocol, developed by the World Resources Institute and World Business Council for Sustainable Development and is also in line with the ISO 14064-1 International Standard for Quantification and Reporting of GHG Emissions and Removals at Organisation Level.

NEGATING ENVIRONMENTAL IMPACT

Not content at only measuring, we decided to extend our efforts as a continuation of our best practice adopted in the last financial year to negate our Organisational Carbon Footprint for 2016-2017* as well, through investing in a local renewable energy project to obtain Carbon Offsets/Credits. In recognition of this achievement, PLC has been certified as a CarbonNeutral® Company by the six-time 'Best Offset Retailer' global award winner, Natural Capital Partners (NCP) of the UK, following an independent verification of our footprint by their Sri Lankan verification partner, The Sustainable Future Group.

Certified CarbonNeutral® is the premium international standard for carbon neutral certification, and it is a clear, credible statement about a business's action to reduce carbon emissions to net zero. It is underpinned by The CarbonNeutral Protocol developed by NCP (formerly, The CarbonNeutral Company), and all the carbon credits/offsets they source and retire are selected, contracted, transacted, verified and retired in accordance with the requirements laid out in this publicly accessible proprietary standard.

* This excludes Employee Commuting (1312.40 tCO₂e), as it is not a mandatory requirement of The CarbonNeutral



Natural Capital

HAPUGASTENNE AND HULU GANGA SMALL HYDROPOWER PROJECTS

The project we selected to support this year is a Clean Development Mechanism (CDM) registered small hydropower credit generation project located in the Ratnapura and Kandy Districts. It is a collection of 4 small, grid connected, river runoff, hydropower plants between 2.53 MW and 5.10 MW in capacity.

Besides the reduction of emissions released into the atmosphere, the additional benefits of this project include a markedly reduced usage of water storage compared to other hydroelectric power facilities and a reduction of grid outage occurrences experienced by consumers in the area. The project has further contributed to the local economy and the livelihoods of residents through the creation of around 15 additional jobs.

As a part of the Hulu Ganga phase 1 and 2 the local school, temple, Buddhist Centre and drinking water supply for the residents of Kosgama were initiated.

Owing to the rapid growth of the Company's operations, we witnessed that the carbon footprint for 2016/17 had increased by 3,176.04 carbon equivalent tonnes. Going forward, we will be more diligent in managing this figure to be at more acceptable levels.



OPTIMISING THE GREEN IMPACT OF PRODUCTS AND SERVICES OFFERED BY PLC

RESPONSIBLE LENDING

Our efforts in transformative CSR activities lead to positive outcomes in terms of our triple bottom line. By educating our staff on all things sustainability related, we inculcate responsibility in their minds as well.

FINANCING GREEN VEHICLES AND GREEN INVESTMENTS

Our commitment to financing green initiatives resulted in disbursing Rs. 2.95 billion for 1,032 green financing facilities during the reporting period.



CONSERVING THE ENVIRONMENT

LEADERSHIP ON CLIMATE CHANGE

Reflecting its commitment to the SDG 13: Climate Action and the SDG 15: Life on land PLC promotes vehicle maintenance and is on a long-term partnership with the Department of Forestry to remove invasive species in native forests and aid in afforestation efforts.

The following table exemplifies our commitment to the restoration of forests:

| Reforestation Site | Extent (ha.) | No. of saplings planted | Progress made | Current status | Nature of planting site |
|----------------------------------|--|-------------------------|--|--|---|
| Kanneliya | 1.22 | 450 | 450 seedlings planted in Kanneliya in July 2015. | 315 plants (70% survival rate) | High endemism with rich biodiversity. Invasive species <i>Astonia</i> is considered to be a threat. |
| Udawatta | 2.0 | 3,900 | 3,900 saplings were planted in Udawatta in December 2015 while uprooting the invasive Maana grass. | 3,000 plants | Heavily invaded by Maana grass and other invasive species. |
| Trincomalee – Habarana roadsides | 5 kms along road sides and 5 plant lines into forest | 5,975 | 5,975 saplings were planted in November 2015. | 1,465 plants (Site was damaged due to fire, drought and animal activity) | Adjacent to the Galoya Forest. |

Natural Capital

PLC is in the process of in setting the carbon footprint of its Kandy branch with the carbon sequestrating value of the reforestation program that the branch does in the Udawatte Kale.

This is an unique milestone and represents a first in our history of reforestation efforts.



INVESTMENTS IN ENVIRONMENTAL INITIATIVES

| Type of environmental investment | 2016/17 | 2015/16 |
|---|---------|---------|
| Prevention and environmental management cost | | |
| Investment on green initiatives | 3.37 | 3.36 |
| No. of green initiatives | 8 | 27 |
| Employee volunteer efforts (opportunity cost) (Rs. million) | 0.14 | 0.21 |
| CFL Waste disposal and remediation cost (Rs.) | 4,969* | – |
| Emission treatment and remediation cost | | |
| Total environmental investment/ Rs. million | 3.59 | 3.83 |
| Average value of employee volunteer/hours | 1,276 | 1,864 |

* This initiative started in January 2017.

CDSB REQ 1 CDSB REQ 2

For the period under review, our investments in environmental initiatives amounted to Rs. 3,366,299. This will be appropriately increased in the years to come. More investment will be made in future to increase our contribution towards tackling climate change.

GRI 304-1 GRI 304-2

GRI 304-3 GRI 304-4

We do not operate any businesses in the vicinity of protected environmental areas. Also our business operations do not impact biodiversity nor do they harm endangered or vulnerable species.

Patron Member

BIODIVERSITY SRI LANKA

PLC is also a Patron Member of the Biodiversity SL.

CDSB REQ 1 CDSB REQ 2

FUTURE OUTLOOK

Whilst striving towards a carbon neutral journey, through the four pillared approach, PLC will ensure greater alignment with the relevant SDGs and specified KPIs towards environmental sustainability.

People's Leasing & Finance PLC will remain stalwartly committed to battling climate change to guarantee a future that is secure and sustainable for all its stakeholders.

Future Outlook

During the year, despite challenges in the environment, we notched a commendable performance with our asset base topping Rs. 150 billion. In the coming year we look forward to exploring niche markets and developing new products, as well as enriching our network, which will boost the bottom line. Keeping up with technological developments will enable us to increase operating efficiency, improve customer service and promote internal knowledge sharing. We also intend to link more closely with our subsidiaries in sharing products and services which will generate synergy. As an environmentally conscious company, we will promote green practices not only in our own operations but across our value chain.



FINANCIAL CAPITAL

Develop new products which provide a high interest spread and new profitable niche markets.

Increase reliance on foreign borrowing.

Strike optimum balance between long-term and short-term funds to support maturity mismatch.

Leverage technology to improve operational efficiency.

Increase portfolio quality by maintaining operational procedures and stringent recovery action.



MANUFACTURED CAPITAL

Enrich the existing branch network and expand window offices to build capacity.

Revamping core IT system and utilise technology to promote knowledge sharing within the Company.

ICT Training for employees to improve their skills and knowledge.

Developing a comprehensive ICT system for customer feedback.

Promoting environmental consciousness at branches and economising on energy usage.



INTELLECTUAL CAPITAL

Enhancing the brand reputation by greater segmentation directed towards capturing new markets.

Enhancing group synergies by cross selling and product bundling among subsidiaries.

Consistent maintenance and improvement of international relations.

Nurturing a knowledge culture within the organisation.



HUMAN CAPITAL

Identify required talent based on proposed operational changes.

Develop a multiskilled workforce by job rotation and cross functional training.

Identify future leaders within the Company and groom them for the positions they will fill through appropriate training.

Systematic performance appraisals and an equitable reward system.

Promote work-life balance within the parameters of the Company's objectives.



SOCIAL AND RELATIONSHIP CAPITAL

Extended training to staff which will enable them to improve customer relations.

Developing a comprehensive customer feedback system.

Social events and promotions to enhance customer relations.

Work with regulatory authorities to eliminate illegal and fraudulent practices.

Ensure timely submission of financials and all returns.



NATURAL CAPITAL

Develop green consciousness across our value chain.

Reduce carbon footprint by promoting green practices and energy efficiency improvements.

Enhance commitment to reforestation.



Stewardship

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Board of Directors

GRI 102-25



MR HEMASIRI FERNANDO

Non-Executive, Non-Independent Chairman

Mr Fernando was appointed as a Non-Executive, Non-Independent Chairman to the Board of People's Leasing & Finance PLC on 8 April 2015.

Mr Fernando holds a Bachelor's Degree in Economics (Special) from the University of Colombo. He is an Associate Member of the Institute of Travel and Tourism UK (A INST TT), as well as a Fellow of the British Institute of Management (FBIM). He has held numerous positions of seniority in the Sri Lankan Government. Mr Fernando served as the Secretary to the Prime Minister from November 1994 to December 1999, as Advisor to the President on sports from 2011 to date and as the Secretary to the Ministry of Postal Services from June 2011 to February 2015. He has also served as the Chairman of Sri Lanka Telecom Limited, Sri Lanka Telecom Services Limited, Airport and Aviation Services (Sri Lanka) Limited and Independent Television Network Limited (ITN). He has been the President of the South Asian Olympic Council, the President of the National Archery Association, Vice-President of the National Olympic Committee of Sri Lanka and the National Rifle Association of Sri Lanka. He has also served as a Commander of the Sri Lankan Navy.

Mr Fernando is the current President of the National Olympic Committee of Sri Lanka, the President of the Sri Lanka Archery Association, the Vice-President of the Commonwealth Games Federation (Asia Region), the Vice-President of the Olympic Council of Asia and the Vice-President of the Association of Portuguese Speaking National Olympic Committees (ACOLOP).

He is also the Honorary Consul for the Kyrgyz Republic in Sri Lanka. Mr Fernando serves as the Chairman of People's Bank, People's Leasing Havelock Properties Limited and People's Merchant Finance PLC. He is a Director of People's Leasing Property Development Limited and People's Leasing Fleet Management Limited.



MR MICHAEL PRADEEP AMIRTHANAYAGAM

Non-Executive, Independent Deputy Chairman/Senior Independent Director

Mr Amirthanayagam was appointed as a Non-Executive, Independent Deputy Chairman/Senior Independent Director to the Board on 8 April 2015.

He is a Fellow of the Chartered Institute of Marketing UK, (FCMA) and an Associate of Trinity College London Speech and Drama: ATCL (Sp/Dr).

Mr Amirthanayagam has served as a CNN correspondent for Sri Lanka, a news presenter for media networks Rupavahini, ITN and the Sri Lanka Broadcasting Corporation (SLBC). He has also functioned as an interviewer and Cricket Commentator and is a Past President of the Rotary Club of Colombo West.

He is currently the Chairman and Managing Director of the leading advertising agency Holmes Pollard & Stott, the Vice-President of the Society for the Upliftment and Rehabilitation of Leprosy Affected Persons (SUROL) and a Director of the Anura Bandaranaike Foundation and People's Merchant Finance PLC.



MR JEHAN PRASANNA AMARATUNGA

Non-Executive, Non-Independent Director

Mr Amaratunga was appointed as a Non-Executive, Non-Independent Director to the Board on 8 April 2015.

He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka (ICASL) and a Fellow Member of the Chartered Institute of Management Accountants, UK, (FCMA).

He was awarded the first in order of Merit Prize at the final level examination of the ICASL.

Mr Amaratunga has over 32 years of extensive experience in finance and management and has been a Consultant and Director to a large number of corporations and private entities. Amongst his many achievements, he has presented a paper titled 'Value for money accounting' at the National Conference of the ICASL in 1987.

He was also a member of the Governing Council of the Institute of the Chartered Accountants of Sri Lanka in the year 1988 and the Governing Council of the University of Colombo from April 2015 to November 2016.

Mr Amaratunga presently serves as the Chairman of People's Insurance PLC having assumed duties in July 2010. He is also the Group Executive Deputy Chairman of MTD Walkers PLC Sri Lanka, which is a leading infrastructure development company that is listed on the Main Board of the Colombo Stock Exchange (CSE) and also serves as a Director of People's Bank, JAT Holdings (Pvt) Limited and Sri Lanka Institute of Information Technology (SLIIT).

Board of Directors



**MR JOHNSON ANTHONY
FERNANDO**

Non-Executive, Independent Director

Mr Fernando was appointed as a Non-Executive, Independent Director to the Board on 8 April 2015.

He has held many senior positions within the Expo Industrial Group which has diversified interests in Apparel, Food Packaging, Industrial Printing, Commercial Printing, Logistics Management, Engineering and Construction. He has served as the President of the Sri Lanka Association of Printers and as Vice-President of the Sri Lanka-China Business Council Cooperation.

Mr Fernando is currently a Director of Expo Cargo Links (Pvt) Limited, Shore to Shore (Pvt) Limited, Expo Industrial Engineering (Pvt) Limited, Expo Printers (Pvt) Limited, Expo Property Developers (Pvt) Limited, Expo Regional Holdings (Pvt) Limited and People's Merchant Finance PLC.

Mr Fernando also serves on the Advisory Board of the Benedict XVI Cultural Institute.



**MR MOHAMED ANISE
MOHAMED RIZWAN**

Non-Executive, Independent Director

Mr Rizwan was appointed as a Non-Executive, Independent Director to the Board on 8 April 2015.

He is a Doctoral Candidate in Business Administration (DBA) at the University of Wales and he also holds a Masters in Business Administration from the University of Wales, UK and a Diploma in Business Management.

Mr Rizwan is a Member of the Chartered Institute of Marketing, UK and is a Certified Member of the Sri Lanka Institute of Marketing.

Mr Rizwan has held many senior positions in public listed companies. He has served as the Group Vice-President of Marketing, the Group Head of Marketing, the Head of Marketing and Manager of Business Development/Marketing and Corporate Communications in diverse industries.

He is the Chief Officer Strategy of Marcom and New Business Ventures of LIMRA Holdings. He is an adjunct lecturer and examiner for the undergraduate and graduate programmes in Marketing, Strategic Planning, New Business Ventures, Business Ethics and Consumer Behaviour offered by Northwood University; USA and the MBA programme of the University of West London and he is also a Dissertation Supervisor for the same MBA programme.



**MR RATHNAYAKE
MUDIYANSELAGE JAYASENA**

Non-Executive, Independent Director

Mr Jayasena was appointed as a Non-Executive, Independent Director to the Board on 7 May 2015. He holds a Bachelor of Arts Degree from the University of Colombo.

Mr Jayasena was a Consultant at the National Institute of Management and the Ministry of Industries and Scientific Affairs. He was an Executive Director at Isura Development Centre, the Vice-Chairman of the National Forum of People's Movement, a Director of Lanka Organic Agriculture Movement, the Treasurer at Green Movement Sri Lanka and a Director of Forest Garden Product Certification Limited.

Board of Directors



DR ALI ASGAR SHABBIR GULAMHUSEIN

Non-Executive, Independent Director

Dr Gulamhusein was appointed as a Non-Executive, Independent Director to the Board on 23 July 2015.

He holds a PhD from Tokyo, Japan and a Bachelor's Degree in Computer Science and Business Management from King's College London, UK. Dr Gulamhusein has also been bestowed with the prestigious title of 'Deshabandhu Manawahithawadhi, Lankaputhra'.

Dr Gulamhusein is currently a Director of Adam Capital PLC, Adam Carbons Limited, Spice of Life (Pvt) Limited, Adam Metals (Pvt) Limited, Adam Air Conditioner (Pvt) Limited, Adam Automobiles (Pvt) Limited, Colombo Apothecaries Company Limited, Business Chamber of Commerce, Hamilton Resorts (Pvt) Limited, Ceylon & Foreign Trade Surgi-Tech (Pvt) Limited, Colombo Freight and Transport Limited, Dodwell & Company Limited, Ceylon and Foreign Trades PLC, Adam Expo (Pvt) Limited, Network Communications (Pvt) Limited and Sri Lanka Institute of Textiles and Apparel.

He also serves as an all-island Justice of Peace.



MR RASITHA GUNAWARDANA

Non-Executive, Non-Independent Director

Mr Gunawardana was appointed as a Non-Executive, Non-Independent Director to the Board on 29 August 2016.

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

Mr Gunawardana has held leading positions at People's Bank in the areas of Finance, Performance Management, Corporate and Commercial Credit, Treasury Operations, Credit Control and Risk Management. Prior to Joining People's Bank, he had gained experience in both private and public sectors in industries covering Travel and Hotels, Plantation Management and Construction.

He is currently the Deputy General Manager of Risk Management at People's Bank as well as a Director of People's Leasing Fleet Management Limited.



MR ROHAN PATHIRAGE

Company Secretary

Mr Pathirage was appointed as the Company Secretary to the Board on 7 December 2007.

He is an Attorney-at-Law with a Bachelor of Laws Degree from the University of Colombo. He also holds a Postgraduate Diploma in Banking and a Masters Degree in Bank Management from Massey University, New Zealand.

Mr Pathirage is currently Secretary to the Board of Directors of the People's Bank. He also functions as Company Secretary of People's Travels (Pvt) Limited, People's Leasing Fleet Management Limited, People's Leasing Property Development Limited, People's Insurance PLC, People's Leasing Havelock Properties Limited and People's Microfinance Limited.



A strong corporate governance structure is vital to inspire trust and confidence in our stakeholders and ensure sustainability and generating value in the long term. Our governance framework includes systems, procedures, rules and division of functions. Beyond this it is also a culture, values and a code of ethics. It is not static and inert but is subject to continuous review and improvement.

Corporate Management



MR D P KUMARAGE

Chief Executive Officer/General Manager

Mr Kumarage has been functioning as the CEO/GM of People's Leasing & Finance PLC since September 1997. He is also the Managing Director of the subsidiary companies of People's Leasing & Finance PLC.

He has over 38 years of experience in Banking and Finance; prior to joining PLC, he served 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. He is the Vice-President of the Asian Leasing & Finance Association and was a former Chairman of the Leasing Association of Sri Lanka. In addition, he serves as a Non-Executive Director of Lanka Ashok Leyland PLC.



MR A S IBRAHIM

Chief Executive Officer – Designate

Mr Ibrahim was appointed as the CEO – Designate of People's Leasing & Finance PLC on 15 November 2016. Prior to that he has held very senior positions both locally and internationally including, Senior Deputy General Manager, Wholesale Banking (October 2014 to September 2016) and Senior Deputy General Manager, Risk Management (August 2007 to October 2014) of People's Bank, Deputy General Manager, Head of Treasury, Head of Corporate Banking & Recoveries, Chief Risk Officer and Chief Credit Officer of Hatton National Bank PLC (2004 to July 2007) and Head of Credit and GSAM, Standard Chartered Bank (2002 to 2004).

Mr Ibrahim has over 33 years of banking experience primarily in the areas of Corporate Banking, Treasury Management and Risk Management; he holds an Honours Degree (BSc) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers – UK (FCIB).

Mr Ibrahim has also been a Director of HNB Securities (Pvt) Limited (2005 to 2007) and People's Merchant Bank PLC (2009 to 2011). At present he functions as a Director of People's Leasing Fleet Management Limited and People's Leasing Property Development Limited.



MR SANJEEWA BANDARANAYAKE

Deputy General Manager – Finance and Administration

Mr Bandaranayake is a Fellow of The Institute of Chartered Accountants of Sri Lanka, the Institute of Certified Management Accountants of Australia and the Society of Certified Management Accountants of Sri Lanka. He is also a Finalist of the Chartered Institute of Management Accountants, UK and possesses five years' experience at Ernst & Young, Chartered Accountants. He joined People's Leasing & Finance PLC in July 2007 and has over 23 years of post-qualifying experience at a very senior level in the finance sector. He currently serves as the Acting CEO of People's Merchant Finance PLC.

He is a Director of the Credit Information Bureau of Sri Lanka and Vice-President of the Asian Financial Services Association (AFSA). He was a former Chairman and current Director of the Leasing Association of Sri Lanka, a former Committee Member of the Ceylon Chamber of Commerce and a former Council Member of the Sri Lanka Institute of Credit Management (SLICM).

Corporate Management



MR LIONEL FERNANDO

Deputy General Manager – Operations

Mr Fernando joined People's Leasing & Finance PLC in 1995 and was promoted as the Deputy General Manager – Operations in 2013. Prior to assuming duties as Deputy General Manager – Operations he has held various senior positions in the Company. He has over 28 years experience in Banking and Finance. He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Institute of the Bankers of Sri Lanka. He also holds a Postgraduate Diploma in Business & Financial Administration from The Institute of Chartered Accountants of Sri Lanka.



MR ROHAN TENNAKOON

Deputy General Manager – Operations

Mr Tennakoon is presently serving in the capacity of Deputy General Manager – Operations, having served various capacities in PLC over a period of almost 20 years. He also, holds the position of Head of Islamic Division (Al-safa). He counts 27 years of experience in many diversified fields such as Accounting, Manufacturing, Exporting and Banking prior to joining the Leasing Sector.

Mr Tennakoon holds a Master's Degree of Business Administration (MBA) from the University of Colombo, MSc (Management) from the University of Sri Jaywardenepura, BSc (Business Administration) Special Degree (2nd Class Upper) from the University of Sri Jaywardenepura and is an Associate Member of the Institute of Bankers of Sri Lanka, and is also a Member of the Association of Professional Bankers of Sri Lanka.

He also, represents the Company in the council of Management of the Finance Houses Association of Sri Lanka and has served as the Chairman of the Sports Festival Committee and is the Company's Compliance Officer for the Credit Information Bureau of Sri Lanka.

Mr Tennakoon has served as a member of the Panel of Judges in SLIM – NASCO Selecting Committee for three consecutive years.



**MR DAMITH
MALAVITHANTHILA**

Deputy General Manager – Operations

Mr Malavithanthila joined People's Leasing & Finance PLC in 1996 and had been the head of Recoveries for over ten years since the inception of the Company and from 2007 he has taken up Branch Operations. He is currently in-charge of the Southern Province and a part of the Western Province of Sri Lanka. He has well over 27 years of experience in Banking & Finance, and several years of experience in Auditing and Accounting. He is a Finalist of The Institute of Chartered Accountants of Sri Lanka and a Finalist of the Institute of Bankers of Sri Lanka. In addition to that, he overlooks the operations of People's Leasing Fleet Management Limited and People's Merchant Finance PLC.

Corporate Management



MR LAKSANDA GUNAWARDENA

Deputy General Manager – Operations

Mr Gunawardena joined People's Leasing & Finance PLC in 2002 and had been the Head of Corporate Leasing for 10 years.

He has over 22 years experience in the field of Corporate and SME Financing, covering the areas of Credit, Marketing, Recoveries and Branch Development & Operations.

He is currently serving as Deputy General Manager – Operations. In addition, Mr Gunawardena overlooks the Operations of People's Microfinance Limited, a fully-owned subsidiary of People's Leasing & Finance PLC.

He holds a Master's Degree in Business Administration (MBA), MSc in strategic Marketing and a Diploma in Credit Management from the Sri Lanka Institute of Credit Management. He is also an Associate Member of the same institute.



MR PRABATH GUNASENA

Deputy General Manager – ICT (Group)

Mr Gunasena joined People's Leasing & Finance PLC in 1999, and has been the Head of ICT for the past 18 years. He holds a Master's Degree in Business Administration (MBA) from the University of Western Sydney (UWS) and a Diploma in Computer System Design from the National Institute of Business Management (NIBM), Sri Lanka.

He is also a Member of the British Computer Society.



MR UDESH GUNAWARDENA

Deputy General Manager – Audit

Mr Gunawardena joined People's Leasing & Finance PLC in 1999 and possesses over 20 years experience of in the field of Finance, covering Accounting, Auditing, Financial Management and Treasury Operations at a senior level. Presently, he also serves as Secretary to the Board Audit Committee of People's Leasing & Finance PLC. Further, he has been appointed as the Chief Financial Officer of the Bangladesh Joint Venture of the Company and has been involved in pre-operational matters since last November.

He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka, Institute of Certified Management Accountants of Sri Lanka, Institute of Professional Finance Managers, UK, a Member of the Institute of Internal Auditors and a Finalist of the Chartered Institute of Management Accountants, UK. He holds a Diploma in Treasury, Investments and Risk Management from the Institute of Bankers of Sri Lanka and is also a world prize winner of the Australian Computer Society.

Senior Management



MR RANIL PERERA

Chief Manager – Branch Operations

Mr Ranil Perera currently serves as the Chief Manager of Branch Operations at PLC with over 17 years of experience in the field. He holds a Masters in Regional Development and Planning from the University of Colombo, an MBA from the University of Manipal (India) and a Postgraduate Diploma in Economic Development from the University of Colombo. He also holds a B Com (Special) in International Trade from the University of Sri Jaywardenepura and Part Qualifications in CIM, UK and of The Institute of Chartered Accountants of Sri Lanka.



MR URESH JAYASEKARA

Chief Manager – Human Resources (Group)

Mr Uresh Jayasekara is the Chief Manager – Human Resources of the PLC Group and has an experience of over 18 years. He holds an MBA (Special) in HR and a Postgraduate Diploma in Business Management from the University of Colombo. In addition he has a BSc Bio Science (Hon) from the University of Kelaniya and a Diploma in Management from the Open University of Sri Lanka.



MR SAMAN LIYANAGE

Chief Manager – Deposits and Savings

Mr Saman Liyanage is the Chief Manager – Deposits & Savings and has over 31 years of experience in the field. He holds an MBA from the University of Manipal – India and a Diploma in Business Administration from the American College of Higher Education. He is also an Associate Member of SLIC.



MR HASANTHA DE SILVA

Chief Manager – Operations

Mr Hasantha De Silva is a Chief Manager – Operations at PLC and has over 27 years of experience in the field. He holds a Higher National Diploma in Accountancy and is at an Intermediate level of The institute of Chartered Accountants of Sri Lanka.



MR P D C S MAHANAMA

Chief Manager – Operations

Mr P D C S Mahanama is currently serving as a Chief Manager – Operations at PLC and has over 21 years of experience in the field.



MR NEIL THUSHANTHA

Chief Manager – Operations

Mr Neil Thushantha is a Chief Manager – Operations at PLC with over 18 years of experience. He holds a BSc (Agri) sp 2nd Upper from the University of Peradeniya and has a Part qualification in CIMA, UK.

Senior Management



MR CHAMIL HERATH

Chief Manager – Operations

Mr Chamil Herath holds the position of Chief Manager Operations and possesses over 17 years of experience. He holds a BSc Business Administration Special from the University of Sri Jayewardenepura and is a Licentiate in The Institute of Chartered Accountants of Sri Lanka.



MRS KAMANI DEMATAWEWA

Chief Manager – Legal

Mrs Kamani Dematawewa currently serves as the Chief Manager – Legal. She has over 27 years of experience and is an Attorney-at-Law and Notary Public. She holds a Post-Attorney Diploma in Finance, Banking and Insurance Laws by the Institute of Advance Legal Studies of the Incorporated Council of Legal Education and a Diploma in Credit Management from SLICM (Associate Member of SLICM).



MRS INOKA JAYAWARDHANA

Chief Manager – Group Corporate Affairs and Investor Relations/Compliance Officer

Mrs Inoka Jayawardhana is the Chief Manager – Group Corporate Affairs and Investor Relations/Compliance Officer at PLC. She possesses over 16 years of experience and is an Attorney-at-Law, a Certified Compliance Officer and a member of IABFM. She also holds a Diploma in International Relations from the Bandaranaike Center for International Studies, Colombo.



MR OMAL SUMANASIRI

Senior Manager – Finance

Mr Omal Sumanasiri is the Senior Manager – Finance at PLC and has over 12 years experience in the field. He is qualified in ACA, ACMA (SL) and holds a B B Mgt (Accountancy) – 1st Class from the University of Kelaniya.



MR NISHANTHA PERERA

Senior Manager –
Margin Trading/Portfolio Management

Mr Nishantha Perera holds the position of Senior Manager – Margin Trading/Portfolio Management and has over 25 years of experience in the field.



MR MOHIDEEN MAHAROOOF

Senior Manager – Islamic Finance

Mr Mohideen Maharooof is a Senior Manager for Islamic Finance at PLC and has over 31 years of experience. He has completed the Intermediate Examination at IBSL and has a Diploma in Islamic Banking and Finance.

Senior Management



MR RANDHIL SIRIWARDENA

Senior Manager – Factoring

Mr Randhil Siriwardena holds the position of Senior Manager – Factoring and has over 19 years of experience in the field. He is qualified in ACMA (UK), ACMA (SL) and CGMA.



MR SHIRON RANASINGHE

Senior Manager – Operations

Mr Shiron Ranasinghe is a Senior Manager – Operations. He has over 27 years of experience and holds the Certificate of Marketing CIM, UK and the Certificate in Credit Management from the Institute of Bankers of Sri Lanka.



MRS PRIYANKA WIMALASENA

Senior Manager – Operations

Mrs Priyanka Wimalasena is a Senior Manager – operations and has over 18 years of experience. She holds a B Com (Special) Degree from the University of Sri Jayewardenepura and is a Licentiate of The Institute of Chartered Accountants of Sri Lanka.



MR NANDANA WEERAKKODY

Senior Manager – Operations

Mr Nandana Weerakkody holds the position of Senior Manager – Operations and has over 22 years of experience. He holds a BSc (Agri) sp from the University of Peradeniya and a Certificate in Hire Purchase and Lease Finance from the Institute of Bankers of Sri Lanka.



MR NANDANA VITHANA

Senior Manager – Administration

Mr Nandana Vithana is the Senior Manager – Administration at PLC with over 18 years of experience in the field. He holds an MBA from the Postgraduate Institute of Management, BSc Marketing Management Special (2nd Upper) Degree from the University of Sri Jayewardenepura, He is also a Licentiate of The Institute of Chartered Accountants of Sri Lanka with a Part qualification of CIMA UK.



MR AMINDA RAJAPAKSHA

Senior Manager – Internal Audit

Mr Aminda Rajapaksha holds the position of Senior Manager – Internal Audit at PLC with over 17 years of experience. He holds a B Com (Special) Degree from the University of Sri Jayewardenepura.

MR VAJIRA RAMANAYAKE

Senior Manager – Operations

Mr Vajira Ramanayake is a Senior Manager – Operations. He has over 25 years of experience in the field. He holds an Intermediate Banking Diploma at IBSL and a Diploma in Credit Management from the Institute of Credit Management.

Not in picture

Corporate Governance

This section provides you with an insight into the performance of the Board during 2016/17 and describes how well the Board has applied principles of good governance in our day-to-day affairs.

CHAIRMAN'S MESSAGE

Dear Stakeholders,

We believe that a strong corporate governance system, underpinned by a sound culture is fundamental to the sustainable growth we seek to drive for our stakeholders individually and our country as a whole. As such, the role of the Board is crucial in shaping the Group's culture, both within the boardroom and across the wider organisation.

The Board therefore, perceives its role as not only to ensure that the Group succeeds well beyond their term, but that it can prosper through economic cycles and changing market conditions and is sustainable into the future.

This report provides a summary of our corporate governance philosophy, practices and key developments for the year ended 31 March 2017.

OUR GOVERNANCE PHILOSOPHY...

Recognising that a well-governed company takes a long-term view, we are committed to integrate environmental and social responsibilities in analysing risks, discovering opportunities and allocating capital in the best interests of our stakeholders, whilst being committed to upholding responsibility, transparency, accountability and impartiality; the foundation of our governance philosophy.

Thus, sound corporate governance is implicit in our values, culture, processes, functions and organisational structure.

OUR GOVERNANCE MODEL...

Our governance framework and how we apply it in our daily dealings, goes beyond the need to comply with regulatory prescriptions.

Accordingly, our governance framework embodies in it a clearly defined internal structure that demonstrates the distinction of the functions between the Board and the Management, while at the same time fostering accountability and effective co-ordination.

The Board delegates authority to the relevant Board Committees and the Management with clearly defined mandates and authority, while preserving its accountability.

The delegation of authority framework is reviewed periodically to ensure that the limits remain appropriate, taking into account the size of the entity and its specific operational context.

PAST YEAR IN REVIEW...

Corporate governance remains a dynamic issue, which requires ongoing implementation and embedding in the Organisation's culture. The Board's approach to governance is to keep track of developments and adopt those practices that are most relevant to the Group and strengthen our competitive advantages once they become part of our operating reality.

Thus, several initiatives were taken by the Board and its Committees during the year 2016/17 including, reviewing and revising the governance charter, strategy development, further strengthening the risk management function and related party transaction procedures.

INTO THE FUTURE...

Reiterating that a strong corporate governance culture is pivotal to sustain growth and profitability, the Board continues to champion good governance and believes that the application of sound corporate governance principles, based on ethical leadership, ensures the Group's success and its sustainability.

We remain committed to transparency and continuous improvement in our reporting, as we continue on our governance journey.



Hemasiri Fernando
Chairman

19 May 2017
Colombo

Corporate Governance

STATEMENT OF COMPLIANCE

We aim to ensure that good corporate governance provides a solid basis for our business, in promoting transparent and ethical business conduct at all levels and add value for our stakeholders. Thus, we continue to be committed to highest standards of corporate governance across all dimensions of our operations and these standards are encapsulated in our governance charters, policies and documents, highlights of and compliance to which are detailed in the succeeding sections of this Report.

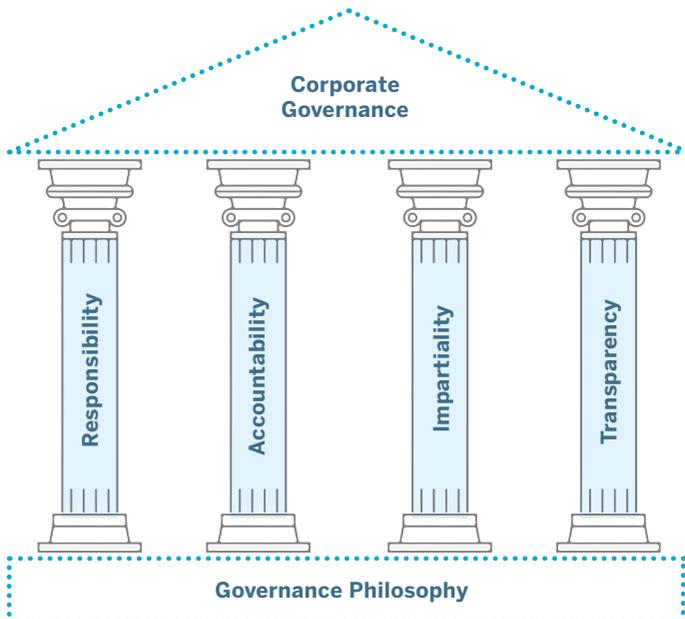
The Board of Directors of the Company wishes to confirm that the Company has complied throughout the year with the provisions of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended by Directions No. 4 of 2008 and No. 6 of 2013, Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Corporate Governance Rules embedded in the Listing Rules of the Colombo Stock Exchange (CSE), to the extent hereinafter disclosed in this Report.

Refer Corporate Governance on pages 162 to 223.

The Board of Directors also wishes to confirm that, to the best of its knowledge and belief, the Company has complied with all requirements under the Companies Act No. 07 of 2007 and satisfied all its statutory payment obligations to the Government and other statutory/regulatory bodies.

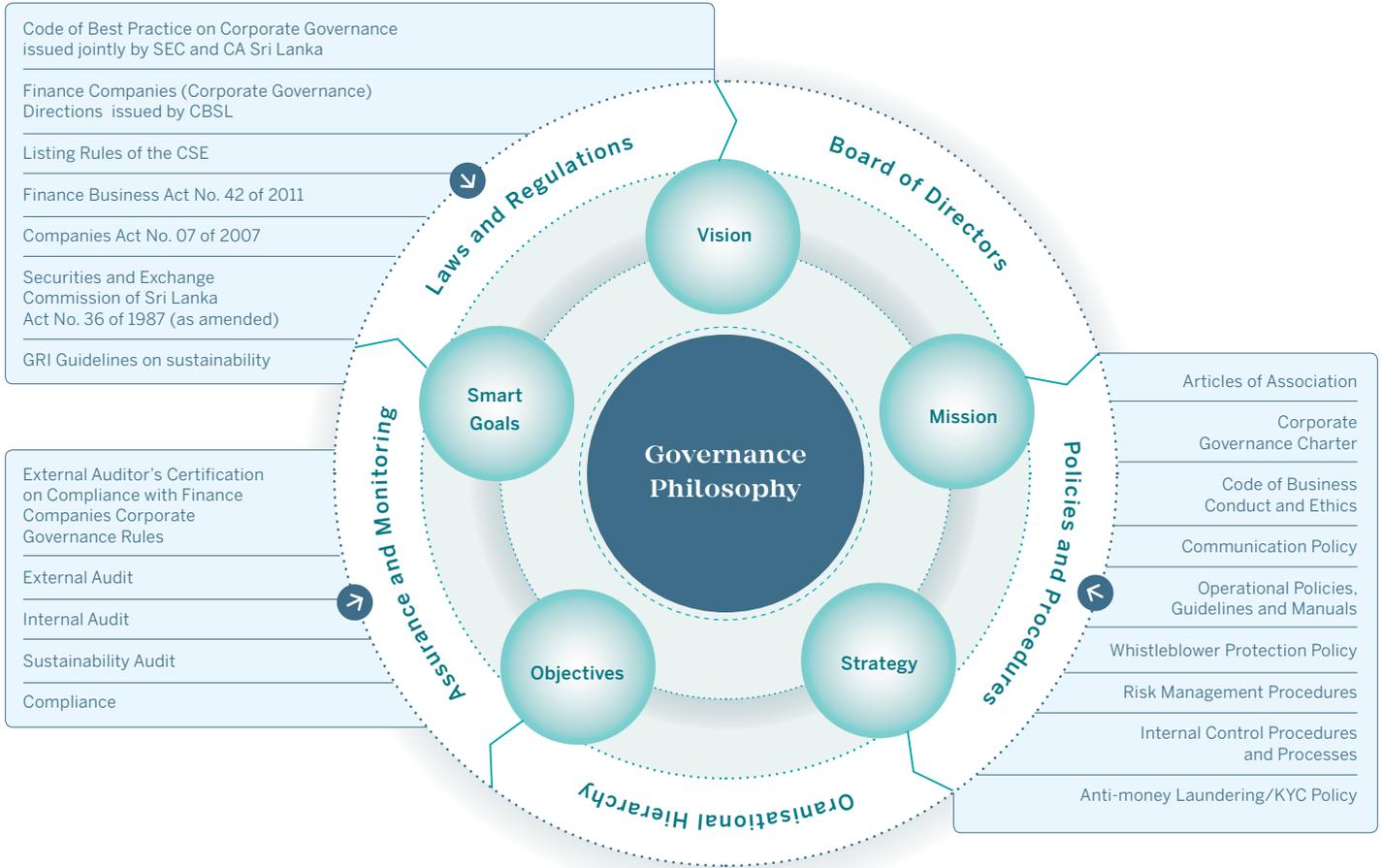
YEAR IN REVIEW – GOVERNANCE HIGHLIGHTS FOR 2016/17

| | Initiated in 2015/16 | New initiative |
|--|----------------------|----------------|
| Reviewing and updating the Corporate Governance Charter to be current with the regulations and global developments | | ✓ |
| Reviewing and updating the Code of Business Conduct and Ethics | | ✓ |
| Rolling out a succession plan for the Chief Executive Officer | | ✓ |
| Rolling out the Business Continuity Plan | ✓ | |
| Undertaking a review of policies and procedures on related party transactions with the assistance of an independent expert | | ✓ |
| Reviewing the three year strategic business plan in line with the economic and industry developments | ✓ | |
| Reviewing and updating the Management Information System Manual | ✓ | |
| Reviewing and updating the Terms of Reference of the Integrated Risk Management Committee | | ✓ |
| Adoption of a new Retirement Policy | | ✓ |
| Reviewing and adoption of Risk Appetite Statement for the year 2016/17 | ✓ | |
| Undertaking a review of organisational structure and the development of a comprehensive succession plan for the Key Management Personnel | | ✓ |



Corporate Governance

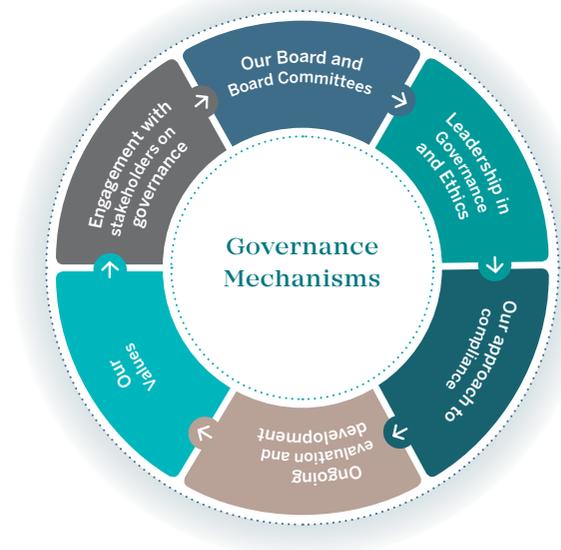
OUR GOVERNANCE FRAMEWORK



GOVERNANCE MECHANISMS AND STRUCTURES

The various mechanisms that exist within the organisation enable us to adhere to high standards of good governance.

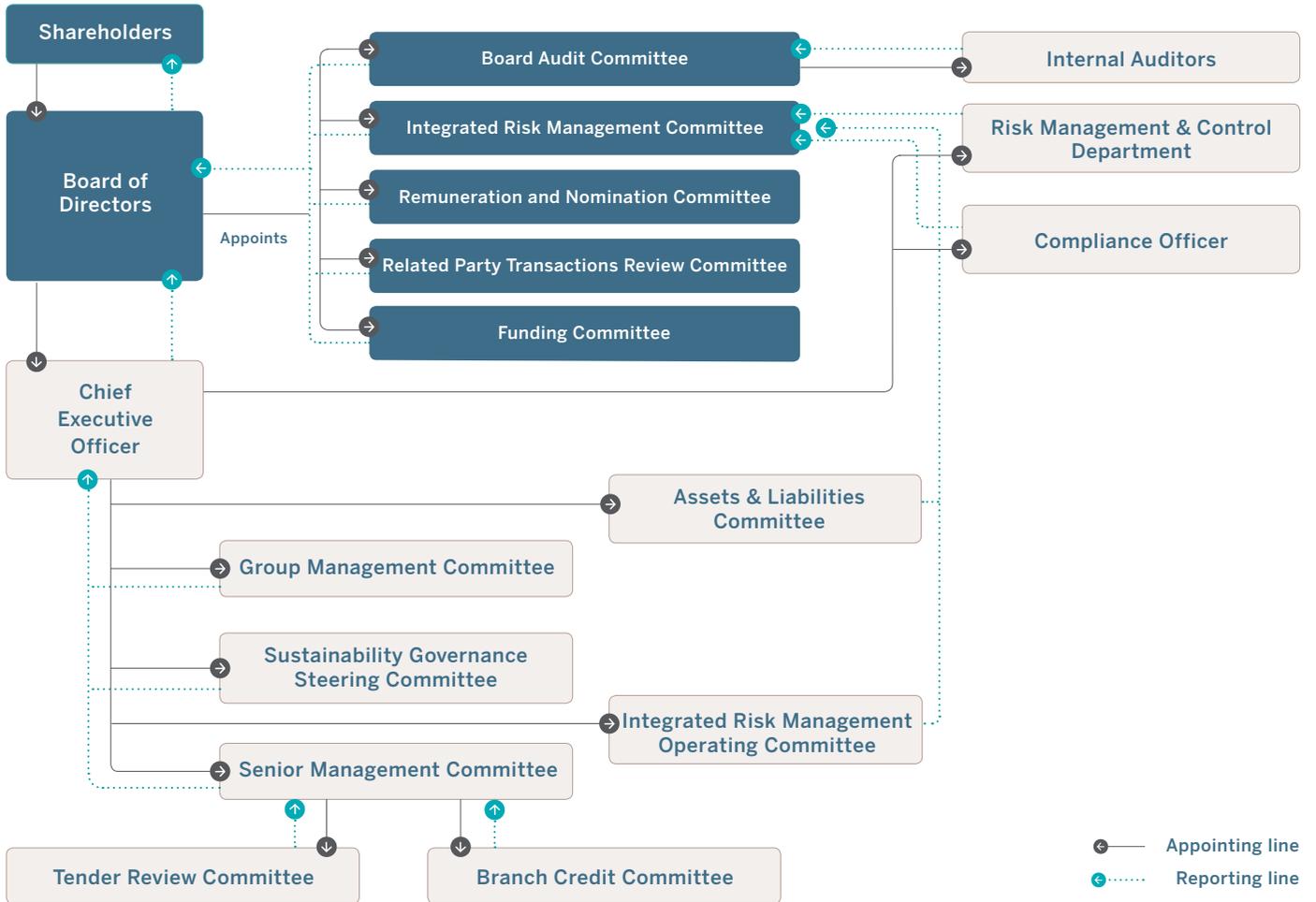
In addition, the internal structure with defined roles and responsibilities, facilitates the Board to balance its role of providing oversight and guidance to the Management in strategy implementation, risk management and meeting stakeholder expectations.



Corporate Governance

GRI 102-18

OUR INTERNAL GOVERNANCE STRUCTURE



1. OUR BOARD AND BOARD COMMITTEES

'The Board provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls, which enables risks to be assessed and managed to ensure long-term sustainable development and growth.'

1.1 ROLE OF THE BOARD

The Board is ultimately responsible for the Group's corporate governance and for ethical and effective leadership towards the achievement of the Group's strategy. The Board dedicates time to oversee Group culture and ensures that the Group is managed within the agreed risk appetite. The Board monitors and holds the executive accountable for the Group's operational and financial performance and the Management is open and transparent with the Board, bringing all significant matters to its attention.

Corporate Governance

The Board's detailed roles and responsibilities are set out in the Corporate Governance Charter, which incorporates principles of corporate governance and complies with the provisions of the applicable legislation as well as the Company's Articles of Association. The mandate, which also provides for matters reserved for decision by the Board, is reviewed periodically.



Key focus of the Board

Determine the values and ethical standards of the Group to ensure that stakeholder expectations are well understood and met;

Review strategic and business plans with emphasis on sustainability issues, including environmental and social factors;

Establish a framework for assessment and management of risks;

Monitor the performance of the Board Committees to ensure proper and effective oversight and control of the activities of the Group;

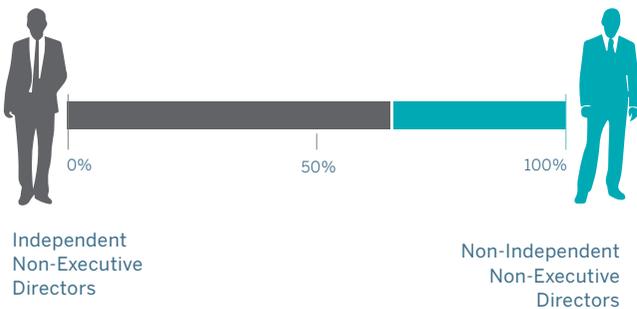
Review the performance of the Management;

Develop a succession plan for the CEO and Key Management Personnel

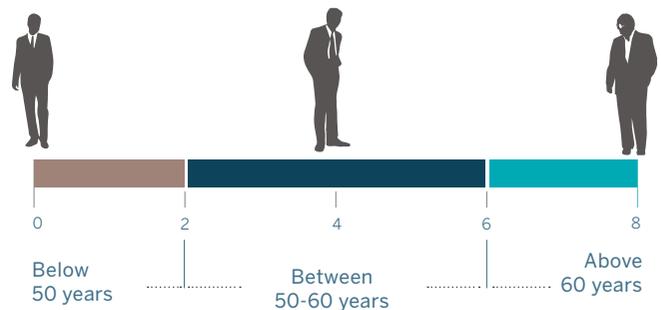
GRI 102-22

BOARD COMPOSITION HIGHLIGHTS

Mix of Directors

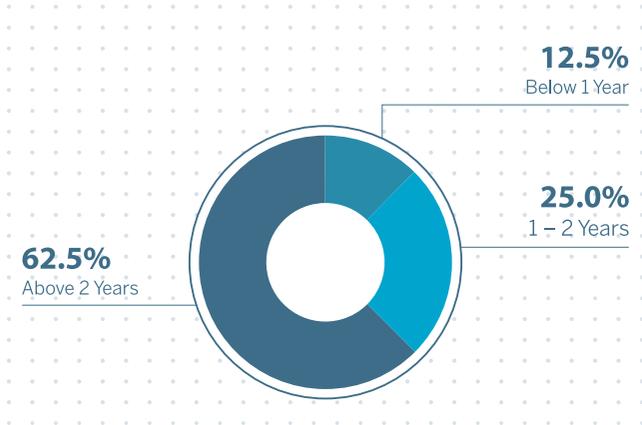


Ages



Corporate Governance

TENURE OF THE BOARD



1.2 BOARD COMPOSITION

Refer Board of Directors on pages 152 to 154.

The collective background of the members of our Board provides for a balanced mix of skills and attributes, which enables it to fulfill its duties and responsibilities.

The Board continues to believe that its overall composition and size remains appropriate, given the present size and geographic footprint of our operations. The tenure of our Directors demonstrates a good balance between continuity and fresh perspectives, whilst the proportion of Independent Non-Executive Directors on the Board is high.

Refer Assessment of Independency on page 177.

1.3 BOARD COMMITTEES

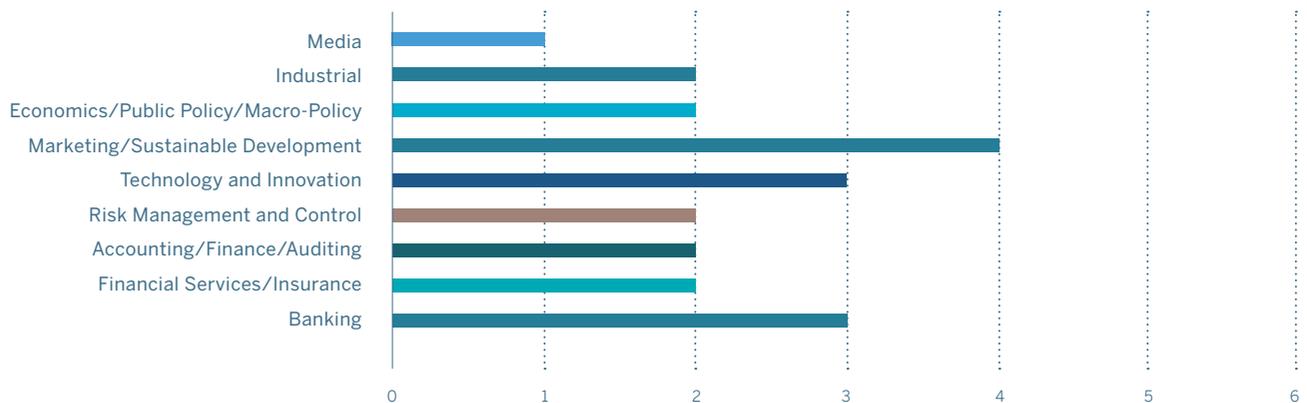
Refer Board Committee Reports on pages 230 to 238.

The Board has delegated certain of its functions to Board Committees established in line with the corporate governance framework of the Company. This enables the Board to allocate adequate time to all matters within its sphere.

Board Committees comprised Non-Executive Directors and experienced Chairmen. In determining the composition of the Committees, the Board takes into account applicable regulations, skills and experience of its members and the committee mandate. The Committee mandate, which sets out its role, responsibilities, composition, scope of authority, terms of reference and procedures, is reviewed periodically so as to be current with the developments in the regulatory and governance framework.

The Committee Chairmen Report to the Board on the activities of the respective committee at Board meetings and are accountable for the effective functioning of the Committees.

BREADTH OF EXPERTISE AND EXPERIENCE



Corporate Governance

| Highlights of Board Committees | | |
|---|---|--|
| Committee | Highlights for 2016/17 | Key focus areas |
| Board Audit Committee (BAC) | Comprised three Non-Executive Directors, two of whom were Independent Directors Five meetings | Monitors and assesses the adequacy and effectiveness of the established accounting, financial, financial reporting, compliance and other internal control systems. |
| Integrated Risk Management Committee (IRMC) | Comprised seven members; two Non-Executive Directors and five Key Management Personnel Chairman was an Independent Director Four meetings | Provides independent and objective oversight of risk management across the Group to ensure that risk management standards and policies support Group strategies. |
| Remuneration and Nomination Committee (R&NC) | Comprised three Non-Executive Directors, two of whom, were Independent Directors Six meetings | Determines the rewards strategy and assists the Board in succession planning. |
| Related Party Transactions Review Committee (RPTRC) | Comprised three members, all of whom were Non-Executive Independent Directors. Three meetings | Implements and oversees policies and procedures relating to related party transactions of the Company and avoidance of conflicts of interests. |
| Funding Committee (FC) (Voluntary Committee) | Comprised three members, all of whom were Non-Executive Independent Directors. Three meetings | Reviews and recommends the funding requirements and strategies of the Company. |

1.4 BOARD MEETINGS

Meetings of the Board and its Committees are held in an atmosphere of robust, direct and constructive debate among the Board and committee members. These meetings are held at least monthly to discuss key areas of operations, including strategy and governance.

Refer: Directors' Attendance at Board and Committee meetings, page 170.

The Chairman sets the agenda for Board meetings with the assistance of the Company Secretary.



Board Attendance

92%

(2015/16: 90%)

Corporate Governance

KEY FOCUS AREAS FOR THE BOARD IN 2016/17

| | |
|------------------------|---|
| Governance | <p>Reviewed and updated the Corporate Governance Charter and the Code of Business Conduct and Ethics</p> <p>Initiated a succession plan for the Chief Executive Officer</p> <p>Reviewed and updated the Terms of Reference of the Integrated Risk Management Committee and the Risk Appetite Statement for the year 2016/17</p> <p>Adopted a new Retirement Policy</p> <p>Undertook a review of organisational structure and the development of a comprehensive succession plan for the Key Management Personnel</p> <p>Initiated the Business Continuity Plan</p> <p>Reviewed and updated internal policies such as the Management Information System Manual, Margin Trading Procedure Manual.</p> |
| Strategy and business | <p>Reviewed the three year strategic business plan</p> <p>Approved the budget for 2017/18</p> <p>Considered industry analysis reports</p> <p>Monitored and reviewed the monthly business performance</p> |
| Risk and oversight | <p>Reviewed the reports of the Board Committees</p> <p>Reviewed monthly and quarterly financial reports against the agreed budget</p> <p>Approved the Annual Report for 2015/16 and Annual and Interim Financial Statements</p> <p>Reviewed the Company's solvency position and approved dividend payments</p> |
| Stakeholder Engagement | <p>Convened the Annual General Meeting for 2016</p> <p>Reviewed the quarterly reports on Sustainability and Corporate Social Responsibility (CSR) initiatives</p> |

DYNAMICS OF CONSTRUCTIVE AND EFFECTIVE BOARD MEETINGS

At the Meeting

- Open dialogs between the Directors
- Well prepared and meaningful discussions
- Receipt of detailed committee meeting updates
- Provision of complete and comprehensive operational and financial performance updates from the Management
- Availability of heads of business units throughout the meetings to discuss specific areas, if required
- Regular updates on the impending market conditions, regulatory framework changes and other factors impacting the Company affairs
- Presence of the Company Secretary and other in-house professionals to ensure compliance with applicable rules and regulations in the decision-making

Before the Meeting

- Advance scheduling of meetings
- Carefully thought out and flexible agenda
- Timely provision of complete and comprehensive details of agenda items to Directors
- Ability of Directors to appoint an Alternate Director or participate in meetings through telephone or video conference
- Right and liberty of Directors to obtain independent advice

Dynamics of constructive and effective Board meetings

After the Meeting

- Management discussions on areas of concerns raised at Board meetings
- Follow-up by the committees of matters referred at Board meetings
- Follow-up and preparation by the Management of additional information/material required by Directors
- Follow-up by Directors of matters arising from discussions at Board meetings

Corporate Governance

GRI 102-22

GRI 102-23

GRI 405-1

DIRECTORS' ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS AND THEIR OTHER DIRECTORSHIPS/SIGNIFICANT POSITIONS

| Name of Director | Non-executive | Independent | Board Subcommittees | | | | | | | | | | Directorships and other significant positions held | | | | | | | | | | | | |
|---|---------------|-------------|---------------------|------------|-----------------------|------------|--------------------------------------|------------|---------------------------------------|------------|---|------------|--|------------|------------------|-------|----------|---|---|--------------------|------------------------|--------------------|------------------------|------------|--|
| | | | Board | | Board Audit Committee | | Integrated Risk Management Committee | | Remuneration and Nomination Committee | | Related Party Transactions Review Committee | | Funding Committee | | Age distribution | | | Institutions within/related to the finance sector | | Other institutions | | Listed | | Non-listed | |
| | | | Position | Attendance | Position | Attendance | Position | Attendance | Position | Attendance | Position | Attendance | Position | Attendance | Below 50 | 50-60 | Above 60 | | | Executive capacity | Non-executive capacity | Executive capacity | Non-executive capacity | | |
| Mr Hemasiri Fernando | √ | X | Chairman | 14/14 | | | | | | | | | | | | √ | 2 | 4 | | | 2 | | 4 | | |
| Mr M P Amirthanayagam | √ | √ | Deputy Chairman | 12/14 | Member | 4/5 | Chairman | 4/4 | Member | 6/6 | Chairman | 3/3 | | | | √ | 1 | 3 | | | 1 | 1 | 2 | | |
| Mr J P Amaratunga | √ | X | Director | 10/14 | Chairman | 5/5 | | | Chairman | 6/6 | | | | | | √ | 2 | 4 | 1 | 1 | | | 4 | | |
| Mr N Vasantha Kumar (retired on 24.07.2016) | √ | X | Director | 03/03 | | Member | 1/1 | | | | | | | | | √ | 7 | 4 | | | 2 | | 9 | | |
| Mr J A Fernando | √ | √ | Director | 14/14 | | | | Member | 5/6 | Member | 3/3 | Chairman | 3/3 | | | √ | 1 | 8 | | | 1 | | 8 | | |
| Mr M A M Rizwan | √ | √ | Director | 14/14 | Member | 4/5 | | | | Member | 3/3 | Member | 2/3 | √ | | | - | 1 | | | - | | 1 | | |
| Mr R M Jayasena | √ | √ | Director | 13/14 | | | | | | | | | | | | √ | - | - | | | | | - | | |
| Dr A A S Gulamhusein | √ | √ | Director | 12/14 | | | | | | | Member | 2/3 | √ | | | | - | 18 | | | 2 | | 16 | | |
| Mr G B R P Gunawardana | √ | X | Director | 10/10 | | Member | 3/3 | | | | | | | | | √ | - | 2 | | | 1 | | 1 | | |
| Total | 8 | 5 | | | | | | | | | | | | | | | | | | | | | | | |

1.5 BOARD'S INTERACTION WITH THE MANAGEMENT

The Board is regularly updated by the Management on the performance and prospects of the Group, by providing detailed reports at Board meetings. Directors also have direct access to the Management to obtain any additional information to make informed and timely decisions.

In addition, throughout the year, the Directors have a number of opportunities to interact with the Management including, ongoing interactions across various levels and functions and these interactions facilitate Directors' in-depth understanding and knowledge of the business and operations of the Group.

Board approvals for matters of exigency can be obtained through the circulation of written resolutions and ad-hoc meetings are held whenever the necessity arises.

1.6 ROLE OF THE CHIEF EXECUTIVE OFFICER (CEO)

The CEO is the apex executive of the Company and is responsible for the management of day-to-day operations with the support of the Management. The CEO is accountable to the Board to recommend the Company's strategy and its subsequent implementation, to ensure that appropriate internal controls are in place to manage and assess risks and that they are fully complied with and he represents the Management at meetings of the Board.

Corporate Governance

2. LEADERSHIP IN GOVERNANCE AND ETHICS

GRI 102-16

‘The Board and the Management are responsible and accountable for the performance and affairs of the Company and ensure that all our employees adhere to high standards of governance and ethical behaviour’

2.1 OUR COMMITMENT TO ETHICAL STANDARDS

The Board bears ultimate responsibility for the Company's ethical performance. This responsibility is delegated by the Board to the Management, which uses various mechanisms to fulfill its mandate.

Code of Business Conduct and Ethics: The Code of Business Conduct and Ethics, which is a part of our Corporate Governance Charter, sets the ethical standards to be adhered to by the Board and the employees. This framework is periodically reviewed to ensure it stays relevant in a changing business environment.

Employee Awareness on Ethics: As part of our ongoing efforts to raise awareness and the need for ethical behaviour, we made the Code of Business Conduct and Ethics an integral part of our HR Policy, which is made available for all employees through the Company's intranet. In addition, the inclusion of the provisions of this code in our Employee Induction Handbook, has been an effective tool in providing enhanced awareness training on our ethical standards to new recruits.

Supplier Code of Conduct: Our Supplier Code of Conduct is aligned with the Employee Code of Conduct and supports the protection of human rights across our supply chain. Standards set by the Supplier Code of Conduct apply to all our suppliers, contractors and consultants.

2.2 OUR COMMITMENT TO SUSTAINABILITY

GRI 102-19

GRI 102-20

GRI 102-21

GRI 102-29

GRI 102-30

GRI 102-31

GRI 102-32

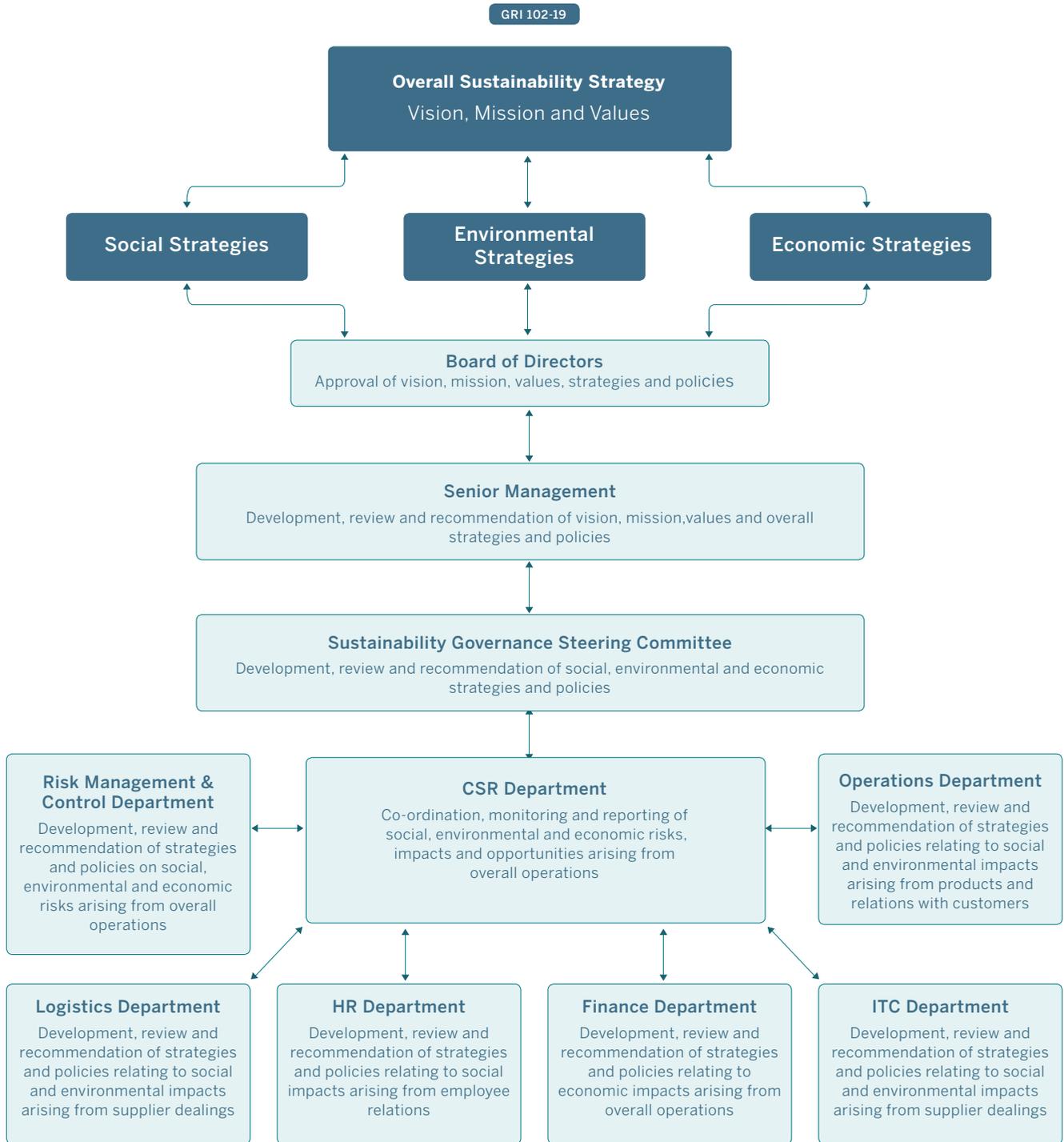
We perceive sustainability as a critical factor to achieving our mission and ensuring our long-term competitiveness. Operating ethically and sustainably is not just a responsibility for us; it is a fundamental enabler of our commercial success.

Our CSR Department, which is headed by an executive level employee is charged with the responsibility of focusing on our sustainability strategy. The co-ordination and monitoring of the sustainability initiatives undertaken at various levels of the organisation is delegated by the Board to the CSR Department who, in consultation with the Sustainability Governance Steering Committee, engages with stakeholders in identifying economic, social and environmental factors that impact our business operations, as well as risks and opportunities arising from the same.

The CSR Department submits quarterly reports to the Board of Directors through the CEO, covering a wide array of topics including, progress update on our sustainability initiatives, risks and opportunities arising from economic, social and environmental factors impacting our business operations and stakeholder concerns thereon.

Our Integrated Annual Report, which is approved by the Board of Directors prior to it being released, provides a detailed account to our stakeholders of our sustainability strategy and initiatives.

Corporate Governance



Corporate Governance

GRI 102-18 GRI 102-26 GRI 102-33 GRI 102-34

2.3 MANAGEMENT'S ROLE IN GOVERNANCE

The cross-functional committees formed at the Management level, ensures the conduct of our internal operations within ethical and governance parameters defined by the Board. Under the stewardship of the Board, these Management Committees implement policies and strategies determined by the Board and manage the business and affairs to, ensure that we create sustainable growth for all our stakeholders.

The Management Committees also review, from time to time, the vision, mission and values of the Company, as well as the Company's strategies and policies relating to economic, social and environmental impacts.

All critical issues arising or discussed at Management Committee meetings are reported to the Board through the CEO at monthly meetings. Except for the matters arising in the ordinary course of business, no critical matters were reported to the Board during 2016/17.

GRI 102-26 GRI 102-33

Group Management Committee

Reviews overall performance of the Group, implements strategies to optimise the benefits of group synergies and reports critical issues with recommended remedial action to the Boards of respective group companies

Senior Management Committee

Reviews business strategy, policies and performance of the company, reports critical issues with recommended remedial action to the Board through the CEO and/or written memoranda at Board meetings

Assets & Liabilities Committee

Reviews treasury, asset and liability functions of the Company and reports decisions and critical issues with recommended remedial action to the Integrated Risk Management Committee

Sustainability Governance Steering Committee

Reviews sustainability performance and recommends and reports strategic sustainability initiatives to the Board through the CEO and/or written memoranda at Board meetings

Integrated Risk Management Operating Committee

Reviews the risk governance structure of the Group and reports thereon to the Integrated Risk Management Committee

Tender Review Committee

Reviews and manages the tender award process and reports critical issues with recommended remedial action to the Senior Management Committee

Branch Credit Committees

Evaluates credit disbursements at branch level and reports thereon to the Operations Department at the Head Office

Role of the executive in sustainable governance

Corporate Governance

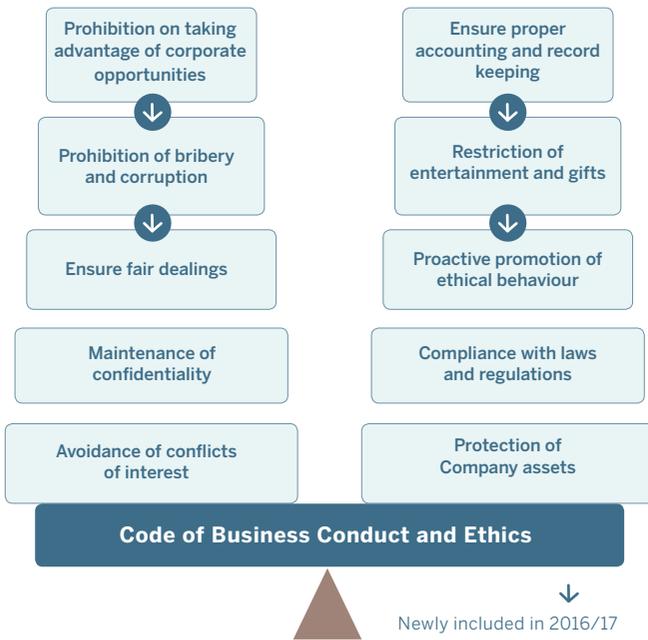
2.4 MANAGING CONFLICTS OF INTERESTS

GRI 102-25

Our Code of Business Conduct and Ethics requires all Directors and employees to refrain from using his or her position or confidential and price-sensitive information as a benefit for himself or herself or any related third party, whether financial or otherwise.

Directors are also required to inform the Board of conflicts or potential conflicts of interest that they may have impairing his or her independent judgment. Directors who may have a conflicting interest in a matter that is under consideration at meetings of the Board, refrain from engaging themselves in the deliberations on such matters and abstain from voting thereon, after declaring such interest. Such abstentions are duly recorded by the Company Secretary in the minutes.

Our Related Party Transactions Policy acts as a guide in defining the categories of parties and persons who are considered related parties. In terms of this policy, Directors provide a self-declaration, identifying in advance, parties related to them. Our systems also facilitate the monitoring and reporting of related party transactions, thus ensuring that we maintain impartiality; a core pillar of our governance philosophy.

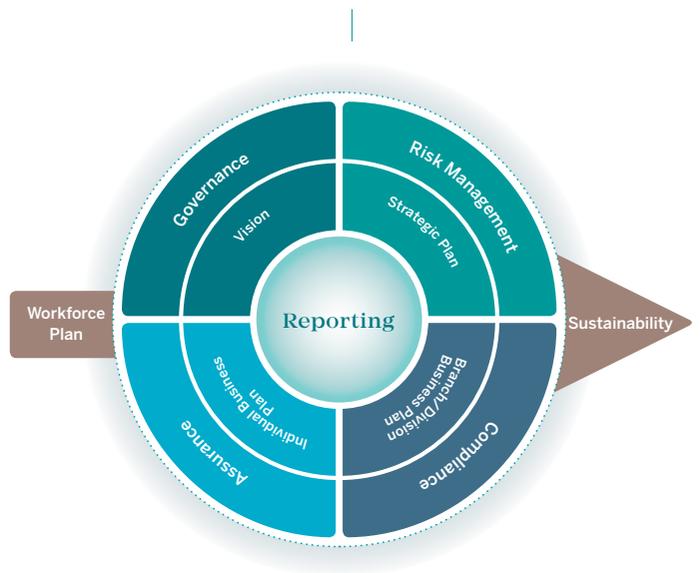


2.5 WHISTLEBLOWER

Our Whistleblower Protection Policy also serves as a widespread informal channel for management of unethical conduct and corporate frauds. The policy enables employees who observe or notice any improper or illegal activity or unethical practices in the Company or receives credible information of the same, to report the same to the Board Audit Committee.

Information routed through the whistleblower channel is verified carefully and appropriate actions are taken by the Board Audit Committee. The confidentiality of those reporting violations is maintained and they are not subjected to any discriminatory action. The policy has been published in all three languages in the Company's intranet.

STRATEGIC AND PERFORMANCE GOVERNANCE



Corporate Governance

GRI 102-16

3. OUR VALUES

‘Sound governance prevalent in our corporate culture is supported by the tone at the top; the example that the Board and Management set, and the values and behaviours embraced by all employees in the organisation’

Our core values support our legitimacy and are the foundation on which we build the trust of our stakeholders.

Our corporate culture underpinned by our core values, aims to ensure that our stakeholders are treated fairly at all times and that their interests are placed first in every decision we take. Thus, we empower and recognise our employees for living our values and for delivering on our strategic objectives.

OUR CORE VALUES GOVERNANCE



4. ONGOING EVALUATION AND DEVELOPMENT

‘Our ongoing Board evaluation and development process helps to improve the effectiveness of the Board and identify areas that require further attention thus facilitating the Board, Board Committees and each individual Director to perform to their maximum capability.’

4.1 BOARD AND COMMITTEE EVALUATIONS

GRI 102-28

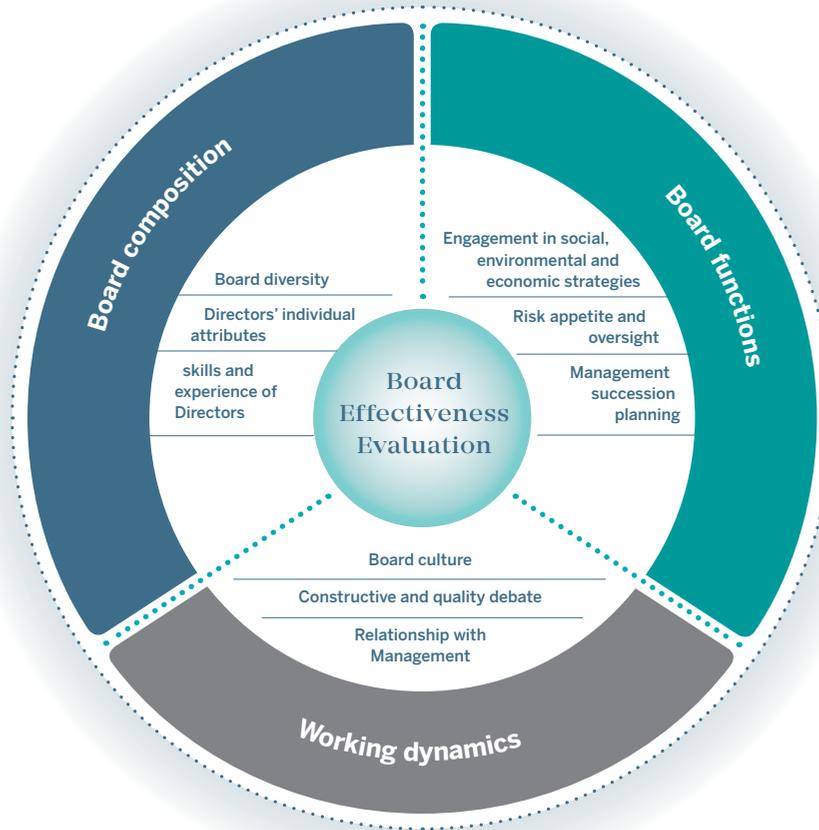
Our Corporate Governance Charter provides for a robust framework to evaluate the performance of the Board as well as the Board Committees annually.

The Board and Committee evaluations commenced in March 2017 and the results were finalised during May 2017. Views of all Directors were canvassed in respect of the performance of the Board as a whole, as well as of its Committees, by requiring the individual Directors to complete a confidential questionnaire.

This process was led by the Chairman and supported by the Company Secretary.

The full results of the Board evaluations were then analysed by the Company Secretary and the findings were presented to the Board. Based on these findings, it is duly affirmed that overall, the Board and its Committees operated effectively during the year under review. The Board members are in agreement that there are areas for development and appropriate action will be implemented to address same.

Corporate Governance



GOVERNANCE OBJECTIVES RESULTING FROM BOARD EVALUATIONS – FOCUS FOR 2017/18

| Objective | Continuation from 2015/16 | New objective |
|--|---------------------------|---------------|
| Further developing the knowledge and understanding on regulatory, legal, environmental and market conditions | ✓ | |
| Strengthening the relationship with stakeholders | | ✓ |
| Implementing a comprehensive management succession plan | | ✓ |

4.2 BOARD CONTINUITY

GRI 102-24

The task for assisting the Board with the selection of appropriate members for the Board is entrusted to the Remuneration and Nomination Committee. The process for the selection and appointment of Directors is provided for in the Corporate Governance Charter and the Articles of Association of the Company.

To achieve the objective of building an effective and cohesive Board, appointments to the Board are made with due cognisance of the need to ensure that the Board comprises a diverse range of skills, knowledge and expertise on the industry in which we operate, including, economic, social and environmental factors that impact our businesses and has the requisite independence and appropriate demographic and ethnicity representation to meet our strategic objectives.

Corporate Governance

4.3 ASSESSMENT OF INDEPENDENCY

GRI 102-24

Directors are required to carry out an annual assessment of their independency, in compliance with the criteria set out in the Finance Companies (Corporate Governance) Directions, Code of Best Practice on Corporate Governance, issued jointly by SEC and CA Sri Lanka and the Listing Rules of the CSE by completing a self-declaration. This assessment takes into account the member's business relationship with the Group, relationships with the members of the Management, relationships with the Company's substantial shareholders and member's length of service.



Board Independency

62.5%

(2015/16: 62.5%)

4.4 ONGOING DEVELOPMENT

GRI 102-27

We are committed to the continuing development of our Directors to help them build on their expertise and develop an in-depth understanding of the business and of the markets in which we operate.

When first appointed to the Board, all Directors are provided with an induction, which enables them to familiarise themselves with the Group's values, business, operations, financial affairs, governance framework and strategic position and their responsibilities as Directors as enumerated in our Corporate Governance Charter.

Regular updates on changes to relevant legislations, regulations and corporate governance as well as sector developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects are provided to the Board Committees at each meeting and, as appropriate, to the full Board.

Development Objectives for 2017/18

Review the additional training needs of the Directors and formulate a more robust plan to meet such needs

5. OUR APPROACH TO COMPLIANCE

‘Our internal charters and policies are designed to support and maintain a transparent and effective internal control system, institutionalisation of best processes for governance, management of risk and compliance across the organisation.’

5.1 INTERNAL AUDIT

Refer Board Audit Committee Report on page 230 and 231.

Our internal audit function is responsible for providing an independent risk based oversight to the Board Audit Committee and the Board on the processes and controls within the Company and the level of compliance with applicable laws and regulations.

Our internal audit reviews, all of which are risk-based and include provision of assurance over financial, operational and IT functions, are performed by a team of appropriately qualified and experienced employees.

The mandate and authority of the Internal Audit are defined in its Charter, which has been approved by the Board.

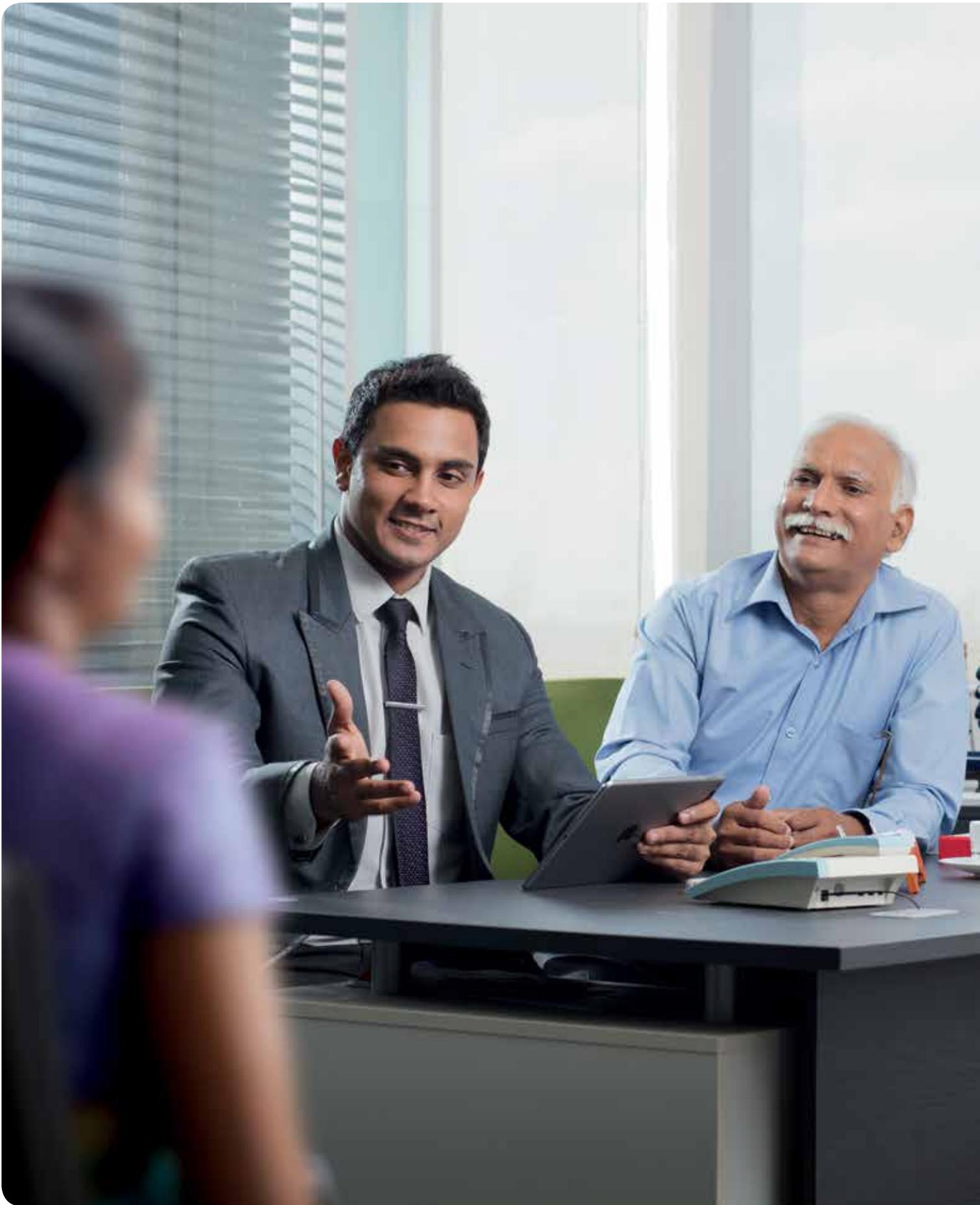
5.2 RISK MANAGEMENT

GRI 102-29

GRI 102-30

Refer Risk Management on pages 241 to 268.

Taking measured risks is a crucial factor for the sustainability of our business. Therefore, we operate through a comprehensive risk management framework and have integrated risk management in our day-to-day business affairs and strategic planning. This ensures the identification, measurement and control of risks at all levels of the Organisation, so that the Group's financial strength is safeguarded.





Quick
It's simply about the competency and professionalism of our customer interface personnel and processes that allow PLC to respond at speed to the customer.

Corporate Governance

Our risk management function also supports the Board in formulating the risk appetite, strategies, policies and limits and provides a review, oversight and support function throughout the Group on risk-related items, including that relating to social, environmental and economic impacts.

We have in place, a continuous process for identifying, assessing, managing, monitoring and reporting on the significant risks faced by individual Group Companies and by the Group as a whole.

5.3 INTERNAL CONTROLS

Refer Risk Management on pages 241 to 268.

Our internal controls are designed to support the identification, evaluation and management of risks affecting the Group. These cover financial, operational, compliance and information technology controls, as well as risk management policies and mechanisms.

The Board, with the assistance of the Board Audit Committee and the Integrated Risk Management Committee, oversees the system of internal controls and reviews the same regularly for relevance and effectiveness.

The Board has obtained a certification from the External Auditor on the process adopted by it on the system of internal controls over financial reporting.

5.4 COMPLIANCE FUNCTION

Refer Compliance Management on pages 239 and 240.

Compliance forms an important part of our governance and risk management. Therefore, our compliance management mechanism is based on a comprehensive analysis of the compliance risks to which we are exposed. To ensure that we continuously comply with existing and emerging regulations impacting on our operations, we have established a separate compliance function that directly reports to the Integrated Risk Management Committee.

Our compliance with the corporate governance requirements set out in the Finance Companies (Corporate Governance) Direction No. 3 of 2008 as amended by Directions No. 4 of 2008 and No.6 of 2013, the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and the Listing Rules of the Colombo Stock Exchange is set out in detail in the compliance trackers on pages 181 to 223 of this Report.

Corporate Governance

5.5 IT GOVERNANCE

Refer Manufactured Capital on pages 74 to 76.

Information technology (IT) is a strategic asset that forms an integral part of our corporate governance process. Thus, we recognise the need to maintain a well-established IT governance structure, having policies at the forefront, so as to leverage competitive business benefits for ourselves.

In order to ensure the confidentiality, integrity and availability of our IT systems, information security audits are carried out regularly.

The Integrated Risk Management Committee is delegated with the authority to ensure the implementation of the IT governance framework. Its design, implementation and execution have been assigned to the Head of ICT (Group). The Head of ICT (Group) provides regular updates to the Integrated Risk Management Committee and the Board on the status of material IT projects, as well as other governance related matters.

The Integrated Risk Management Committee ensures that risks are adequately addressed through risk monitoring and assurance processes and the Board Audit Committee considers the impact of IT on financial controls in its annual audit plan. Material findings are reported to the Board Audit Committee which monitors remedial actions implemented by the Management.

6. ENGAGEMENT WITH STAKEHOLDERS

Refer Stakeholder Engagement on pages 46 to 49.



‘Building and maintaining good stakeholder relationships help our Board to manage and respond to expectations, minimise reputational risk and form strong partnerships all of which support our commercial sustainability.’



6.1 SHAREHOLDERS

Promotion of fair and equitable treatment of all shareholders is an essential part of our governance culture. Thus, we endeavour at all times to ensure that shareholder rights are respected and protected.

We provide shareholders with timely information on our operations, financial standing and all material corporate developments.

As part of our endeavours to actively engage with our institutional shareholders, we have attended a variety of meetings and presentations throughout 2016/17.

Our corporate website www.plc.lk contains information of interest to both institutional and retail shareholders.

Our Senior Independent Director is available to discuss with shareholders, any major issues that cannot be resolved through normal channels. In addition, we have established a separate investor relations function at the Senior Management level to assist shareholders seeking information and assistance.

6.2 EFFECTIVE COMMUNICATION

Our comprehensive communication policy reinforces our commitment to maintain transparent and effective two-way communication with our stakeholders.

6.3 CONSTRUCTIVE USE OF GENERAL MEETINGS

Part of our approach in governing our stakeholder relationships, includes shareholders' views being heard and fully considered. Thus, we encourage all our shareholders to attend the general meetings of the Company, which provides an opportunity for our Board to interact with and account to the shareholders.

Corporate Governance

Our Adherence with The Code of Best Practice on Corporate Governance Issued Jointly by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and ('Code')

Section 1 – The Company

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|-----------------------|-----------|----------------------|----------------------|--|-------------------------|
|-----------------------|-----------|----------------------|----------------------|--|-------------------------|

A. Directors

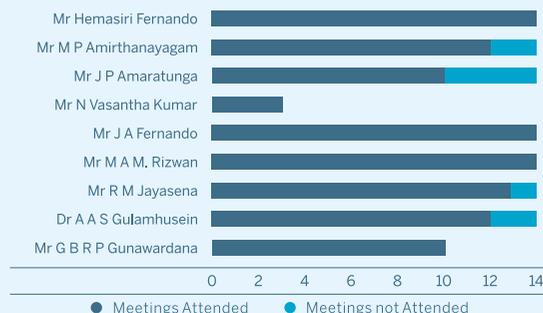
A.1 The Board

The Directors bring a range of skills and experience to the Board including, international business and operational experience, understanding of the economics of the sectors in which the Group operates, knowledge of the regulatory environments in which the Group operates and financial, accounting and banking experience and knowledge and their ability to leverage their collective skills and wisdom is considered to be the Board's strength.

| | | | | | |
|--------------|--------------------------------------|-----------|--|--|--|
| A.1.1 | Need for the Board to meet regularly | Compliant | During 2016/17, the Board met 14 times, at least on monthly basis, to review the performance of the Company and its subsidiaries. At each of these meetings, the Board devoted a substantial time in evaluating the Company's strategy, performance, risk profile and compliance with governance and other statutory requirements ensuring that appropriate and prompt action was taken to align the strategies and operations of the Company and the Group with the interests and expectations of all stakeholders. | | |
|--------------|--------------------------------------|-----------|--|--|--|

ATTENDANCE AT BOARD MEETINGS DURING 2016/17

[Nos.]



A.1.2 Responsibilities of the Board

The Board's principal responsibilities and duties are defined in the Company's Corporate Governance Charter. The Board provides entrepreneurial leadership within a framework of prudent and effective controls, enabling risks to be assessed and managed, whilst setting the Company's values and standards to meet the obligations towards the shareholders and other stakeholders.

| | | | | |
|---|-----------|--|---|--|
| (i) Ensure formulation and implementation of a sound business strategy | Compliant | The Board of Directors is responsible for setting the strategic objectives of the Company and the Group and for determining its operational policies and performance criteria. The Board has delegated the detailed planning and implementation of those objectives and policies to the Management in accordance with appropriate risk parameters. | The Company's strategic business plan covering the period up to 2019/20 was reviewed and approved by the Board in May 2017. | Review and extend the strategic business plan up to 2020/21. |
| (ii) Ensure CEO and the Management team possess the necessary skills, experience and knowledge for effective implementation of the strategy | Compliant | The CEO and the Corporate Management team possess extensive knowledge and skill with widespread experience in the industry in which the Company operates. Details of skills and experience of individual members of the Corporate Management can be found on pages 156 to 158 of this Report. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|-----------------------|--|----------------------|--|--|---|
| | | | <p>Company's strategic business plan covering the period up to 2019/20 as approved by the Board in May 2017 provides for overall risk management policy, procedures and mechanisms with measurable goals. The budget is approved annually and the achievement of the objectives set out therein and the business plan is reviewed by the Board at monthly Board meetings with management updates thereon.</p> <p>In order to provide an organised and focused means of achieving the Company's goals and to properly address issues in a timely manner, the Board has set up Board Committees in accordance with global practices and applicable local governance regulations and delegated certain of its functions to these committees.</p> | | |
| | (iii) Adopt effective CEO and senior management succession strategy | Part compliant | In terms of the policy hitherto adopted by the Company succession for the key managerial positions primarily focused on developing and grooming people internally so as to have adequate options within the Company for replacement of Key Management Personnel, as such ensuring a smooth transition and continuity of business. | During 2016/17, the Board identified and nominated a successor to the incumbent Chief Executive Officer. In addition, the Remuneration and Nomination Committee undertook a comprehensive review of the organisational structure, as part of which a succession plan is intended to be developed for Key Management Personnel. | Development of a detailed and defined succession plan for the Key Management Personnel with the assistance of the Remuneration and Nomination Committee. |
| | (iv) Ensure that effective systems are in place to secure integrity of information, internal controls, business continuity and risk management | Compliant | <p>The Company has adopted a set of internal control policies, approved by the Board, to evaluate the methods and procedures for risk management, implementation of the Company's corporate governance framework and compliance with related laws and regulations. This internal control framework also aims to safeguard shareholders' investment and the Company's assets and to ensure the reliability and integrity of information.</p> <p>The Board Audit Committee, on behalf of the Board, undertakes detailed monitoring of the controls and reports to the Board on its findings, whilst the Integrated Risk Management Committee reviews the risk dashboard reports of the Company and its subsidiaries and takes prompt corrective action(s) to mitigate the negative effects of specific risks, in case such risks are exceeding the established risk tolerance levels.</p> <p>Further details on the effectiveness of the internal controls within the Company are given in the Directors' Statement on Internal Control over Financial Reporting on page 273 of this Report.</p> | <p>The Terms of Reference of the Integrated Risk Management Committee was reviewed with the objective of broadening the scope of the review activities of the Committee focusing on the areas such as Risk Appetite Framework, Adequacy and Effectiveness of Risk Indicators, Stress Testing Framework and Business Continuity Plan Implementation.</p> <p>Further, the Management Information Systems (MIS) Manual/Guideline of the Company was reviewed and updated to ensure the adequacy and the integrity of MIS.</p> | <p>Further strengthening the credit risk management by implementing risk management mechanisms to ensure the quality of lending by screening the credit proposals and reviewing and updating the risk dash-board report to be more responsive to business growth.</p> <p>Initiate measures to strengthen the current mechanism of assessing the accuracy of non-financial information of the Company.</p> |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|-----------------------|---|----------------------|---|--|-------------------------|
| | (v) Compliance with laws, regulations and ethical standards | Compliant | <p>The Company has a separate compliance function to monitor and assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. The Compliance Officer reports to the Integrated Risk Management Committee on a quarterly basis on the compliance activities relating to the respective areas.</p> <p>The Company has a strong organisational culture of entrenched values, which forms the cornerstone of its behaviour towards all stakeholders. These values are embodied in a written statement of values, which serves as the Company's Code of Business Conduct and Ethics and is continually reinforced. Further information on the compliance framework of the Company can be found on pages 239 and 240 of this Report.</p> | <p>During the year under review, the Compliance Officer was designated by the Board as a Key Management Personnel for the purposes of Finance Companies (Corporate Governance) Directions issued by the Central Bank of Sri Lanka.</p> <p>In addition, the Code of Business Conduct and Ethics that embodies the corporate values was reviewed and updated, in line with recommended best practices.</p> | |
| | (vi) Ensure that all stakeholder interests are considered in corporate decisions | Compliant | <p>All charters and policies of the Company have been developed to ensure that responsibilities to shareholders and other stakeholders are timely and appropriately discharged. Particular emphasis is given by the Board to the framework of these charters and policies in the decision-making process.</p> <p>Measures taken by the Board to ensure consideration of stakeholder interests are detailed in Management Discussion and Analysis on pages 52 to 149 and Stakeholder Engagement on pages 46 to 49 of this Report.</p> | | |
| | (vii) Recognise sustainable business development in corporate strategy, decisions and activities | Compliant | <p>Working on a core value triad of economic viability, environmental responsibility and social accountability, the Board recognises the importance of sustainable business development in the corporate strategy, decisions and activities of the Company. Accordingly, a significant consideration is given by the Company to discharge its corporate social responsibilities.</p> <p>Measures initiated by the Company during 2016/17 towards sustainable business development are detailed in Sustainability at PLC on pages 42 to 45 and Stakeholder Engagement on pages 46 to 49 of this Report.</p> | | |
| | (viii) Ensure that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations | Compliant | <p>The Company's accounting policies are annually reviewed by the Board Audit Committee to be in line with new developments, changing business requirements and best practices in the industry. The Board ensures that the Financial Statements of the Company are prepared in accordance with the approved accounting policies.</p> <p>The affirmation of the Board that the Company's Financial Statements are in line with the applicable standards and regulations is provided in the Directors' Statement on Internal Control over Financial Reporting on page 273 of this Report.</p> | | |
| | (ix) Fulfilling other Board functions as are vital, given the scale, nature and complexity of the organisation | Compliant | <p>During the year under review every endeavour was made by the Board to fulfil its obligations towards all stakeholders and the same is reflected in the performance of the Company, shareholder returns, high credit ratings, governance processes and an entrepreneurial performance focused work environment prevailing in the Company.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 | | | | | | |
|-----------------------|---|----------------------|---|---|-------------------------|---------|----|---------|----|--|--|
| A.1.3 | Obligation of the Board to collectively and individually act in accordance with the laws of the Country and the need to have procedure for the Board to obtain independent professional advice at the Company's expense | Compliant | <p>The Board collectively as well as individually complied with the laws of the country that are applicable to the Company. Company's Corporate Governance Charter and the Code of Business Conduct and Ethics emphasises the importance of compliance with these laws and regulations by the Board as well as employees.</p> <p>The Company has an established procedure set out in its Corporate Governance Charter that enables the individual Directors to seek professional independent advice on matters related to the exercise of their duties and responsibilities at the expense of the Company. However, no such advice was sought during the financial year 2016/17.</p> | The procedure governing the Directors' access to professional independent advice at the expense of the Company set out in the Company's Corporate Governance Charter was reviewed by the Board. | | | | | | | |
| A.1.4 | Need for the Directors to have access to the advice and services of the Company Secretary and the need for the removal of the Company Secretary to be a matter for the Board as a whole | Compliant | <p>As provided for by the Corporate Governance Charter of the Company, all Directors have access to the Company Secretary who is an Attorney-at-Law by profession.</p> <p>The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.</p> <p>The appointment as well as the removal of the Company Secretary is a matter reserved for the decision by the Board as a whole.</p> | The procedure governing the Directors' access to the advice and services of the Company Secretary, set out in the Company's Corporate Governance Charter was reviewed by the Board. | | | | | | | |
| A.1.5 | Need for the Directors to bring independent judgment to bear on issues of strategy, performance, resources and standards of business conduct | Compliant | The Board works as an effective and cohesive unit that draws on the strengths of each Director without placing undue reliance on any one individual. Thus, all Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business. | | | | | | | | |
| A.1.6 | Obligation of the Directors to dedicate adequate time and effort to matters of the Board and the Company | Compliant | <p>The Board is aware of the other commitments of its Directors and is satisfied that all Directors allocate sufficient time to enable them to discharge their responsibilities effectively.</p> <p style="text-align: center;">BOARD ATTENDANCE AT MEETINGS</p> <p style="text-align: center;">[%]</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Year</th> <th>Attendance (%)</th> </tr> </thead> <tbody> <tr> <td>2015/16</td> <td>90</td> </tr> <tr> <td>2016/17</td> <td>92</td> </tr> </tbody> </table> <p>Manner in which the Board dedicates its time to the affairs of the Company is set out on page 169 of this Report.</p> | Year | Attendance (%) | 2015/16 | 90 | 2016/17 | 92 | | |
| Year | Attendance (%) | | | | | | | | | | |
| 2015/16 | 90 | | | | | | | | | | |
| 2016/17 | 92 | | | | | | | | | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|--|--|--|
| A.1.7 | Need for every Director to receive appropriate training when first appointed to the Board and subsequently as necessary | Compliant | <p>When first appointed to the Board, all Directors are provided with an induction, which enables them to familiarise themselves with the Group's values, business, operations, financial affairs, governance framework and strategic position and their responsibilities as Directors, as enumerated in the Corporate Governance Charter.</p> <p>Regular updates on changes to relevant legislations, regulations and corporate governance as well as sector developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects are provided to the Board Committees at each meeting and, as appropriate, to the full Board.</p> | | Further developing the knowledge and understanding of the Directors on regulatory, legal, environmental and market conditions. |
| A.2 Chairman and the Chief Executive Officer (CEO) | | | | | |
| The roles of the Chairman and Chief Executive Officer of the Company continue to be distinct and separate, ensuring the balance of power and authority. The Chairman is charged with the responsibility for providing leadership to the Board whilst the Chief Executive Officer as the apex executive of the Company is responsible for the management of day-to-day operations of the Company with the support of the Company's Senior Management. | | | | | |
| A.2.1 | Justification and disclosure of the decision to combine the posts of Chairman and CEO in one person | Not-Applicable | The roles of Chairman and CEO have not been combined. | | |
| A.3 Chairman's Role | | | | | |
| The Chairman is responsible for ensuring the proper functioning of the Board in an appropriate and effective manner including timely receipt by the Directors of complete and accurate information. The comprehensive responsibilities of the Chairman are defined in the Company's Corporate Governance Charter, which are in line with applicable laws and regulations. | | | | | |
| A.3.1 | Responsibility of the Chairman to conduct Board proceedings in a proper manner | Compliant | The Chairman is a Non-Executive Director and is responsible in terms of the Company's Corporate Governance Charter for preserving good corporate governance and running the Board in an orderly and effective manner. | The role and responsibilities of the Chairman set out in the Company's Corporate Governance Charter was reviewed by the Board. | |
| A.4 Financial Acumen | | | | | |
| The Board comprises members with academic and professional qualifications in diverse fields who have sufficient financial acumen and knowledge gathered through experience gained from both private and public sector entities. | | | | | |
| A.4 | Need for the Board to ensure the availability within it of those with sufficient financial acumen and knowledge | Compliant | <p>During the year 2016/17, the Board comprised members with academic and professional qualifications in banking, accounting, auditing, risk management, financial services and insurance, industrial, media, marketing and technology. The following Directors in particular provided the Board with the guidance on matters of finance,</p> <p>Mr Hemasiri Fernando Mr J P Amaratunga Mr N Vasantha Kumar Mr M A M Rizwan Mr G B R P Gunawardana</p> <p>In addition, all members of the Board had experience in various aspects of financial management.</p> <p>Details of skills and experience of individual members of the Board can be found on pages 152 to 154 of this Report.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|--|--|-------------------------|
| A.5 Board Balance | | | | | |
| The Board continues to believe that its overall composition and size remains appropriate given the present size and geographic footprint of the Company's operations. The tenure of the Directors demonstrates a good balance between continuity and fresh perspectives, whilst the proportion of Independent Non-Executive Directors on the Board is high. | | | | | |
| A.5.1 | Need to have at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher | Compliant | During the year 2016/17, the Board comprised only Non-Executive Directors who bring a wealth of knowledge and experience covering a wide spectrum of topics and their views carried a significant weight in the Board's decisions. | | |
| A.5.2 | Need for two or one-third of Non-Executive Directors appointed to the Board, whichever is higher, to be 'independent' | Compliant | Of the eight (08) Non-Executive Directors of the Company as at 31st March 2017, five (05) Directors namely, Mr M P Amirthanayagam, Mr J A Fernando, Mr M A M Rizwan, Mr R M Jayasena and Dr A A S Gulamhusein were independent. | | |
| | | | <div style="border: 1px solid black; padding: 10px; border-radius: 10px;"> <p>Board Independency</p> <p>62.5%</p> <p>(2015/16: 62.5%)</p> </div> | | |
| A.5.3 | Need for Independent Directors to be independent of management and free of any business or other relationship | Compliant | All of the Independent Non-Executive Directors of the Company during 2016/17 met the criteria for independence as set out in the applicable rules and regulations including Code of Best Practice on Corporate Governance (Code) and are deemed to be independent of management and free of business or other relationship that could materially interfere with the exercise of their unfettered and independent judgment. | | |
| A.5.4 | Need for Non-Executive Directors to submit an annual declaration of his/her independence or non-independence | Compliant | During the year under review, self-declarations were submitted by each Non-Executive Director declaring his/her status of independency in terms of the applicable rules and regulations. | | |
| A.5.5 | Need for the Board to make an annual determination as to the independence or non-independence of Non- Executive Directors | Compliant | Based on the self- declarations submitted by the Directors of their independency, the Board determined that the following Directors who were in office during 2016/17 were independent, <ul style="list-style-type: none"> • Mr M P Amirthanayagam • Mr J A Fernando • Mr M A M Rizwan • Mr R M Jayasena • Dr A A S Gulamhusein | | |
| A.5.6 | Need for Alternate Directors, appointed by an independent Director to meet the criteria of independence | Not Applicable | No alternate Directors were appointed during the year 2016/17. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|--|---|-------------------------|
| A.5.7 | Need to appoint a "Senior Independent Director" if the Chairman and CEO is the same person | Compliant | Although the requirement to appoint a Senior Independent Director does not arise under the Code in view of the roles of the Chairman and the CEO being held by two different individuals, the Company has designated a Non-Executive Director as the Senior Independent Director in compliance with the Finance Companies (Corporate Governance) Directions. During the year 2016/17, Mr M P Amirthanayagam served as Senior Independent Director of the Company. | | |
| A.5.8 | Responsibility of the Senior Independent Director to make himself available for confidential discussions with other Directors | Compliant | <p>The Board approved Terms of Reference for the Senior Independent Director appointed in terms of Finance Companies (Corporate Governance) Directions requires him to make himself available for confidential discussions with other Non-Executive Directors who may have concerns which they believe have not been properly considered by the Board as a whole.</p> <p>It also empowers the Senior Independent Director to have the authority to call a meeting of the Non-Executive Directors if, in his opinion, it is necessary. However, no such situation arose during the year under review.</p> | The role and responsibilities of the Senior Independent Director, set out in the Company's Corporate Governance Charter, was reviewed by the Board. | |
| A.5.9 | Responsibility of the Chairman to hold meetings exclusively with the Non-Executive Directors at least once each year | Not-Applicable | During the year 2016/17, the Board comprised only Non-Executive Directors and therefore this need did not arise. | | |
| A.5.10 | Obligation of the Directors to have matters that cannot be unanimously resolved recorded in the Board minutes | Compliant | <p>The Directors' concerns pertaining to unresolved matters are discussed and recorded by the Company Secretary in the Board minutes in sufficient detail. Further discussions on these matters are pursued at the next Board meeting with a view to resolving them.</p> <p>However, no such issues arose during the year under review.</p> | | |
| A.6 Supply of Information The Company believes that reliable and timely information increases confidence among decision-makers within the Company and enables them to make good business decisions directly affecting business growth, profitability and sustainability. | | | | | |
| A.6.1 | Obligation of the management to provide the Board with appropriate and timely information | Compliant | <p>The Management ensured that the Board was provided with timely, accurate, relevant and comprehensive information before the Board meeting every month, with adequate time for them to review the same and prepare for discussions. The Board made inquiries for additional information from the Management where necessary.</p> <p>Further, the Chairman ensured that all Directors were adequately briefed on issues arising at Board meetings.</p> <p>Dynamics of Constructive and effective Board meetings are set out on page 169 of this Report.</p> | | |
| A.6.2 | Need to provide the minutes, agenda and papers required for a Board meeting at least seven (7) days before the meeting | Compliant | The agenda and Board papers are circulated a week prior to Board meetings thus providing the Directors with adequate time to study the papers and prepare themselves for constructive discussions at Board meetings. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|--|----------------------|---|--|-------------------------|
| A.7 Appointments to the Board | | | | | |
| A formal, transparent and a comprehensive procedure applicable to the selection and appointment of new directors to the Board are provided in the Company's Articles of Association and the Corporate Governance Charter. | | | | | |
| A.7.1 | Need to have a Nomination Committee to make recommendations to the Board on all new Board appointments | Compliant | <p>During the year under review the Remuneration and Nomination Committee of the Company comprised the following Directors,</p> <ul style="list-style-type: none"> • Mr J P Amaratunga (Chairman) • Mr M P Amirthanayagam • Mr J A Fernando <p>Further information on the Remuneration and Nomination Committee, including its Terms of Reference is given in the Remuneration and Nomination Committee Report on pages 232 and 233 of this Report.</p> | | |
| A.7.2 | Need for the Nomination Committee or the Board to annually assess Board composition | Compliant | During the annual self-evaluation process, the Board as a whole assesses its own composition to ascertain whether the experience and the exposure of the Board members are adequate to meet the strategic demands faced by the Company and findings of these assessments are taken in to consideration in the appointment of new Directors. | | |
| A.7.3 | Obligation of the Company to disclose details of new appointments of Directors to the shareholders | Compliant | <p>All appointments of new Directors are informed to the shareholders, with sufficient details, through immediate notification to the Colombo Stock Exchange and subsequently through the Company's Annual Report.</p> <p>Prior approval for appointment of new directors is obtained from the Central Bank of Sri Lanka in terms of the applicable regulations.</p> <p>Details of the Directors appointed during 2016/17 are given in the Annual Report of the Board of Directors on the Affairs of the Company on page 227 of this Report.</p> | | |
| A.8 Re-election | | | | | |
| In terms of Article 27(2) of the Articles of Association of the Company all Directors who have been appointed to the Board during the year retire at the next Annual General Meeting and are eligible for re-election by the shareholders. | | | | | |
| A.8.1 | Need for the Non-Executive Directors to be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal | Compliant | Although the Non-Executive Directors are not appointed for a specified time period, they are nevertheless subject to re-election at the Annual General Meeting in terms the Articles of Association of the Company and to the provisions of the Companies Act relating to the removal of a Director. | | |
| A.8.2 | Need for all Directors including the Chairman to be subject to election by shareholders at the first opportunity after their appointment | Compliant | <p>In terms of Article 27(2) of the Articles of Association of the Company, all Directors, including the Chairman, are subject to re-election by shareholders at the first opportunity after their appointment.</p> <p>Accordingly, Dr A A S Gulamhusein offered himself for re-election at the last Annual General Meeting held on 29th June 2016.</p> <p>Mr G B R P Gunawardana who was appointed as a Director of the Company on 29th August 2016 will offer himself for re-election at the forthcoming Annual General Meeting scheduled for 30 June 2017.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|--|---|--|
| A.9 Appraisal of Board Performance | | | | | |
| The Board believes that that periodically appraising their performance provides them with an important opportunity to review whether they are meeting their fiduciary responsibilities and adding value to stakeholders. Thus, the Board has a self-evaluation process in place that encourages all Directors to make a full and active contribution to the Board's affairs. | | | | | |
| A.9.1 | Need for the Board to annually appraise itself on its performance in the discharge of its key responsibilities | Compliant | <p>In accordance with the Corporate Governance Charter of the Company, the Board carried out a comprehensive evaluation of its performance and its committees In the last quarter of 2016/17. The assessment focused, amongst others, on the Board's contribution to the development, monitoring and implementation of the strategy; ensuring robust and effective risk management; quality of the relationships with the management, employees and shareholders; and ensuring proper functioning of Board subcommittees. Each member of the Board carried out a self-assessment of his/her own effectiveness as well.</p> <p>The full results of the Board evaluations were analysed by the Company Secretary and the findings were presented to the Board in May 2017.</p> | The criteria based on which self-evaluations of the Board is carried out was reviewed and updated during the year 2016/17 so as to obtain a more comprehensive feedback from the Directors. | The areas identified through the self-evaluations of the Board for further development/ strengthening as set out in page 176 of this Report will be focused on during 2017/18. |
| A.9.2 | Need for the Board to also undertake an annual self-evaluation of its own performance and that of its committees. | Compliant | The self-evaluation carried out by the Board in 2016/17 included an evaluation of the performance of the Board as a whole as well as of its committees. | | |
| A.9.3 | Need for the Board to state in the Annual Report how performance evaluations have been conducted | Compliant | The process of self-evaluation of the Board carried out in 2016/17 was led by the Chairman and supported by the Company Secretary. Views of all Directors were canvassed in respect of the performance of the Board as a whole as well as of its committees by requiring the individual Directors to complete a confidential questionnaire. The full results of the Board evaluations were then analysed by the Company Secretary and the findings were presented to the Board in May 2017. Based on these findings, it is duly affirmed that the Board and its committees operated effectively during the year under review. | | |
| A.10 Disclosure of Information in Respect of Directors | | | | | |
| The Company places considerable importance to the timely disclosure of all relevant information to the shareholders enabling them to make informed decisions. | | | | | |
| A.10.1 | Requirement for the Annual Report of the Company to set out the details of Directors | Compliant | <p>Profiles of the Directors, including their qualifications, expertise, experience and directorships are given on pages 152 to 154 of this Report.</p> <p>Details on Directors' status, attendance at Board and committee meetings and their other Board seats or equivalent positions are set out on page 170 of this Report.</p> <p>Details of related party transactions of the Directors can be found on pages 357 to 361 of this Report.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|---|--|-------------------------|
| A.11 Appraisal of Chief Executive Officer (CEO) | | | | | |
| The Chief Executive Officer (CEO), the apex executive of the Company is delegated by the Board with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters. | | | | | |
| A.11.1 | Need for the Board to set financial and non-financial targets to be met by the CEO during the year in line with the short, medium and long-term objectives of the Company | Compliant | <p>The CEO is entrusted with the management of the Company's operations with decision-making authority and he is fully accountable to the Board.</p> <p>At the commencement of every financial period, the Board in consultation with the CEO, sets financial and non-financial targets that should be achieved by the CEO in line with the short, medium and long-term objectives of the Company.</p> <p>The main corporate goals and objectives emanating from the Company's Corporate Plan and the Budget are incorporated as personal goals of the CEO.</p> | | |
| A.11.2 | Need for the Board to evaluate the performance of the CEO at the end of each fiscal year | Compliant | Assessment of the performance of the CEO by the Board is an ongoing process. The performance of the CEO is evaluated by the Board at the end of each financial year by comparing the performance of the Company with the financial and non-financial targets set at the beginning of the financial year. | | |
| B. Directors' Remuneration | | | | | |
| B.1 Remuneration Procedure | | | | | |
| The Board recognises that the existence of a formal and transparent remuneration procedure supports alignment of Directors' interests with those of shareholders. | | | | | |
| B.1.1 | Need for the Board to set up a Remuneration Committee to recommend the remuneration of Executive Directors | Compliant | <p>The Board has established a Remuneration Committee with written terms of reference. However, during the year 2016/17 there were no Executive Directors on the Board of the Company.</p> <p>The functions of the Remuneration and Nomination Committee during the year 2016/17 are set out in the Remuneration and Nomination Committee Report on pages 232 and 233 of this Report.</p> | | |
| B.1.2 | Need for the Remuneration Committee to consist exclusively of Non-Executive Directors | Compliant | All members of the Remuneration and Nomination Committee are Non-Executive Directors and the Chairman of the Committee is appointed by the Board. | | |
| B.1.3 | Requirement to list the Chairman and members of the Remuneration Committee in the Annual Report | Compliant | <p>During the year under review the Remuneration and Nomination Committee of the Company comprised the following Directors,</p> <ul style="list-style-type: none"> • Mr J P Amaratunga • Mr M P Amirthanayagam • Mr J A Fernando | | |
| B.1.4 | Need for the Board to determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee | Compliant | As permitted by the Articles of Association of the Company, the Board as a whole decides the remuneration of the Non-Executive Directors, including the members of the Remuneration and Nomination Committee. The Non-Executive Directors receive a fee for attending meetings of the Board and Board Committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|--|--|-------------------------|
| B.1.5 | Need for the Remuneration Committee to consult the Chairman and/or CEO on proposals relating to the remuneration of other Executive Directors | Compliant | <p>The Terms of Reference of the Remuneration Committee empowers it to seek appropriate professional advice inside and outside the Company as and when it is deemed necessary by the Committee.</p> <p>There were no Executive Directors on the Board of the Company during the year 2016/17 and therefore, the necessity to consult the Chairman and/or CEO on their remuneration did not arise.</p> | | |
| B.2 The Level and make up of Remuneration | | | | | |
| The remuneration framework of the Company supports a philosophy that motivates and rewards performance while at the same time meeting regulatory requirements and stakeholder expectations. | | | | | |
| B.2.1 | Need for the Remuneration Committee to provide competitive packages needed to attract, retain and motivate Executive Directors of the quality required | Compliant | <p>There were no Executive Directors on the Board of the Company during the year under review.</p> <p>Nevertheless, the Board is aware that the remuneration of Executive and Non-Executive Directors should reflect the market expectations and is sufficient enough to attract and retain the quality of personnel needed to run the Company.</p> | | |
| B.2.2 | Need for the Remuneration Committee to judge where to position levels of remuneration of the Company, relative to other companies | Compliant | The Remuneration Committee as well as the Board as a whole is aware that reward strategies and remuneration structure should be designed to attract, motivate and retain high-calibre people, at all levels of the organisation, in a highly competitive environment. Therefore, the remuneration structure of the Company is reviewed from time to time with comparison to that of peers in the industry. | | |
| B.2.3 | Need for the Remuneration Committee to be sensitive to remuneration and employment conditions elsewhere in the Company or Group | Compliant | <p>Due to the relatively small size and scale of other companies in the Group, weight is given to the industry comparable when deciding on salary increase levels.</p> <p>However, the Group endeavours to maintain a consistent policy of remuneration across the board.</p> | | |
| B.2.4 | Need for the performance-related elements of remuneration of Executive Directors to be designed and tailored to align their interests with those of the Company and main stakeholders | Not applicable | There were no Executive Directors on the Board of the Company during the year under review. | | |
| B.2.5 | Avoidance of offering executive share options at a discount | Not applicable | At present, the Company does not have any share option scheme for the Directors or employees. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|---|--|-------------------------|
| B.2.6 | Need for the Remuneration Committee to follow the provisions set out in Schedule E of the Code in designing schemes of performance-related remuneration | Compliant | There were no Executive Directors on the Board of the Company during the year under review. Nevertheless, the performance related element of remuneration applicable to the CEO is based on achieving the set targets. | | |
| B.2.7 & B.2.8 | Need for the Remuneration Committee to decide on the compensation commitments on early termination of Directors' contracts | Not applicable | There were no executive directors on the Board of the Company during the year under review. | | |
| B.2.9 | Need for the levels of remuneration for Non-Executive Directors to reflect the time commitment and responsibilities of their role | Compliant | Non-Executive Directors are paid only a fee on their attendance at meetings and subcommittee meetings. | | |
| B.3 Disclosure of Remuneration | | | | | |
| The Company has consistently applied the principle that its remuneration policy should be fair and competitive and should be reflective of the performance of the business. | | | | | |
| B.3.1 | Requirement to disclose the Remuneration Policy and details of remuneration of the Board in the Annual Report | Compliant | The Remuneration Policy of the Company is given in the Remuneration and Nomination Committee Report on pages 232 and 233 of this Report. Details of remuneration of the Directors are disclosed under Note 50.2.1 to the Financial Statements on page 357. | | |
| C. Relations with Shareholders | | | | | |
| C.1 Constructive use of the Annual General Meeting (AGM) and conduct of General Meetings | | | | | |
| The Company understands the importance of communicating effectively with shareholders and are committed to the constructive use of the AGM for the Board, Chairman and Directors to meet with shareholders, hear their views and to answer their questions. | | | | | |
| C.1.1 | Need to count proxy votes | Compliant | As a matter of practice, proxy votes together with the votes of the shareholders present at the AGM are considered by the Company for each resolution. The Company has a mechanism to record all proxy votes to indicate to the Chairman the level of proxies lodged on each resolution and the number of votes for and against such resolution. | | |
| C.1.2 | Need to propose separate resolutions for each substantially separate issue and adoption of annual report and accounts | Compliant | The Company proposes separate resolutions on each substantially separate issue giving shareholders the opportunity to vote on each such issue separately. The adoption of the Annual Report of the Board of Directors, the Financial Statements of the Company and the Report of the Auditors thereon are considered as a separate resolution. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|--|--|-------------------------|
| C.1.3 | Need for the Board Subcommittee Chairmen to be available to answer queries | Compliant | <p>The Chairman of the Board ensures that the Chairmen of Board Subcommittees are present at the AGM to answer any query by shareholders.</p> <p>The Chairmen of the Board Subcommittees were present at the previous years' AGM held on 29 June 2016 and no queries were raised by the shareholders to them.</p> | | |
| C.1.4 | Need for the Notice of the AGM and related papers to be sent to shareholders before the meeting. | Compliant | <p>The Annual Report including Financial Statements and the Notice of the Meeting are sent to shareholders at least 15 working days prior to the date of the AGM in compliance with the applicable statutes.</p> <p>The Annual Report for the year 2015/16 was submitted to the Colombo Stock Exchange on 3 June 2016 and was dispatched to all shareholders on the same day. The AGM was held on 29 June 2016.</p> | | |
| C.1.5 | Need to circulate a summary of procedures governing voting at General Meetings with the Notice of Meeting | Compliant | <p>A summary of procedure relating to voting at General Meetings is set out in the Notice of Meeting itself sent to each shareholder.</p> <p>The Notice of Meeting for the AGM in 2016 containing the procedure governing voting was sent to the shareholders 15 working days prior to the date of the AGM.</p> | | |
| C.2 Communication with Shareholders | | | | | |
| <p>Recognising the importance of two-way communication with its stakeholders, the Board has adopted a comprehensive policy that governs communications with its shareholders and other stakeholders. The Communication Policy is based on four guiding principles namely, efficiency, transparency, clarity and cultural awareness and feedback.</p> | | | | | |
| C.2.1 | Need to have a channel to disseminate timely information to all shareholders of the Company | Compliant | <p>The Company has many channels to reach all shareholders of the Company in order to disseminate timely information of which the primary channels are the Annual Report and Annual General Meeting.</p> <p>Further details on the communication channels at the Company that ensures timely dissemination of information to shareholders can be found on page 115 of this Report.</p> | | |
| C.2.2 | Need to disclose the policy and methodology of communication with shareholders | Compliant | <p>The Company has in place a comprehensive policy that governs communications with its different stakeholders, including shareholders, which is based on the following four guiding principles:</p> <ul style="list-style-type: none"> • efficiency • transparency • clarity • cultural awareness and feedback <p>The above policy which provides, amongst others, for the policy, methodology and implementation of communications with the shareholders is available in the Company's intranet.</p> | | |
| C.2.3 | Need to disclose the manner and methodology of Implementation of the Communication Policy | Compliant | <p>The Communication Policy of the Company provides for the manner of implementation thereof and points of responsibility for the same.</p> | | |
| C.2.4 | Need to disclose a contact person for communication | Compliant | <p>Contact persons for communications with different stakeholders of the Company are specified in the Communication Policy.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|---|--|-------------------------|
| C.2.5 | Need for a process to make Directors aware of major issues and concerns of shareholders | Compliant | <p>The Company Secretary and the Corporate Affairs Division maintains records of all correspondence received from shareholders and direct the same to appropriate channels for resolution.</p> <p>All major issues and concerns of shareholders are referred to the Board.</p> <p>Upon receipt of instructions from the Board or other relevant channel on issues/concerns referred to them as above, the Company Secretary or the Corporate Affairs Division revert to the respective shareholder with an appropriate response.</p> | | |
| C.2.6 | Need for the identification of a person to be contacted on shareholder matters | Compliant | <p>Shareholders can contact the Company Secretary, whose details are given below, on matters relating them,</p> <p>Mr Rohan Pathirage The Company Secretary People's Leasing & Finance PLC 1161, Maradana Road Colombo 8 Sri Lanka. Tel: 011-2631105/103 (phone) Fax: 011-2481500</p> <p>The Senior Independent Director is available to discuss with shareholders any major issues that cannot be resolved through normal channels.</p> <p>In addition, the Company has established a separate Investor Relations function at the Senior Management level to assist the shareholders seeking information and assistance.</p> | | |
| C.2.7 | Need for a process responding to shareholder matters | Compliant | Please refer comment on Principle C.2.5 above | | |
| C.3 Major and Material Transactions | | | | | |
| The Board recognises that strong transparent disclosure regime is central to shareholder ability to exercise ownership rights. | | | | | |
| C.3.1 | Need to Disclose major and material transactions | Not applicable | During the year, there were no major or material transactions engaged in or committed to by the Company as prescribed by the Code that required disclosure to the shareholders. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|--|----------------------|---|--|-------------------------|
| D. Accountability and Audit | | | | | |
| D.1 Financial Reporting | | | | | |
| The Directors are aware of their responsibility for monitoring and reviewing the preparation, integrity and reliability of the Company's Financial Statements, accounting policies and the information contained in other reports submitted to the public and regulatory authorities and to ensure that the Financial Statements are fair, balanced and understandable. | | | | | |
| D.1.1 | Responsibility of the Board for statutory and regulatory reporting | Compliant | <p>The Board's is aware that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be furnished by statutory requirements.</p> <p>Accordingly, the Company has complied with the requirements of the Companies Act No.7 of 2007, Finance Business Act No. 42 of 2011 and directions made thereunder in the preparation and presentation of its annual and interim Financial Statements in conformity with Sri Lanka Accounting Standards.</p> <p>During 2016/17, the interim accounts and annual Financial Statements were published on a timely basis and regulatory reports were filed by the due dates. Price-sensitive information was also disclosed to the Colombo Stock Exchange on a timely basis during the year.</p> | | |
| D.1.2 | Requirement to include declarations by Directors in the Directors' Report | Compliant | The required declarations by the Directors are included in the Annual Report of the Board of Directors on the Affairs of the Company on pages 224 to 229 of this Report. | | |
| D.1.3 | Requirement to include in the Annual Report statements by Directors and Auditors on responsibility for financial reporting | Compliant | <p>Statement on Directors' Responsibility for Financial Reporting is set out on pages 271 and 272 of this Report.</p> <p>Auditors' responsibility over Financial Statements is covered in the Independent Auditors' Report on page 275 of this Report.</p> <p>Directors' Statement on Internal Control over Financial Reporting is set out on page 273 of this Report.</p> | | |
| D.1.4 | Need for inclusion of a Management Discussion and Analysis in the Annual Report | Compliant | Management Discussion and Analysis is set out on pages 52 to 145 of this Report. | | |
| D.1.5 | Need to include a declaration by the Board on the going concern of the business | Compliant | The required declaration is included in the Annual Report of the Board of Directors on the Affairs of the Company on pages 224 to 229 of this Report. | | |
| D.1.6 | Requirement to summon an Extraordinary General Meeting (EGM) to notify serious loss of capital | Not applicable | The situation has not arisen during the year 2016/17 and the likelihood of such a situation is remote. However, should such a situation arises, an EGM would be convened to keep the shareholders informed thereof. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|--|----------------------|---|--|---|
| D.1.7 | Requirement to include adequate and accurate disclosure of Related Party Transactions in the Annual Report | Compliant | <p>The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as 'related parties' has been identified. In accordance with the RPT Policy self-declarations are obtained from each Director and Key Management Personnel for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company has developed a system that enables the Company to monitor and report transactions with identified related parties and retrieve data thereon throughout the Company's network.</p> <p>The Code of Business Conduct and Ethics of PLC ('the Code') requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. The Code also requires Directors who have such a potential or actual conflict of interests to immediately disclose it to the Board of Directors as soon as he/she becomes aware of it and records thereof are maintained by the Company Secretary in the Interest Register.</p> <p>The Related Party Transactions Review Committee further strengthen the effective management and oversight of related party transactions.</p> <p>Details of the Related Party Transactions Review Committee are disclosed in the Related Party Transactions Review Committee Report on pages 234 and 235 of this Report.</p> <p>Details on related party transactions during 2016/17 are disclosed under Note 50 on pages 357 to 361 in the Financial Statements.</p> | Steps were initiated during the year 2016/17 to review policies and procedures on related party transactions with the assistance of an independent expert. | Completion of review of policies and procedures on related party transactions and effect modifications required to the monitoring system. |
| D.2 Internal Controls | | | | | |
| The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and for reviewing its effectiveness. | | | | | |
| D.2.1 | Responsibility of the Board to conduct an annual review of internal controls | Compliant | <p>The Company's internal controls are designed to support the identification, evaluation and management of risks affecting the Group. These cover financial, operational, compliance and information technology controls, as well as risk management policies and mechanisms.</p> <p>Risks and controls are reviewed and monitored regularly for relevance and effectiveness. The Integrated Risk Management Committee (IRMC) and the Board Audit Committee (BAC) assist the Board in this regard. Sound risk management practices are promoted by the risk management department, which is independent of operational management.</p> <p>Internal control is designed to mitigate, not eliminate, significant risks faced by the Company. It is recognised that such a system provides reasonable, but not absolute, assurance against material error, omission, misstatement or loss. This is achieved within the Group through a combination of risk identification, evaluation and monitoring processes, appropriate decision and oversight forums and assurance and control functions such as risk management, internal audit and compliance.</p> | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
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| | | | Details on the functions of the Board Audit Committee and the Integrated Risk Management Committee during the year 2016/17 to ensure the effectiveness of the internal control systems can be found in the Board Audit Committee Report on pages 230 and 231 and the Integrated Risk Management Committee Report on pages 236 to 238 of this Report. | | |
| D.2.2 | Need for an internal audit function | Compliant | The Company has its own in-house Internal Audit Department. Details on the internal audit function are set out in the Board Audit Committee Report on pages 230 and 231 of this Report. | | |
| D.2.3 | Need for the Audit Committee to review the process and effectiveness of risk management and internal controls | Compliant | The Internal Audit Department of the Company carries out regular reviews on the risk management measures and internal controls system including internal controls over financial reporting and reports their findings to the Board Audit Committee, who then on behalf of the Board, undertakes a detailed monitoring and reviewing of the said controls and risk management measures. The minutes of the Board Audit Committee meetings together with the Committee's findings on internal controls and risk management functions are submitted at the meetings of the Board of Directors periodically. Further details on the above are disclosed in the Directors' Statement on Internal Control over Financial Reporting on page 273 of this Report. | | |
| D.2.4 | Responsibilities of Directors in maintaining a sound system of internal control and content of Statement of Internal Control | Compliant | Information on Directors' responsibility for maintaining a sound system of internal control is disclosed in the Directors' Statement on Internal Control over Financial Reporting on page 273 of this Report. | | |
| D.3 Audit Committee | | | | | |
| The Board Audit Committee assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audits. The Charter of the Board Audit Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the Terms of Reference of the Board Audit Committee. The Charter demonstrates that activities of the Board Audit Committee are in line with the Code and the directions issued by the Central Bank of Sri Lanka. | | | | | |
| D.3.1 | Need for the Audit Committee to be comprised a minimum of two independent Non-Executive Directors or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher | Compliant | As at 31 March 2017, the Board Audit Committee comprised three Directors, all of whom were Non-Executive Directors. Two Directors of the Committee were Independent Non-Executive Directors. The composition of the Board Audit Committee is disclosed in the Board Audit Committee Report on pages 230 and 231 of this Report. | | |

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| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|---|----------------------|--|--|-------------------------|
| D.3.2 | Duties of the Audit Committee to review the objectivity of the External Auditor | Compliant | <p>The Board Audit Committee monitors and reviews the External Auditors' independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Company's External Auditor for 2016/17, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.</p> | | |
| D.3.3 | Need for the Audit Committee to have written Terms of Reference | Compliant | <p>The Board Audit Committee operates within clearly defined Terms of Reference approved by the Board. The duties and responsibilities of the Committee as set out in the said Terms of Reference, are in line with the Code and the directions issued by the Central Bank of Sri Lanka.</p> <p>The Terms of Reference of the Board Audit Committee is detailed in the Board Audit Committee Report on pages 230 and 231 of this Report.</p> | | |
| D.3.4 | Need to disclose the names of the members of the Audit Committee and the basis of determination of the Auditors' independence and the inclusion of report of the Audit Committee in the Annual Report | Compliant | <p>During the year under review the Board Audit Committee of the Company comprised the following Directors,</p> <ul style="list-style-type: none"> • Mr J P Amaratunga • Mr M P Amirthanayagam • Mr M A M Rizwan <p>The Company's External Auditor for 2016/17, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.</p> <p>Further details on the Board Audit Committee can be found in the Board Audit Committee Report on pages 230 and 231 of this Report.</p> | | |
| <p>D.4 Code of Business Conduct and Ethics</p> <p>The Company has a strong organisational culture of entrenched values, which forms the cornerstone of its behaviour towards all stakeholders. These values are embodied in a written statement of values, which serves as the Company's Code of Business Conduct and Ethics and is continually reinforced.</p> | | | | | |
| D.4.1 | Need to make a disclosure on the presence of a Code of Business Conduct and Ethics | Compliant | <p>The Company has in place a comprehensive Code of Business Conduct and Ethics applicable to all Directors and employees of the Company. The Code has been circulated to all the Directors and employees and has been published in the Company's intranet to ensure strict compliance with same.</p> <p>Summary of the Company's Code of Business Conduct and Ethics can be found on page 174 of this Report.</p> <p>The Board is not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by any Director or Key Management Personnel of the Company.</p> | The Code of Business Conduct and Ethics that embodies the corporate values was reviewed and updated in line with recommended best practices. | |
| D.4.2 | Affirmation by the Chairman that there is no violation of the Code of Business Conduct and Ethics | Compliant | The required affirmation is given in the Annual Report of the Board of Directors on the Affairs of the Company on pages 224 to 229 of this Report. | | |

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| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
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| D.5 Corporate Governance Disclosures | | | | | |
| The Company is resolute in its commitment to operating in an ethical and transparent manner and staying accountable to its stakeholders. The Company believes that Corporate Governance is not just a destination, but a journey to persistently progress in sustainable value creation. | | | | | |
| D.5.1 | Need for inclusion of a Corporate Governance Report in the Annual Report | Compliant | Manner in and the extent to which the Company has complied with the Code is set out on pages 181 to 200 of this Report. | | |
| Section 2 – Shareholders | | | | | |
| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
| E.1 Shareholder Voting | | | | | |
| The Company is committed to promoting effective and open communication with all shareholders, transparently and regularly in order to facilitate a mutual understanding of the respective objectives of the parties. The Board and the Management strive to be accessible to both institutional and private investors and proactively encourage all shareholders to participate at the Company's Annual General Meeting (AGM). | | | | | |
| E.1.1 | Need to conduct regular and structured dialogue with shareholders | Compliant | <p>The Annual General Meeting (AGM) is used as a forum to have a structured and objective dialogue with shareholders on matters that are relevant to the general membership.</p> <p>From the Company's perspective, the AGM provides a forum for the Board to inform the shareholders what the Company does and how it has performed during the year. For investors, it provides a forum to learn more about the business and ask questions of the Directors and to use their votes responsibly.</p> <p>Additionally, the Company has an ongoing programme of dialogue and meetings with institutional shareholders, where a wide range of relevant issues is discussed.</p> | | |
| E.2 Evaluation of Governance Disclosures | | | | | |
| Disclosure is an essential element of a robust corporate governance framework as it provides the basis for informed decision-making by shareholders, stakeholders and potential investors in relation to capital allocation, corporate transactions and financial performance monitoring. | | | | | |
| E.2. | Need to Encourage institutional investors to give due weight to relevant governance arrangements | Compliant | Sufficient attention has been given to the interests of institutional investors and they are at liberty to give due weight when exercising their voting rights on resolutions relating to the Board structure and the composition. | | |
| F. Other Investors | | | | | |
| F.1 Investing/Divesting Decisions | | | | | |
| The Company places a high degree of importance on maintaining good relationships and communications with institutional investors and private investors alike and ensures that they are kept informed of significant Company developments in order to give them the critical information they need to value their investments. | | | | | |
| F.1 | Encourage individual shareholders to seek independent advice in investing or divesting decisions | Compliant | Individual shareholders are at liberty to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions. | | |

Corporate Governance

| Reference to the Code | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|---|--|-------------------------|
| F.2 Shareholder Voting | | | | | |
| General Meetings provide the principal opportunity for the Board to meet investors and for the Chairman to explain the Company's progress and receive questions from its owners, the shareholders. | | | | | |
| F.2 | Encourage individual shareholders to participate in General Meetings and exercise voting rights | Compliant | Individual shareholders are encouraged to participate at General Meetings and cast their votes. To achieve this purpose, the notices of meetings are dispatched to all shareholders within the prescribed time periods. | | |
| G. Sustainability Reporting | | | | | |
| G.1 Principles of Sustainability Reporting | | | | | |
| Corporate sustainability reporting aims to deliver information in such a way that it provides decision-making value to investors, customers, employees and other relevant groups who have a stake in the Company or who are in some way affected by the Company's actions. Sustainability reporting therefore is a reflection of how the Company has performed and achieved long-term economic value, assumed corporate responsibility and contributed to sustainable development. Thus, this Annual Report has been prepared in the form of an integrated report that covers all sustainability reporting parameters as identified by the Global Reporting Initiative (GRI). | | | | | |
| G.1.1 | Reporting of Economic Sustainability | Compliant | Details on economic sustainability governance measures of the Company are given in Financial Capital section on pages 53 to 66 of this Report. | | |
| G.1.2 | Reporting on the Environment | Compliant | Details on environmental governance measures are given in Natural Capital section on pages 135 to 148 of this Report. | | |
| G.1.3 | Reporting on Labour Practices | Compliant | Details on labour practices of the Company are given in Human Capital section on pages 85 to 98 of this Report. | | |
| G.1.4 | Reporting on Society | Compliant | Details on society governance measures of the Company are given in Social and Relationship Capital section on pages 99 to 134 of this Report. | | |
| G.1.5 | Reporting on Product Responsibility | Compliant | Details on product responsibility measures of the Company are given in Social and Relationship Capital section on pages 99 to 134 of this Report. | | |
| G.1.6 | Reporting on stakeholders identification, engagement and effective communication | Compliant | Details on Company's initiatives on stakeholder identification, engagement and effective communication are given in Stakeholder Engagement section on pages 46 to 49 of this Report. | | |
| G.1.7 | Formalising sustainable reporting as part of Company's reporting process | Compliant | The manner in which the Company has formalised sustainable reporting as part of the Company's reporting process is disclosed in About the Report section on pages 9 to 11 of this Report. | | |

Corporate Governance

Our Compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 as Amended by Directions No. 4 of 2008 and Directions No. 06 of 2013 Issued by the Central Bank of Sri Lanka ('Corporate Governance Directions')

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|--|----------------------|---|---|--|
| A. Responsibilities of the Board | | | | | |
| <p>The Board provides leadership and strategic guidance to safeguard stakeholder value creation within a framework of prudent and effective controls which enables risks to be assessed and managed to ensure long-term sustainable development and growth. The Board's Terms of Reference are set out in a written charter – the Corporate Governance Charter which is reviewed periodically to ensure compliance with the provisions of the applicable legislation.</p> | | | | | |
| 2 (1) Strengthening the Safety and Soundness of the Company | | | | | |
| | (a) Approving and overseeing the strategic objectives and corporate values and ensuring that the same is communicated throughout the Company | Compliant | <p>The Board of Directors is responsible for setting the strategic objectives of the Company and for determining its operational policies and performance criteria. The task of detailed planning and implementation of those objectives and policies in accordance with appropriate risk parameters has been delegated by the Board to the Management.</p> <p>The strategic objectives of the Company are predicated on the vision and mission statements of the Company and corporate values are embedded in the Code of Business Conduct and Ethics which have been communicated to employees at all levels.</p> | The Code of Business Conduct and Ethics that embodies the corporate values was reviewed and updated in line with recommended best practices. | |
| | (b) Approving the overall business strategy of the Company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years | Compliant | <p>Company's strategic business plan provides for overall risk management policy, procedures and mechanisms with measurable goals.</p> <p>The business strategy is regularly reviewed by the Board with updates on the execution thereof by the management at monthly Board meetings.</p> | Company's strategic business plan covering the period up to 2019/20 was reviewed and approved by the Board in May 2017. | Review and extend the strategic business plan up to 2020/21. |
| | (c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently | Compliant | The Board as a whole remains primarily responsible for the overall risk framework of the Company. Integrated Risk Management Committee, on behalf of the Board, identifies risks and ensures implementation of appropriate systems to manage risks prudently and reports to the Board on a quarterly basis. | The Terms of Reference of the Integrated Risk Management Committee was reviewed with a view of broadening the scope of the review activities of the Committee focusing on the areas such as Risk Appetite Framework, Adequacy and Effectiveness of Risk Indicators, Stress Testing Framework and Business Continuity Plan Implementation. | |
| | (d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers | Compliant | Recognising the importance of two-way communication with its stakeholders, the Board has adopted a comprehensive policy that governs communications with its shareholders and other stakeholders including, depositors, creditors, borrowers, suppliers etc. | The Communication Policy, which forms an integral part of the Corporate Governance Charter of the Company was reviewed during 2016/17 to ensure relevance to the current operating context. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|--|---|--|
| | (e) Reviewing the adequacy and the integrity of the Company's internal control systems and the adequacy and the integrity of management information systems (MIS) | Compliant | <p>The Board has overall responsibility for ensuring that the Company maintains an adequate system of internal control and for reviewing its effectiveness.</p> <p>The Board Audit Committee, on behalf of the Board undertakes the detailed monitoring and reviewing of the internal controls and reports to the Board on its findings on a quarterly basis.</p> <p>The Management Information Systems (MIS) are reviewed by the Board for accuracy and integrity of the same through review of MIS Procedure Manual Outline/ Guideline of the Company.</p> | The MIS Manual/Guideline of the Company was reviewed and updated to ensure the adequacy and the integrity of MIS. | Initiate measures to strengthen the current mechanism of assessing the accuracy of non-financial information of the Company. |
| | (f) Identifying and designating Key Management Personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management | Compliant | The Board of Directors, Chief Executive Officer and Deputy General Managers of the Company have been identified and designated as the Key Management Personnel of the Company. | | |
| | (g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel | Compliant | <p>Principle duties and responsibilities of the Board of Directors and the Chief Executive Officer are set out in detail in the Corporate Governance Charter of the Company. The Key Functions/responsibilities of the Deputy General Managers (KMPs) have been defined and approved by the Board and included in their respective job descriptions.</p> <p>The respective delegated authority limits of the Chief Executive Officer and the Deputy General Managers have also been defined by the Board.</p> | The Corporate Governance Charter that sets out the overall responsibility of the Board of Directors was reviewed to ensure its relevance to the changing business environment and recommended best practices. | |
| | (h) Ensuring that there is appropriate oversight of the affairs of the Company by Key Management personnel, that is consistent with the Company's policy | Compliant | <p>Affairs of the Company are reviewed and discussed by the Board at Board meetings on a monthly basis. At these meetings, Key Management Personnel are represented by the Chief Executive Officer who apprises the Board on the operations and performance of the Company against set targets.</p> <p>Affairs of the Company are also reviewed and discussed by the Senior Management at management level.</p> <p>The Management's role in the supervision of the affairs of the Company is further explained on page 173 of this Report.</p> | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|--|---|--|
| | <p>(i) Periodically assessing the effectiveness of its governance practices, including:</p> <p>(i) the selection, nomination and election of Directors and appointment of Key Management Personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the determination of weaknesses and implementation of changes where necessary.</p> | Compliant | <p>The Articles of Association of the Company and the Corporate Governance Charter provides for the general procedure applicable to selection and appointment of Directors of the Company. Presently, the Directors of the Company, other than the Non-Executive Independent Directors, are recommended by the parent, People's Bank and appointed by the Board in terms of the Articles of Association. The appointments of Key Management Personnel are made by the Board on the recommendation of the Chief Executive Officer.</p> <p>The management of conflicts of interests is addressed in a timely manner. In terms of the Code of Business Conduct and Ethics of the Company, each member of the Board has a responsibility to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. Directors who have an interest in a matter under discussion make a disclosure of his/her interest therein and refrain from engaging themselves in the deliberations on that matter and from voting thereon.</p> <p>Self-declarations on potential conflicts of interest are obtained from the Directors at the time of their appointment to the Board and subsequently as and when it is required. These declarations together with the interests disclosed by the Directors at Board meetings assist the Company to manage conflicts (if any) in an effective manner.</p> <p>The effectiveness of the Board's own governance practices including determination of its weaknesses was assessed by the Board through a self-evaluation of the Board carried out in the last quarter of the financial year 2016/17.</p> | | |
| | (j) Ensuring that the Company has an appropriate succession plan for Key Management Personnel | Non-compliant | In terms of the policy hitherto adopted by the Company succession for the key managerial positions primarily focused on developing and grooming people internally so as to have adequate options within the Company for replacement of Key Management Personnel, thus ensuring a smooth transition and continuity of business. | During 2016/17, the Board identified and nominated a successor to the incumbent Chief Executive Officer. In addition, the Remuneration and Nomination Committee undertook a comprehensive review of the organisational structure as part of which a succession plan is intended to be developed for the Key Management Personnel. | Development of a detailed and defined succession plan for the Key Management Personnel with the assistance of the Remuneration and Nomination Committee. |
| | (k) Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives | Compliant | The Key Management Personnel are represented at monthly meetings of the Board of Directors by the Chief Executive Officer of the Company who apprises the Board of any concerns/critical issues raised by the Key Management Personnel at their meetings. Furthermore, where relevant, the Key Management Personnel are invited to participate in Board and Board Subcommittee meetings to review policies, establish lines of communication and monitor progress towards corporate objectives. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|--|---|--|
| | (l) Understanding the regulatory environment | Compliant | <p>When first appointed to the Board all Directors are provided with an induction which enables them to familiarise themselves with the Group's values, business, operations, financial affairs, governance framework and strategic position, and their responsibilities as Directors as enumerated in the Corporate Governance Charter.</p> <p>Regular updates on changes to relevant legislations, regulations and corporate governance as well as sector developments that could affect the Group and its operations covering a wide spectrum of topics including economic, social and environmental aspects are provided to the Board Committees at each meeting and as appropriate, to the full Board.</p> <p>A Summary of the contents of the regulatory requirements and relevant ratios are submitted to the Board on a regular basis for their awareness of the Company's standing with regard to regulatory environment.</p> | | Further developing the knowledge and understanding of the Directors on regulatory, legal, environmental and market conditions. |
| | (m) Exercising due diligence in the hiring and oversight of External Auditors | Compliant | <p>The hiring of External Auditor is carried out by the Board on the recommendation of the Board Audit Committee.</p> <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Company's External Auditor for 2016/17, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of Section 163 (3) of the Companies Act No. 07 of 2007.</p> | | |
| 2 (2) | Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities | Compliant | The Board has appointed the Chairman and the Chief Executive Officer. Their roles are separate and have been defined in the Corporate Governance Charter of the Company. | The Corporate Governance Charter of the Company which sets out the roles of the Chairman and the Chief Executive Officer was reviewed and updated during the year 2016/17. | |
| 2 (3) | Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense | Compliant | The Corporate Governance Charter provides for the Directors to seek the advice of the Company Secretary and other professional independent advice on matters related to the exercise of their duties and responsibilities, at the expense of the Company. However, no such advice was sought by any of the Directors during the financial year 2016/17. | The procedure governing the Directors' access to professional independent advice at the expense of the Company set out in the Company's Corporate Governance Charter was reviewed by the Board. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|--|----------------------|---|---|---|
| 2 (4) | Avoidance of conflicts of interest | Compliant | <p>In terms of the Code of Business Conduct and Ethics of the Company, each member of the Board has a responsibility to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. Directors who have an interest in a matter under discussion make a disclosure of his/her interest therein and refrain from engaging themselves in the deliberations on that matter and from voting thereon. Such abstentions from decisions are duly recorded by the Company Secretary in the minutes.</p> <p>Self-declarations on potential conflicts of interest are obtained from the Directors at the time of their appointment to the Board and subsequently as and when it is required. These declarations together with the interests disclosed by the Directors at Board meetings assist the Company to manage conflicts (if any).</p> | | |
| 2 (5) | Availability of a formal schedule of matters specifically reserved to the Board for decision | Compliant | The Corporate Governance Charter of the Company contains a formal schedule of matters specifically reserved to the Board for its decision. | The Corporate Governance Charter of the Company was reviewed and updated during the year 2016/17 to ensure the relevance thereof to the current business operations and recommended best practices. | |
| 2 (6) | Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions | Compliant | No such situation has arisen during the year 2016/17. Furthermore, the liquidity position of the Company is reported to the Director of the Department of Supervision of Non-Bank Financial Institutions on a weekly basis. | | |
| 2 (7) | Inclusion of an annual corporate governance report on compliance with the Corporate Governance Directions in the Annual Report | Compliant | This Report from pages 201 to 220 serves this requirement. | | |
| 2 (8) | Adoption of an annual scheme of self-assessment by the Directors | Compliant | <p>The Board has adopted a scheme of self-assessment to be undertaken by each Director annually, the procedure of which is set out in the Corporate Governance Charter of the Company. In accordance therewith, the Board carried out a comprehensive evaluation of its performance and its committees in the last quarter of 2016/17.</p> <p>Each member of the Board carried out a self-assessment of his/her own effectiveness as well as the Board Committees.</p> <p>The full results of the Board evaluations were analysed by the Company Secretary and the findings were presented to the Board in May 2017.</p> | The criteria based on which self-evaluations of the Board is carried out was reviewed and updated during the year 2016/17 so as to obtain a more comprehensive feedback from the Directors. | The areas identified through the self-evaluations of the Board for further development/strengthening as set out in page 176 of this Report will be focused on during 2017/18. |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|--|---|-------------------------|
| B. Meetings of the Board | | | | | |
| Meetings of the Board and its Committees are held in an atmosphere of robust, direct and constructive debate among the Board and committee members. These meetings are held at least monthly to discuss key areas of operations, including strategy and governance. | | | | | |
| 3 (1) | Convening Board meetings at least twelve times a financial year at monthly intervals | Compliant | Board meetings are usually held at monthly intervals unless the business exigencies demand the convening of meetings at shorter intervals. The Board met fourteen times for the financial year 2016/17 and obtaining the Boards' consent via circulation was kept to a minimum of four instances. | | |
| 3 (2) | Making arrangements to enable directors to include matters and proposals in the agenda for regular Board meetings | Compliant | All Directors are provided an equal opportunity to include proposals for promotion of business and management of risk in the agenda for regular meetings. The procedure applicable to this is set out in the Company's Corporate Governance Charter. | The procedure governing the inclusion by Directors of matters and proposals in the agenda for Board meetings set out in the Company's Corporate Governance Charter was reviewed by the Board. | |
| 3 (3) | Giving adequate notice of Board meetings | Compliant | The date of the next Board meeting is collectively agreed to by the members present during the previous Board meeting and subsequently communicated to all the members, so as to ensure that at least 7 days' notice is given of a meeting. Reasonable notice is given of any other special Board meeting. | | |
| 3 (4) | Attendance of Directors at Board meetings | Compliant | Directors' attendance at the fourteen Board meetings held during the year 2016/17 was 92%. No Director has been absent from three consecutive meetings. Details of individual Director's attendance at Board meetings are given on page 170 of this Report. | | |
| 3 (5) | Appointment of a Company Secretary | Compliant | An Attorney-at-law with adequate experience has been appointed by the Board as the 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. | | |
| 3 (6) | Responsibility of preparing the agenda for a Board meeting | Compliant | The function of preparing the Agenda for Board meetings has been delegated by the Chairman to the Company Secretary and accordingly, the Company Secretary is responsible for the same. | | |
| 3 (7) | Directors' access to advice and services of the Company Secretary | Compliant | As provided for by the Corporate Governance Charter of the Company, all Directors have access to the Company Secretary who is an Attorney-at-Law by profession. | The procedure governing the Directors' access to the advice and services of the Company Secretary set out in the Company's Corporate Governance Charter was reviewed by the Board. | |
| 3 (8) | Maintenance of minutes of Board meetings inspection thereof by the Directors | Compliant | The Company Secretary maintains the minutes of Board meetings with sufficient details and the same is available for inspection by any Director in accordance with the procedure laid down in the Corporate Governance Charter of the Company. | | |
| 3 (9) | Recording of minutes of Board meetings in sufficient detail | Compliant | The Company Secretary records the proceedings of the meetings and the decisions taken thereat in sufficient detail so as to satisfy all the requirements specified in this rule. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|--|----------------------|--|--|-------------------------|
| C. Composition of the Board | | | | | |
| The collective background of the members of the Board provides for a balanced mix of skills and attributes which enables it to fulfil its duties and responsibilities. The tenure of the Directors demonstrates a good balance between continuity and fresh perspectives whilst the proportion of Independent Non-Executive Directors on the Board is high. | | | | | |
| 4 (1) | Number of Directors on the Board | Compliant | As at the end of 2016/17, there were eight Directors on the Board thus, complying with the requirement. | | |
| 4 (2) | Period of service of a Director | Compliant | The period of service of all the Directors during 2016/17 was below nine years. On completion of nine years' service Mr N Vasantha Kumar retired from the office of Director of the Company with effect from 24 July 2016. | | |
| 4 (3) | Appointment, election or Nomination of an employee as a Director of the Company | Compliant | The Company does not have any Executive Directors. | | |
| 4 (4) | Number of Independent Non-Executive Directors on the Board and criteria for assessment of independency | Compliant | The Board comprised five Non-Executive Independent Directors during the financial year 2016/17 who met the criteria for independence as specified in this rule. Self-declarations were obtained from all Non-Executive Independent Directors confirming their suitability to be designated as 'independent' in terms of the criteria in this rule. | | |
| 4 (5) | Alternate Directors to meet the criteria for independency/ executive status of the appointor | Compliant | No alternate Directors were appointed during the year. | | |
| 4 (6) | Skills and experience of the Non-Executive Directors to bring an objective judgment to bear on issues of strategy, performance and resources | Compliant | The Board comprises solely Non-Executive Directors who possess academic and professional qualifications in diverse fields. Their mix of skills and business experience is a major contribution to the proper functioning of the Board and its committees. Details on the skills and experience of the Board members are given on pages 152 to 154 of this Report. | | |
| 4 (7) | Presence of Non-Executive Directors to satisfy the quorum for meetings of the Board | Compliant | Since all of the Directors of the Company during the year 2016/17 were Non-Executive Directors, the required quorum was met at all meetings of the Board convened for the year. | | |
| 4 (8) | Disclosure of Independent Non-Executive Directors, Board composition in corporate communications and in the annual corporate governance report | Compliant | The Independent Non-Executive Directors are identified as such in all corporate communications that contain the names of Directors of the Company. Details of composition of the Board by category, including their names can be found on page 170 of this Report. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|--|----------------------|--|---|-------------------------|
| 4 (9) | Availability of a formal, and transparent procedure for the appointment of new Directors | Compliant | <p>The Articles of Association of the Company and the Corporate Governance Charter provides for the general procedure applicable to selection and appointment of Directors of the Company. Upon the nominees being found to be 'fit and proper' for appointment as Directors of the Company, approval of the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka is obtained for the same.</p> <p>All appointments made to the Board during the year 2016/17 complied with the above procedure.</p> | The procedure governing the selection and appointment of new Directors set out in the Company's Corporate Governance Charter was reviewed by the Board. | |
| 4 (10) | Re-election of Directors appointed to fill a casual vacancy at the first General Meeting after their appointment | Compliant | <p>In terms of Article 27 (2) of the Articles of Association of the Company all Directors, including those appointed to fill casual vacancies, are subject to re-election by shareholders at the first Annual General Meeting following their appointment.</p> <p>Accordingly, Dr A A S Gulamhusein offered himself for re-election at the last Annual General Meeting held on 29 June 2016.</p> <p>Mr G B R P Gunawardana who was appointed as a Director of the Company on 29 August 2016 will offer himself for re-election at the forthcoming Annual General Meeting scheduled for 30 June 2017.</p> | | |
| 4 (11) | Disclosure of resignations/ removal of Directors to the shareholders and the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka | Compliant | All resignations/removals and appointments of Directors are informed to the shareholders, with sufficient details, via immediate notification to the Colombo Stock Exchange, after approval for the same has been obtained from the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka in terms of the applicable regulations. | | |
| D. Fitness and Propriety of Directors | | | | | |
| The Board continues to believe that the knowledge, skills, experience, diversity and attributes of the Directors as a whole are appropriate given the present size and geographic footprint of the Company's operations. | | | | | |
| 5 (1) | Directors over 70 years of age | Compliant | There are no Directors who are over 70 years of age. | | |
| 5 (2) | Holding office in more than 20 companies | Compliant | <p>There are no Directors who hold office as a Director of more than 20 companies.</p> <p>Other directorships/positions held by the Directors are disclosed on pages 152 to 154 and on page 170 of this Report.</p> | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|--|----------------------|--|---|-------------------------|
| E. Delegation of Functions | | | | | |
| The governance framework of the Company provides for delegation of authority while enabling the Board to retain effective control. The Board has delegated authority to relevant Board committees and the Management with clearly defined mandates and authorities, while preserving its accountability. | | | | | |
| 6 (1) | Delegation of Board functions | Compliant | <p>In terms of Article 29 (2) of the Articles of Association of the Company, the Board is empowered to delegate to a committee of Directors or to any person it deems fit, any of the powers vested in the Board which are permissible for delegation in terms of the applicable law.</p> <p>Accordingly, the Board has delegated authority to the Board Committees and the Management with clearly defined mandates and authorities, while preserving its accountability.</p> | | |
| 6 (2) | Review of delegation of Board functions on a periodic basis | Compliant | The delegation of authority framework is reviewed periodically by the Board to ensure that the limits remain appropriate, taking into account the size of the entity and its specific operational context. | | |
| F. The Chairman and the Chief Executive Officer | | | | | |
| The roles of the Chairman and Chief Executive Officer of the Company continue to be distinct and separate ensuring the balance of power and authority. | | | | | |
| 7 (1) | Division of the roles of the Chairman and Chief Executive Officer | Compliant | The posts of the Chairman and the Chief Executive Officer (CEO) of the Company are separate ensuring the balance of power and authority. | | |
| 7 (2) | Designation of an Independent Non-Executive Director as the Senior Director if the Chairman is not an Independent Non-Executive Director | Compliant | <p>The Chairman is considered to be a Non-Independent Director by virtue of the fact that he also holds the office of Chairman of the parent company, People's Bank.</p> <p>Hence, Mr M P Amirthanayagam, an Independent Non-Executive Director, functions as the present Senior Independent Director of the Company.</p> | The role and responsibilities of the Senior Independent Director set out in the Company's Corporate Governance Charter was reviewed by the Board. | |
| 7 (3) | Disclosure of relationship between the Chairman, Chief Executive Officer and members of the Board in the corporate governance report | Compliant | <p>As declared by them, there are no relationships whatsoever, including financial, business, family, or other material relationship between the Chairman/CEO and/or other members of the Board which will impair their respective roles.</p> <p>The particulars of the Chairman and the CEO can be found on pages 152 and 156 of this Report.</p> | | |
| 7 (4) | Role of the Chairman | Compliant | The Corporate Governance Charter of the Company sets out the responsibilities of the Chairman which includes leading the Board and ensuring its effective functioning. | The role and responsibilities of the Chairman set out in the Company's Corporate Governance Charter was reviewed by the Board. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|--|----------------------|--|---|-------------------------|
| 7 (5) | Role of the Chairman in the preparation of the agenda for Board meetings | Compliant | The Chairman has delegated the function of preparing the agenda to the Company Secretary. | | |
| 7 (6) | Duty of the Chairman to ensure that all Directors are informed adequately and timely of the issues arising at Board meetings | Compliant | The Chairman ensures, that all Directors are properly briefed on issues arising at Board meetings by submission of the agenda and Board papers with sufficient time for their perusal prior to a meeting. | | |
| 7 (7) | Role of the Chairman in encouraging Directors to make an active contribution to the Board's affairs | Compliant | The Chairman sets the agenda, style and the 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. | | |
| 7 (8) | Role of the Chairman in ensuring constructive relationships between Executive and Non-Executive Directors | Compliant | <p>The Company does not have any Executive Directors.</p> <p>Nevertheless, the Chairman ensures that a constructive relationship exists between the Board members as a whole by providing an equal opportunity to all Directors to actively participate in the Board's affairs.</p> <p>This process is further strengthened through the annual self-evaluations of the Board where views of all Directors are canvassed in respect of the performance of the Board as a whole as well as of its committees.</p> | | |
| 7 (9) | Avoidance of engaging in activities involving direct supervision of Key Management Personnel or any other executive duties by the Chairman | Compliant | 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. | | |
| 7 (10) | Role of the Chairman in maintaining effective communication with shareholders and communicating the views of shareholders to the Board | Compliant | <p>The Board attaches considerable importance to the maintenance of constructive relationships with the shareholders and considers the AGM and other General Meetings to be the formal opportunity for dialogue and communication between the Company and the shareholders. Accordingly, these meetings provide the principal opportunity for the Board to meet the shareholders and for the Chairman to explain the Company's progress and clarify matters that shareholders refer to the Board and the Management.</p> <p>To encourage shareholders to communicate their views and to seek assistance in matters that relate to them, a separate function on investor relations has been established at the Senior Management level.</p> | | |
| 7 (11) | Role of the Chief Executive Officer | Compliant | The Chief Executive Officer (CEO), the apex Executive of the Company is delegated by the Board with the authority of detailed planning and implementation of the strategic objectives and policies of the Company and day-to-day operations of the Company in accordance with appropriate risk parameters. The role of the CEO is detailed in the Corporate Governance Charter of the Company. | The role and responsibilities of the Chief Executive Officer set out in the Company's Corporate Governance Charter was reviewed by the Board. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
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G. Board Appointed Committees

Board Committees facilitate the discharge of Board responsibilities and provide in-depth focus on areas delegated to them.

| | | | | | |
|-------|---|-----------|--|---|--|
| 8 (1) | Presence of at least two Board committees reporting directly to the Board | Compliant | <p>The Company has five Board appointed Committees directly reporting to the Board of which four namely, the Board Audit Committee (BAC), Integrated Risk Management Committee (IRMC), Remuneration and Nomination Committee (R&NC) and Related Party Transactions Review Committee (RPTRC) are mandatory sub-committees set up in compliance with the applicable rules and regulations while the other committee namely, Funding Committee is a voluntary sub-committee.</p> <p>Each committee has a secretary that arranges its meetings, maintains minutes, records and carries out other secretarial functions under the supervision of the chairmen of the respective committees.</p> <p>The composition and the functions of the Board committees are detailed on pages 230 to 238 of this Report.</p> | Set up a voluntary Board committee titled "Funding Committee" for the purpose of reviewing and recommending the funding requirements and strategies of the Company. | |
|-------|---|-----------|--|---|--|

8 (2) Audit Committee

| | | |
|---|-----------|--|
| (a) The chairman of Audit Committee | Compliant | Mr J P Amaratunga, a Non-Executive Non-Independent, Director serves as the Chairman of the Board Audit Committee. He is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and a Fellow Member of the Institute of Chartered Management Accountants, UK. He has over 30 years of extensive experience in finance and management. He was also a Member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka. |
| (b) Composition of the Audit Committee | Compliant | All three members of the Board Audit Committee are Non-Executive Directors, two of whom are Independent. |
| (c) Responsibility of the Audit Committee to recommend: | Compliant | The Board Audit Committee has at its meetings recommended |
| (i) the appointment of the external auditor; | | (i) that Messrs Ernst & Young, Chartered Accountants be reappointed as the external auditors of the Company for the financial year 2016/17; |
| (ii) implementation of the Central Bank guidelines issued to auditors; | | (ii) the implementation of Central Bank guidelines issued to auditors from time to time; |
| (iii) application of relevant accounting standards; | | (iii) the application of relevant accounting principles and standards; and |
| (iv) the service period, audit fee and any resignation or dismissal of the auditor. | | (iv) the Group Audit Fee for the financial year 2016/17. |

No resignation or dismissal of the auditor has taken place during the year 2016/17. The term of engagement of the present audit partner who was appointed during the financial year 2012/13, does not exceed five years.

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|--|--|-------------------------|
| | (d) Responsibility of the Audit Committee to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes | Compliant | <p>The Board Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the audit process, taking into account the relevant professional and regulatory requirements.</p> <p>Company's External Auditor for 2016/17, Messrs Ernst & Young, Chartered Accountants has provided a declaration of their independence to the Board Audit Committee in terms of the relevant rules.</p> | | |
| | (e) Responsibility of the Audit Committee to develop and implement a Board approved policy on the engagement of an external auditor to provide non-audit services | Compliant | The Board Audit Committee with the approval of the Board of Directors has developed and implemented a policy for engagement of external auditor to provide non-audit services to safeguard the auditor's independence and objectivity. | | |
| | (f) Responsibility of the Audit Committee to discuss and finalise with the external auditors the nature and scope of the audit | Compliant | The Board Audit Committee met with the external auditor Messrs Ernst & Young, Chartered Accountants during the year under review and discussed their audit plan, nature and the scope of the audit before the commencement of the annual audit. | | |
| | (g) Responsibility of the Audit Committee to review the financial information of the Company, in order to monitor the integrity of the financial statements, annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. | Compliant | <p>The Board Audit Committee periodically reviews the financial information of the Company in order to monitor the integrity of the financial statements of the Company and other financial disclosures.</p> <p>The Committee has reviewed the Company's Audited and Quarterly Financial Statements before submission thereof to the Board for approval.</p> | | |
| | (h) Responsibility of the Audit Committee to discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss | Compliant | During the year under review, the Board Audit Committee met the External Auditor without the presence of the Key Management Personnel for such purpose. | | |
| | (i) Responsibility of the Audit Committee to review the external auditor's management letter and the management's response thereto. | Compliant | During the year, the Board Audit Committee reviewed the External Auditor's Management Letter for the year 2015/16 and the Management's responses thereto. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|---|--|-------------------------|
| | (j) Responsibility of the Audit Committee to take the following steps with regard to the internal audit function of the Company: | | | | |
| | (i) review the adequacy of the scope, functions and resources of the internal audit department; | Compliant | The Board Audit Committee has reviewed and approved the Internal Audit Plan for the F/Y 2016/17 presented by the Internal Audit Department prepared based on overall risk assessment and the significant audit observations made during the previous year. This plan also includes the scope, functions and the resources of the Internal Audit Department. | | |
| | (ii) review the internal audit programme and results of the internal audit process; | Compliant | The findings of the internal audits carried out during the year and the evaluation by the Internal Audit Department of the Company's internal controls and compliances were reviewed by the Committee. | | |
| | (iii) review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; | Compliant | During the year 2016/17, the Committee assessed the performance of the Internal Audit Department as a whole as well as the performance of the Head of Internal Audit and senior members of the Internal Audit Department. | | |
| | (iv) recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; | Compliant | No such situation has arisen during the year 2016/17. | | |
| | (v) ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers; | Compliant | No senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers have resigned during the year. | | |
| | (vi) ensure that the internal audit function is independent of the activities it audits | Compliant | Internal audit function is independent as the Internal Audit Department reports directly to the Board Audit Committee. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|--|----------------------|---|---|-------------------------|
| (k) | Responsibility of the Audit Committee to consider the major findings of internal investigations and management's responses thereto; | Compliant | Based on the reports submitted by the Internal Audit Department, the Board Audit Committee reviews and considers major audit findings and the management's responses thereto. | | |
| (l) | Participants at the Audit Committee meetings and the need to meet with the external auditors without the presence of the executive directors | Compliant | Although the Board Audit Committee does not comprise any Executive Directors, the Committee met with the external auditor during the year under review. | | |
| (m) | Authority and resources of the Audit Committee | Compliant | The Board approved Terms of Reference of the Board Audit Committee mandates explicit authority to investigate into any matter within its purview and take necessary action thereto. The Terms of Reference of the Board Audit Committee is given in the Audit Committee Report on pages 230 and 231 of this Report. | | |
| (n) | Meetings of the Audit Committee | Compliant | The Board Audit Committee met five times during the financial year under review. | | |
| (o) | Disclosure of activities of the Audit Committee and attendance of members at meetings thereof in the Annual Report | Compliant | The activities of the Board Audit Committee during 2016/17 and attendance of members at meetings of the Committee is set out in the Board Audit Committee Report on pages 230 and 231 of this Report. | | |
| (p) | Recording and maintenance of detailed minutes of the Audit Committee meetings | Compliant | In accordance with the Terms of Reference, Head of Internal Audit functions as the Secretary to the Board Audit Committee. The Secretary to the Committee records and maintains minutes of all Committee meetings in sufficient detail. | | |
| (q) | Responsibility of the Audit Committee to review the process by which employees may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters | Compliant | On the recommendation of the Board Audit Committee, the Board has adopted a Whistleblower Protection Policy that enables the employees to, in confidence, report violations of laws, rules, regulations or unethical conduct to the Board Audit Committee. Information routed through the Whistleblower channel is verified carefully and appropriate actions are taken by the Committee. The confidentiality of those reporting violations is maintained and they are not subjected to any discriminatory action. The policy has been published in all three languages in the Company's intranet for information of all employees. | The Whistleblower Protection Policy of the Company was reviewed and updated in the year under review so as to align it with the current trends. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|---|----------------------|--|--|---|
| 8 (3) Integrated Risk Management Committee | | | | | |
| | (a) Composition of the Integrated Risk Management Committee and the duty of the committee to work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of authority | Compliant | <p>The Integrated Risk Management Committee comprises two Non-Executive Directors, Chief Executive Officer, CEO-Designate and three Deputy General Managers supervising broad risk categories such as credit, market, liquidity, operational and strategic risk.</p> <p>Head of Internal Audit, key risk owners of subsidiaries and the compliance officer attended Integrated Risk Management Committee meetings on invitation.</p> | | |
| | (b) Responsibility of the Integrated Risk Management Committee to assess all risks to the Company both on individual basis as well as group basis, monthly through appropriate risk indicators and management information | Compliant | <p>The Integrated Risk Management Committee assesses all risks, i.e., credit, market, liquidity, operational and strategic risks through appropriate risk indicators established for the Company and the subsidiary companies. Risk assessment is also carried out on a Company basis and the group basis wherever possible.</p> <p>Integrated Risk Management Committee reviews the risk dash board reports of the Company and its subsidiaries that have commenced commercial operations and takes prompt corrective action(s) to mitigate the negative effects of specific risks, in case such risks are exceeding the established risk tolerance levels.</p> | The Terms of Reference was reviewed with the objective of broadening the scope of the review activities of the Committee focusing on the areas such as Risk Appetite Framework, Adequacy and Effectiveness of Risk Indicators, Stress Testing Framework and Business Continuity Plan Implementation. | Reviewing and updating the risk dash-board report to be more responsive to business growth and the changes in the external environment. |
| | (c) Responsibility of the Integrated Risk Management Committee to review the adequacy and effectiveness of all management level committees | Compliant | <p>Assets & Liabilities Committee (ALCO) of the Company reviews and monitors the liquidity risk and the market risk based on the risk tolerance levels (risk limits) established by Integrated Risk Management Committee. The Committee makes an annual assessment of the effectiveness of the performance of the ALCO against its scope set out in the Terms of Reference.</p> <p>The Company has established credit authority levels with prescribed credit approval limits to evaluate the customer applications based on the risk and the amount of the facility. The Company adopts this credit authority levels for credit approvals instead of a Credit Committee.</p> <p>The scope of the Integrated Risk Management Committee and its activities during 2016/17 can be found in the Integrated Risk Management Committee Report on pages 236 to 238 of this Report.</p> | | |
| | (d) Responsibility of the Integrated Risk Management Committee to take prompt corrective action to mitigate the effects of specific risks which are at levels beyond the prudent levels decided by the committee | Compliant | The Integrated Risk Management Committee has determined risk tolerance levels and each risk category in the risk profile of the Company has been reviewed against those risk tolerance levels by the Committee at their meetings. The Committee has provided required direction where it ascertained that the risk levels have gone beyond the established risk limits. | The Risk Tolerance Statement was reviewed by the Committee for relevance in the current business, economic and regulatory context. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|--|----------------------|---|---|-------------------------|
| | (e) Responsibility of the Integrated Risk Management Committee to meet at least quarterly to assess all aspects of risk management | Compliant | The Integrated Risk Management Committee met four times during the financial year 2016/2017. | | |
| | (f) Responsibility of the Integrated Risk Management Committee to take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka | Compliant | Risks are identified collectively by the Integrated Risk Management Committee and Assets & Liabilities Committee (ALCO) and such decisions are taken collectively. | | |
| | (g) Responsibility of the Integrated Risk Management Committee to submit a risk assessment report within a week of each meeting to the Board | Compliant | Risk assessment reports are submitted by the Integrated Risk Management Committee at the Board meeting immediately following the Integrated Risk Management Committee meeting. | | |
| | (h) Responsibility of the Integrated Risk Management Committee to establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations and the requirement for the compliance function to be a Key Management Personnel | Compliant | <p>Committee has established a compliance function to assess the Company's compliance with laws, regulations and regulatory guidelines.</p> <p>The compliance function is headed by an Attorney-at-Law in the senior managerial cadre who directly reported to the Integrated Risk Management Committee on the Company's compliance with laws, regulations, directions, rules, regulatory guidelines and internal controls.</p> <p>The framework and activities of the compliance function is given on pages 239 to 240 of this Report.</p> | During the year under review, the Compliance Officer was designated by the Board as a Key Management Personnel for the purposes of Finance Companies (Corporate Governance) Directions. | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|---|--|----------------------|---|--|---|
| H. Related Party Transactions | | | | | |
| The Code of Business Conduct and Ethics of the Company requires the Directors to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. | | | | | |
| 9 (2) | Responsibility of the Board to take necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with related parties | Compliant | <p>The Company has in place a Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as "related parties" has been identified. In accordance with the RPT Policy self-declarations are obtained from each Director and Key Management Personnel for the purpose of identifying parties related to them. Based on the information furnished in these declarations, the Company has developed a system that enables the Company to retrieve data on related party transactions throughout the Company's network.</p> <p>The Code of Business Conduct and Ethics of the Company ("the Code") requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. The Code also requires Directors who have such a potential or actual conflict of interests to immediately disclose it to the Board of Directors as soon as he/she becomes aware of it.</p> <p>The Related Party Transactions Review Committee further strengthen the effective management and oversight of related party transactions.</p> <p>The details of the Related Party Transactions Review Committee can be found in the Related Party Transactions Review Committee Report on pages 234 to 235 of this Report.</p> | Steps were initiated during the year 2016/17 to review policies and procedures on related party transactions with the assistance of an independent expert. | Completion of review of policies and procedures on related party transactions and effect modifications required to the monitoring system. |
| 9 (3) | Nature of transactions with related parties to which the Corporate Governance Directions apply | Compliant | The Related Party Transaction Policy of the Company covers all transactions with related parties irrespective of their nature and value. | | |
| 9 (4) | Responsibility of the Board to ensure that the Company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" proprietary, confidential | Compliant | <p>The Board approved Related Party Transaction Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties "more favorable treatment" as defined in this rule.</p> <p>This is further supplemented by the existing on-line preventive system which enables the Company to monitor and report related party transactions and retrieve data thereof throughout the Company's network.</p> | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|--|--|----------------------|--|--|-------------------------|
| I. Disclosures | | | | | |
| The Company has at all times ensured that relevant and accurate information is timely disclosed to its stakeholders demonstrating the Company's accountability and transparency. | | | | | |
| 10 (1) Responsibility of the Board on Disclosure of Financial Statements | | | | | |
| | (a) preparation and publication of annual audited financial statements and periodical financial statements in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards | Compliant | The Board ensured that the annual audited financial statements and periodical financial statements of the Company for the year 2016/17 were prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards. | | |
| | (b) publication of abovementioned statements in the newspapers in an abridged form, in Sinhala, Tamil and English | Compliant | The Board ensured that the financial statements referred to in rule 10 (1) (a) above were published in an abridged form in Sinhala, Tamil and English languages. | | |
| 10 (2) Responsibility of the Board to Ensure Appropriate Disclosures in the Annual Report | | | | | |
| | (a) a statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures | Compliant | The confirmation on preparation of the annual audited financial statements in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures is contained in the Statement on Directors' Responsibility for Financial Reporting on pages 271 and 272 and the Independent Auditors' Report, on page 275 of this Report. | | |
| | (b) a report by the Board on the Company's internal control mechanism confirming that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements. | Compliant | The report of the Board on the effectiveness of the Company's internal control mechanism over financial reporting is contained in the Directors' Statement on Internal Control over Financial Reporting on page 273 of this Report. | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 | | | | | | | | | | | | |
|----------------|--|-------------------------------------|--|--|-------------------------|-------------------------------------|---------------|-------|-----|----------|---|--------|--------------|-------|---------|--|--|
| | (c) External auditor's certification on the effectiveness of the internal control mechanism | Compliant | The Board has obtained the Assurance Report from the External Auditor on the Internal Control over Financial Reporting and the same can be found on page 273 of this Report. | | | | | | | | | | | | | | |
| | (d) Details of directors, including names, transactions with the Company | Compliant | Details of the Directors can be found on pages 152 to 154 of this Report while the details of their transactions with the Company are disclosed under Note 50 to the Financial Statements on pages 357 to 361. | | | | | | | | | | | | | | |
| | (e) Fees/remuneration paid by the Company to the directors in aggregate | Compliant | The details of the remuneration paid to the Board of Directors are disclosed under Note 50.2.1 to the Financial Statements on page 357. | | | | | | | | | | | | | | |
| | (f) Total net accommodation outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds | Compliant | The details of the total net accommodation in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Company's capital funds are disclosed under Note 50 to the Financial Statements on pages 357 to 361. | | | | | | | | | | | | | | |
| | (g) aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year | Compliant | The details of the aggregate values of remuneration paid by the Company to its Key Management Personnel and the aggregate values of the transactions of the Company with its Key Management Personnel during the financial year 2016/17 are disclosed below. | | | | | | | | | | | | | | |
| | | | <table border="1"> <thead> <tr> <th></th> <th style="text-align: center;">Directors Rs. '000</th> <th style="text-align: center;">Corporate Management Rs. '000</th> </tr> </thead> <tbody> <tr> <td>Accommodation</td> <td style="text-align: center;">2,829</td> <td style="text-align: center;">494</td> </tr> <tr> <td>Deposits</td> <td style="text-align: center;">-</td> <td style="text-align: center;">89,053</td> </tr> <tr> <td>Remuneration</td> <td style="text-align: center;">4,840</td> <td style="text-align: center;">197,560</td> </tr> </tbody> </table> | | Directors Rs. '000 | Corporate Management Rs. '000 | Accommodation | 2,829 | 494 | Deposits | - | 89,053 | Remuneration | 4,840 | 197,560 | | |
| | Directors Rs. '000 | Corporate Management Rs. '000 | | | | | | | | | | | | | | | |
| Accommodation | 2,829 | 494 | | | | | | | | | | | | | | | |
| Deposits | - | 89,053 | | | | | | | | | | | | | | | |
| Remuneration | 4,840 | 197,560 | | | | | | | | | | | | | | | |
| | (h) a report containing details of compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance | Compliant | <p>The details on Company's compliance with prudential requirements, regulations, laws and internal controls during the year 2016/17 are explained in detail in the Annual Report of the Board of Directors on the Affairs of the Company on pages 224 to 229 and the Corporate Governance Report, on pages 162 to 223 of this Report.</p> <p>Other than to the extent disclosed in this report and the Report of the Directors on the Affairs of the Company referred to above there was no material non-compliance to prudential requirements, regulations, laws and internal controls during 2016/17 affecting the Company.</p> | | | | | | | | | | | | | | |

Corporate Governance

| Rule Reference | Principle | Status of compliance | Manner of compliance | Progressive initiatives implemented in 2016/17 | Focus areas for 2017/18 |
|----------------|---|----------------------|---|--|-------------------------|
| | (i) a statement of the regulatory and supervisory concerns on lapses in the Company's risk management, or non-compliance (if any) with the Finance Business Act, and rules and directions that need to be disclosed to the public as directed by the Monetary Board | Compliant | There were no supervisory concerns on lapses in the Company's risk management system or non-compliance with the Finance Business Act and rules and directions thereunder that have been required by the Monetary Board to be disclosed to the public. | | |
| | (j) External Auditors' certification of the compliance with the Corporate Governance Directions | Compliant | The external auditor has performed procedures set out in Sri Lanka Standards on Related Service 4750 issued by The Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirement of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board. The recommendations made by the Auditor where relevant will be implemented in 2016/17 as done previously. | | |
| 11 | Compliance with the transitional provisions contained in this rule. | Compliant | | | |

Corporate Governance

Our Compliance with the Requirements on the Content of the Annual Report in Rule 7.6 and Requirements on Corporate Governance in Rule 7.10 of the Listing Rules of the Colombo Stock Exchange (Listing Rules)

COMPLIANCE WITH REQUIREMENTS ON THE CONTENT OF THE ANNUAL REPORT IN RULE 7.6 OF THE LISTING RULES

| Rule reference | Information required to be disclosed | Status of compliance | Page reference |
|----------------|--|---|----------------|
| 7.6(i) | Names of persons who were directors of the Company during the financial year | √ | 152 - 154 |
| 7.6(ii) | Principal activities of the Company and its subsidiaries during the year and any changes therein | √ | 283 |
| 7.6(iii) | The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held as at the end of the financial year | √ | 124 |
| 7.6(iv) | The public holding percentage | √ | 123 |
| 7.6(v) | Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year | √ | 125 |
| 7.6(vi) | Information pertaining to material foreseeable risk factors | √ | 241 - 268 |
| 7.6(vii) | Details of material issues pertaining to employees and industrial relations | During the year under review, there were no material issues pertaining to employees and industrial relations of the Company | |
| 7.6(viii) | Extents, locations, valuations and the number of buildings of the land holdings and investment properties as at the end of the financial year | √ | 327 - 332 |
| 7.6(ix) | Number of shares representing the stated capital as at the end of the financial year | √ | 350 |
| 7.6(x) | A distribution schedule of the number of holders in each class of equity securities and the percentage of their total holdings as the end of the financial year | √ | 123 |
| 7.6(xi) | Ratios and market price information on: | | |
| | Equity: Dividend per share, Dividend payout ratio, Net asset value per share, Market value per share (highest and lowest values during the financial year and the value as at the end of the financial year) | √ | 121 |
| | Debt: Interest rate of comparable Government security, Debt/equity ratio, Interest cover, Quick asset ratio, market prices and yield during the year (highest and lowest prices and last traded price) | √ | 126 |
| | Changes in credit ratings | √ | 401 |
| 7.6(xii) | Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value as at the end of the year | √ | 327 - 332 |
| 7.6(xiii) | Details of funds raised through a public issue, Rights Issue and a private placement during the year | √ | 125, 337 - 338 |
| 7.6(xiv) | Information in respect of Employee Share Ownership or Stock Option Schemes | The Company does not have any Employee Share Ownership or Stock Option Schemes at present | |
| 7.6(xv) | Disclosures pertaining to Corporate Governance Practices in terms of Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules | √ | 162 - 223 |
| 7.6(xvi) | Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower | The Company did not have any related party transaction exceeding this threshold during the year 2016/17. | |

Corporate Governance

COMPLIANCE WITH REQUIREMENTS ON CORPORATE GOVERNANCE REQUIREMENTS IN RULE 7.10 OF THE LISTING RULES

| Rule Reference | Requirement | Compliance Status | Details |
|----------------|---|-------------------|---|
| 7.10.1 (a) | Two or one third of the Directors, whichever is higher, should be Non-Executive Directors | ✓ | The Board of Directors of the Company comprised only Non-Executive Directors. |
| 7.10.2 (a) | Two or one third of Non-Executive Directors, whichever is higher, should be independent | ✓ | Of the Eight Non-Executive Directors of the Company as at 31 March 2017, five were Independent Non-Executive Directors. |
| 7.10.2 (b) | Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format | ✓ | All Non-Executive Directors submitted the requisite declarations during the year under review. |
| 7.10.3 (a) | Names of Independent Directors should be disclosed in the Annual Report | ✓ | Refer: Board of Directors, pages: 152 to 154 |
| 7.10.3 (b) | In the event a Director does not qualify as independent as per the rules on corporate governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report | N/A | No such determination was required to be made by the Board, as all the Independent Directors of the Company met the specified criteria. |
| 7.10.3 (c) | A brief resume of each Director should be published in the Annual Report including the areas of expertise | ✓ | Refer: Board of Directors, pages: 152-154 |
| 7.10.3 (d) | A brief resume of any new Director appointed to the Board should be provided to the Exchange for dissemination to the public | ✓ | All new appointments to the Board during the year were announced to the Exchange together with the profiles of the individual Directors. |
| 7.10.5 | A listed company shall have a Remuneration Committee | ✓ | Refer: Remuneration and Nomination Committee Report, pages: 232-233 |
| 7.10.5 (a) | The Remuneration Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors, whichever is higher | ✓ | During the year 2016/17, Remuneration and Nomination Committee comprised three Non-Executive Directors of whom two were Independent. The Chairman of the Committee was a Non-Executive, Non-Independent Director. |
| 7.10.5 (b) | Functions of the Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors | ✓ | Refer: Remuneration and Nomination Committee Report, pages: 232-233 |
| 7.10.5 (c) | The Annual Report shall set out: | | |
| | (i) The names of the Directors that comprise the Remuneration Committee | ✓ | Refer: Remuneration and Nomination Committee Report, pages: 232-233 |
| | (ii) A statement of Remuneration Policy | ✓ | Refer: Remuneration and Nomination Committee Report, pages: 232-233 |
| | (iii) Aggregate remuneration paid to Executive and Non-Executive Directors | ✓ | Refer: Annual Report of the Board of Directors on the Affairs of the Company, pages: 224-229 |
| 7.10.6 | A listed company shall have an Audit Committee | ✓ | Refer: Board Audit Committee Report, pages: 230-231 |
| 7.10.6 (a) | The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors, or a majority of Independent Non-Executive Directors, whichever is higher | ✓ | The Audit Committee comprised three Non-Executive Directors of whom two were Independent. The Chairman of the Committee was a Non-Executive, Non-Independent Director. |

Corporate Governance

| Rule Reference | Requirement | Compliance Status | Details |
|----------------|--|-------------------|---|
| | The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings | √ | Both the Chief Executive Officer and the Chief Financial Officer attended the Audit Committee meetings by invitation. |
| | The Chairman or one member of the Committee should be a member of a recognised professional accounting body | √ | The Chairman of the Committee is a Fellow Member of The Institute of Chartered Accountants of Sri Lanka and is a Fellow Member of Chartered Management Accountants, UK. |
| 7.10.6 (b) | The functions of the Audit Committee shall be as set out in Section 7.10 of the Listing Rules. | | Refer: Board Audit Committee Report, pages: 230-231 |
| 7.10.6 (c) | The Annual Report shall set out; | | |
| | The names of the Directors who comprise the Audit Committee | √ | Refer: Board Audit Committee Report, pages: 230-231 |
| | The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination | √ | Refer: Board Audit Committee Report, pages: 230-231 |
| | A report by the Audit Committee setting out the manner of compliance of the functions set out in Section 7.10 of the Listing Rules | √ | Refer: Board Audit Committee Report, pages: 230-231 |

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 is presented as required by Section 168 of the Companies Act No. 07 of 2007.

GENERAL

The Board of Directors of People's Leasing & Finance PLC has pleasure in presenting the Integrated Annual Report to the shareholders, together with the Audited Financial Statements and the Audited Consolidated Financial Statements for the year ended 31 March 2017 of the Company and the Group and the Auditor's Report on these Financial Statements conforming to all statutory requirements.

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 thereunder, the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. This Report was approved by the Board of Directors on 19 May 2017.

As in Section 168 of the Companies Act No. 07 of 2007, the following information is disclosed in this Annual Report.

REVIEW OF BUSINESS

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision and mission are provided on page 24 of this Annual Report. In achieving the vision and mission, all Directors and employees conduct their activities to the highest level of ethical standards and integrity, as set out in the Company's Code of Business Conduct and Ethics.

PRINCIPAL BUSINESS ACTIVITIES

The Company's principal business activities comprise finance leases, term loans, Islamic finance, margin trading, factoring, issuance of debt instruments and mobilisation of public deposits. The Company had five subsidiaries and one associate as at 31 March 2017 and the nature of business activities of these subsidiaries and associate are described in Subsidiary Information on pages 407 to 411 and in Accounting Policies on page 283. The Company or its subsidiaries/associate has not engaged in any activities, which contravene any laws or regulations during the year under review.

| Reference | Information required to be disclosed |
|---------------------|---|
| Section 168 (1) (a) | The nature of the business of the Company and its subsidiaries together with any change thereof during the accounting period |
| Section 168 (1) (b) | Completed and signed Financial Statements of the Company and the Group for the accounting period completed |
| Section 168 (1) (c) | Auditors' Report on Financial Statements of the Company and the Group |
| Section 168 (1) (d) | Any changes made to the Accounting Policies during the year under review |
| Section 168 (1) (e) | Particulars of the entries in the Interest Registers of the Company and its subsidiaries during the accounting period |
| Section 168 (1) (f) | Remuneration and other benefits paid to the Directors of the Company and its subsidiaries during the accounting period |
| Section 168 (1) (g) | Total amount of donations made by the Company during the accounting period |
| Section 168 (1) (h) | Information on Directorate of the Company and its subsidiaries during and at the end of the accounting period |
| Section 168 (1) (i) | Separate disclosure on amounts payable by the Company and its subsidiaries to the Auditor as audit fees and fees for other services rendered during the accounting period |
| Section 168 (1) (j) | Auditors' relationship or any interest with the Company and its subsidiaries |
| Section 168 (1) (k) | Acknowledgment of the contents of this report/signatures on behalf of the Board by two Directors and the Secretary of the Company |

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

CHANGES TO THE GROUP STRUCTURE

CHANGES TO SUBSIDIARIES

Although the Company has made additional investments in People's Leasing Fleet Management Limited and People's Microfinance Limited during the year, there were no changes to the respective shareholdings as both are fully owned by the Company.

A comprehensive Group structure is available in the 'About PLC' section (page 7).

CHANGES TO BRANCH NETWORK

With the 11 branches opened during the year, the total branch network of the Company as at 31 March 2017 reached 103.

REVIEW OF OPERATIONS

An overall assessment of the Company's financial position and performance during the year 2016/17, with comments on financial results and special events that took place is contained in the Chairman's Report on pages 12 to 13, the Chief Executive Officer's Review on pages 14 to 15, and the Management Discussion and Analysis on pages 52 to 149 of this Annual Report. These reports form an integral part of the Annual Report of the Board of Directors on the Affairs of the Company. Segment wise contribution to Group revenue, results, assets and liabilities is disclosed in Notes to the Financial Statements on pages 371 to 372 of this Annual Report.

FUTURE OUTLOOK

The Company's outlook based on the challenges, opportunities and developments in the global market as well as Sri Lankan market is set out in the 'Future Outlook' section on page 149 of this Annual Report.

FINANCIAL STATEMENTS

The Financial Statements of the Company and the Group duly certified by the Chief Financial Officer and the Chief Executive Officer with the approval of the Chairman and the Deputy Chairman, which have been prepared in accordance with the Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of Companies Act No. 07 of 2007, are appearing on page 274 of this Annual Report.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The "Statement of Directors' Responsibility for Financial Reporting" provided on pages 271 and 272 forms an integral part of this Report.

AUDITORS' REPORT

The Report of the Auditor on the Financial Statements of the Company and its Group is given on page 275.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

An alternative format has been used in presenting Accounting Policies to minimise the disclosure overload and clutter in the Financial Statements. These Financial Statements comply with the requirements of the Sri Lanka Accounting Standards – LKAS 1 on 'Presentation of Financial Statements' and with Section 168 (1) (d) of the Companies Act No. 07 of 2007.

The Board of Directors wishes to confirm that there were no changes to the Accounting Policies used by the Company and the Group during the year under review. Significant Accounting policies, together with the notes adopted in preparation of the Financial Statements of the Company and the Group are given on pages 283 to 396.

FINANCIAL RESULTS AND APPROPRIATIONS

INTEREST INCOME

The total interest income of the Company and the Group was Rs. 22,041.26 million (Rs. 17,876.08 million in 2015/16) and Rs. 22,784.27 million (Rs. 18,301.17 million in 2015/16) respectively for the year ended 31 March 2017. A more descriptive analysis of the interest income is given in Note 5 to the Financial Statements on page 293.

PERFORMANCE AND APPROPRIATIONS

The Company and the Group recorded a net profit of Rs. 4,009.25 million and Rs. 4,441.62 million respectively for the financial year 2016/17 (Rs. 4,347.35 million and Rs. 4,741.55 million in 2015/16). This represents a decline in net profits of the Company and the Group by 7.78% and 6.33% respectively compared to the previous year.

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

Details of the Company's performance and appropriation of profit are tabulated as follows.

| Company | 2016/17 Rs. million | 2015/16 Rs. million |
|---|------------------------|------------------------|
| Profit before income tax | 5,475.89 | 6,143.09 |
| Income tax expense | (1,466.64) | (1,795.73) |
| Profit for the year | 4,009.25 | 4,347.36 |
| Profit brought forward from previous year | 7,682.23 | 6,489.60 |
| Profit available for appropriation | 11,691.48 | 10,836.96 |
| Super Gain Tax paid | - | (741.08) |
| | 11,691.48 | 10,095.88 |
| Appropriations | | |
| Redemption of preference shares | (100) | (200) |
| Dividend paid for previous/ current year | (1,974.83) | (1,974.83) |
| Other comprehensive income | (16.11) | (21.45) |
| Transfer to reserves | (200.46) | (217.37) |
| Total appropriation | (2,291.40) | (2,413.65) |
| Unappropriated profit carried forward | 9,400.08 | 7,682.23 |

PROVISION OF TAXATION

The income tax rate applicable on the profits earned during the year is 28% (28% in 2015/16). Rate of VAT on financial services was at 11% for the period ended 30 October 2016 and 15% thereafter. (11 % in 2015/16). Accordingly, the current year income tax expense of the Company is Rs. 1,466.64 million and a comprehensive note on income tax expense and deferred tax asset/liability of the Company and the Group is disclosed in Notes 15 and 39 respectively to the Financial Statements.

DIVIDENDS

DIVIDENDS ON ORDINARY SHARES

An interim dividend of Rs. 0.75 per share was paid on 6 January 2017 to the ordinary shareholders and the Directors recommended a final dividend of Rs. 0.50 per share for the year ended 31 March 2017.

The Board of Directors ensured that the Company would meet the requirement of the solvency test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 and the Listing

Rules of the CSE, immediately after the payment of the said interim dividend and would ensure the compliance with the solvency test after the payment of the said final dividend as well. As required by Section 56 (2), the Board of Directors have obtained a certificate from the Auditor on the Statement of Solvency in respect of each dividend payment conforming to the above statutory provision.

DIVIDENDS ON PREFERENCE SHARES

During the year, the Company redeemed in full, the preference shares issued to People's Bank. Dividend paid in respect of these preference shares during the financial year ended 31 March 2017 amounted to Rs. 5 million.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The total capital expenditure incurred on property, plant and equipment (including capital work in progress) of the Company and the Group in the year ended 31 March 2017 amounted to Rs. 310.06 million and Rs. 1,079.23 million respectively (Rs. 280.64 million and Rs. 697.95 million in 2015/16).

In the year ended 31 March 2017 the Company and the Group did not invest to acquire intangible assets, however Rs. 5.44 million and Rs. 5.31 million was invested respectively in 2015/16.

The Directors confirm that there were no other significant changes in the Company's or its subsidiaries' fixed assets and market value of land which substantially differ from the book values thereof as disclosed in Note 29.4.

The details of property, plant and equipment and intangible assets are presented in Notes 29 and 30 on pages 327 to 334 to the Financial Statements.

FREEHOLD LAND AND BUILDING

Extents, locations, valuations and the number of buildings of the Entity's land holding are detailed in Note 29.4 on page 331 of this Annual Report and the net book values of freehold land and buildings owned by the Company and the Group as at 31 March 2017 as included in the Financial Statement was Rs. 681.13 million and Rs. 2,689.26 million respectively.

INVESTMENTS

Details of investments held by the Company are disclosed in Note 20, 21, 24, 25, 26 and 27 on pages 307 to 309 and 318 to 325 to the Financial Statements.

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

EQUITY

STATED CAPITAL

The Stated Capital of the Company and the Group as at 31 March 2017 amounted to Rs. 13,236.07 million, compared to Rs. 13,136.07 million as at 31 March 2016.

RESERVES

The total reserves of the Company and the Group as at 31 March 2017 stood at Rs. 11,461.22 million and Rs. 12,603.74 million respectively. During the financial year under review Rs. 200.46 million was transferred from retained earnings to the reserves. Information on the movement of reserves is given in the 'Statement of Changes in Equity' on pages 280 to 281 and in Notes 42 to 44 to the Financial Statements.

DEBT CAPITAL

During the financial year 2016/17, the Company issued 80 million senior, unsecured, redeemable, rated Debentures with a par value of Rs. 100/- each. These were listed on the Main Board of the CSE on 23 November 2016. The details of Debt Capital are given in Note 34 and a more comprehensive analysis of the Company's debentures is set out in Note on 34.1 to the Financial Statements.

CAPITAL ADEQUACY

Core Capital Ratio and Total Risk-Weighted Capital Ratio of the Company stood at 17.56% and 16.37% respectively, as at 31 March 2017. The information on Minimum Capital Requirement is given on page 61 of this Annual Report.

SHARE INFORMATION

Significant shareholder information along with substantial shareholder details and other share related information is presented in detail under the title 'Investor Capital' on pages 115 to 127 of this Annual Report.

EQUITABLE TREATMENT TO SHAREHOLDERS

The Company has at all times ensured that all shareholders are treated equitably.

BOARD OF DIRECTORS

PROFILES

Names of the Board of Directors together with their profiles including skills and experiences are set out on pages 152 to 154 of this Report.

APPRAISAL OF BOARD PERFORMANCE

The method used to appraise the performance of the Board of Directors is presented in the 'Corporate Governance' section on pages 162 to 223.

OTHER DIRECTORSHIPS/SIGNIFICANT POSITIONS OF DIRECTORS

Information of the other directorships/significant positions of the present Directors of the Company are given on page 170.

RESIGNATIONS AND APPOINTMENTS

Mr G B R P Gunawardena was appointed to the Board of the Company as a Non-Executive Director on 29 August 2016 to fill in the casual vacancy created by the retirement of Mr N Vasantha Kumar from the office of Non-Executive Director on 24 July 2017.

DIRECTORS' REMUNERATION

Directors' fees and emoluments paid by the Company and Group as at the year ended 31 March 2017 was Rs. 4,840,000 and Rs. 6,202,000 respectively. Comparative figures are given in Note 50 to the Financial Statements.

INTERESTS REGISTER/DIRECTORS' INTEREST IN TRANSACTIONS

In compliance with the Companies Act No. 07 of 2007, the Company maintains an interest register, which is available for inspection. The Directors of the Company have made general declarations of their interests in transactions of the Company as per Section 192 (2) of the Companies Act No. 07 of 2007. Details of the transactions disclosed therein are given on pages 357 to 361 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' INTEREST IN SHARES

The Directors have disclosed to the Board of their shareholding in the Company and any acquisitions or disposals thereof in compliance with Section 200 of the Companies Act No. 07 of 2007. The Directors' individual shareholdings along with the Chief Executive Officers' individual shareholding in the Company are given in the section titled 'Investor Capital' on page 125 of this Annual Report.

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

MEETINGS

The details of Board meetings and Board subcommittee meetings are presented in the Corporate Governance Report on page 170 of this Annual Report.

DONATIONS

During the financial year 2016/17, the Company made donations amounting to Rs. 187.64 (Rs 76.60 in 2015/16) in terms of the resolution passed at the last Annual General Meeting. The Company's Corporate Social Responsibility Department handles the Corporate Social Responsibility ('CSR') initiatives and activities. The CSR initiatives of the Company are presented in the sections titled 'Community Capital' and 'Natural Capital' on pages 128 to 133 and pages 135 to 148 respectively.

RELATED PARTY TRANSACTIONS

During the year ended 31 March 2017, there were no related party transactions, which exceeded 10% of the equity, or 5% of the total assets whichever is lower and the Company has complied with the requirements of the Listing Rules issued by 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 set out in Note 50 on pages 357 to 361 to the Financial Statements.

CORPORATE GOVERNANCE

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

In adopting the aforesaid Corporate Governance Charter, the Board has ensured that the Company is in compliant with the recommendations of the Code of Best Practices on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka, the Listing Rules of the Colombo Stock Exchange (CSE) and the Finance Companies (Corporate Governance) Directions No. 03 of 2008, No. 4 of 2008 and No. 6 of 2013.

THE DIRECTORS DECLARE THAT

- The Company has not engaged in any activity, which contravenes laws and regulations.
- The Company has made all endeavors to ensure the equitable treatment of shareholders.
 - The business is a going concern.
 - Effectiveness and successful adherence of internal controls and risk management is practiced by the Company. The measures taken in this regard are set out in the Corporate Governance Report on pages 162 to 223 of this Annual Report.
- To the best of their knowledge, there has not been any violation of the Code of Business Conduct and Ethics of the Company.

Board Audit Committee, Integrated Risk Management Committee, Remuneration and Nomination Committee, Related Party Transactions Review Committee and Funding Committee function as board subcommittees with Directors who possess the requisite qualification and experience. The composition of the said committees is set out in pages 168 to 170 of this Annual Report.

STAKEHOLDER MANAGEMENT AND INTEGRATED REPORTING

The Company has taken several measures to manage its valued stakeholders including customers, employees, investors, suppliers and community in portraying its value creation process. Aspects of economy, environment and social impacts have also been addressed adequately in the reporting process. These capital management and impact management reports are presented under Management Discussion and Analysis on pages 52 to 149 of this Annual Report.

COMPLIANCE WITH LAWS AND REGULATIONS

To the best knowledge and belief of the Directors, the Group and the Company have not engaged in any activity contravening any laws and regulations.

STATUTORY PAYMENTS

To the best of their knowledge and belief, the Directors are satisfied that all statutory payments due to the Government, other regulatory institutions and in relation to the employees have been timely made.

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

OUTSTANDING LITIGATION

In the opinion of the Directors formed in consultation with the Company's lawyers, litigation currently pending against the Company will not have any material impact on the reported financial results or future operations of the Company. Details of litigation pending against the Company are given in Note 46 to the Financial Statements on pages 354 to 356.

ENVIRONMENTAL PROTECTION

The Directors confirm that to the best of their knowledge the Company and the Group, have not engaged in any activity, which causes detriment to the environment.

HUMAN RESOURCES

The Company has adopted an absolutely non-discriminatory employment policy which respects individuals and provides career opportunities irrespective of the gender, race or religion.

As at 31 March 2017 – 2,085 persons were in employment (1,834 persons as at 31 March 2016) with the Company.

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are disclosed in Note 54 page 372 to the Financial Statements.

GOING CONCERN

After reviewing the Company's business plans, the Board of Directors has 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.

AUDITOR

Messrs Ernst & Young, Chartered Accountants served as the Company's Auditor during the year under review. Based on the declaration made by Messrs Ernst & Young and as far as the Directors are aware, the Auditor do not have any relationship or interest in the Company or its subsidiaries other than to the extent disclosed in this paragraph.

AUDITORS' REMUNERATION

Messrs Ernst & Young, Chartered Accountants were paid following sums by the Company for audit and related services as well as for non-audit services including tax related services:

| Fees | Company | | Group | |
|----------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2016/17 Rs. million | 2015/16 Rs. million | 2016/17 Rs. million | 2015/16 Rs. million |
| Audit and related services | 4.97 | 4.66 | 8.37 | 7.22 |
| Non-Audit Services | 3.50 | 4.86 | 4.51 | 7.00 |

REAPPOINTMENT

The retiring Auditor, Messrs Ernst & Young have expressed their willingness to continue in office and a resolution to reappoint them as the Company's Auditor for the ensuing financial year, and authorising the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

ANNUAL GENERAL MEETING

The 21 Annual General Meeting will be held at the People's Bank Staff Training College Auditorium 38, D. R. Wijewardhana Mawatha, Colombo 10 on the 30 June 2017 at 2.30 p.m. Notice of the meeting relating to the 21 Annual General Meeting is provided on page 429 of this Annual Report.

By order of the Board of Directors



M P Amirthanayagam
Deputy Chairman



Hemasiri Fernando
Chairman



Rohan Pathirage
Company Secretary

19 May 2017
Colombo

Board Audit Committee Report

COMPOSITION

The Board Audit Committee appointed by the Board of Directors of People's Leasing & Finance PLC comprises three Non-Executive Directors with two of them are Independent.

As of the financial year ended 31 March 2017, the Board Audit Committee comprised the following Directors:

| Name of the Member | Directorship status | Membership status |
|-----------------------|---|-------------------|
| Mr J P Amaratunge | Non-Executive Director | Chairman |
| Mr M P Amirthanayagam | Senior Independent Non-Executive Director | Member |
| Mr M A M Rizwan | Independent Non-Executive Director | Member |

The Chairman of the committee has a depth of financial expertise and information on experience of and brief profiles of the members are given on pages 152 to 153 of the Annual Report.

Mr Udesh Gunawardena, Head of the Internal Audit acts as the Secretary to the Board Audit Committee.

CHARTER OF THE COMMITTEE

The Terms of Reference of the Committee is clearly defined in the Charter of the Audit Committee. This process ensures that new development and concerns are adequately addressed. The Committee is responsible to the Board of Directors and reports on its activities regularly. The functions of the Committee are geared to assist the Board of Directors in its general oversight on financial reporting, internal and external audit and compliance with legal and regulatory requirements and risk management.

THE OBJECTIVE AND ROLE

The Committee is expected to ensure:

- The integrity of the financial reporting of the Company and the compliance with financial reporting requirements, information requirements of the Companies Act, No. 07 of 2007 and other related financial reporting regulations.
- The effectiveness of the internal control system and the Company's Risk Management function.
- The Company's ability to continue as a going concern in the foreseeable future.

- Independence and performance of the company's External Auditor.
- Performance of the Company's internal audit function.
- The Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function.

AUTHORITY

The Committee has the explicit authority to investigate into any matter, including call any employee to be questioned at a meeting of the committee, full access to information; and authority to obtain external professional advice, at the Company's expense.

MEETINGS

The Committee held five meetings during the financial year under review. The attendance of the Committee Members at the meetings was as follows:

| Name of the member | Meeting attendance |
|-----------------------|--------------------|
| Mr J P Amaratunge | 5/5 |
| Mr M P Amirthanayagam | 5/5 |
| Mr M A M Rizwan | 5/5 |

On the invitation of the Committee, any officer of the Company, External Auditor and any outsider may attend all or part of any meeting. The proceedings of the Audit Committee meetings are recorded with adequate details and reported to the Board of Directors.

SUMMARY OF ACTIVITIES

FINANCIAL REPORTING

The Committee reviews the Financial Statements of the Company before submission to the Board in order to monitor integrity of the Financial Statements of the Company prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Financial Statements prior to their release, the Committee also focuses particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; (v) the compliance with relevant accounting standards and other legal requirements.

The committee assesses the Company's compliance with financial reporting requirements, information requirements of

Board Audit Committee Report

the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and other relevant financial reporting related regulations and requirements.

INTERNAL CONTROLS, RISK MANAGEMENT FUNCTION AND GOING CONCERN

The committee keeps under review the Company's internal controls and risk management systems ensuring the procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards. The Committee also assesses the Company's ability to continue as a going concern in the foreseeable future. The Committee reviewed and approved the Directors' Statement on Internal Controls over financial reporting to be included in the Annual Report.

EXTERNAL AUDIT

The Committee monitors independence and objectivity of the audit processes of external audit in accordance with applicable standards of best practice. The Committee with the approval of the Board of Directors developed and implemented a policy for engagement of External Auditor to provide non-audit services to safeguard the Auditor's independence and objectivity.

The Audit Committee met the External Auditor Messrs Ernst & Young during the year and discussed the audit proposal and the scope and also provided the opportunity to the External Auditor to discuss the issues, problems and reservations arising from audits including those matters that may need to be discussed in the absence of Key Management Personnel.

The Committee also reviews the External Auditor's Management Letter and management responses thereto.

REAPPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee recommended to the Board that Messrs Ernst & Young; Chartered Accountants be reappointed as External Auditor of People's Leasing & Finance PLC for the financial year ending 31 March 2018, subject to the required approvals including from the shareholders at the next AGM.

INTERNAL AUDIT

The Committee reviews the adequacy of the scope, functions and resources of the internal audit department and satisfied itself that the department has the necessary authority to carry out its work. The Committee also monitors and reviews the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system.

The Committee ensured that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.

The Committee also reviews and monitors management's responsiveness to the significant audit findings and recommendations of the internal auditor.

OVERSIGHT ON REGULATORY COMPLIANCE

The Committee with the assistance of internal audit closely scrutinises the compliance with mandatory statutory requirements and the systems and procedures in place to ensure compliance with such requirements.

GRI 102-16

ETHICS AND GOOD GOVERNANCE

The Committee promotes the good governance among the internal audit staff by reviewing the internal audit policy charter and among all staff by introducing the whistleblower policy.

Highest standards of Corporate Governance and adherence to the Company's Code of Ethics are ensured. All appropriate procedures are in place to conduct independent investigations into incidents reported through whistleblowing or identified through other means.

WHISTLEBLOWING AND FRAUD

The Company's Whistleblower Protection policy intends serving a wide spread informal channel for the corporate fraud risk management. An employee, who observes or notices any improper or illegal activity or unethical practices in the Company or receives credible information of the same, may forthwith report the same directly to the Board Audit Committee.

The whistleblower policy of the Company was reviewed and updated with the approval of Board of Directors in the year under review so as to align it with the current trends.

The policy has been published in all three languages in the Company intranet and guarantees the maintenance of strict confidentiality of the whistleblowers.



J P Amaratunge

Chairman – Board Audit Committee



Udesh Gunawardena

Secretary – Board Audit Committee

19 May 2017
Colombo

Remuneration and Nomination Committee Report

GRI 102-35

GRI 102-36

'The Remuneration and Nomination Committee operates within Board approved terms of reference and assists the Board of Directors in ensuring that remuneration arrangements in the Company align reward with performance and supports and advises the Board on selection of Board members.'

COMPOSITION AND COMMITTEE MEETINGS

The Remuneration and Nomination Committee is appointed by the Board of Directors of the Company.

The Committee met six times during the year under review.

The quorum for a meeting is two (2) members. The Chief Executive Officer and the CEO-Designate attended meetings of the Committee by invitation, other than in instances where matters relating to him have been discussed and the members of the Senior Management were invited to participate in the meetings of the Committee as and when required. The proceedings of the Committee were duly reported to the Board.

| Members | Committee member since | Board status | Meeting attendance |
|-------------------------------|------------------------|---|--------------------|
| Mr J P Amaratunga Chairman | 8 April 2015 | Non-Executive, Non-Independent Director | 6/6 |
| Mr M P Amirthanayagam | 8 April 2015 | Non-Executive, Independent Director | 6/6 |
| Mr J A Fernando | 8 April 2015 | Non-Executive, Independent Director | 5/6 |

Brief profiles of the members of the Remuneration and Nomination Committee are given on pages 152 to 154 of this Annual Report.

SCOPE OF THE COMMITTEE

MANDATE

The Committee operates within Board approved terms of reference and assists the Board of Directors in ensuring that remuneration arrangements in the Company align reward with performance and supports and advises the Board on selection of Board members.

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

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

AUTHORITY

The Committee has the authority to discuss issues under its purview and report to the Board with recommendations, enabling the Board to take a final decision on the matter.

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

| Progressive initiatives in 2016/17 | Focus for 2017/18 |
|---|--|
| Rolling out a succession plan for the Chief Executive Officer | Development of a comprehensive succession plan for the Key Management Personnel |
| Adoption of a new Retirement Policy | Review of the overall incentive structure and re-align the same with performance |
| Undertaking a review of organisational structure | Completion of the review of organisational structure and cadre requirement with a view to re-aligning the same to suit the current business demands and trends |

EVALUATION OF THE COMMITTEE PERFORMANCE

As part of the annual self-assessment of the Directors, the performance and effectiveness of the Committee was also assessed by the Board as a whole.

Details of the annual self-assessment of the Directors can be found on pages 175 to 176 of this Annual Report.

REMUNERATION POLICY

REWARD STRATEGY

Our reward strategies and remuneration structure is designed to attract, motivate and retain high-calibre people, at all levels of the organisation, in a highly competitive environment. Accordingly, a key feature of our remuneration policy is pay for performance. The skills, experience of the individual and his/her level of responsibility are also taken into account in deciding on the remuneration.

Remuneration and Nomination Committee Report

Details of the employee reward strategy of the Company can be found on pages 85 to 98 of this Report.

REMUNERATION POLICY PRINCIPLES

The following objectives are the guiding principles that underpin our remuneration strategy,

- — to enable the attraction and retention of high-calibre people, with the right mix of experience, skills and knowledge to deliver on the strategy;
- — to support and reinforce our desired culture and encourage behaviour consistent with our values;
- — to create an appropriate balance and alignment between the needs and expectations of our stakeholders to ensure the creation of long-term value for them;
- — to incentivise employees to deliver and sustain high levels of performance and the execution of our strategic priorities;
- — to align with the principles of good corporate governance.

REMUNERATION AND OTHER BENEFITS OF DIRECTORS

FEES

The Board as a whole decides the remuneration of the Non-Executive Directors based on the recommendation of the Committee. The Non-Executive Directors receive a fixed fee for attending meetings of the Board and its committees. Fees paid to the Non-Executive Directors are neither performance related nor pensionable. There are no contractual arrangements for compensation for loss of office for any of the Directors.

Details of the fees paid to the Directors are given on page 227 of this Annual Report.

REMUNERATION AND OTHER BENEFITS OF EMPLOYEES

REMUNERATION PACKAGE

The remuneration package of employees consist of a fixed component and a variable component and is influenced by factors such as performance of the business and the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants.

Employee performance appraisals are conducted twice a year and increments and promotions are granted solely based on results of such exercises.

OTHER BENEFITS

Other benefits provided to employees include, traveling allowances, vehicle loans and insurance benefits including the Staff Health Insurance Cover, Critical Illness Cover and the Personal Accident Cover.

RETIREMENT BENEFITS

Gratuity, Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) comprise the retirement benefits of employees.

EMPLOYEE SHARE SCHEMES

The Company does not have a share option scheme for employees.

Further details on remuneration and other benefits of the employees of the Company can be found on pages 85 to 98 of this Annual Report.



J P Amaratunga
Chairman

Remuneration and Nomination Committee

19 May 2017
Colombo

Related Party Transactions Review Committee Report

GRI 102-25

The Related Party Transactions Review Committee and the policies and procedures of the Company thereon assist the Board to ensure that interests of shareholders as a whole are taken into account when entering into transactions with related parties

COMPOSITION AND COMMITTEE MEETINGS

The Related Party Transactions Review Committee is appointed by the Board of Directors of the Company.

The Committee met thrice during the year under review. The quorum for a meeting is two (2) members. The Chief Executive Officer and the CEO-Designate attended meetings of the Committee by invitation and the members of the Senior Management were invited to participate in the meeting of the Committee as required. The proceedings of the Committee were duly reported to the Board.

| Members | Committee member since | Board status | Meeting attendance |
|-------------------------------------|------------------------|------------------------------------|--------------------|
| Mr M P Amirthanayagam (Chairman) | 8 April 2015 | Non-Executive Independent Director | 3/3 |
| Mr J A Fernando | 8 April 2015 | Non-Executive Independent Director | 3/3 |
| Mr M A M Rizwan | 8 April 2015 | Non-Executive Independent Director | 3/3 |

Brief profiles of the members of the Related Party Transactions Review Committee are given on pages 152 to 154 of this Annual Report.

SCOPE OF THE COMMITTEE

MANDATE

The Board approved Terms of Reference (TOR) of the Committee sets out the purpose of the Committee, which is to review in advance all proposed related party transactions other than those transactions explicitly exempted in the TOR which are in conformity with the Listing Rules of the Colombo Stock Exchange.

In terms of the TOR, the functions of the Committee includes,

- reviewing in advance all proposed related party transactions of the Company except those explicitly exempted by the TOR;
- adopting policies and procedures to review related party transactions of the Company and overseeing existing policies and procedures;
- determining whether related party transactions that are to be entered into by the Company require the approval of the Board or the Shareholders of the Company;
- establishing guidelines to be followed by the senior management in respect of ongoing related party transactions;
- ensuring that no director of the Company shall participate in any discussion of a proposed related party transaction for which he or she is a related party, unless such director is requested to do so by the Committee for the express purpose of providing information thereon to the Committee;
- ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulations are made in a timely and detailed manner.

AUTHORITY

The Committee has the authority to discuss issues under its purview and report to the Board with recommendations, enabling the Board to take a final decision on the matter.

The Committee is authorised by the Board to seek appropriate professional advice inside and outside the Company as and when it considers this necessary.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

POLICY

The Company has in place a Board approved Related Party Transaction (RPT) Policy whereby the categories of persons who shall be considered as 'related parties' has been identified.

In accordance with the RPT Policy, self-declarations are obtained from each Director and Key Management Personnel of the Company for the purpose of identifying parties related to them.

Related Party Transactions Review Committee Report

The Code of Business Conduct and Ethics of the Company, which sets out internal policies applicable to conflicts of interests, also plays a key role in managing related party transactions. It requires each member of the Board to determine whether he/she has a potential or actual conflict of interests arising from personal relationships, external associations and interest in material matters which may have a bearing on his/her independent judgment. Directors who have such a potential or actual conflict of interests are required to immediately disclose such conflict to the Board of Directors as soon as he/she becomes aware of it.

PROCEDURES

RPT Policy provides for the procedure to ensure that the Company does not engage in transactions with related parties in a manner that would grant such parties 'more favorable treatment'.

Accordingly, the Company has implemented an on-line preventive system to ensure that no favourable treatment is accorded to related parties. This system also enables the Company to monitor and report related party transactions and retrieve data thereof throughout the Company's network.

| Progressive initiatives in 2016/17 | Focus for 2017/18 |
|---|--|
| Undertaking a comprehensive review of Company's policies and procedures on Related Party Transactions with the assistance of a third party expert | Complete the review of policies and procedures on Related Party Transactions and improve the existing on-line preventive system. |

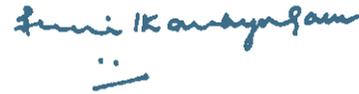
RELATED PARTY TRANSACTIONS DURING 2015/16

Details of all transactions with the related parties during the year 2016/17 were reviewed by the Committee. There were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing Rules of the Colombo Stock Exchange.

Details of related party transactions are disclosed under Note 50 on pages 357 to 361 of the Financial Statements.

DECLARATION

The declaration by the Board of Directors that no related party transaction falling within the ambit of the Listing Rules was entered into by the Company during 2016/17 is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 228.



M P Amirthanayagam
Chairman

Related Party Transactions Review Committee

19 May 2017
Colombo

Integrated Risk Management Committee Report

The Board of Directors of People's Leasing & Finance PLC, which is primarily responsible for the integrated risk management initiatives, has delegated its authority to a Board subcommittee, the Integrated Risk Management Committee (IRMC) to review and assess the adequacy and effectiveness of the risk profile of the Company and the Group. In terms of Section 8 (3) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

TERMS OF REFERENCE (TOR)

In compliance with the aforementioned direction, The TOR clearly set out authority/delegations vested with the Committee, composition, responsibilities, meeting frequency, quorum, reporting and other procedures of the Committee.

During the year under review, in view of broadening the scope of the review activities of the Committee, the TOR was reviewed, specifically focusing on following areas and in respect of which, additional responsibilities were identified in the TOR.

- — Risk Appetite Framework
- — Adequacy and Effectiveness of Key Risk Indicators
- — Stress Testing Framework
- — Business Continuity Plan Implementation

A detailed approach to the Company's key Integrated Risk Management process has been dealt with in the pages from 241 to 268 of this Report.

COMPOSITION

The Integrated Risk Management Committee for the financial year 2016/17 comprised the following members and whose profiles are given on pages 152 to 158.

Mr Andy Ratnayake- Senior Manager-Risk Management and Control Department/Secretary to the IRMC, resigned w.e.f. 31 December 2016. Ms Akila Samarasinghe-Head of Risk Management & Control Department functions as the Secretary of IRMC w.e.f. 1 January 2017.

Following officers are regular attendees by invitation.

Compliance Officer

Key Management Personnel from PLC Subsidiaries

- — Chief Operating Officer – People's Insurance PLC
- — DGM – Operations – PLC/Head of People's Microfinance Limited
- — DGM – Operations – PLC/Head of People's Leasing Fleet Management Limited

| Name of the Board subcommittee member | Directorship status | Membership status |
|--|--|-------------------|
| Mr M P Amirthanayagam | Non-Executive, Independent Deputy Chairman | Chairman |
| Mr N Vasantha Kumar (Resigned w.e.f. 24 July 2016) | Non-Executive, Non-Independent Director | Member |
| Mr Rasitha Gunawardana(Appointed w.e.f. 29 August 2016) | Non-Executive, Non-Independent Director | Member |
| Mr D P Kumarage (Chief Executive Officer/GM) | Non-Director | Member |
| Mr A S Ibrahim (Chief Executive Officer – Designate) (Appointed w.e.f. 21 November 2016) | Non-Director | Member |
| Mr Sanjeeva Bandaranayake (DGM – Finance and Administration) | Non-Director | Member |
| Mr Lionel Fernando (DGM – Operations) | Non-Director | Member |
| Mr Rohan Tennakoon (DGM – Operations) | Non-Director | Member |

Integrated Risk Management Committee Report

MEETINGS

The Committee held four quarterly meetings during the year under review. The attendance of the members of the Committee was as follows.

| Name of the Board subcommittee member | Number of Meetings eligible to attend | Number of Meetings Attended |
|---------------------------------------|---------------------------------------|-----------------------------|
| Mr M P Amirthanayagam | 4 | 4 |
| Mr N Vasantha Kumar | 1 | 1 |
| Mr Rasitha Gunawardana | 3 | 3 |
| Mr D P Kumarage | 4 | 4 |
| Mr A S Ibrahim | 2 | 2 |
| Mr Sanjeewa Bandaranayake | 4 | 4 |
| Mr Lionel Fernando | 4 | 4 |
| Mr Rohan Tennakoon | 4 | 3 |

Minutes of the Committee which include the deliberations and conclusions reached were submitted to the subsequent IRMC meeting for the confirmation and adoption. All minutes of the meetings were formally approved by the Committee Chairman. Approved Minutes were also submitted to the Board seeking their views, concurrence and/or specific directions.

ACTIVITIES

The IRMC focused on the following activities during the year under review.

RISK APPETITE AND RISK TOLERANCE LEVELS

- As part of annual review process, the Committee reviewed its Risk Tolerance Statement in January 2017.
- In reviewing the Risk Tolerance Statement, the factors such as strategic objectives of the Company, changes in regulatory requirements, competitiveness in the business environment and future economic conditions were considered by the Committee.
 - Reviewed the risk profile of PLC against those Board approved risk tolerance levels on a quarterly basis.

CREDIT RISK

- Reviewed the portfolio quality covering Non-performing loan analysis based on assets and products, the sector wise credit concentration and the compliance with the Single Borrower Limits etc.
- Reviewed the quarterly progress of identified asset categories with high NP ratios for its consistent improvement in the asset quality.
- Reviewed the adequacy of impairment coverage and stress test results performed for credit risk.

LIQUIDITY & MARKET RISK

- Reviewed the adequacy of liquid assets maintained and the maturity mismatch, sensitivity analysis, interest rate repricing gaps including the stress test results.
 - Reviewed the highlight reports of Assets & Liability Management Committee (ALCO) meetings submitted by its Secretary on a quarterly basis in assessing the effectiveness of liquidity and market risk management.
- Reviewed the functions carried out by ALCO by reviewing the annual assessment performed against its TOR.

OPERATIONAL RISK

- Reviewed key operational risk indicators established in respect of ICT, Human Resources, Frauds etc.
- Reviewed the progress of Business Continuity Plan development and implementation process and the adequacy of disaster recovery plans.

REGULATORY & COMPLIANCE RISK

- Reviewed the Company's compliance with the regulatory requirements and monitored against risk tolerance levels.
- Reviewed compliance reports submitted by the Compliance Officer to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies in all areas of Company operations.

Integrated Risk Management Committee Report

STRATEGIC RISK

- Reviewed the effectiveness of strategies implemented in response to the changes in the business environment.
- Reviewed strategic risk indicators against risk tolerance levels.

ASSESSING THE RISK PROFILE OF SUBSIDIARY COMPANIES

During the year under review, in line with the Finance Companies (Corporate Governance) Direction, No 3 of 2008, Section 8 (3) (b), the following subsidiary companies that are in operation, submitted Risk Dash board/key risk indicator reports to the IRMC enabling the Committee to review the risk profile of each subsidiary company and the overall risk profile of PLC Group. Highlights of subsidiary company reviews are given below.

PEOPLE'S INSURANCE PLC (PI)

The Committee reviewed the underwriting quality, investment concentrations together with key risk indicators of default risk, operational risk, strategic risk, compliance risk on a quarterly basis.

The Committee reviewed PI's Compliance to the Risk Based Capital Model regulated by the Insurance Board of Sri Lanka.

PEOPLE'S MICROFINANCE LIMITED (PML)

PML, the Microfinance arm of PLC involves in the business of providing microfinance facilities to ensure financial inclusivity of the under privileged, rural and urban population and operates with a different risk profile.

The Company's risk profile was quarterly reviewed by the Committee against set risk tolerance limits.

OTHER SUBSIDIARIES

IRMC quarterly reviewed the Risk Dash-board reports and risk indicator reports submitted by People's Leasing Fleet Management Limited and People's Leasing Property Development Limited respectively.

The construction work of People's Leasing Havelock Properties Limited (PLHPL) is being finalised and its commercial operations are yet to be commenced. However, the briefing on the status of construction work is provided to the Committee by the Managing Director of PLHPL.

The Risk Management & Control Department co-ordinated with all subsidiaries of PLC and briefed the Committee with the relevant information through various risk indicators and additional information.

Detailed assessment on Group Risk is given on pages 267 and 268 in this Annual Report.

OTHERS

- Worked closely with the Corporate Management, Senior Management and Key Management Personnel supervising broad risk categories (credit, market, liquidity, operational and strategic risks) and made decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.
- Reviewed the key risk indicators of the Risk Dashboard reports designed to monitor the level of specific risks, with a view of determining the adequacy and appropriateness of such indicators.
- Supervised the procedures of Integrated Risk Management responsibilities pertaining to risk management strategies, policies and processes.
- Recommended corrective action to mitigate the effects of specific risks at levels beyond the risk tolerance levels approved by the Board and on the basis of the Company's policies and regulatory and supervisory requirements.

The Committee has reviewed the process for identification, evaluation and management of all significant risks throughout the People's Leasing Group. During the year under review, the IRMC provided the necessary guidance in line with the risk appetite, in the execution of the business strategy emphasising the upside and downside risks which can have an impact on the Company.

APPRECIATION

The Committee wishes to convey its sincere gratitude to Mr N Vasantha Kumar and Mr Andy Ratnayake for their valuable contribution to the Committee over the years.



M P Amirthanayagam
Chairman

Integrated Risk Management Committee

19 May 2017
Colombo

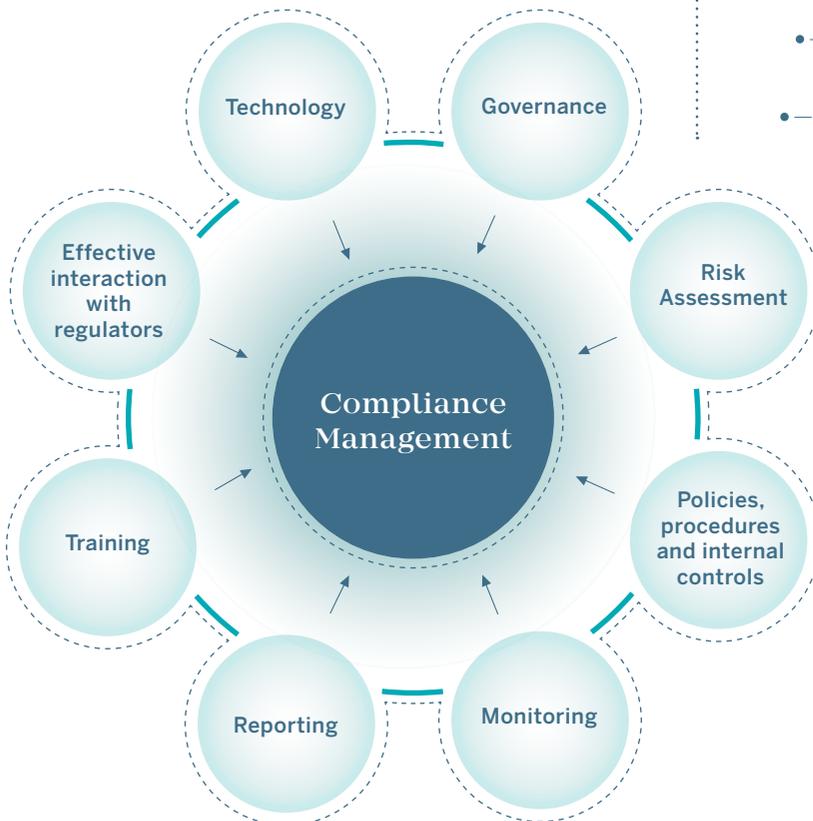
Compliance Management

GRI 205

Compliance is a permanent and integral part of our business processes. Our compliance culture is based on transparency, responsiveness and an emphasis on respecting both the letter and spirit of the law and regulations applicable to our businesses. Our Board and the Management are fully committed to ensure that we have appropriate and effective procedures to ensure that we meet all our legal and regulatory obligations.

COMPLIANCE FRAMEWORK

In terms of our Code of Business Conduct and Ethics, the Board of Directors and all employees are required to comply with all applicable laws, rule and regulations, wherever we conduct our business. To this end, we have empowered our managers to be responsible for ensuring that we meet our obligations and that they take corrective action when they become aware of any non-compliance issues. Violations of applicable laws or internal regulations in their sphere of responsibility thus make them subject to disciplinary measures. Further, compliant and lawful conduct also factors into the performance evaluations of all employees.



OUR APPROACH TO COMPLIANCE

Compliance forms an important part of governance and risk management. Therefore, our approach to compliance is a preventive approach which aims to create a corporate culture that stops potential breaches before they occur by raising awareness and educating employees. To achieve this objective, the Internal Audit regularly performs the necessary investigative activities, monitor compliance and carry out random checks. Recommendations pursuant to these activities are implemented by the head of the respective division. Recommendations leading to disciplinary action are dealt with by the HR Department. These processes are closely interrelated, in line with the concept of a comprehensive compliance management system.

COMPLIANCE FUNCTION

Compliance Officer is an important and integral part of our internal control structure whose tasks include:

- — developing compliance policies and procedures (including best practices);
- — monitoring and reporting on compliance-related activities across the Company;
- — assisting in the conduct of internal investigations, where required;
- — ensuring that employees are given adequate training on compliance related activities

Compliance Management

The Compliance Officer reports to the Integrated Risk Management Committee (IRMC) on a quarterly basis. In the year under review the Compliance Officer presented status reports on compliance activities of the Company to IRMC at each of its four (04) meetings.

COMPLIANCE RISK MANAGEMENT

Refer Risk Management on pages 241 and 268.

Our compliance risk assessment process requires that the heads of all business divisions of the Company together with the Compliance Officer systematically determine and assess the compliance risks to their units on a periodical basis. Relevant risks are reported to the Integrated Risk Management Committee and measures to reduce the risks are drawn up and implemented.

BUSINESS PARTNERS AND SUPPLIERS

Our mandatory process for business partner and supplier compliance due diligence is designed to help all our divisions to conduct a risk-based integrity checks. We require our suppliers to comply with our Code of Conduct, which includes compliance with all applicable laws and, in particular, the prohibition of corrupt activities.

CODE OF BUSINESS CONDUCT AND ETHICS

Refer Corporate Governance on page 174.

Our Code of Business Conduct and Ethics explains how employees are expected to fulfil their responsibilities by acting in the best interests of the Company and in line with its corporate and financial objectives. This includes compliance with laws and regulations; acting fairly in dealing with customers, suppliers and other stakeholders; maintaining integrity; treating people with respect and operating within a control framework.

Our Code of Business Conduct and Ethics is well internalised amongst the employees through training, employee meetings, staff circulars, emails and the intranet. The induction programme for new recruits also entails a session on the Code. In addition, the members of the Board are also provided with a copy of the Code and apprised of their responsibility to promote anti-corruptive, ethical business environment within the organisation.

THE WHISTLE-BLOWER PROTECTION POLICY

Refer Corporate Governance on page 174.

Our Whistle-blower Protection Policy also seeks to proactively promote ethical behaviour in all our business activities and serves as a valuable source of information on possible risks and specific violations of rules. It sets out a procedure by which employees may report suspicion of fraud, financial irregularity or other malpractice. No reports of any matters falling within the scope of the policy have been received during the year under review.

COMPLIANCE AUDITS

The Internal Auditors regularly conduct audits on the implementation of the compliance control framework. The findings of these audits are reported to both the Board Audit Committee and Integrated Risk Management Committee for evaluation and recommendation of corrective measures where relevant. In addition, information on any identified potential for improvement is forwarded to the Compliance Officer, where it is incorporated into compliance strategy and system development alongside the regular monitoring.

HR POLICY

Refer Human Capital on pages 85 to 98.

Our HR Policy too lays the foundation for inculcating an ethical work culture in the Company by recruiting employees with high level of integrity and adopting a policy for periodically rotating staff.

GRI 410-1

GRI 205-2

STAFF INDUCTION AND ONGOING AWARENESS

As part of our preventive approach to compliance, we provide adequate training to employees, which include a combination of internal and external training opportunities as well as foreign exposure. In 2016/17, over 440 employees participated in a variety of training events covering topics of compliance, Code of Business Conduct and Ethics, anti-corruption, human rights and anti-money laundering.

FUTURE FOCUS

Our compliance priorities each year define the points of focus for the ongoing development of the compliance system.

Going forward, we will continue to support sound business decision-making that is based on management's responsibility for compliance.

Risk Management

OVERVIEW

The turbulent external environment that prevailed throughout the year was challenging and we responded to those challenges by re-designing our strategies in line with the risk appetite and risk tolerance framework of the Company. The Company has a robust risk management framework to both identify possible risks and assess whether the Company's strategy for responding to the risks is appropriate.

A thorough understanding of the Company's business model helps to identify the emerging risks which the Company is exposed to. We understand our risks based on our core business model, strategic objectives and the external environment that we operate in.

Rapidly rising interest rates, tight market liquidity and more restrictive loan-to-value ratios on vehicle financing were the key challenges that emanated from the external environment.

This risk disclosure explains how we overcame such challenging situations by timely executing risk mitigation action deploying required resources.

GRI 102-11

RISK HIGHLIGHTS – FY 2016/17

| Risk Category | Performance and Impact | Mitigation Strategies |
|----------------------------|---|---|
| Credit risk | Net Loans and Advances growth reached 22.01% NPL accommodations at 1.33% well within the tolerance limits and industry averages | Limiting exposures to selected asset categories Effective recovery strategies implemented Progress of newly-launched lending products closely monitored |
| Market Risk | Volatile interest rate environment Impact on Net Interest Margin (NIM) | Interest rate movements closely monitored and repricing action implemented where possible |
| Liquidity Risk | Liquid assets maintained well above the regulatory requirement | Debenture issue during the year strengthened stable sources of funding Access to contingent funding lines adequately maintained |
| Operational risk | Strong internal control framework Staff turnover ratio was at 7.91% below the risk tolerance level Comprehensive BCP plan developed along with recovery plans | Further strengthening the internal control framework Establishment of operational risk tolerance limits Training on BCP, thereby making awareness among the staff |
| Strategic Risk | Company's ROA is 3.99% and ROE is 16.89% NIM at 7.89% reduced by 11.55% compared with previous year | Making necessary changes to pricing and business strategies |
| Business Risk | Credit disbursements grew by 29.27% | New product developments Strategic tie-ups with vehicle suppliers Expansion in the branch network |
| Compliance/Regulatory Risk | Complied with the Directions issued by the Central Bank and other applicable regulations issued by the SEC Complied with general laws, the Companies Act, Tax laws and employment laws | Regular assessments on the Company's compliance with laws, regulations, directions, rules, guidelines, internal controls and approved policies |

Risk Management

GRI 102-30

A detailed explanation of above risk categories is given from page 246 onwards.

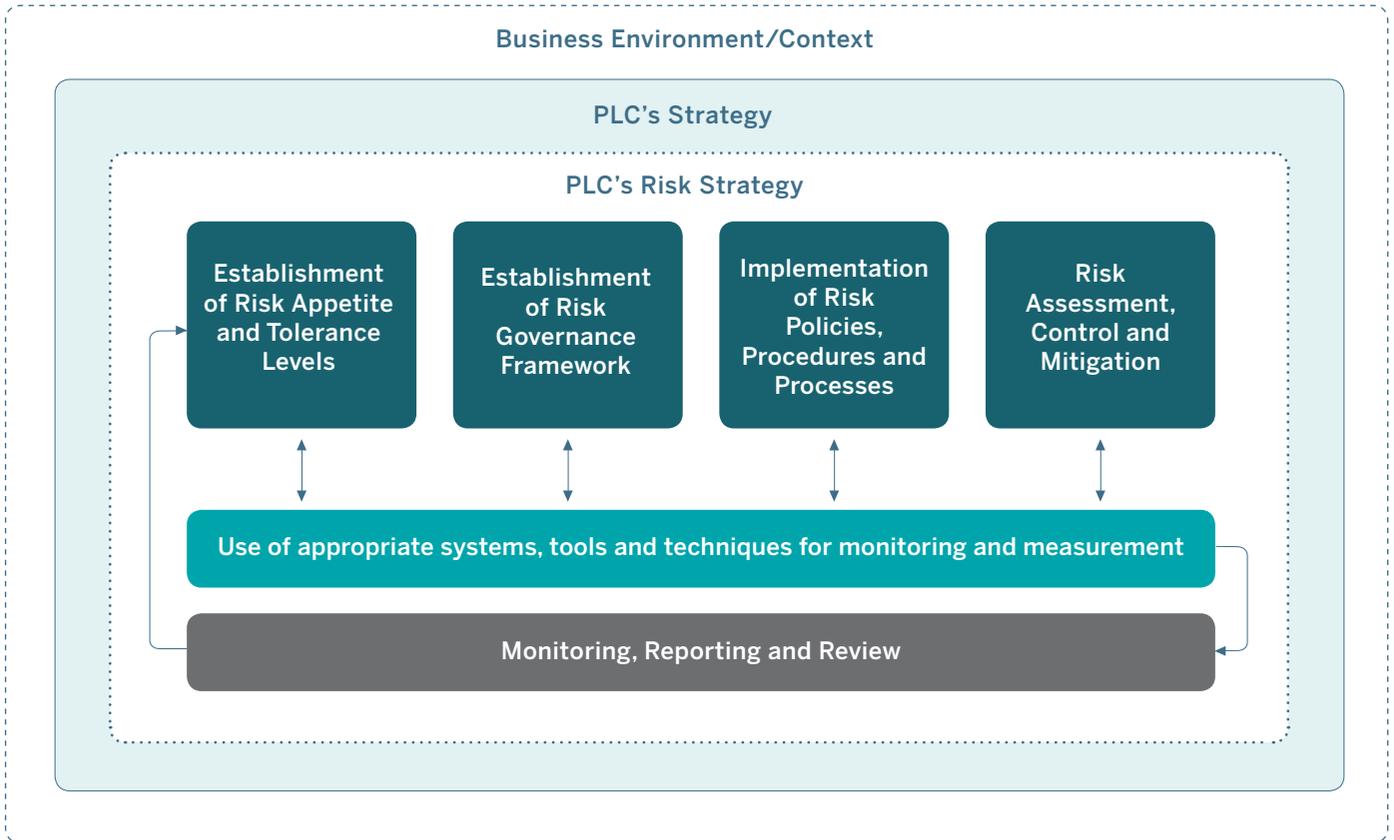
RISK MANAGEMENT FRAMEWORK

PLC's strategy in response to the external environment is determined in line with the risk strategy of the Company. The Company's risk strategy entails the risk governance structure, risk management policies, procedures, processes and risk appetite framework. In order to ensure the effectiveness of the risk strategy implementation, regular monitoring is carried out in respect of the elements of risk strategy mentioned above using appropriate systems, tools and techniques. Risk Management and Control Department is responsible to report the findings of such monitoring carried out on a quarterly basis to the Top Management and Integrated Risk Management Committee for review.

RISK APPETITE FRAMEWORK

Risk Appetite Framework established in the Company ensures that the Company takes only appropriate risks in line with the defined risk appetite and tolerance framework to avoid any unknown, unmanageable or unacceptable risk exposures beyond risk appetite and risk capacity in achieving its objectives.

Risk appetite is the level of risk that the Company is willing to accept in achieving its objectives and the risk tolerance levels are the defined limits of such risk appetite levels. The Company's Risk Appetite Framework is influenced by several vital factors as depicted on page 243.



Risk Management



The Board is responsible for setting the risk appetite for the Company while the monitoring of which rests with the Senior Management. Integrated Risk Management Committee (IRMC), with the delegated authority of the Board, is responsible to establish an effective risk appetite framework within the Company.

The established risk tolerance limits for the various risks that PLC is exposed to are depicted in the Risk Dash-board report. IRMC reviews the actual levels of risk exposures against these limits on a quarterly basis. This allows the Company to identify any adverse trends which require immediate management attention and action.

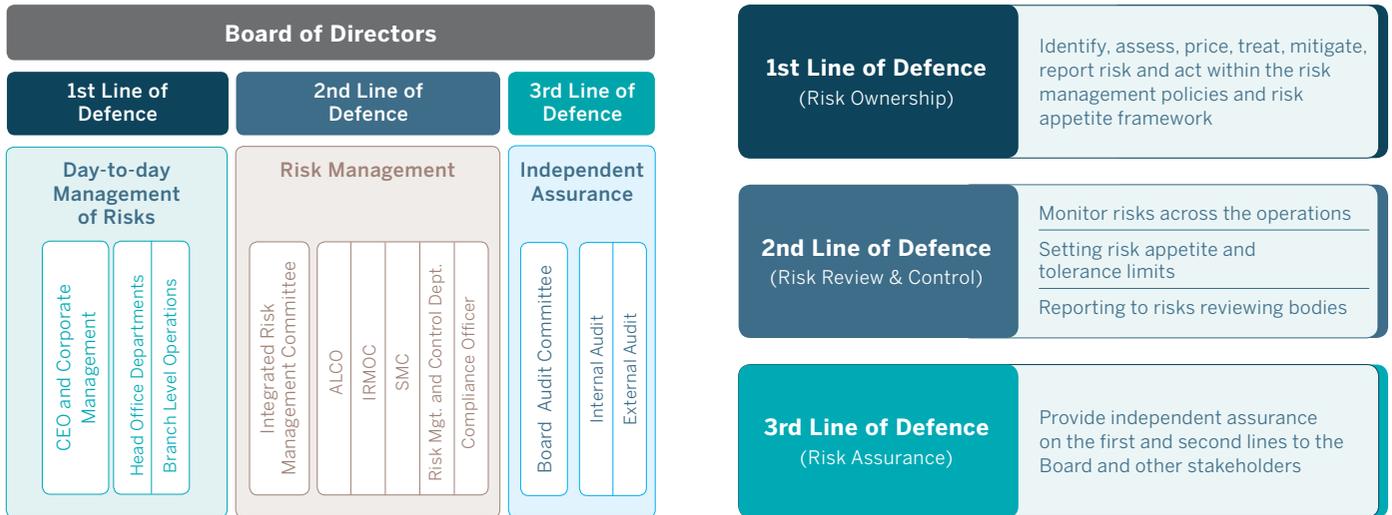
Risk Management

During the reporting year, the IRMC reviewed the Company's Risk Appetite statement including risk tolerance levels which is required to be reviewed annually in line with the changes in the Company's objectives and strategies, micro-economic environment, regulatory requirements enabling the effective monitoring of the risk profile of the Company. Necessary changes to the existing risk tolerance limits were made to reflect the changing operational environment. New risk indicators along with risk tolerance levels were also introduced to strengthen the risk review. The revised risk tolerance levels and the positions as at 31 March 2017 are given below:

| Risk category | Risk indicator | Maximum risk tolerance limit | Position as at 31 March 2017 |
|----------------------------------|--|------------------------------|------------------------------|
| Credit risk | Non-performing ratio (Gross) (%) | < 5 | 1.33 |
| | Three months overdue ratio (Gross) (%) | < 10 | 2.27 |
| | P&L charge ratio (%) | < 5 | 0.17 |
| Credit concentration risk | Single/group borrower limit | As per CBSL | Complied |
| | HHI score | < 0.40 | 0.26 |
| Liquidity risk | Liquid asset ratio (%) | > 100 | 108.45 |
| | Maturity mismatch ratio (up to 1 year) (%) | > -45 | -13.72 |
| | Facilities granted from stable sources (%) | < 150 | 128.86 |
| | Liquid assets to short-term liability ratio (%) | > 30 | 42.94 |
| | Maximum single depositor concentration (%) | < 5 | 0.56 |
| | Exposure to bulk deposits (Over Rs. 50 million) (%) | < 20 | 5.84 |
| Market risk | Interest rate sensitivity (%) | < 10 | 4.15 |
| | Repricing gap ratio (up to 3 months) (%) | > -20 | -12.84 |
| Operational risk | Frauds detected (Value as a percentage of operational expenses) – FY 2016/17 (%) | < 0.5 | 0.02 |
| | Unsatisfactory audits (as a percentage of total audit reviews) – FY 2016/17 (%) | < 15 | 0.79 |
| | Cost to income ratio (%) | < 50 | 45.01 |
| | Staff turnover ratio (%) | < 15 | 7.91 |
| Regulatory risk | Capital adequacy ratio | | |
| | – Core capital (%) | > 5 | 17.56 |
| | – Total risk-weighted capital (%) | > 10 | 16.37 |
| | Capital funds ratio (%) | > 12.5 | 54.87 |
| Strategic risk | Return on equity ratio (%) | > 15 | 16.89 |
| | Return on assets ratio (%) | > 3.5 | 3.99 |
| | Net interest margin (%) | > 7.5 | 7.89 |
| | Gearing ratio (times) | < 7 | 4.82 |

Risk Management

RISK GOVERNANCE

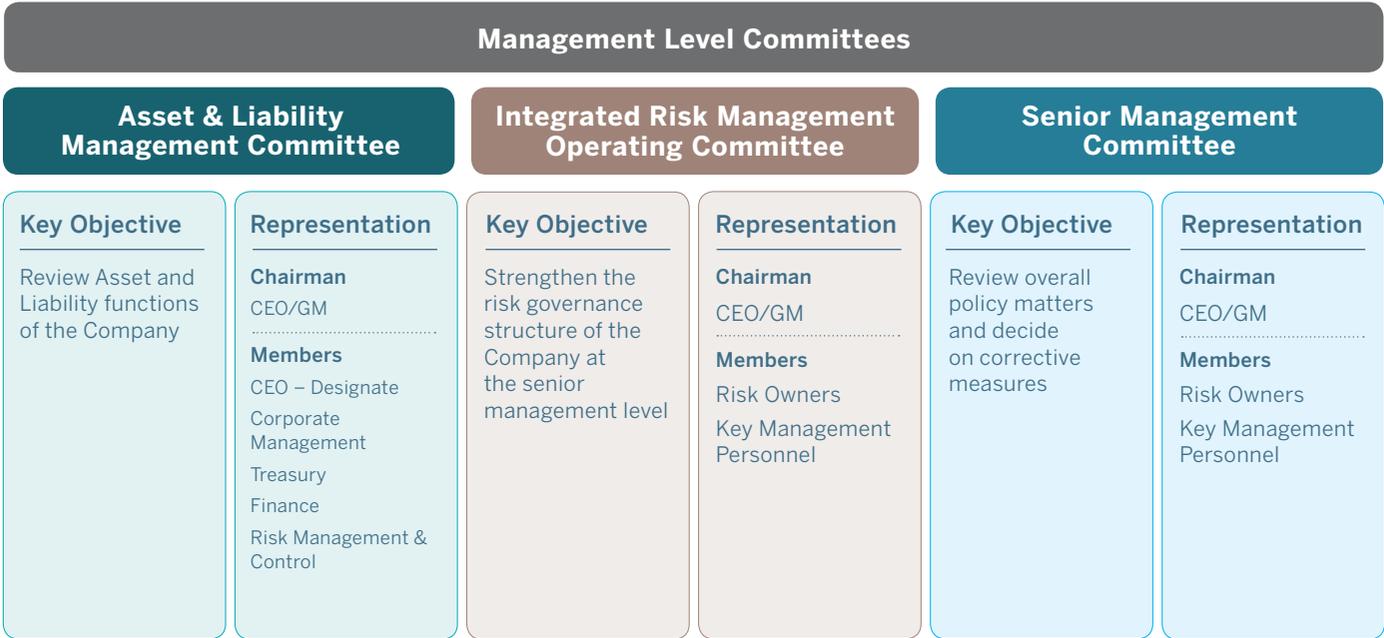


The Board subcommittees and the management level committees which form the second line of defense ensure the adequacy and effectiveness of the Company's Risk Management Framework and capabilities to achieve strategic objectives.

Board Subcommittees



Risk Management

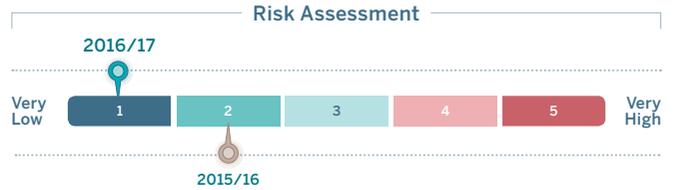


MANAGEMENT OF RISK

A risk assessment is undertaken to understand the overall level of risk the Company is exposed to. In this risk assessment process, each risk is assessed in terms of the severity and frequency and ranked based on the quantitative and qualitative information. The major categories of risks, their assessment and the mitigatory action taken during the year are discussed in detail below:

| Risk Level | Score | Colour |
|------------|-------|---|
| Very Low | 1 | |
| Low | 2 | |
| Moderate | 3 | |
| High | 4 | |
| Very High | 5 | |

CREDIT RISK



Credit risk relates to the financial losses that may arise in the event that the counter-party to a financial transaction fails to discharge his/her obligations. It may lead to suspension of interest recognition on loans granted, classification of loans into non-performing category, impairment charges, loss of principal and interest and losses arising from disposal of repossessed assets. It may also lead to an overall deterioration of asset quality and even a rating downgrade. Credit risk may arise on leases, hire purchases, loans and other lending products such as margin trading, factoring etc., which in effect account for over 85% of total assets.

Risk Management

ASSESSMENT

CREDIT APPRAISAL

Leasing is the core product of the Company and is originated at branch level. The credit proposals are evaluated based on the credit policy and the operational guidelines issued from time to time by the Corporate Management. When evaluating a leasing facility, customer evaluation criteria including the purpose, asset type, second-hand market value, credit history and repayment capacity are considered.

Company has discontinued further granting of HP facilities. One of the major trends observed in recent times was the demand for short-term loan products. Loans contribute the second largest product of the overall portfolio. The Company carries out detailed credit appraisal for all loans while targeting established and proven customers with a good credit history.

The other lending products such as margin trading and factoring are currently carried out at the departmental level at the Head Office by the officers with expertise and experience.

CREDIT APPROVAL

Credit approvals are exercised in line with delegated authority levels. The Board is the highest approving authority.

CEO, DGMs – Operations, Chief Managers – Operations, Senior Managers – Operations have the authority to approve credit facilities forwarded by branches within prescribed authority limits. Branch Manager is the highest authority at the branch level to approve credit facilities subject to the prescribed credit limits.

CREDIT DISBURSEMENT

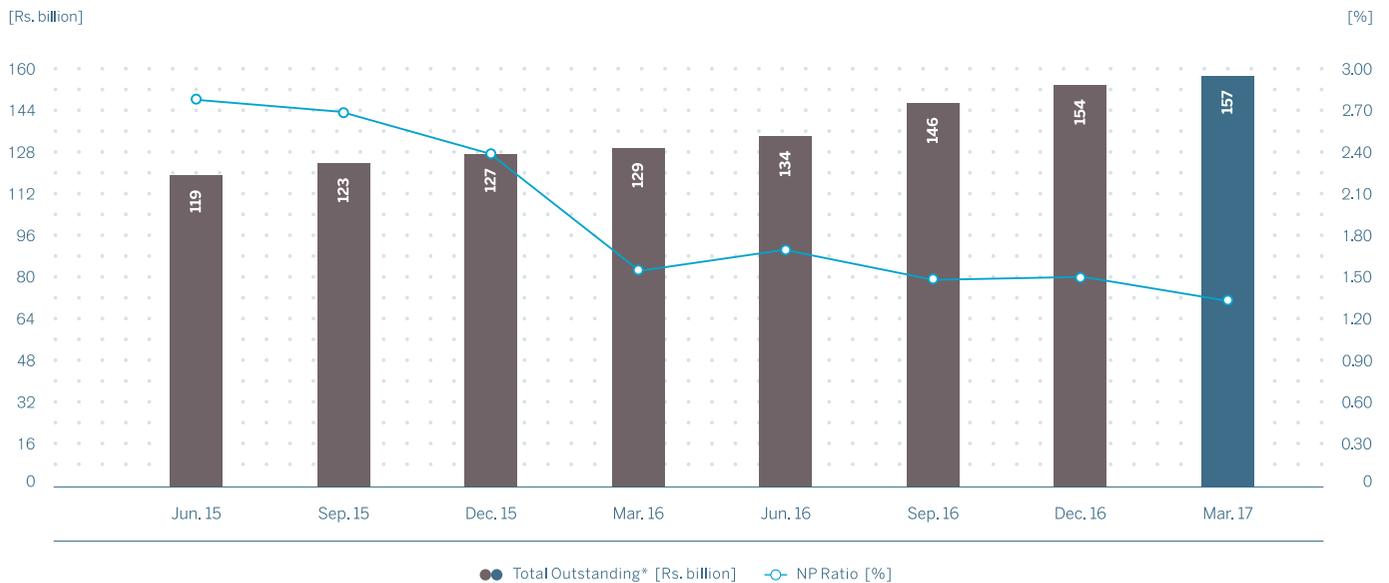
The Documentation Unit of Branch Operations Department which operates centrally at the Head Office, ensures that all security documents related to the facilities are completed and are in order before disbursement of loans whilst the centralised payment function of the Finance Department is entrusted to release all disbursements of approved facilities.

CREDIT RISK MEASUREMENT AND MONITORING

Comprehensive MIS reports are made available to all staff involved in the credit function. Branch operations have been divided into four zones and the zonal-wise supervision is carried out at the Head Office level. Other detailed reports are also generated at the Branch Operations Department to ensure effective monitoring. Accordingly, status of the credit portfolio is regularly tracked to detect early warning signals for any deterioration in the quality of the portfolio. The Risk Management and Control Department provides required direction to Branch Operations Department to maintain the credit risk indicators within the stipulated risk tolerance levels. The IRMC assesses the credit portfolio performance against risk tolerance levels and reviews the risk-dash-board papers to capture negative trends in the credit portfolio on a quarterly basis.

During the reporting period under review, the gross non-performing ratio was well within tolerance levels. Also, measures were taken throughout the year to improve identified problem areas.

NP RATIO AND TOTAL OUTSTANDING



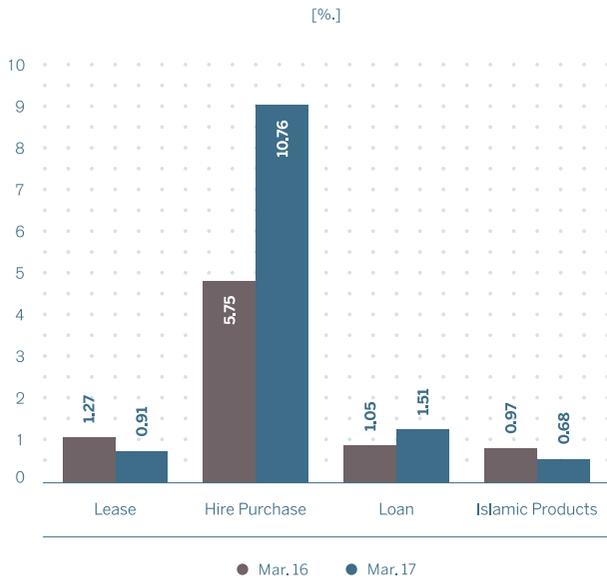
* Total outstanding = Future Rental + Arrears Rentals

Risk Management

ASSET - WISE NP RATIO AND TOTAL OUTSTANDING (LEASING & HP) AS AT 31 MARCH 2017



PRODUCT - WISE NP RATIO COMPARISON



The NP ratio of Hire Purchase product is increasing as no new disbursements are added but the existing portfolio is getting matured. Accordingly, existing NP portfolio is compared with a reduced gross portfolio, as a result of which the NP ratio has increased.

CREDIT RECOVERY

The Company has established a sound post-sanction monitoring process. Initial identification of problems is done at the branch level. Dedicated recovery officers at the branch level are geared to monitor the collection of rentals and identify post-disbursement recovery issues.

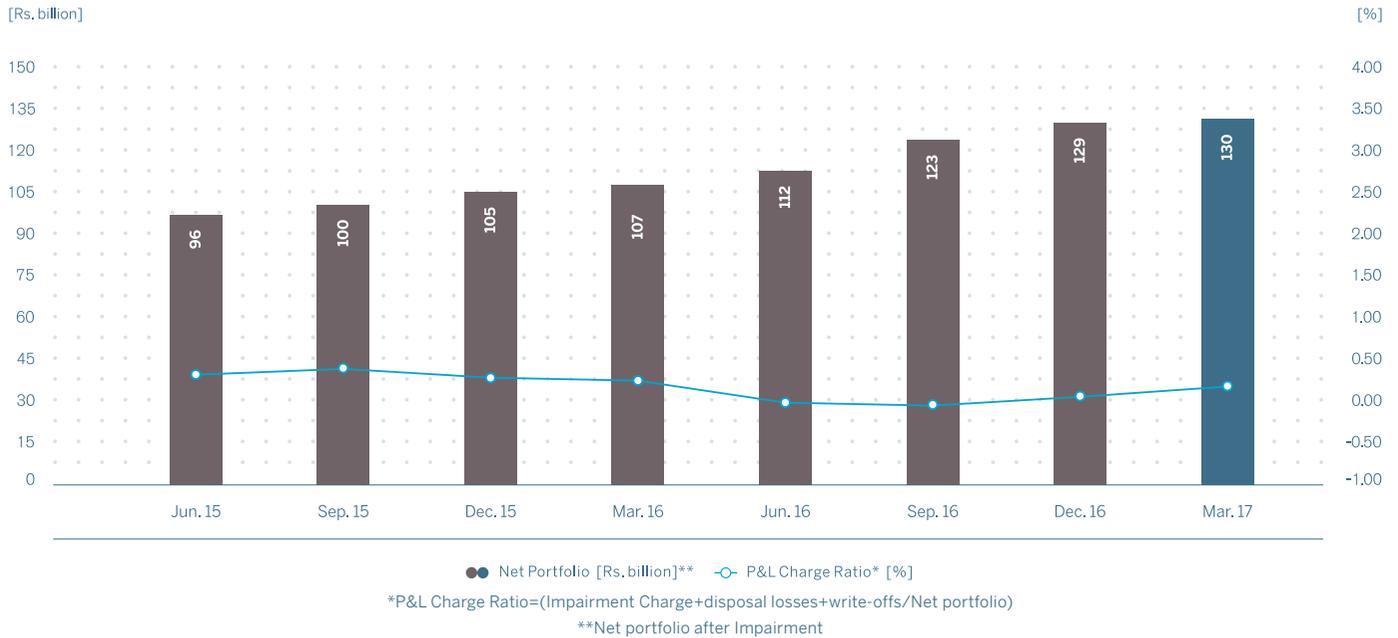


With a view to expediting the recovery process, recovery officers at branch level are supported by a centralised Special Recovery Unit (SRU) established at the Head Office. If these efforts do not yield results then the Legal Recovery Unit initiates legal action. Legal action is initiated for facilities that are not paid even after nine months.

The Company can and does initiate repossession action in the event of breach of leasing contract to strengthen the process of disposing of repossessed vehicles, the Company formed a centralised Disposal Loss Recovery Unit (DLRU) with a view to streamlining and minimise losses.

Risk Management

P&L CHARGE RATIO AND NET PORTFOLIO



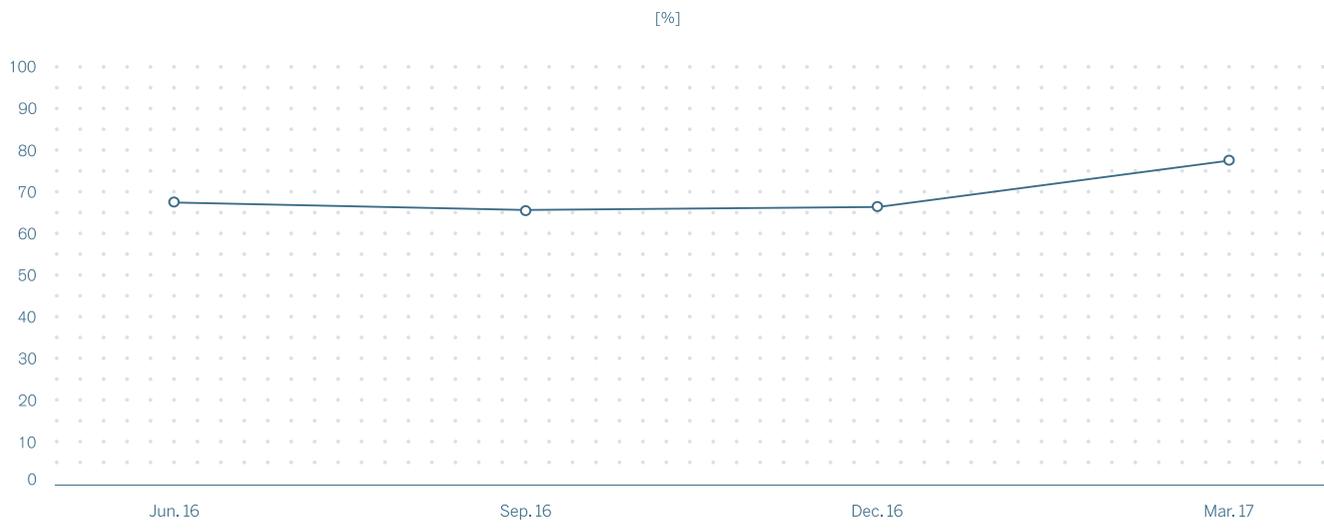
As a result of the controls in place, the Company was able to maintain the P&L Charge ratio at the minimal level.

IMPAIRMENT PROCESS

Impairment charges are calculated on the lending portfolio both on an individual basis and on a collective basis. In determining impairment charges, at each reporting date, the Company assesses whether there is objective evidence for specific loss events.

The impairment coverage ratio on non-performing facilities is reviewed by the IRMC on a quarterly basis and the ratio has been improved over the period under review.

IMPAIRMENT COVERAGE RATIO



Risk Management

IMPAIRMENT STRESS TEST

IMPACT TO THE CAPITAL ADEQUACY AND PROFITABILITY

| Scenario | 1 | 2 | 3 |
|----------------------------|-------|-------|-------|
| Magnitude of shock (%) | 10 | 15 | 20 |
| Capital adequacy ratio (%) | 17.51 | 17.47 | 17.44 |
| Return on assets (%) | 3.88 | 3.83 | 3.78 |

IMPAIRMENT ASSESSMENT FACTORS

Significant financial difficulty of the customer
Breach of payment obligations – default or negligence
in interest or principal payments

Granting a concession to a customer for economic or
legal reasons in relation to his/her financial difficulties

High probability of bankruptcy or other
financial re-organisation

Loss of an active market for the financial asset

MITIGATION

CREDIT RISK AWARENESS

The Company has a credit policy consisting of defined processes and procedures within the credit approval authority framework. Any changes to the existing policy, procedures and processes are communicated to all the staff by way of operational guidelines. Approval limits have been set considering the credit exposure levels. Branches are advised as to how to maintain a balanced portfolio whilst achieving business targets. Suitable exposure limits for borrowers including the single-borrower-limit and sectors are established and monitored regularly.

Marketing officers in the credit team at the branch level who are the front-line risk-owners are well trained on identifying potential problem credits in advance during the credit appraisal stage. This assumes greater significance for uncollateralised credit exposures. Customers are carefully evaluated to ensure that they have adequate repayment capacity. Lending officers are advised to limit granting to identified problem asset categories and take adequate risk mitigating action in terms of pricing or collateral for such facilities.

REGULAR MONITORING

Regular monitoring is done at the Head Office level as well as at the branch level. Head Office level monitoring and supervision was further strengthened during the year by restructuring the supervisory levels zone-wise. Each zone is headed by a DGM – Operations along with at least one Chief Manager and a Senior Manager appointed. The recovery efforts are strengthened by giving adequate directions by the Operations Department. Ongoing monitoring is carried out on all recovery efforts and thereby disposal losses and write-offs were minimised during the period under review. All credit exposures along with the off-balance sheet items are regularly monitored by the management.

CREDIT DOCUMENTATION

The Documentation Unit of the Operations Department is a dedicated unit which has been established for the purpose of ensuring that all legal and other related documents required to complete credit transactions are in order prior to credit disbursements are made. The Operations and Legal Departments provide necessary support to ensure that the lease/loan agreements include all the requisite terms, conditions and covenants in a comprehensive and legally enforceable manner.

PRUDENTIAL LIMITS

The Company has introduced exposure limits for uncollateralised products. The Company also ensures that it complies with the single borrower and group borrower limits as stipulated by the regulator, the Central Bank of Sri Lanka. Risk tolerance levels have been set below these levels enabling identification of risks before breaching those regulatory limits. IT controls are also in place within the core IT operating system to notify these credit limits.

Industry/sector limits are also established to ensure that the Company operations are not overly exposed to one sector. The compliance status of single borrower and sector exposure are reported quarterly to IRMC for its review. The Company has also made the necessary adjustments to ensure that the credit grantings are in line with the limits imposed by the amended loan-to-value ratio direction issued during the reporting year.

COLLATERAL

Collateral and guarantees form an important part of the credit risk mitigation process. In the case of leasing and hire purchase, the underlying asset itself becomes the collateral. The Company obtains collateral and guarantees for all lending products of the product portfolio seeking to reduce overall credit risk.

Risk Management

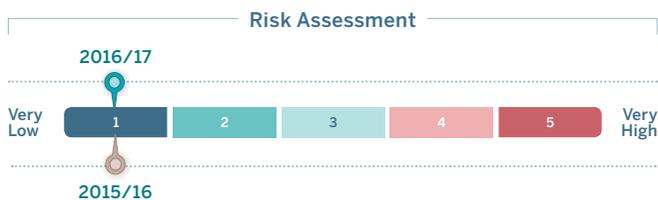
SOCIAL AND ENVIRONMENTAL RISK

The environmental and social policies of the Company demonstrate the commitment to address environmental and social risks to which the Company might be exposed as a result of the operations of customers in the lending portfolio. Accordingly, the Company will refrain from financing customers who are engaged in certain types of unethical activities which have adverse impacts on the environment and the society. At the portfolio level, the Company monitors the advances at the highest possible granularity to effectively capture portfolio characteristics and possible correlations between portfolios and environmental and social factors.

Improper operation or maintenance of the vehicle/equipment financed by the Company may impact the community or worker safety and also result in potential environmental pollution. Emissions from leased assets will contribute to air pollution and lead to climate change. Also, the Company may be impacted by the legal issues from unethical activities which could have a social impact. The Company's CSR strategies have been formulated considering above, i.e., focusing on areas such as carbon neutrality, road safety and accident prevention etc.

The lending facilities granted by PLC are mainly channeled to the small and medium enterprises (SME) sector. SMEs play a critical role in job creation, income generation, economic empowerment, and the economic growth of the country. At PLC, we are aware of the challenges that restrict the growth and development of SMEs and hence, remain committed to creating an enabling environment that provides opportunities for businesses to become sustainable and job-creating enterprises.

CREDIT CONCENTRATION RISK



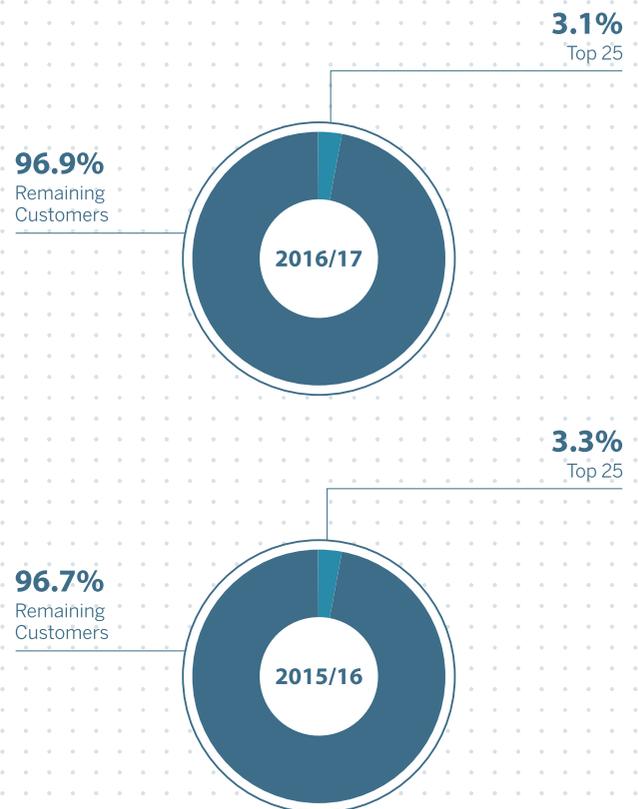
This is the risk of uneven distribution of Company's loans and advances to individual counterparties, industry sectors or geographical regions. Concentration risk materialises when too many defaults occur at the same time in a particular category, sector or region with high concentration.

ASSESSMENT

The Company assesses two types of concentration risks. i.e., Name concentration and Sector-wise concentration. Name concentration measures the uneven distribution of exposures (or loans) to its borrowers. Sector-wise concentration is the uneven distribution of exposure to particular sectors, regions and products.

During the year under review, risk measurement tools were strengthened ensuring effective monitoring.

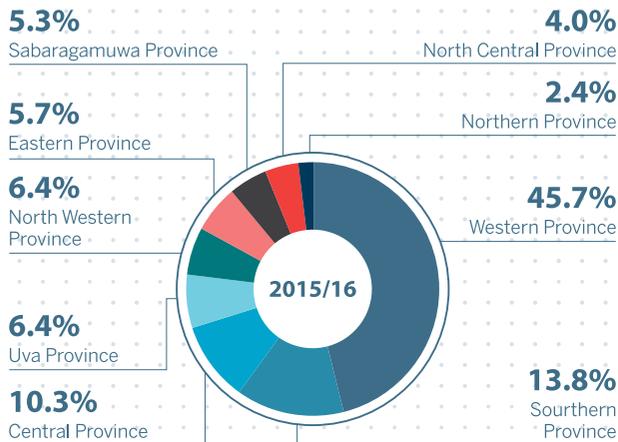
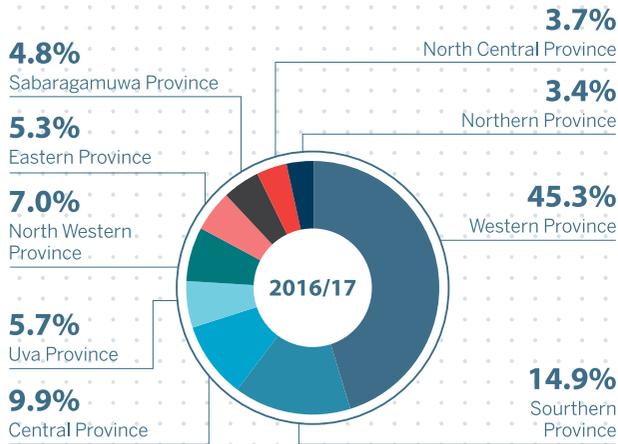
CUSTOMER CONCENTRATION (TOTAL OUTSTANDING)



| Industry concentration risk indicator | Maximum Risk Limit | As at 31 March 2016 | As at 31 March 2017 |
|---------------------------------------|--------------------|---------------------|---------------------|
| HHI Score | <0.40 | 0.32 | 0.26 |

Risk Management

GEOGRAPHICAL CONCENTRATION (DISBURSEMENTS)



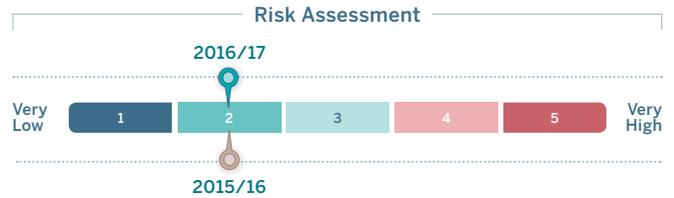
MITIGATION

MONITORING CONCENTRATION LIMITS

Monitoring of credit concentration is an integral part of the credit risk monitoring process. These concentration limits are consistently monitored by the Risk Management and Control Department on a monthly basis. Directions are given by Risk Management and Control Department in case of breach of above limits and to bring back within the tolerance limits.

Also, system in-built application controls have been set to prevent providing lending facilities to customers exceeding single and group borrower limits and the compliance status of which is reviewed quarterly by the IRMC.

LIQUIDITY RISK



Liquidity risk may arise due to insufficient financial resources to meet the Company's obligations as and when they fall due or will have to do so, at an excessive cost. This risk arises from mismatches in the timing of cash flows. Effective management of liquidity is significant to ensure confidence and smooth operations to generate working capital under any circumstance.

As stipulated by the CBSL direction, the Company is required to maintain liquid assets in respect of fixed deposits, savings deposits and any unsecured borrowings.

ASSESSMENT

Operationally, the Treasury Department plays a key role in assessing and managing liquidity risk in day-to-day operations. The Treasury projects cash flow needs based on the scenario analysis and determines the level of liquidity required in response to the findings. As per its assessment of the current risks and the funding needs, the Treasury proposes necessary changes to the organisation's capital structure, including the availability of alternative lines of funding. The Treasury is responsible to monitor the daily liquidity requirement and manage and control the overall liquidity position. The Treasury also monitors the asset and liability maturities, their tenure mismatches, movement of deposits and equity investment portfolio.

As a reviewing body of liquidity and market risk, the Asset and Liability Management Committee (ALCO) reviews the status of liquidity risk indicators at its meetings. Throughout the reporting year, the Company maintained the liquid assets above the required regulatory requirement. ALCO also emphasised the requirement of maintaining stable funding sources in managing the liquidity risk. Accordingly, during the year under review the Company raised funding through a medium-term debenture. Also, the Committee further recommended to look for foreign term loans as an alternative source of funding.

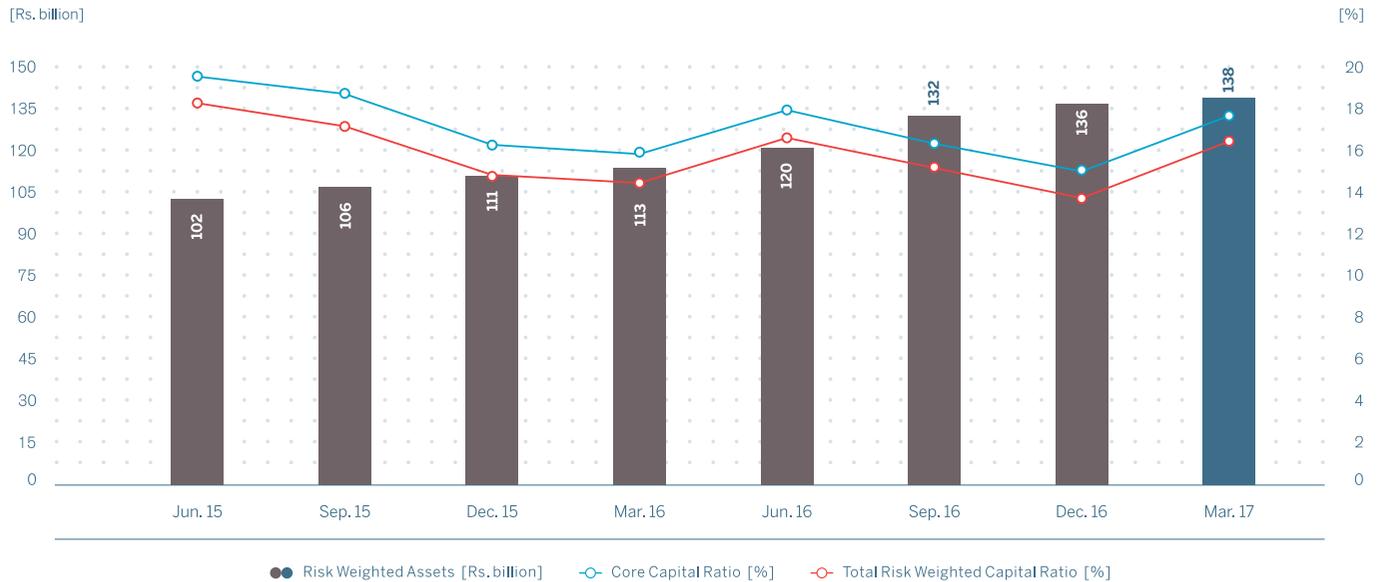
Risk Management

LIQUID ASSETS AND LIQUID ASSETS RATIO



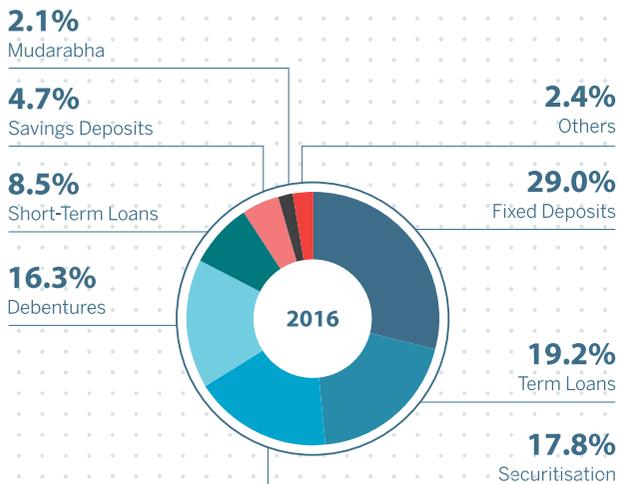
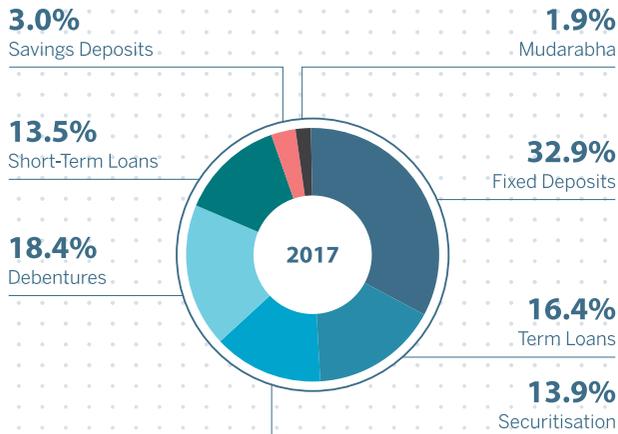
*Liquid Asset Ratio: Liquid assets available/Liquid assets required as per CBSL Direction.

CAPITAL ADEQUACY

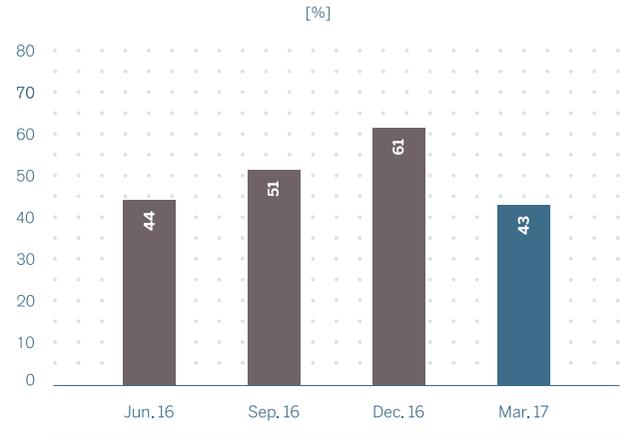


Risk Management

FUNDING CONCENTRATION AS AT 31ST MARCH 2017 AND 2016



LIQUID ASSETS TO SHORT-TERM LIABILITIES RATIO



LIQUID ASSETS STRESS TEST

IMMEDIATE WITHDRAWAL OF DEPOSITS

| Scenario | 1 | 2 | 3 |
|--|--------|--------|--------|
| Magnitude of shock (%) | 10 | 15 | 20 |
| Liquid asset ratio* (%) | 54.34 | 24.62 | (7.10) |
| Liquid asset ratio* – after adjusting contingent funds (%) | 181.44 | 155.89 | 128.60 |

* Liquid Asset ratio: Liquid Assets Available/Liquid Assets required as per CBSL Direction.

MITIGATION

POLICY FRAMEWORK

The responsibility for the liquidity risk management rests with the ALCO and in turn, the Committee reports to the IRMC which reviews factors affecting market and liquidity risks. Also, IRMC annually reviews the effective functionality of ALCO in respect of liquidity and market risk management. The ALCO also reports to the Board and recommends appropriate action it deems necessary to limit or mitigate and to manage such risks. The Treasury department is tasked with executing day-to-day liquidity management within the parameters set by the ALCO. The Treasury reports to the ALCO and implements the necessary policy changes as corrective measures.

Risk Management

DIVERSIFIED FUNDING SOURCES

The Company is committed to maintain diversified funding sources whilst considering the competitive environment, market conditions and regulatory facets. The Company's objective is to maintain a healthy funding mix at any given time.

DEPOSIT CONCENTRATION

Risk Management and Control Department monitors the depositor concentration levels and the Key Risk Indicators established in respect of which is reported to the IRMC on a quarterly basis. The Savings & FD Department also monitors the deposit base regularly along with the deposit balance movements.

CONTINGENT FUNDING LINES

The Company ensures that the access to contingent funding is available to honour all cash outflow commitments as and when they fall due to mitigate the liquidity risk. This ensures the availability of liquidity to meet the Company's obligations and act as a buffer to support any deficiency in liquidity.

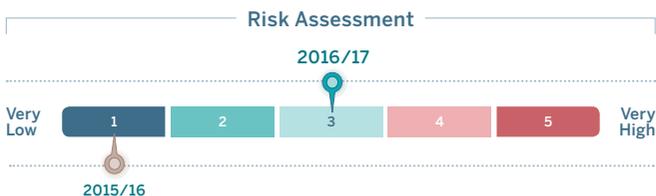
STRESS TESTING

Stress testing is performed and reported to the IRMC on a quarterly basis. Cash flows are consistently projected under various stress scenarios, supporting to determine the requisite level of liquid assets. The IRMC reviews impact on liquid assets under stress scenarios.

MARKET RISK

Market risk is the potential risk that the value or earnings of a company may decline due to exposure to market driven factors. Under this risk category, there are three sub categories affecting the Company's operations - interest rate risk, exchange rate risk and equity price risk which are discussed below:

INTEREST RATE RISK



Interest rate risk is the volatility in the value of interest rate sensitive products and the susceptibility of the future income and expense levels to the changes in the market interest rates.

The interest rate margin is subject to volatility, given the changes in market rates. In the reporting year, interest rates increased which in effect increased the interest expense deteriorating interest margins.

ASSESSMENT

The Treasury monitors the current interest rate environment and the movement of key interest rate indices such as the Average Weighted Prime Lending Rate (AWPLR), Sri Lanka Inter Bank Offered Rate (SLIBOR), and rates of Government Securities. The Treasury provides comprehensive report to the ALCO which contains the behaviour of interest rate environment for its review and helping it to decide the Company's competitive lending rates and deposit rates ensuring desired margins.

The Treasury negotiates for favourable rates specially the short-term funds to reduce the interest cost.

Key market risk indicators are reviewed by IRMC quarterly against pre-defined risk tolerance levels.

Stress testing is performed quarterly to test the impact on the net interest margin and the profits under various stressed scenarios of interest rate movements and the same is reviewed by the IRMC.

STRESS TEST ON INTEREST RATE MOVEMENT

IMPACT OF INCREASING INTEREST RATE ON CAPITAL ADEQUACY AND PROFITABILITY

| Scenario | 1 | 2 | 3 |
|----------------------------|-------|-------|-------|
| Magnitude of shock (%) | 1 | 3 | 5 |
| Capital adequacy ratio (%) | 17.51 | 17.41 | 17.30 |
| Return on assets (%) | 3.93 | 3.83 | 3.72 |

Risk Management

AWPLR (AVG)

[%]



TB RATES (AVG)

[%]



Risk Management

MITIGATION

MAINTAINING INTEREST SPREAD

Due to the volatility in interest rates, maintaining interest spread was challenging. ALCO emphasised the importance of having low cost and long-term funding. ALCO decided to improve the deposit base as a low cost funding strategy. Accordingly, the Company improved its deposit base by 32.17% compared with previous year.

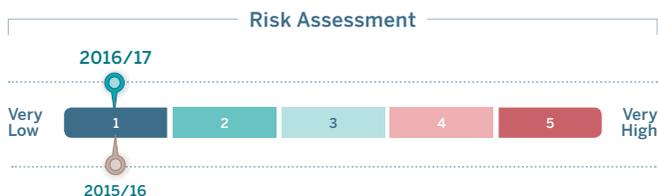
LOW COST FUNDING

Apart from the strategy of improving deposit base as mentioned above, the Company was looking for other alternative options such as long-term overseas borrowings at favourable rates. The loan proposals received from foreign counterparties were reviewed by the ALCO. The Company's local and international credit rating status is a key driver in negotiating those loans for low rates.

ONGOING MONITORING

Due to volatility of interest rates, close monitoring is carried out by the Treasury on a regular basis. In addition to the regular ALCO meetings, ALCO meets more frequently if necessary and makes timely pricing decisions based on the market behaviour.

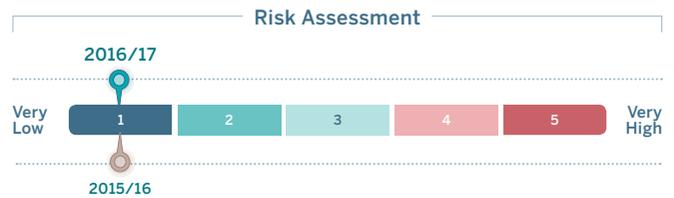
FOREIGN EXCHANGE RISK



Foreign exchange risk relates to the losses from adverse exchange rate movements during a period in which it has an open position in a currency. During the period under review, the Company raised USD 12 million of foreign borrowing.

It is the Company's policy to keep no foreign currency in open position. The entire foreign currency liability exposure was hedged against foreign currency risk. Accordingly, no foreign currency liability exposure was held in open position during the reporting year.

EQUITY INVESTMENT RISK



This relates to the losses arising from adverse movement in the value of any equity investment held by the Company as a result of volatility in equity prices. The stock market prices can decline due to multiple reasons, including deterioration in performance or net asset value of the particular company.

ALCO assesses the impact from adverse movements along with the unrealised gains/losses in the equity investment portfolio held by the Company. Margin Trading Department regularly monitors the movement in stock market prices, broader economic conditions and political environment which could potentially have impacts on share prices. The equity portfolio recorded a market value of Rs. 201.21 million as at the year-end, which is insignificant compared to the size of the Company.

STRATEGIC RISK



Strategic risk arises from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. Therefore, strategy formulation is of paramount importance as a wrong strategy can have serious implications on the operations. Equally, ineffectiveness of strategy execution also can bring unfavourable results to the Company. Therefore, the right strategy selection together with effective execution is a pre-requisite in achieving strategic objectives.

Risk Management

ASSESSMENT

MIS reports are available on a monthly basis, which gives an overview of the performance of the Company. This enables the Board and the Senior Management to get an understanding of the effectiveness of the strategies implemented or further fine-tuning required.

At the Senior Management Committee (SMC) meetings, the effectiveness of the strategy implementation is assessed through brainstorming and sharing experiences and knowledge on the market, industry and competitor behaviour.

Comprehensive competitor analysis is carried out periodically to identify the competitive position and to decide on future strategies required to compete and outperform the competitors. Risks pertaining to the market share and market leadership position are reviewed in order to take proactive counter-measures. Further, the effectiveness and performance of subsidiaries are also assessed in order to mitigate the strategic risk of diversification.

MITIGATION

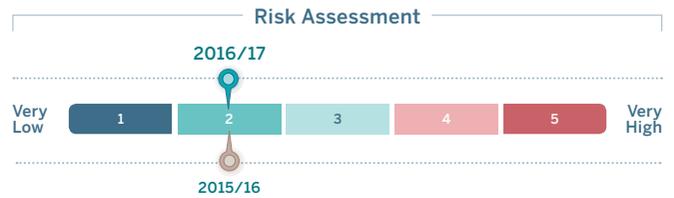
STRATEGY FORMULATION

A Strategic Planning Session is carried out annually in assessing the effectiveness of existing strategies and developing new strategies. The proposed strategies are checked for their feasibility, factors such as availability of financial resources, competency, availability of financial, IT and human resources and historical experience in similar strategies before their execution. During the year under review, the Company formulated strategies in response to the changing operational environment.

PERFORMANCE REVIEW

The Company's performance is comprehensively reviewed monthly against budgets/targets and for any gaps, reasons are reviewed and immediate action is taken to make sure the strategy implementation is back on track. Performance review meetings are held regularly at branch level, zonal level and the Head Office level. SMC reviews the Company performance and required directions are provided to the branch level.

BUSINESS RISK



Business risk is a part of strategic risk which arises from the competitiveness within the financial services industry. The financial services industry is intensely competitive and is flooded with so many financial products and services introduced by competitors. Whilst maintaining a diversified product portfolio, the Company has been able to record the highest credit disbursement volume and the credit disbursement growth while maintaining high asset quality.

ASSESSMENT

Business risk is assessed based on the variance between budgeted disbursements and actual disbursements. Monthly disbursements with regard to set targets are assessed regularly to identify any deviations and remedial measures are taken, where necessary.

Performance of employees/business units is conscientiously monitored against the pre-agreed operational targets.

A detailed business plan is developed aligned to strategic objectives and respective strategies with defined targets. These targets have been appropriately communicated to the branches and operational departments through structured meetings; and required instructions are given by way of operational guidelines. Branch Operations Department was restructured adding more supervisory layers zonal-wise.

This enables close monitoring of marketing and recovery targets on a regular basis.

Refer portfolio and disbursement graph on page 57.

Risk Management

MITIGATION

EMPOWERED WORKPLACE

Refer Human Capital on pages 85 to 98.

The success of the business depends on the commitment of staff. The Company's employees are recognised and rewarded for their performance in line with the business targets given. The employees' performance is regularly monitored and the team work and healthy internal competition is encouraged among them and the top performers are awarded at the branch competition held annually. Ongoing supervision at the Head Office level ensures that required resources in terms of staff, promotional equipment are adequately and timely provided.

Training programmes are carried out to develop our existing staff members aligned to the business strategy. Marketing staff is trained to provide a customer delighting service which is one of the competitive advantages of the Company. For new recruits, a comprehensive orientation programme is conducted including a familiarisation session on corporate policies, code of conduct and business operations.

SERVICE QUALITY IMPROVEMENTS

Refer Social and Relationship Capital – Customer on pages 102 to 110.

The Company ensures that the continuous commitment is given to improve the service quality and thereby increase our loyal customer base. This includes *inter-alia*, versatile product offers, rewarding loyal customers and proactively addressing and seeking to resolve customer grievances. Our employees are well-trained and empowered to support customer needs whilst our processes are planned and streamlined to enable efficiency and responsiveness in operations.

PRODUCT VERSATILITY

Understanding the new market trends and customer needs, the Company has introduced a range of loan products such as clean loan, fast track, factoring etc. The Company performs a comprehensive analysis on the market and identifies the best performing products in the portfolio to infuse funds to maximise the profitability. The management team is responsive, flexible and seeks to take proactive measures to improve the level of customer satisfaction in response to aggressive competitor moves.

STRATEGIC TIE-UPS

During the year under review, with a view to enhancing business target achievement and increasing the customer base, the Company entered into agreements with several vehicle importers and dealers. Accordingly, the Company will be jointly working with those strategic vehicle partners to take direct vehicle booking, conduct promotions and advertisements.

IMPROVING PRESENCE

In the reporting year, the Company marked opening the 100th Branch, enhancing its presence and easy accessibility to the customers further. These fully-pledged branches will offer all lending products such as leasing, loans and deposit products.

OPERATIONAL RISK



Operational risk arises due to inadequate and inappropriate internal processes, systems and people or from external events. The Company has a low risk appetite on operational risk and it has been recognised that it is inherent in all business activities and may bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, or legal or regulatory penalties, if such risks are not objectively managed. Materialisation of operational risk may cause other risks such as reputational, compliance, credit, market and liquidity risks.

Risk Management

Therefore, immediate risk identification and mitigation is a priority of operational risk management of the Company. For the effective identification and management of risk, the sub categories of operational risk have been identified such as ICT-related risk, HR-related risk and fraud risk which have been described in detail below:

| Sub-category | Description |
|---|---|
| Information and Communication Technology (ICT) Related Risk | Business operations of the Company are highly IT system dependent and as a result, there is inherent risk to be managed. Especially, Cyber risks such as hacking and theft of information with losses in monetary terms, arising from disruptions to business or system failures, or from failed transaction processing etc., can disrupt operations of the Company. Breakdowns and failures in information systems and the use of obsolete systems will adversely affect the smooth operations of the Company. Dedicated ICT Department and Risk Management and Control Department monitor this risk separately. |
| Human Resources-Related Risk | This is the risk of deterioration in the competency and the productivity due to the turnover of trained and skilled staff. In a competitive business backdrop, hiring qualified and experienced candidates and retaining top performers with high level of skills within the organisation is a challenging task. Therefore, retaining talented staff is vitally important in achieving the Company's objectives. |
| Fraud Risk | As part of operational risk, fraud risk arises due to weaknesses in the internal controls, which could result in financial losses. Any bottleneck within operations could create an opportunity for malpractices. Therefore, regular and consistent reviews are warranted to avoid fraud risk including a future occurrence or repetition. |

ASSESSMENT

The Company's operational risk management mechanism enables identification, measurement, monitoring, controlling and reporting of inherent and emerging operational risks. The Company adopts several techniques to identify operational risks and risk events that give rise to operational risk. Tools such as Key Risk Indicators (KRIs) and audit findings are used to identify and assess these risk events. These KRIs are objective risk measurements which allow trends to be monitored and can be used to anticipate problems in advance.

| Key Risk Indicator | Maximum Risk Tolerance Level | FY 2016/17 |
|---|------------------------------|-----------------------|
| Losses from system failures Loss value as a percentage of opex* | <0.5% | Nil |
| Losses from cyber attacks Loss value as a percentage of opex* | <0.5% | Nil |
| Avg. time of data link breakdowns (monthly) | <4 hours | 1 hour and 26 minutes |

* Opex - Operating expenses

TOTAL STAFF AND TURNOVER RATIO



The data link break downs occur due to the failure of data link connection between the Head Office and the branches. ICT Department regularly monitors the data link connection and in case of a breakdown the same is promptly reported to the telecommunication service provider and thereby takes necessary steps to restore the data link connection ensuring normal operations are resumed without material interruption of the regular business of the respective branches.

Risk Management

Disaster recovery replication is tested twice a day (8.00 a.m. – 8.30 a.m.) and (3.00 p.m. – 3.30 p.m.) once in two days. A separate Vulnerability Assessment and Penetration Test (VAPT) is also conducted annually in compliance with ISO/IEC 27001:2013 to safeguard against any malicious threat of gaining access to the Company's computer system.

The adequacy of internal controls is evaluated by the Internal Audit Department in assessing related risks and operational reviews are conducted regularly to identify any bottlenecks and loopholes in the process.

Refer Board Audit Committee Report on pages 230 to 231.

MITIGATION

STRONG INTERNAL CONTROL FRAMEWORK

In mitigating operational risk, the Company has established robust controls with well-defined segregation of duties, policies and procedures. These internal controls include both manual and application controls and ensure adherence to laid down procedures ensuring segregation of duties. Authority levels have been established to ensure the escalation of operational issues to the higher levels. Authority and approval limits are implemented for all functions of the Company including for payment approval and thus, making employees accountable for their actions. The Company ensures the appropriate segregation of duties to prevent a single person being allowed to carry out a given process from the beginning to the end; thus, prevent fraudulent practices. All key functions are subject to the scrutiny of another suitably skilled and authorised employee.

Internal audits are carried out to check the effectiveness of the internal control framework of the Company. As the outcome of audits, they can determine the adequacy of existing controls to prevent or detect operational risks. The Internal Auditors also conduct audits on a regular basis in the areas which are susceptible to the occurrence of fraud.

As an operational risk mitigatory measure, the Company has given continuous focus on training programmes to the operational staff to create the awareness, including high standards of ethics and integrity. Improving the awareness on the code of ethics, Company's policies including risk management practices facilitate to inculcate integrity and professionalism within the workplace.

As per the Company's HR Policy, employees with high level of integrity are recruited. The management takes appropriate measures to rotate staff in an attempt to discourage

malpractices. If and when frauds are detected, immediate remedial disciplinary action is taken with zero tolerance standpoint. Employees are encouraged to report on their concerns regarding fraud and mis-conduct through the whistleblower link – which is also included in the PLC intranet – whilst the anonymity of the whistleblower is strictly maintained.

GRI 102-11

INFORMATION SYSTEM SECURITY

The Company maintains a well-established IT governance structure. In an attempt to avoid risk of data loss, the Company maintains a separate back-up at an off-site location.

| ICT Controls | Control Objective |
|--|---|
| Password and access controls | To authenticate the user access and necessary validation and verification functions are activated at the information entry level. |
| Logical controls | This includes Unified Threat Management and Sophos Endpoint Security and Control, IP-VAN. |
| Biometric controls | To avoid unauthorised access to ICT Department premises at the Head Office and Disaster Recovery Site. |
| Fire-protection – GSM controls and smoke detectors | To detect heat at the server rooms and UPS rooms. |
| Disaster recovery plan | To continue operations in the event the primary site becomes unavailable. |

During the period under review, the Company was in compliance with the standard ISO 27001:2013. The process changes will be more aligned with the principles and guidance given in ISO 31000 (risk management). The disaster recovery site and other facilities are compliant with these standards and it is annually reviewed and audited by External Auditors (DNV). Moreover, a comprehensive VAPT (Vulnerability Assessment and Penetration Test) will be conducted annually by a third party specialist such as Messrs KPMG Sri Lanka, Messrs PricewaterhouseCoopers Sri Lanka.

In the reporting year, the Company obtained the service of an alternate telecommunication service provider to minimise data link breakdowns between the branches and Head Office ensuring uninterrupted quality customer service.

Risk Management

EMPLOYEE RETENTION

The Company ensures it attracts, develops and retains employees with capabilities and commitment that are required in achieving strategic objectives by rewarding and recognising.

The Company thereby conducts performance appraisals bi-annually and pays bonuses/incentives based on performance merits. The training needs are duly identified that are required to retain best employees ensuring sustainable growth. Accordingly, as an integral part of continuous improvement, employees are provided with in-house or external training for their career development. The Company always recognises employees with potential to formulate a management succession plan and provide them with financial assistance for their higher studies as a capacity building measure. All staff members are free to meet their senior managers at any time, in discussing their work-related matters or address their grievances.

PLC has identified the importance of health and safety concerns of employees as a part of employees-related operational risk.

The Company has established required safety measures to minimise work-related injuries.

GRI 102-11

BUSINESS CONTINUITY PLANNING

In the reporting year, further strengthening existing recovery plans the Company developed a comprehensive Business Continuity Plan (BCP) in consultation with Messrs Somaratna Consultants (Pvt) Limited (SCL) in compliance with the professional practices prescribed by the Disaster Recovery Institute International of USA – one of the apex organisations in the world. The main objective of which is to establish the correct preparedness for low probability, but, high impact disaster situations (worst case scenarios).

The Integrated Risk Management Operating Committee which consists of all executive management members is acting as the BCP Steering Committee to take policy decisions on BCP whilst the IRMC is responsible to monitor the progress of the BCP action plans.

BCP requires a Business Continuity Team to be formed which consists of team members who are responsible for the effective execution of BCP in a disaster situation whilst committing to improve preparedness with updated supporting plans on an ongoing basis. Experienced senior staff members together with alternates are appointed for each of the roles set out in the

Business Continuity Team which follows.

| | | | |
|--|----------------------------------|---|-----------------------|
| Incident Commander | Spokespersons | BCP Coordinator | On-Scene Commander |
| Team Leader Continuity of Operations | Team Leader Crisis Communication | Team Leader Human Resource and Family | Team Leader Logistics |
| Team Leader Recovery to Near Normality | Team Leader IT | Team Leader Damage Assessment and Salvage | Team Leader Legal |

BCP includes a set of plans which is required to establish the correct preparedness for any disaster situation.

| Plans under BCP | Description |
|---------------------------------|---|
| Recovery plans | This includes the recovery plans of critical business processes of PLC. |
| Emergency response plans | Separate emergency response plans for emergency situations identified in the BCP and response teams such as Evacuation Warden Team, Fire Fighting Team, First-aid Team have been formed. |
| Support plans | Support plans will be executed in parallel to the recovery plans to restore the operations to normal level and for the purpose of which separate teams such as Human Resource and Family Team, Crisis Communication Team, Damage Assessment and Salvage Team, Logistic Team and Recovery to Near Normality Team have been formed. |
| Operational control | Operational control plans require the Company to conduct regular inspection of the building premises to verify the effectiveness of operational controls that have already been implemented preventing any threats/vulnerabilities. |
| Management plans | These plans include training and awareness plans which contain drills and testing, BCP maintenance plans, incident reporting, auditing and reviews. |

Risk Management

Effectiveness of BCP depends on its effective implementation. Accordingly, Risk Management and Control Department is coordinating with SCL to complete the action points that are a per-requisite for the effective implementation of BCP aligned with the BCP Implementation Dashboard which consists of a series of activities along with respective target dates. It's reviewed by the IRMC quarterly against the risk tolerance levels.

INSURANCE ARRANGEMENTS

PLC has comprehensive insurance policies as a measure to mitigate operational risk. These insurance policies cover areas such as property, money, electronic equipment, etc.

COMPLIANCE AND REGULATORY RISK



Compliance risk may arise due to the failure to abide by any laws or regulatory requirements applicable to the Company. Non-compliance could lead to sanctions by regulatory bodies, penalties and reputational damage, which could have a material adverse effect on the Company's operations and financial condition or could even lead to the cancellation of license and discontinuation of operations. Such a situation could adversely impact the operations, good reputation, financial performance and position and future prospects. Regulators may also tighten the supervision over the Company's compliance on laws and regulations, particularly in the areas of funding, liquidity, capital adequacy and prudential regulations.

ASSESSMENT

The Compliance Officer regularly assesses the Company's compliance with laws, regulations, directions issued, rules and regulatory guidelines applicable for the Company and the status of which is reported to the IRMC quarterly for its review.

During the year under review, the Company complied with the regulatory requirements that are listed below:

Laws/Regulations/Directions/Rules and Regulatory Guidelines

Finance Business Act No. 42 of 2011

Companies Act No. 07 of 2007

Listing Rules of Colombo Stock Exchange

Regulations Issued by the Securities and Exchange Commission of Sri Lanka

Suppression of Financing of Terrorism Act No. 25 of 2005

Prevention of Money Laundering Act No. 05 of 2006

Financial Transactions Reporting Act No. 06 of 2006

Tax Laws and Levies

Employment Laws

ICT-related Laws

The Company's compliance with internal controls and approved policies in all areas of business operations is regularly monitored by the Compliance Officer and the confirmations for which is also obtained from the respective departments on a quarterly basis.

Refer Compliance Management on pages 239 to 240.

MITIGATION

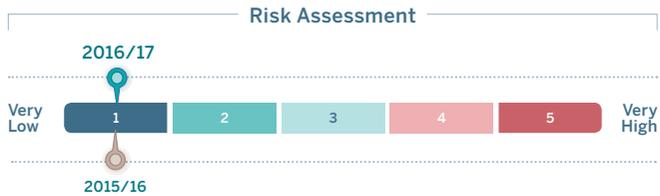
A dedicated officer is designated as the Compliance Officer to oversee the compliance status of the Company with the relevant rules, regulations and directions set by the Central Bank of Sri Lanka, Securities and Exchange Commission of Sri Lanka, the Companies Act and other relevant regulations.

The Compliance Officer reviews the changes in regulations and takes necessary action to ensure that the Company is in compliance with the regulatory requirements. A sound regulatory monitoring mechanism is adopted to monitor reporting and compliance with all mandatory reporting requirements, with the intention of establishing a fully compliant corporate governance and risk mitigating culture.

Providing third line of defence, Internal Audit carries out compliance audit annually, the Report of which is submitted to the Board Audit Committee.

Risk Management

LEGAL RISK



Legal risk can be defined as the risk of loss due to non-enforceability of contracts or documents. PLC's legal risk may arise from inadequate legal documentation of securities, penalties, fines, claims or customers filing law suits against the Company.

ASSESSMENT

The Legal Department prepares monthly management information reports for the management's review. The department also reports to the Risk Management and Control Department on unenforceability of contracts due to incomplete documentation, any penalties and fines paid and details of law suits against the Company.

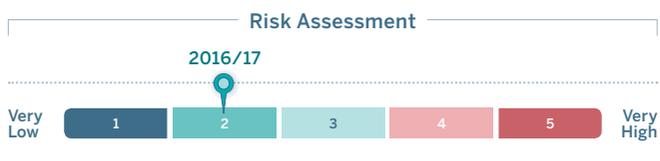
This information is monitored by the Risk Management and Control Department periodically and any material risk exposure is reported to the IRMC.

MITIGATION

Legal risks faced by the Company are managed by the Legal Department. The Legal Department consists of experienced lawyers with the capability of handling legal issues. Required third party consultations are also obtained, whenever required, in order to mitigate any legal risk exposure of the Company.

OTHER RISKS

MONEY LAUNDERING AND TERRORIST FINANCING (ML/TF) RISK



In the reporting year, ML/TF risk was added as a separate risk to the risk profile of the Company. Money laundering can be simply defined as converting proceeds of crime (money obtained through illegal activity) into a legal status by investing same through the main financial system. In today's context, this has been a major concern due to the increase of money laundering and terrorist financing activities throughout the world and the financial institutions becoming the main mode through which the illegal money is transferred/transacted.

ASSESSMENT

Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 issued under Section 2 of the Financial Transaction Reporting Act, No. 06 of 2006 require every financial institution to take the necessary measures in identifying, assessing ML/TF risks posed by its customers, by conducting ongoing customer due diligence based on the 'Risk Based Approach'.

Key requirements of Financial Institutions (Customer Due Diligence) Rules, No. 1 of 2016 in relation to ML/TF Risk

The requirement of identifying, assessing and managing ML/TF risk in relation to customers, countries, geographical areas, products, services, transactions and delivery channels

Need of establishing the internal control policies and procedures to manage and mitigate ML/TF risk

ML/TF risk management must be integrated into overall risk management of Financial Institutions

Need of undertaking risk profiling of customers

Periodically report to the Board taking into account, inter alia, recent significant ML/TF risks, judicial decisions etc.

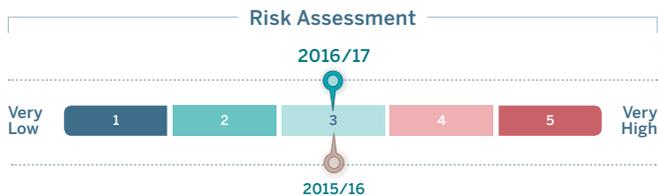
In assessing ML/TF risk, Customer Risk Rating sheet was introduced to be filled at the deposit accepting point along with other due diligence procedures in order to determine the risk profile of the customer. The Company also reports transaction values above Rs. 1 million to the Financial Intelligence Unit of Central Bank.

Risk Management

MITIGATION

The regulatory requirements to mitigate the ML/TF risk require changes to the existing operational processes and additional effort on assessing the same. However, the Company is in the process of inculcating required changes. Progress of which and the risk exposures will be reported to the IRMC periodically.

REPUTATIONAL RISK



Reputational risk is an event or incident that could adversely impact on the corporate brand. Reputation is always linked to how the Company operations are carried out. But the negative impact of risk seems low for PLC as it has a superior record of a decade being the market leader and the most preferred financial service provider and also the flagship subsidiary of People's Bank.

ASSESSMENT

Refer Intellectual Capital on pages 77 to 84.

Social and Relationship Capital – Customer on pages 102 to 110.

Corporate Governance on pages 162 to 223.

The SMC plays a major role in assessing reputational risk of the Company. The Committee members are competent and well experienced to know how different business activities would impact the stakeholders' perception of the Company and thereby, the reputation. The SMC determines the adequacy and effectiveness of action to reduce potential impacts in such instances.

The ICT Department monitors the data link connection between the Head Office and the branches on a daily basis to ensure the continuous online real-time operations. A summary report on data link breakdowns is forwarded to the IRMC on a quarterly basis for their review.

Being the largest non-bank financial institution, PLC has been able to manage its reputational risk successfully which is evident from awards and local and international ratings conferred on the Company.

MITIGATION

UNDERSTANDING RISK INTERDEPENDENCY

Effective management of key risks such as credit, market and operational reduces the reputational risk that PLC is exposed to. Most importantly, risks arising at operational level can have significant impacts on the Company's reputation. Therefore, careful handling of operational matters is vital. Customer grievance handling procedure of PLC ensures that all grievances are reported and addressed immediately.

GRI 102-16

CODE OF CONDUCT AND ETHICS

As part of the corporate governance process, the employee code of conduct and the code of ethics are in place and it is expected to be followed by all employees. Necessary processes support all employees to comply with internal policies and procedures of the Company.

SERVICE EXCELLENCE

The Company motto emphasises on delivery excellence to reach beyond the promise. Therefore, the Company manages its reputational risk by promoting strong corporate governance including risk management practices at all levels of the Company to improve the reputation of the Company.

CORPORATE COMMUNICATION

PLC ensures that the regular communication takes place with key stakeholders through the official website and in the form of financial reports etc.

PROMOTIONAL ACTIVITIES

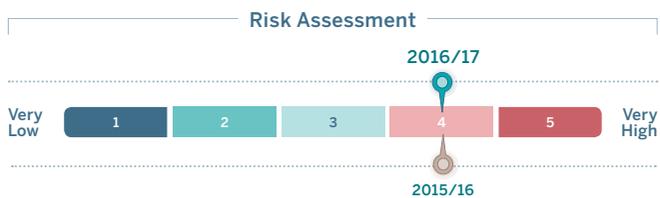
During the period under review, the Company involved in promotional activities, in line with the launch of SelfeCash product.

Risk Management

CSR ACTIVITIES

The Company also promotes Corporate Social Responsibility (CSR) activities as part of the corporate strategy. Ethical business practices and commitment to the local community and the environment are part-and-parcel of the operations. CSR projects on waste management, environment, education and other community projects are carried out through the island-wide branch network. The Company also maintains its media presence to improve its brand visibility.

SOCIOECONOMIC AND POLITICAL RISK



Socioeconomic and political factors have a direct impact on the operational and investment activities of the Company. This is more pronounced as PLC is a flagship subsidiary of the People's Bank, a state-owned entity.

ASSESSMENT

Socioeconomic and political risks are assessed based on the possible changes in the regulatory requirements, trends in inflation, monetary policy, exchange rate movement and taxation etc. Reports and policy guidelines issued by the Central Bank of Sri Lanka, combined with other economic reports are reviewed periodically to identify the opportunities in the market and to safeguard the Company in advance from possible risk elements.

We carry out the PEST analysis and closely monitor the changes in the macro environment. PEST analysis supports to identify any emerging risks as well as opportunities arising from the external environment. It helps to identify changes required to the Company's products and processes to mitigate any risk or capture the opportunities.

MITIGATION

The Company reviews existing strategies and formulates new strategies in response to the opportunities and threats identified from the external environmental analysis. Strategy formulation in the Company is a structured and detailed process where the socioeconomic and political environment is comprehensively evaluated at the Strategic Planning Session held annually. Strategies are developed to exploit opportunities identified and minimise the threats emanating from the external environment.

SMC also at its meetings evaluates changes in the socioeconomic and political environment, especially the economic indicators such as credit growth, inflation level, interest rates, exchange rates, foreign reserve position in assessing the impact and determining risk mitigatory measures required, if any.

Risk Management and Control Department also regularly monitors the changes in the socioeconomic environment in identifying emerging risk factors and its impact on the Company.

RISK OF UNFORESEEN EVENTS

This refers to the risk of business operations being disrupted due to unexpected events. It is difficult for anybody to predict all the possible events which may materialise in the future.

Therefore, every organisation is left with the risk of unforeseen events.

ASSESSMENT

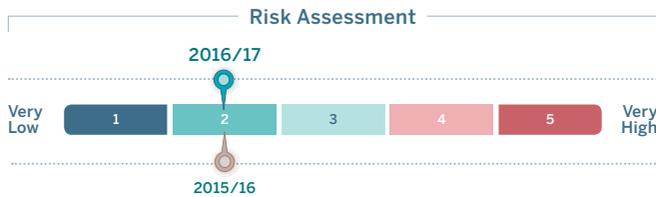
Since this risk cannot be predicted with certainty in advance, the Company regularly assesses the adequacy of insurance coverage and the validity of contingency plans.

Risk Management

MITIGATION

The Company places much emphasis on the Business Continuity Plan (BCP) to ensure the smooth flow of operations including ICT disaster recovery plan. Please refer page 262 for more details on the Business Continuity Planning.

GROUP RISK



Group risk relates to the loss (financial or non-financial) incurred by PLC through its subsidiaries and the associate. There are five subsidiaries and one associate company, People's Merchant Finance PLC with a 37.06% stake.

ASSESSMENT

Group risks are reviewed by the IRMC through risk dashboard reports and other reports submitted by the subsidiary companies. The representatives from each of the subsidiary companies participate at the IRMC meetings which are held on a quarterly basis.

| Company | Relationship | Business Operations | Reports Submitted to IRMC | Reporting Interval |
|---|-------------------------|--|---|--------------------|
| People's Insurance PLC (PI) | Subsidiary | Non-life (general) insurance business | Risk dashboard report and comparison report | Quarterly |
| People's Leasing Fleet Management Limited (PLFML) | Wholly-owned subsidiary | Operating leases, Valuation services, Rent-a-car unit, Fleet Management unit | Risk dashboard report | Quarterly |
| People's Microfinance Limited (PML) | Wholly-owned subsidiary | Providing microfinance facilities to the under privileged, rural and urban population and providing hire purchase facilities | Risk dashboard Report | Quarterly |
| People's Leasing Property Development Limited (PLPDL) | Wholly-owned subsidiary | Property development | Risk indicator report | Quarterly |
| People's Leasing Havelock Properties Limited (PLHPL) | Wholly-owned subsidiary | Property development | Brief on operations | Quarterly |

| Subsidiary | Major Risk Categories | | | | | | | |
|------------|-----------------------|---------------|--------|-----------|-------------|------------|-----------|--------------|
| | Credit | Concentration | Market | Liquidity | Operational | Compliance | Strategic | Underwriting |
| PI | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| PLFML | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| PML | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |
| PLPDL | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | |

Risk Management

People's Leasing Havelock Properties Limited commenced its construction project of a new office complex in Havelock City. Risk factors relating to the construction project are comprehensively discussed at the SMC and a briefing is provided to the IRMC. This construction project has been finalised and it is expected to commence the commercial operations in the near future.

MITIGATION

Risk profile of each subsidiary is different as they are operating in different industries with different business models. Therefore, risks should be assessed and mitigated separately. People's Insurance PLC is the largest subsidiary by size which is regulated by the Insurance Board of Sri Lanka.

Two Deputy General Managers of Operations Department have been appointed to oversee People's Microfinance Limited and People's Leasing Fleet Management Limited. CEO of PLC represents the Boards of all subsidiary companies. DGM – Finance and Administration who is a member of

PLC's IRMC, acts as the Acting CEO of People's Merchant Finance PLC and also represents its Risk Committee. This ensures full and sufficient knowledge of subsidiaries' operations and risk profiles. All inter-company transactions are carried out at arm's length. PLC is the holding company and owns the largest balance sheet, i.e., over 95% of the total assets and liabilities of the Group.

PLC ensures its awareness on changes in the business environment in finance, insurance, microfinance and property development industries in mitigating the group risk.

WAY FORWARD

The Company is well aware of the necessity to be committed to risk management to ensure continued success in its corporate journey in the years ahead. PLC will give precedence to effective risk policies and measures to adopt and proactively respond to the ongoing changing *status quo* within the non-bank financial arena.

Synopsis – Risk Management Measures and Future Plans

| Element | Progress to Date | Way Forward |
|---|--|---|
| Credit risk | Stringent Credit Risk Management Framework is in place | Strengthening credit risk management further by implementing risk management mechanisms to ensure the quality of lending by screening the credit proposals. |
| Stress testing framework | Stress testing framework has been adopted with a Board approved stress testing policy. Stress testing is performed for credit risk, interest rate risk and liquidity risk on a quarterly basis. | Perform stress tests for new scenarios in assessing the impact on Company in worst case scenarios. |
| Business continuity plan | Business Continuity Plan has been developed. | Conduct training sessions and drills. Conduct annual BCP review. |
| Integrated Risk Management Operating Committee (IRMOC) | IRMOC acts as the BCP Steering Committee and reviews BCP. | Monitoring the progress of BCP implementation by IRMOC and reviewing by the IRMC. |
| Risk reports | Risk dashboard report of PLC was updated with the risk tolerance levels approved by the Board. Additional reports related to risks were made available for IRMC's review. | Review and update the risk dashboard report to be more responsive to business growth and to introduce more stringent controls to mitigate risks prevailing in the business. |
| Risk awareness | Risk Department submitted reports to the IRMC and the management to initiate a dialogue to meet emerging risks. | Continuous monitoring of identified risks and submitting status report to the management and the IRMC at regular intervals. |



Financial Reports

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Financial Calendar

| | | 2016/17 | 2017/18 |
|--|---|---|---|
| Interim Financial Statements Publication  | Q1 ended 30 June | 27 July 2016 | Before 15 August 2017 |
| | Q2 ended 30 September | 25 October 2016 | Before 15 November 2017 |
| | Q3 ended 31 December | 26 January 2017 | Before 15 February 2018 |
| | Q4 ended 31 March | 2 May 2017 | Before 15 May 2018 |
| Half yearly Financial Statements Publication  | Year ended 31 March 2016 | 21 June 2016 | |
| | Six months ended 30 September 2016 | 1 November 2016 | |
| | Year ended 31 March 2017 | | Before 30 June 2017 |
| | Six months ending 30 September 2017 | | Before 31 December 2017 |
| Annual Report Publication  | Publication of Annual Report | 3 June 2016 | 6 June 2017 |
| Annual General Meeting  | Annual General Meeting | 20th Annual General Meeting 29 June 2016 | 21st Annual General Meeting 30 June 2017 |
| Dividend Payment  | Interim Dividend | | |
| | Paid for the year ended 31 March 2017 | 6 January 2017 | |
| | Final Dividend | | |
| | Paid for the year ended 31 March 2016 | 11 July 2016 | |
| | Proposed for the year ended 31 March 2017 | | In July 2017 |

Directors' Responsibility for Financial Reporting

The responsibility of the Directors, in relation to the Financial Statements of People's Leasing & Finance PLC (the Company) and the Consolidated Financial Statements of the Company and its subsidiaries (the Group) in accordance with the provisions of the Companies Act No. 07 of 2007 is set out in this statement.

The Directors confirm that the Financial Statements of the Company and the Group give a true and fair view of the financial position as at 31 March 2017 and the financial performance for the financial year then ended and place the same before the Annual General Meeting. These Financial Statements comprise:

- Statement of Financial Position
- Statement of Profit or Loss
- Statement of Comprehensive Income
- Statement of Changes in Equity
- Statement of Cash flows
- Notes to the Financial Statements

The Directors accept responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report. The Directors confirm that in preparing these Financial Statements;

- The appropriate accounting policies have been selected and applied in a consistent manner, material departures, if any, have been disclosed and explained;
- All applicable Sri Lanka Accounting Standards as relevant have been followed; and
- Judgments and estimates have been made which are reasonable and prudent.

The Directors of the Company and the Group have responsibility for ensuring that the Company and the Group keep proper books of accounts of all the transactions as per Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007.

The Directors also ensured that the Group has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements. Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company.

The Financial Statements of the Company and the Group have been certified by the Company's Chief Financial Officer and Chief Executive Officer, officer responsible for their preparation, as required by the Section 150 (1) (b) and of 152 (1) (b) of the Companies Act No. 07 of 2007. In addition, the Financial Statements of the Company and the Group have been signed by two Directors on 19 May 2017 as required by Sections 150 (1) (c) and 152 (1) (c) of the Companies Act No. 07 of 2007 and other regulatory requirements.

In compliance with Section 148 (1) of the Companies Act No. 07 of 2007, the Directors are also responsible for ensuring that proper accounting records which explain the Company's transactions and assist in determining the Company's financial position with reasonable accuracy at any time are maintained by the Company enabling the preparation of Financial Statements and further enabling the Financial Statements to be readily and properly audited.

The Financial Statements for the year 2016/17, prepared and presented in this Annual Report, are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereunder, the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

The Directors are also responsible for taking reasonable steps to safeguard assets of the Company and the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems in managing significant risks in the Company and the Group.

As required under Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors wish to confirm that they have authorised the distribution of the interim dividend paid on 6 January 2017 as well as the proposed final dividend after being satisfied the solvency test immediately after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained in respect of dividend paid and proposed in respect of which approval is now sought, certificate of solvency from External Auditor.

Directors' Responsibility for Financial Reporting

The Directors also wish to confirm that as required under Sections 166 (1) and 167 (1) of the Companies Act No. 07 of 2007, they have prepared this Annual Report in time and ensured that a copy thereof is sent to the shareholders within the stipulated period of time as required by Rule No. 7.5 (a) and (b) of the Listing Rules of the Colombo Stock Exchange.

The Directors also wish to confirm that all shareholders have been treated in an equitable manner in accordance with the original terms of issue.

The Directors are required to prepare the Financial Statements and to provide the Auditor with every opportunity to take whatever steps and undertake whatever inspections they may consider appropriate to enable them to give their audit opinion. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and the Group, all contributions, levies and taxes payable relating to employees of the Company and the Group to Government and other statutory bodies that were due in respect of the Company and the Group as at the reporting date have been paid or, where relevant provided for.

By order of the Board,



Rohan Pathirage
Secretary to the Board

19 May 2017
Colombo

Directors' Statement on Internal Control Over Financial Reporting

RESPONSIBILITY

In line with the Section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 as amended by the Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013, the Board of Directors presents this Report on Internal Control over Financial Reporting.

The Board of Directors (the Board) is responsible for the adequacy and effectiveness of the internal control mechanism in place at People's Leasing & Finance PLC (the Company).

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting which is regularly reviewed by the Board.

The Board is of the view that the system of Internal Control over Financial Reporting in place is sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. The management is in the process of continuous enhancing the documentation of the system of Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of the design and implementation effectiveness, on an ongoing basis.

Since the adoption of Sri Lanka Accounting Standards comprising SLFRSs and LKASs in 2012/13, continuous monitoring is in progress and steps are being taken for improvements where required. The Company will continue to further strengthen the controls over processes pertaining to Financial Statements risk management disclosures, related party disclosures and management information system.

CONFIRMATION

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been prepared in accordance with Sri Lanka Accounting Standards and regulatory requirements of Central Bank of Sri Lanka and the Colombo Stock Exchange.

REVIEW OF THE STATEMENT BY EXTERNAL AUDITOR

The External Auditor, Messrs Ernst & Young, has reviewed the above Directors' Statement on Internal Control for the year ended 31 March 2017 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Company.



J P Amarathunga
Chairman
Board Audit Committee



Hemasiri Fernando
Chairman



M P Amirthanayagam
Deputy Chairman

19 May 2017
Colombo

Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The Financial Statements of People's Leasing & Finance PLC (the Company) and the Consolidated Financial Statements of the Company and its subsidiaries (the Group) as at 31 March 2017 are prepared and presented in conformity with the following requirements:

- Sri Lanka Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka),
- Companies Act No. 07 of 2007,
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995,
- Directions issued to Licensed Finance Companies by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011,
- Listing Rules of the Colombo Stock Exchange, and
- 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 formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka. The Group on a quarterly basis presents Financial Statements to its shareholders in compliance with the Listing Rules of the Colombo Stock Exchange.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Group. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. Significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the External Auditor and the Board Audit Committee.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis; in order to ensure that the Financial Statements are reflected in a true and fair manner and the form and substance of transactions and the Company's state of affairs is reasonably presented. We also confirm that the Group has adequate resources to continue in operation and has applied the going concern basis in preparing these Financial Statements.

To ensure this, the Company and the Group have taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Audit Department has conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company and the Group were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Board Audit Committee reviewed all of the internal and external audit and inspection programmes, the efficiency of the internal control systems and procedures, the quality of accounting policies and their adherence to statutory and regulatory requirements, the external audit plan and the management letters and also followed up on any issues raised during the statutory audit, the details of which are given in the 'Board Audit Committee Report' on pages 230 to 231 of this Annual Report.

The Financial Statements of the Company and the Group were audited by Messrs Ernst & Young, Chartered Accountants and their Report is given on page 275 of this Annual Report.

We confirm that:

- the Group has complied with all applicable laws and regulations and prudential requirements, there are no material non-compliances,
- there are no material litigations that are pending against the Group other than those disclosed in Note 46 of the Financial Statements of this Annual Report,
- All taxes, duties, levies and other statutory payments by the Group and all contributions, levies and taxes payable on behalf of and in respect of the employees of the Group as at 31 March 2017 have been paid, or where relevant provided for.



D P Kumarage
Chief Executive Officer



Sanjeewa Bandaranayake
Chief Financial Officer

19 May 2017
Colombo

Independent Auditors' Report



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Chartered Accountants
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Sri Lanka

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TO THE SHAREHOLDERS OF PEOPLE'S LEASING & FINANCE PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying Financial Statements of People's Leasing & Finance PLC, ('the Company'), and the Consolidated Financial Statements of the Company and its subsidiaries ('Group'), which comprise the statement of financial position as at 31 March 2017, and the statement of profit and loss and statement of 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 information set out on pages 277 to 396 of the Annual Report.

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 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 and 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 31 March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - 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.

19 May 2017
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

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Statement of Profit or Loss

| For the year ended 31 March | | | Company | | | Group | | |
|--|------|----------|-------------------|------------------|-------------|-------------------|------------------|-------------|
| | Note | Page No. | 2017 Rs. '000 | 2016 Rs. '000 | Change % | 2017 Rs. '000 | 2016 Rs. '000 | Change % |
| Income | 4 | 293 | 23,859,038 | 19,186,228 | 24.36 | 27,732,754 | 22,579,702 | 22.82 |
| Interest income | | | 22,041,263 | 17,876,083 | 23.30 | 22,784,273 | 18,301,167 | 24.50 |
| Less: Interest expenses | | | 11,829,601 | 7,941,063 | 48.97 | 11,819,756 | 8,006,050 | 47.64 |
| Net interest income | 5 | 293 | 10,211,662 | 9,935,020 | 2.78 | 10,964,517 | 10,295,117 | 6.50 |
| Net earned premium | 6 | 294 | - | - | - | 3,694,027 | 3,283,171 | 12.51 |
| Fee and commission income | 7 | 295 | 1,133,735 | 952,351 | 19.05 | 621,711 | 528,304 | 17.68 |
| Net gains/(losses) on financial assets – Held-for-trading | 8 | 296 | 8,257 | (40,355) | 120.46 | 43,869 | (71,903) | 161.01 |
| Other operating income | 9 | 296 | 675,783 | 398,149 | 69.73 | 588,874 | 538,963 | 9.26 |
| Total operating income | | | 12,029,437 | 11,245,165 | 6.97 | 15,912,998 | 14,573,652 | 9.19 |
| Less: Impairment charges for loans and receivables and other losses | 10 | 297 | 215,765 | 258,350 | (16.48) | 282,819 | 290,703 | (2.71) |
| Net operating income | | | 11,813,672 | 10,986,815 | 7.53 | 15,630,179 | 14,282,949 | 9.43 |
| Less: | | | | | | | | |
| Personnel expenses | 11 | 298 | 2,556,242 | 1,807,017 | 41.46 | 2,971,179 | 2,070,552 | 43.50 |
| Depreciation of property, plant and equipment | | | 177,214 | 197,097 | (10.09) | 263,644 | 280,493 | (6.01) |
| Amortisation of intangible assets | | | 9,779 | 13,127 | (25.50) | 12,764 | 17,817 | (28.36) |
| Benefits, claims and underwriting expenditure | 12 | 298 | - | - | - | 2,583,812 | 2,249,778 | 14.85 |
| Other operating expenses | 13 | 299 | 2,670,768 | 2,170,233 | 23.06 | 2,696,254 | 2,251,051 | 19.78 |
| Total operating expenses | | | 5,414,003 | 4,187,474 | 29.29 | 8,527,653 | 6,869,691 | 24.13 |
| Operating profit before value added tax (VAT) and nation building tax (NBT) on financial services | | | 6,399,669 | 6,799,341 | (5.88) | 7,102,526 | 7,413,258 | (4.19) |
| Less: VAT and NBT on financial services | 14 | 299 | 923,775 | 656,253 | 40.77 | 944,418 | 670,181 | 40.92 |
| Operating profit after VAT and NBT on financial services | | | 5,475,894 | 6,143,088 | (10.86) | 6,158,108 | 6,743,077 | (8.68) |
| Share of (loss) of an associate (net of tax) | | | - | - | - | (73,875) | (36,170) | (104.24) |
| Profit before income tax expense | | | 5,475,894 | 6,143,088 | (10.86) | 6,084,233 | 6,706,907 | (9.28) |
| Less: Income tax expense | 15 | 300 | 1,466,640 | 1,795,734 | (18.33) | 1,642,617 | 1,965,361 | (16.42) |
| Profit for the year | | | 4,009,254 | 4,347,354 | (7.78) | 4,441,616 | 4,741,546 | (6.33) |
| Profit attributable to | | | | | | | | |
| Equity holders of the Company | | | 4,009,254 | 4,347,354 | (7.78) | 4,255,132 | 4,708,130 | (9.62) |
| Non-controlling interest | | | - | - | - | 186,484 | 33,416 | 458.07 |
| Profit for the year | | | 4,009,254 | 4,347,354 | (7.78) | 4,441,616 | 4,741,546 | (6.33) |
| Basic earnings per ordinary share (Rs.) | 16 | 302 | | | | 2.69 | 2.98 | (9.73) |
| Dividend per ordinary share (Rs.) | 17 | 302 | 1.25 | 1.25 | - | | | |

The above Statement of Profit or Loss should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396.

Statement of Comprehensive Income

| For the year ended 31 March | | | Company | | | Group | | |
|---|------|----------|------------------|------------------|-------------|------------------|------------------|-------------|
| | Note | Page No. | 2017 Rs. '000 | 2016 Rs. '000 | Change % | 2017 Rs. '000 | 2016 Rs. '000 | Change % |
| Profit for the year | | | 4,009,254 | 4,347,354 | (7.78) | 4,441,616 | 4,741,546 | (6.33) |
| Other comprehensive income | | | | | | | | |
| Items to be reclassified to profit or loss in subsequent years (net of tax): | | | | | | | | |
| Cash flow hedges | | | | | | | | |
| Gains/(losses) on derivative financial investments | 44.1 | 352 | 879 | (6,971) | 112.61 | 879 | (6,971) | 112.61 |
| Financial assets – Available-for-sale | | | | | | | | |
| Gains/(losses) on re-measuring | 24.2 | 320 | (93,771) | 50,316 | (286.36) | (89,497) | 32,855 | (372.40) |
| Recycling to Statement of Profit or Loss | 24.2 | 320 | - | (24,565) | 100.00 | - | (24,565) | 100.00 |
| Net items to be reclassified to profit or loss in subsequent years | | | (92,892) | 18,780 | (594.63) | (88,618) | 1,319 | (6,818.57) |
| Items not to be reclassified to profit or loss in subsequent years (net of tax): | | | | | | | | |
| Actuarial gains and losses on retirement benefit obligation | 40.1 | 348 | (22,380) | (26,951) | 16.96 | (25,157) | (26,893) | 6.46 |
| Deferred tax effect on above | 39.1 | 345 | 6,270 | 7,546 | (16.91) | 6,493 | 6,968 | (6.82) |
| Deemed cost adjustment on transfers | | | - | 7,302 | (100.00) | - | - | - |
| Deferred tax effect on above | 39.1 | 345 | - | (2,045) | 100.00 | - | - | - |
| Net items not to be reclassified to profit or loss in subsequent years | | | (16,110) | (14,148) | (13.87) | (18,664) | (19,925) | 6.33 |
| Other comprehensive income for the year, net of tax | | | (109,002) | 4,632 | (2,453.24) | (107,282) | (18,606) | 476.60 |
| Total comprehensive income for the year | | | 3,900,252 | 4,351,986 | (10.38) | 4,334,334 | 4,722,940 | (8.23) |
| Attributable to: | | | | | | | | |
| Equity holders of the Company | | | 3,900,252 | 4,351,986 | (10.38) | 4,333,892 | 4,727,319 | (8.32) |
| Non-controlling interest | | | - | - | - | 442 | (4,379) | 110.09 |
| | | | 3,900,252 | 4,351,986 | (10.38) | 4,334,334 | 4,722,940 | (8.23) |

The above Statement of Comprehensive Income should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396.

Statement of Financial Position

| As at 31 March | Note | Page No. | Company | | | Group | | |
|--|------|----------|--------------------|--------------------|---------------|--------------------|--------------------|---------------|
| | | | 2017 Rs. '000 | 2016 Rs. '000 | Change % | 2017 Rs. '000 | 2016 Rs. '000 | Change % |
| Assets | | | | | | | | |
| Cash and cash equivalents | 19 | 306 | 5,591,170 | 3,206,733 | 74.36 | 6,379,909 | 3,555,643 | 79.43 |
| Balances with banks and financial institutions | 20 | 307 | 2,089,989 | 847,448 | 146.62 | 3,789,047 | 2,543,016 | 49.00 |
| Financial assets – Held-for-trading | 21 | 307 | 201,215 | 211,651 | (4.93) | 529,301 | 527,438 | 0.35 |
| Loans and receivables | 22 | 310 | 134,054,702 | 109,872,415 | 22.01 | 135,469,783 | 111,156,437 | 21.87 |
| Insurance and reinsurance receivables | 23 | 317 | - | - | - | 267,523 | 206,303 | 29.67 |
| Financial assets – Available-for-sale | 24 | 318 | 275,703 | 500,357 | (44.90) | 1,094,569 | 1,739,956 | (37.09) |
| Financial assets – Held-to-maturity | 25 | 321 | 2,968,042 | 4,930,236 | (39.80) | 2,968,042 | 4,930,236 | (39.80) |
| Investments in subsidiaries | 26 | 321 | 2,075,000 | 1,875,000 | 10.67 | - | - | - |
| Investment in associate | 27 | 323 | 586,427 | 586,427 | - | 476,382 | 550,257 | (13.43) |
| Investment property | 28 | 325 | 100,800 | 90,752 | 11.07 | - | - | - |
| Property, plant and equipment | 29 | 327 | 1,254,744 | 1,120,600 | 11.97 | 5,015,558 | 4,209,533 | 19.15 |
| Goodwill and intangible assets | 30 | 332 | 320,183 | 329,963 | (2.96) | 320,411 | 333,175 | (3.83) |
| Deferred tax assets | 39 | 344 | - | - | - | 26,234 | 14,524 | 80.63 |
| Other assets | 31 | 334 | 938,788 | 764,066 | 22.87 | 1,026,638 | 1,334,274 | (23.06) |
| Total assets | | | 150,456,763 | 124,335,648 | 21.01 | 157,363,397 | 131,100,792 | 20.03 |
| Liabilities | | | | | | | | |
| Due to banks | 32 | 335 | 35,584,408 | 26,431,628 | 34.63 | 37,085,398 | 28,059,677 | 32.17 |
| Due to customers | 33 | 337 | 44,722,552 | 33,836,428 | 32.17 | 44,465,568 | 33,677,260 | 32.03 |
| Debt securities issued | 34 | 337 | 38,673,277 | 34,387,677 | 12.46 | 38,569,262 | 34,283,621 | 12.50 |
| Other financial liabilities | 35 | 339 | 2,725,166 | 2,730,484 | (0.19) | 2,563,187 | 2,888,399 | (11.26) |
| Derivative financial instruments | 36 | 339 | 8,363 | - | 100.00 | 8,363 | - | 100.00 |
| Insurance liabilities and reinsurance payable | 37 | 342 | - | - | - | 3,537,110 | 3,181,588 | 11.17 |
| Current tax liabilities | 38 | 343 | 289,978 | 937,999 | (69.09) | 337,291 | 1,017,694 | (66.86) |
| Deferred tax liabilities | 39 | 344 | 1,923,171 | 1,821,897 | 5.56 | 1,975,528 | 1,855,248 | 6.48 |
| Other liabilities | 40 | 347 | 1,832,555 | 1,417,667 | 29.27 | 1,896,911 | 1,467,033 | 29.30 |
| Total liabilities | | | 125,759,470 | 101,563,780 | 23.82 | 130,438,618 | 106,430,520 | 22.56 |
| Equity | | | | | | | | |
| Capital | 41 | 350 | 13,236,073 | 13,136,073 | 0.76 | 13,236,073 | 13,136,073 | 0.76 |
| Statutory reserve fund | 42 | 351 | 1,621,946 | 1,421,483 | 14.10 | 1,621,946 | 1,421,483 | 14.10 |
| Retained earnings | 43 | 351 | 9,400,084 | 7,682,230 | 22.36 | 10,560,834 | 8,600,098 | 22.80 |
| Other reserves | 44 | 352 | 439,190 | 532,082 | (17.46) | 420,957 | 509,575 | (17.39) |
| Total shareholders' equity | | | 24,697,293 | 22,771,868 | 8.46 | 25,839,810 | 23,667,229 | 9.18 |
| Non-controlling interest | 45 | 353 | - | - | - | 1,084,969 | 1,003,043 | 8.17 |
| Total equity | | | 24,697,293 | 22,771,868 | 8.46 | 26,924,779 | 24,670,272 | 9.14 |
| Total liabilities and equity | | | 150,456,763 | 124,335,648 | 21.01 | 157,363,397 | 131,100,792 | 20.03 |
| Contingent liabilities and commitments | 46 | 354 | 6,439,978 | 2,351,810 | 173.83 | 6,715,524 | 2,950,490 | 127.61 |
| Net asset value per share (Rs.) | | | 15.63 | 14.41 | 8.47 | 16.36 | 14.98 | 9.21 |

The above Statement of Financial Position should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396. We certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Sanjeewa Bandaranayake
Chief Financial Officer

D P Kumara
Chief Executive Officer

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Approved and signed for and on behalf of the Board by:

Hemasiri Fernando
Chairman

M P Amirthanayagam
Deputy Chairman

19 May 2017
Colombo

Statement of Changes In Equity

| Company | Other Reserves | | | | | | | | Total Equity Rs. '000 |
|--|---------------------|------------------------------------|-----------------------------|--------------------------------------|---------------------------------|--|-------------------------------------|-------------------------------|--------------------------|
| | Capital Rs. '000 | Statutory Reserve Fund Rs. '000 | General Reserve Rs. '000 | Tax Equalisation Reserve Rs. '000 | Revaluation Reserve Rs. '000 | Available-for-Sale Reserve Rs. '000 | Cash Flow Hedge Reserve Rs. '000 | Retained Earnings Rs. '000 | |
| Balance as at 01.04.2015 | 12,936,073 | 1,204,116 | 300,000 | 100,000 | – | 99,029 | 6,971 | 6,489,599 | 21,135,788 |
| Super gain tax (Note 43.1) | – | – | – | – | – | – | – | (741,079) | (741,079) |
| Balance after Super Gain Tax | 12,936,073 | 1,204,116 | 300,000 | 100,000 | – | 99,029 | 6,971 | 5,748,520 | 20,394,709 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | 4,347,354 | 4,347,354 |
| Other comprehensive income (net of tax) | – | – | – | – | 7,302 | 25,751 | (6,971) | (21,450) | 4,632 |
| Total comprehensive income for the year | – | – | – | – | 7,302 | 25,751 | (6,971) | 4,325,904 | 4,351,986 |
| Transactions with equity holders, recognised directly in equity | | | | | | | | | |
| Transfer from preference shares on redemption | 200,000 | – | – | – | – | – | – | (200,000) | – |
| Transfers to reserves | – | 217,367 | – | – | – | – | – | (217,367) | – |
| Dividend paid | – | – | – | – | – | – | – | (1,974,827) | (1,974,827) |
| Total transactions with equity holders | 200,000 | 217,367 | – | – | – | – | – | (2,392,194) | (1,974,827) |
| Balance as at 31.03.2016 | 13,136,073 | 1,421,483 | 300,000 | 100,000 | 7,302 | 124,780 | – | 7,682,230 | 22,771,868 |
| Balance as at 01.04.2016 | 13,136,073 | 1,421,483 | 300,000 | 100,000 | 7,302 | 124,780 | – | 7,682,230 | 22,771,868 |
| Total comprehensive income for the year | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | – | 4,009,254 | 4,009,254 |
| Other comprehensive income (net of tax) | – | – | – | – | – | (93,771) | 879 | (16,110) | (109,002) |
| Total comprehensive income for the year | – | – | – | – | – | (93,771) | 879 | 3,993,144 | 3,900,252 |
| Transactions with equity holders, recognised directly in equity | | | | | | | | | |
| Transfer from preference shares on redemption | 100,000 | – | – | – | – | – | – | (100,000) | – |
| Transfers to reserves | – | 200,463 | – | – | – | – | – | (200,463) | – |
| Dividend paid | – | – | – | – | – | – | – | (1,974,827) | (1,974,827) |
| Total transactions with equity holders | 100,000 | 200,463 | – | – | – | – | – | (2,275,290) | (1,974,827) |
| Balance as at 31.03.2017 | 13,236,073 | 1,621,946 | 300,000 | 100,000 | 7,302 | 31,009 | 879 | 9,400,084 | 24,697,293 |

The above Statement of Changes in Equity should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396.

Statement of Changes In Equity

| Group | Other Reserves | | | | | | | | | Total Rs. '000 | Non- Controlling Interest Rs. '000 | Total Equity Rs. '000 |
|--|---------------------|-----------------------------|--------------------------------|--|--|---|----------------------------------|-------------------|-----------|-------------------|---|-----------------------------|
| | Capital Rs. '000 | Reserve Fund Rs. '000 | General Reserve Rs. '000 | Tax Equalisation Reserve Rs. '000 | Available-for- Sale Reserve Rs. '000 | Cash Flow Hedge Reserve Rs. '000 | Retained Earnings Rs. '000 | Total Rs. '000 | | | | |
| Balance as at 01.04.2015 | 12,936,073 | 1,204,116 | 300,000 | 100,000 | 101,918 | 6,971 | 7,403,781 | 22,052,859 | - | 22,052,859 | | |
| Super gain tax (Note 43.1) | - | - | - | - | - | - | (857,634) | (857,634) | - | (857,634) | | |
| Balance after Super Gain Tax | 12,936,073 | 1,204,116 | 300,000 | 100,000 | 101,918 | 6,971 | 6,546,147 | 21,195,225 | - | 21,195,225 | | |
| Movement due to change in ownership | - | - | - | - | (633) | - | (229,115) | (229,748) | 974,006 | 744,258 | | |
| Total comprehensive income for the year | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 4,708,130 | 4,708,130 | 33,416 | 4,741,546 | | |
| Other comprehensive income (net of tax) | - | - | - | - | 8,290 | (6,971) | (15,546) | (14,227) | (4,379) | (18,606) | | |
| Total comprehensive income for the year | - | - | - | - | 7,657 | (6,971) | 4,463,469 | 4,464,155 | 1,003,043 | 5,467,198 | | |
| Transactions with equity holders, recognised directly in equity | | | | | | | | | | | | |
| Share issue expenses | - | - | - | - | - | - | (17,324) | (17,324) | - | (17,324) | | |
| Transfer from preference shares on redemption | 200,000 | - | - | - | - | - | (200,000) | - | - | - | | |
| Transfers to reserves | - | 217,367 | - | - | - | - | (217,367) | - | - | - | | |
| Dividend paid | - | - | - | - | - | - | (1,974,827) | (1,974,827) | - | (1,974,827) | | |
| Total transactions with equity holders | 200,000 | 217,367 | - | - | - | - | (2,409,518) | (1,992,151) | - | (1,992,151) | | |
| Balance as at 31.03.2016 | 13,136,073 | 1,421,483 | 300,000 | 100,000 | 109,575 | - | 8,600,098 | 23,667,229 | 1,003,043 | 24,670,272 | | |
| Balance as at 01.04.2016 | 13,136,073 | 1,421,483 | 300,000 | 100,000 | 109,575 | - | 8,600,098 | 23,667,229 | 1,003,043 | 24,670,272 | | |
| Total comprehensive income for the year | | | | | | | | | | | | |
| Profit for the year | - | - | - | - | - | - | 4,255,132 | 4,255,132 | 186,484 | 4,441,616 | | |
| Other comprehensive income (net of tax) | - | - | - | - | (89,497) | 879 | (19,106) | (107,724) | 442 | (107,282) | | |
| Total comprehensive income for the year | - | - | - | - | (89,497) | 879 | 4,236,026 | 4,147,408 | 186,926 | 4,334,334 | | |
| Transactions with equity holders, recognised directly in equity | | | | | | | | | | | | |
| Transfer from preference shares on redemption | 100,000 | - | - | - | - | - | (100,000) | - | - | - | | |
| Transfers to reserves | - | 200,463 | - | - | - | - | (200,463) | - | - | - | | |
| Dividend paid | - | - | - | - | - | - | (1,974,827) | (1,974,827) | (105,000) | (2,079,827) | | |
| Total transactions with equity holders | 100,000 | 200,463 | - | - | - | - | (2,275,290) | (1,974,827) | (105,000) | (2,079,827) | | |
| Balance as at 31.03.2017 | 13,236,073 | 1,621,946 | 300,000 | 100,000 | 20,078 | 879 | 10,560,834 | 25,839,810 | 1,084,969 | 26,924,779 | | |

The above Statement of Changes in Equity should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396.

Statement of Cash Flows

| For the year ended 31 March | | | Company | | Group | |
|---|------|----------|---------------------|--------------|---------------------|--------------|
| | Note | Page No. | 2017 | 2016 | 2017 | 2016 |
| | | | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Cash flows from operating activities | | | | | | |
| Profit before tax | | | 5,475,894 | 6,143,088 | 6,084,233 | 6,706,907 |
| Adjustment for: | | | | | | |
| Non-cash items included in profits before tax | 47 | 356 | 404,120 | 552,501 | 542,404 | 708,498 |
| Change in operating assets | 48 | 356 | (23,689,945) | (11,934,857) | (23,022,090) | (13,292,546) |
| Change in operating liabilities | 49 | 357 | 10,965,878 | (891,328) | 10,809,221 | (762,517) |
| Share of loss in associate (net of tax) | | | - | - | 73,875 | 36,170 |
| Dividend income from investments | | | (399,854) | (168,729) | (51,626) | (49,048) |
| Gratuity paid | 40.1 | 348 | (8,769) | (6,252) | (8,836) | (6,786) |
| Income tax paid | | | (1,757,430) | (1,486,030) | (1,858,901) | (1,614,970) |
| Super gain tax paid | | | - | (741,079) | - | (857,634) |
| Net cash (used in) operating activities | | | (9,010,106) | (8,532,686) | (7,431,720) | (9,131,926) |
| Cash flows from investing activities | | | | | | |
| Purchase of property, plant and equipment | 29 | 327 | (310,059) | (280,642) | (1,079,232) | (697,951) |
| Proceeds from the sale of property, plant and equipment | | | 41,195 | 6,198 | 52,057 | 18,301 |
| Purchase of intangible assets | 30 | 332 | - | (5,443) | - | (5,351) |
| Investment in subsidiaries | | | (200,000) | - | - | - |
| Investment in associate | | | - | (285,436) | - | (285,436) |
| Dividend received from investments | | | 399,854 | 168,729 | 51,626 | 49,048 |
| Net cash (used in) investing activities | | | (69,010) | (396,594) | (975,549) | (921,389) |
| Cash flows from financing activities | | | | | | |
| Net borrowings | | | 12,922,472 | 11,330,805 | 12,911,163 | 11,456,300 |
| Issue of shares | | | - | - | - | 750,000 |
| Share issue expenses | | | - | - | - | (17,324) |
| Dividend paid to shareholders | | | (1,974,827) | (1,974,827) | (1,974,827) | (1,974,827) |
| Dividend paid to non-controlling interest | | | - | - | (105,000) | - |
| Redemption of preference shares | | | (100,000) | (200,000) | (100,000) | (200,000) |
| Net cash from financing activities | | | 10,847,645 | 9,155,978 | 10,731,336 | 10,014,149 |
| Net increase/(decrease) in cash and cash equivalents | | | 1,768,529 | 226,698 | 2,324,067 | (39,166) |
| Cash and cash equivalents at the beginning of the year | | | 3,206,282 | 2,979,584 | 3,179,248 | 3,218,414 |
| Cash and cash equivalents at the end of the year | | | 4,974,811 | 3,206,282 | 5,503,315 | 3,179,248 |
| Cash and cash equivalents | 19 | 306 | 5,591,170 | 3,206,733 | 6,379,909 | 3,555,643 |
| Overdraft | 32 | 335 | (616,359) | (451) | (876,594) | (376,395) |
| | | | 4,974,811 | 3,206,282 | 5,503,315 | 3,179,248 |

The above Statement of Cash Flows should be read in conjunction with Notes, which form an integral part of the Financial Statements, disclosed on pages 283 to 396.

Notes to the Financial Statements

1 — CORPORATE AND GROUP INFORMATION

1.1 CORPORATE INFORMATION

People's Leasing & Finance PLC (the 'Company'), is a public limited liability company incorporated on 2 August 1995 and domiciled in Sri Lanka. It is a licensed finance company under the Finance Business Act No. 42 of 2011. The Company has a primary listing on the Colombo Stock Exchange on 24 November 2011. The Company was re-registered under the Companies Act No. 07 of 2007.

Its registered office and the principal place of the business is at No. 1161, Maradana Road, Colombo 08.

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Group for the year ended 31 March 2017 comprise People's Leasing & Finance PLC (Parent Company), its subsidiaries (together referred to as the 'Group') and the Group's interest in its associate company.

PARENT ENTITY AND ULTIMATE PARENT ENTITY

The Company's parent entity is People's Bank which is a Government-owned entity.

NUMBER OF EMPLOYEES

The staff strength of the Company as at 31 March 2017 is 2,085 (1,834 as at 31 March 2016).

1.2 GROUP INFORMATION

PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

COMPANY

People's Leasing & Finance PLC

The principal business activities are providing finance leases, hire-purchase assets financing, term loans, Islamic finance, margin trading, share trading, issue of debt instruments, factoring and mobilisation of public deposits.

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SUBSIDIARIES AND ASSOCIATE

| Name of the Company | Principal activities | Country of incorporation | % equity interest | |
|---|---|--------------------------|-------------------|-------|
| | | | 2017 | 2016 |
| Subsidiaries | | | | |
| People's Leasing Fleet Management Limited | Fleet management, vehicle valuation, sale of vehicles, insurance assessment and vehicle repairing. | Sri Lanka | 100 | 100 |
| People's Leasing Property Development Limited | Carrying out a mixed development project and property development activities. | Sri Lanka | 100 | 100 |
| People's Insurance PLC | Carrying out general insurance business | Sri Lanka | 75 | 75 |
| People's Leasing Havelock Properties Limited | Construct and operate an office complex. | Sri Lanka | 100 | 100 |
| People's Microfinance Limited | Providing non-bank financial services to low income earners and micro enterprises. | Sri Lanka | 100 | 100 |
| Associate | | | | |
| People's Merchant Finance PLC | Mobilisation of deposits, providing finance leases, term loans, real estate developments, pawning and related services. | Sri Lanka | 37.06 | 37.06 |

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

Notes to the Financial Statements

2 — BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

The Consolidated Financial Statements of the Group and Separate Financial Statements of the Company, as at 31 March 2017 and for the year then ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- a Statement of Profit or Loss and Statement of Comprehensive Income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 277 to 278);
- a Statement of Financial Position providing the information on the financial position of the Company and the Group as at the year-end (Refer page 279);
- a Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer pages 280 to 281);
- a Statement of Cash Flows providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 282); and
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information (Refer pages 283 to 396).

2.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for preparation and presentation of these Financial Statements of the Company and the Group as per the provisions of the Companies Act No. 07 of 2007 and SLFRSs and LKASs.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors on the Affairs of the Company', "Directors' Responsibility for Financial Reporting" and in the certification on the Statement of Financial Position on pages 224, 271 and 279 respectively.

2.3 APPROVAL OF FINANCIAL STATEMENTS BY THE BOARD OF DIRECTORS

The Financial Statements of the Company and the Group for the year ended 31 March 2017 (including comparatives) were approved and authorised for issue on 19 May 2017 in accordance with the resolution of the Board of Directors on 19 May 2017.

2.4 BASIS OF MEASUREMENT

The Financial Statements of the Company and the Group have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

| Item | Basis of measurement | Note | Page No. |
|---------------------------------------|---|------|----------|
| Financial assets – Held-for-trading | Fair value | 21 | 307 |
| Financial assets – Available-for-sale | Fair value | 24 | 318 |
| Investment property | Fair value | 28 | 325 |
| Derivative financial instruments | Fair value | 36 | 339 |
| Retirement benefit obligation | Liability is recognised as the present value of the retirement benefit obligation, plus actuarial gains and losses. | 40.1 | 348 |

2.5 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Company and the Group in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (Current) and more than 12 months after the reporting date (Non-current) is presented in Note 52 (Current/Non-current analysis). No adjustments have been made for inflationary factors affecting the Financial Statements.

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the Consolidated Statement of Profit or Loss unless required or permitted by any Accounting Standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Notes to the Financial Statements

2.6 FUNCTIONAL AND PRESENTATION CURRENCY

The Financial Statements of the Group and the Company are presented in Sri Lankan Rupees (Rs.), which is the currency of primary economic environment, in which the Group operates (Group functional currency).

The information presented in US Dollars in the Section on 'Supplementary Information' on pages 402 and 404 does not form part of the Financial Statements and is made available solely for the information of stakeholders.

2.7 ROUNDING

The amounts in the Financial Statements have been rounded-off to the nearest rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standard – LKAS 1 – 'Presentation of Financial Statements'.

2.8 MATERIALITY AND AGGREGATION

In compliance with the Sri Lanka Accounting Standard – LKAS 1 – 'Presentation of Financial Statements', each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, unless they are immaterial.

2.9 STATEMENT OF CASH FLOWS

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 – 'Statement of Cash Flows', whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of short-term, highly-liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows are comprised of those items as explained in Notes 47 to 49 on pages 356 to 357.

2.10 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs and LKASs 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. Further, management is also required to consider key assumptions concerning the future and other key sources

of estimation uncertainty at the reporting date that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may differ from these estimates.

Accounting judgments, 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 key significant accounting judgments, estimates and assumptions involving uncertainty are discussed below, whereas the respective carrying amounts of such assets and liabilities are as given in related notes.

GOING CONCERN

The Group's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

IMPAIRMENT ALLOWANCE FOR LOANS AND RECEIVABLES

Details of the 'Impairment Allowance for Loans and Receivables' are given in Note 22.3 to the Financial Statements.

IMPAIRMENT OF AVAILABLE-FOR-SALE ASSETS

Details of the 'Impairment of available-for-sale assets' are given in Note 24 to the Financial Statements.

USEFUL LIFE TIME OF THE PROPERTY, PLANT AND EQUIPMENT

The Group reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

USEFUL LIFE TIME OF THE INTANGIBLE ASSETS

Details of the 'useful life-time of the Intangible Assets' are given in Note 30 to the Financial Statements.

Notes to the Financial Statements

2. BASIS OF PREPARATION AND OTHER SIGNIFICANT ACCOUNTING POLICIES (CONTD.)

TRANSFER PRICING REGULATION

The Company is subject to income taxes and other taxes including transfer pricing regulations. Prevailing uncertainties with respect to the interpretation of respective transfer pricing regulations, necessitated using Management judgment to determine the impact of transfer pricing regulations. Accordingly critical judgments and estimates were used in applying the regulations in aspects including but not limited to identifying associated undertakings, estimation of the respective arm's length prices and selection of appropriate pricing mechanism. The current tax charge is subject to such judgments. Differences between estimated income tax charge and actual payable may arise as a result of Management's interpretation and application of transfer pricing regulation.

DEFERRED TAX LIABILITIES/(ASSETS)

Details of the 'Deferred Tax Liabilities/(Assets)' are given in Note 39 to the Financial Statements.

RETIREMENT BENEFIT OBLIGATION

Details of the 'Retirement Benefit Obligation' are given in Note 40.1 to the Financial Statements.

VALUATION OF GENERAL INSURANCE CONTRACT LIABILITIES OF SUBSIDIARY, PEOPLE'S INSURANCE PLC

The estimates of general insurance contracts have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty. The main assumption underlying estimating the amounts of outstanding claims is the past claims development experience.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjusted estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims, inflation or loss ratios.

2.11 COMPARATIVE INFORMATION

The comparative information is reclassified wherever necessary to conform to the current year's presentation, the details of which are given in Note 56 to the Financial Statements.

3 — GENERAL ACCOUNTING POLICIES

3.1 BASIS OF CONSOLIDATION

The Consolidated Financial Statements comprise of Financial Statements of the Company, its subsidiaries and its associate company for the year ended 31 March 2017. The Financial Statements of the Company's subsidiaries and associate are prepared for the same reporting year except for People's Insurance PLC, a subsidiary of People's Leasing & Finance PLC, whose financial year ends on December 31.

3.1.1 BUSINESS COMBINATION AND GOODWILL

Business combinations are accounted for using the acquisition method as per the requirements of Sri Lanka Accounting Standard – SLFRS 3 – 'Business Combinations'.

The Group and the Company measure goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in Statement of Profit or Loss.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net amount of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Notes to the Financial Statements

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Statement of Profit or Loss.

3.1.2 COMMON CONTROL BUSINESS COMBINATION

Common control business combinations are accounted using the guidelines issued under Statement of Recommended Practice (SoRP) – Merger Accounting for Common Control Business Combinations issued by The Institute of Chartered Accountants of Sri Lanka.

3.1.3 LOSS OF CONTROL

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in Statement of Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee.

3.1.4 TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

3.2 FOREIGN CURRENCY TRANSACTIONS AND BALANCES

All foreign currency transactions are translated into the functional currency which is Sri Lankan Rupees (Rs.) at the spot exchange rate at the date of the transactions were effected. In this regard, the Group's practice is to use the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot rate of exchange at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined.

3.3 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION AND SUBSEQUENT MEASUREMENT

3.3.1 DATE OF RECOGNITION

All financial assets and liabilities except 'regular way trades' are initially recognised on the trade date, i.e., the date that the Group and the Company become a party to the contractual provisions of the instrument. 'Regular way trades' means purchases or sales of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

3.3.2 CLASSIFICATION AND 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. All financial instruments are measured initially at their fair value plus transaction costs that are directly attributable to acquisition or issue of such financial instrument, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement'.

3.3.3 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

At inception a financial asset is classified under one of the following categories:

- (i) Financial assets at fair value through profit or loss (FVTPL);
 - Financial assets – Held-for-trading; or
 - Financial assets – Designated at fair value through profit or loss
- (ii) Financial assets – Loans and receivables (L&R);
- (iii) Financial assets – Held-to-maturity (HTM); or
- (iv) Financial assets – Available-for-sale (AFS).

Notes to the Financial Statements

3. GENERAL ACCOUNTING POLICIES (CONTD.)

The Company and the Group determine the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated (i.e., intention) and based on the Group's ability to hold.

The subsequent measurement of financial assets depends on their classification.

3.3.3.1 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets at fair value through profit or loss include financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss.

Financial Assets – Designated at Fair Value through Profit or Loss

The Group and the Company designate 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 is recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net Gains/(Losses) on Financial Assets – Held-for-trading'. Interest earned is accrued in 'Interest Income' using EIR while dividend income is recorded in 'Other Operating Income' when the right to receive the payment has been established.

3.3.3.2 FINANCIAL ASSETS – LOANS AND RECEIVABLES (L&R)

Details of 'Financial assets – Loans and receivables' are given in Note 22 on pages 310 to 316.

3.3.3.3 FINANCIAL ASSETS – HELD-TO-MATURITY (HTM)

Details of 'Financial assets – Held-to-maturity' are given in Note 25 on page 321.

3.3.3.4 FINANCIAL ASSETS – AVAILABLE-FOR-SALE (AFS)

Details of 'Financial assets – Available-for-sale' are given in Note 24 on pages 318 to 320.

3.3.4 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

At the inception the Group and the Company determine the classification of its financial liabilities. Accordingly financial liabilities are classified as:

- (i) Financial liabilities at fair value through profit or loss (FVTPL)
 - Financial liabilities held-for-trading
 - Financial liabilities designated at fair value through profit or loss
- (ii) Financial liabilities 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 FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, and changes therein recognised in Statement of 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. This category includes derivative Financial Instruments entered into by the Group and the Company that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement'. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognised in the Statement of 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 under 'due to banks', 'due to customers', 'debts Securities issued' and 'other financial liabilities' as appropriate, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another

Notes to the Financial Statements

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 at amortised cost using the EIR method.

After initial recognition, such financial liabilities are substantially measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

The details of the Group's financial liabilities at amortised cost are shown in Note 18 on pages 303 to 305 to the Financial Statements.

3.3.5 RECLASSIFICATION OF FINANCIAL INSTRUMENTS

The Group does not reclassify any financial instrument into the 'fair value through profit or loss' category after initial recognition. Also the Group does not reclassify any financial instrument out of the 'fair value through profit or loss' category if upon initial recognition it was designated as at fair value through profit or loss.

The Group reclassifies non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories as permitted by the Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement'. In certain circumstances the Group is also permitted to reclassify financial assets out of the 'Available-for-sale' category and into the 'Loans and receivables', 'Held-for-trading' or 'Held-to-maturity' category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognised in Equity is amortised to Statement of Profit or Loss over the remaining life of the investment using the effective interest rate (EIR). Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Profit or Loss.

The Group may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of Loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

3.3.6 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

FINANCIAL ASSETS

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset which have expired;
- The Group and the Company has transferred its rights to receive cash flows from the asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either;
- The Group and the Company has transferred substantially all the risks and rewards of the asset; or
- The Group and the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received and any cumulative gain or loss that has been recognised in Statement of Comprehensive Income is recognised in Statement of Profit or Loss.

When the Group and the Company have transferred their rights to receive cash flows from an asset or have entered into a pass-through arrangement, and have neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Notes to the Financial Statements

3. GENERAL ACCOUNTING POLICIES (CONTD.)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in Statement of Profit or Loss.

3.3.7 OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

Income and expenses are presented on a net basis only when permitted under LKAs/SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.3.8 DETERMINATION OF FAIR VALUE

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 51.

3.4 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Group's non-financial assets, other than deferred tax assets are reviewed at each reporting date whether there is an indication that an asset may be

impaired. If any indication exists, or when annual impairment testing of an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share price for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may have decreased. If such indication exists the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in Statement of Profit or Loss.

3.5 PROVISIONS

Provisions are recognised in the Statement of Financial Position when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation in accordance with the Sri Lanka Accounting Standard – LKAS 37 – 'Provision, 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. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

Notes to the Financial Statements

3.6 BORROWING COSTS

As per Sri Lanka Accounting Standard – LKAS 23 – ‘Borrowing Costs’, the Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Statement of Profit or Loss in the period in which they occur.

3.7 FIDUCIARY ASSETS

The Company provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in these Financial Statements as they do not belong to the Company.

3.8 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following Sri Lanka Accounting Standards were issued by The Institute of Chartered Accountants of Sri Lanka but are not yet effective as at 31 March 2017. Accordingly these accounting standards have not been applied in the preparation of the Financial Statements for the year ended 31 March 2017.

SLFRS 9 – FINANCIAL INSTRUMENTS:

In July 2014, The Institute of Chartered Accountants of Sri Lanka issued SLFRS 9 – ‘Financial Instrument’ (On par with International Accounting Standards Board), the Standard that will replace LKAS 39 – ‘Financial Instrument Recognition and Measurement’ for annual periods on or after 1 January 2018, with early adoption permitted. In 2016, the Company set up a multidisciplinary implementation team (‘the Team’) with members from its Risk, Finance and Operations teams to prepare for SLFRS 9 implementation (‘the Project’). The Project is sponsored by the Chief Risk and Financial officers.

The Project has clear individual work streams within two sub-teams for classification and measurement and impairment. The initial assessment and analysis stage was completed for impairment in 2016, and the sub-team is finalising the classification and measurement phase.

The Company performed the diagnostic phase (impact assessment exercise) and Identified following significant changes. Currently, the Company is in the process of developing models/solutions based on the diagnostic findings.

Impairment of Financial Assets

SLFRS 9 will also fundamentally change the loan loss impairment methodology. The Standard will replace LKAS 39’s incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. The Company will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

The impairment methodology under SLFRS 9 requires impairment to be assessed under 3 stages.

Stage 1

Under LKAS 39, the Company has been recording an allowance for Incurred But Not Identified (IBNI) impairment losses. These are designed to reflect impairment losses that had been incurred in the performing portfolio but have not been identified. Under SLFRS 9, the impairment of financial assets that are not considered to have suffered a significant increase in their credit risk will be measured on a 12-month ECL basis.

Stage 2

SLFRS 9 requires financial assets to be classified in Stage 2 when their credit risk has increased significantly since their initial recognition. For these assets, a loss allowance needs to be recognised based on their lifetime ECLs. Since this is a new concept compared to LKAS 39, it will result in increased allowance as most such assets are not considered to be credit-impaired under LKAS 39.

Stage 3

Financial assets will be included in Stage 3 when there is objective evidence that the loan is credit impaired.

Loans in Stage 3, where the Company calculated the LKAS 39 impairment on an individual basis are not expected to be significantly different, but collateral values will be adjusted to reflect the amounts that can be expected to be realised.

Currently, the Bank is in the process of identifying and implementing the most appropriate policy for determining ‘default’, ‘significant increase in Credit Risk’, ‘Exposure at default’ and ‘Credit conversion factors’ that are used to meet the requirements of ECL calculations. This requires alignment of existing credit risk policies with historical data for financial reporting purposes.

Notes to the Financial Statements

3. GENERAL ACCOUNTING POLICIES (CONTD.)

Forward-looking Information

The Company considers forward-looking information such as macroeconomic factors (e.g., unemployment, GDP growth, interest rates and house prices) and economic forecasts. To evaluate a range of possible outcomes, the Company intends to formulate three scenarios: a base case, a worse case and a better case. The base case scenario represents the more likely outcome resulting from the Company's normal financial planning and budgeting process, while the better and worse case scenarios represent more optimistic or pessimistic outcomes. For each scenario, the Company will derive an ECL and apply a probability weighted approach to determine the impairment allowance.

Classification and Measurement

From a classification and measurement perspective, the new standard will require all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The LKAS 39 measurement categories will be replaced by: Fair Value Through Profit or Loss (FVPL), Fair Value Through Other Comprehensive Income (FVOCI) and amortised cost.

The accounting for financial liabilities will largely be the same as the requirements of LKAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL.

SLFRS 15 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of Financial Statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 introduces a five-step approach for revenue recognition from contracts with customers and replaces all other currently applicable revenue Standards and related interpretations.

SLFRS 15 will become effective on 1 January 2018. The impact on the implementation of the above Standard has not been quantified yet.

SLFRS 16 – LEASES

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ('lessee') and the supplier ('lessor'). SLFRS 16 will replace Sri Lanka Accounting Standard – LKAS 17 – 'Leases' and related interpretations. SLFRS 16 introduces a single accounting model for the lessee, eliminating the present classification of leases in LKAS 17 as either operating leases or finance leases.

SLFRS 16 will become effective on 1 January 2019. The impact on the implementation of the above Standard has not been quantified yet.

Notes to the Financial Statements

4 — INCOME

ACCOUNTING POLICY

Income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group and revenue can be reliably measured. The specific recognition criteria, for each type of income are given under the respective income notes.

| For the year ended 31 March | Company | | Group | |
|---|-------------------|-------------------|-------------------|-------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Interest income | 22,041,263 | 17,876,083 | 22,784,273 | 18,301,167 |
| Net earned premium | - | - | 3,694,027 | 3,283,171 |
| Fee and commission income | 1,133,735 | 952,351 | 621,711 | 528,304 |
| Net gains/(losses) on financial assets – Held-for-trading | 8,257 | (40,355) | 43,869 | (71,903) |
| Other operating income | 675,783 | 398,149 | 588,874 | 538,963 |
| Total | 23,859,038 | 19,186,228 | 27,732,754 | 22,579,702 |

5 — NET INTEREST INCOME

ACCOUNTING POLICY

RECOGNITION OF INCOME AND EXPENSES

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

INTEREST INCOME AND EXPENSES

For all financial instruments measured at amortised cost, interest income or expense is recorded using the Effective Interest Rate (EIR). EIR is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities. However, for a reclassified financial asset, for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

INTEREST ON OVERDUE RENTALS

Interests from overdue rentals have been accounted for on a cash received basis.

| For the year ended 31 March | Company | | Group | |
|------------------------------|-------------------|------------------|-------------------|-------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Interest income (Note 5.1) | 22,041,263 | 17,876,083 | 22,784,273 | 18,301,167 |
| Interest expenses (Note 5.2) | 11,829,601 | 7,941,063 | 11,819,756 | 8,006,050 |
| Net interest income | 10,211,662 | 9,935,020 | 10,964,517 | 10,295,117 |

Notes to the Financial Statements

5. NET INTEREST INCOME (CONTD.)

5.1 INTEREST INCOME

| For the year ended 31 March | Company | | Group | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Cash and cash equivalents | 177,077 | 81,353 | 206,825 | 103,806 |
| Balances with banks and financial institutions | 22,342 | 15,732 | 177,771 | 125,350 |
| Loans and receivables | 21,350,366 | 17,426,756 | 21,786,593 | 17,642,738 |
| Finance lease and hire purchase | 11,308,557 | 11,165,776 | 11,658,894 | 11,304,619 |
| Loans and other advances | 7,191,468 | 3,698,894 | 7,241,826 | 3,759,301 |
| Interest on overdue rentals | 1,678,939 | 1,723,466 | 1,714,471 | 1,740,198 |
| Profit from Islamic finance | 1,171,402 | 838,620 | 1,171,402 | 838,620 |
| Financial assets – Available-for-sale | - | - | 121,606 | 77,031 |
| Financial assets – Held-to-maturity | 491,478 | 352,242 | 491,478 | 352,242 |
| Total interest income | 22,041,263 | 17,876,083 | 22,784,273 | 18,301,167 |

5.2 INTEREST EXPENSES

| For the year ended 31 March | Company | | Group | |
|--------------------------------|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Due to banks | 3,657,065 | 2,176,327 | 3,687,414 | 2,266,710 |
| Due to customers | 4,008,133 | 2,772,645 | 3,984,773 | 2,764,221 |
| Debt securities issued | 4,164,403 | 2,992,091 | 4,147,569 | 2,975,119 |
| Total interest expenses | 11,829,601 | 7,941,063 | 11,819,756 | 8,006,050 |

6 — NET EARNED PREMIUM

ACCOUNTING POLICY

INSURANCE – REVENUE RECOGNITION GROSS WRITTEN PREMIUM

Non-life insurance gross written premium comprises total premiums receivable for the whole period of cover, provided by contracts entered into during the accounting period and are recognised on the date on which the policy commences.

REINSURANCE PREMIUM

Non-life gross reinsurance premium written comprises the total premium payable for the whole cover, provided by contracts entered into the period and are recognised on the date on which the policy incepts. Premium includes any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Notes to the Financial Statements

UNEARNED PREMIUM RESERVE

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 365 basis.

UNEARNED REINSURANCE PREMIUM RESERVE

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premium is deferred over the term of the underlying direct insurance policies.

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Gross written premium | - | - | 4,323,393 | 3,814,116 |
| Less: Premium ceded to reinsurance | - | - | 368,456 | 305,488 |
| Less: Net change in unearned premium reserve | - | - | 260,910 | 225,457 |
| Total | - | - | 3,694,027 | 3,283,171 |

7 — FEE AND COMMISSION INCOME

ACCOUNTING POLICY

FEE AND COMMISSION INCOME

The Group earns fee and commission income from a diverse range of services it provides to its customers. Commission income is recognised on accrual basis. Fee income can be divided into the following two categories:

FEE INCOME EARNED FROM SERVICES THAT ARE PROVIDED OVER A CERTAIN PERIOD OF TIME

Fees earned for the provision of services over a period of time are accrued over that period.

FEE INCOME FROM PROVIDING TRANSACTION SERVICES

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the documents and inspection of vehicle are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

| For the year ended 31 March | Company | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Service charges | 497,632 | 476,437 | 136,657 | 139,883 |
| Other fees and commission | 636,103 | 475,914 | 485,054 | 388,421 |
| Total | 1,133,735 | 952,351 | 621,711 | 528,304 |

Notes to the Financial Statements

8 — NET GAINS/(LOSSES) ON FINANCIAL ASSETS – HELD-FOR-TRADING

ACCOUNTING POLICY

This comprise all gains and losses from changes in fair value including realised and unrealised fair value changes for financial assets – 'Held-for-trading'.

| For the year ended 31 March | Company | | Group | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Net mark-to-market (losses)/gain | (1,616) | (47,691) | 17,394 | (93,922) |
| Net capital gains | 9,873 | 7,336 | 26,475 | 22,019 |
| Total | 8,257 | (40,355) | 43,869 | (71,903) |

9 — OTHER OPERATING INCOME

ACCOUNTING POLICY

Other operating income includes gains on property, plant and equipment, hiring income, rent income and dividend income.

DIVIDEND INCOME

Dividend income is recognised when the right to receive the payment is established.

NET TRADING INCOME FROM SALE OF VEHICLES

Revenue from the sale of imported vehicles is recognised when the significant risks and rewards of ownership of the vehicles have been transferred to the buyer, usually on dispatch of the vehicles.

OPERATING LEASE INCOME

Income arising on operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the Statement of Profit or Loss in other operating income.

BAD DEBTS RECOVERED

Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

GAINS OR LOSSES ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

Gains or losses resulting from the disposal of property, plant and equipment are accounted for on cash basis in the Statement of Profit or Loss, in the period in which the sale occurs.

OTHER INCOME

Other income is recognised on an accrual basis.

Notes to the Financial Statements

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Gain on sale of property, plant and equipment | 40,705 | 5,699 | 40,705 | 5,699 |
| Hiring income | - | - | 71,188 | 61,830 |
| Operating leases income | 5,671 | 14,088 | 11,951 | 14,794 |
| Bad debts recovered | 190,204 | 160,298 | 190,204 | 160,298 |
| Net trading income from sale of vehicles | 4,358 | 1,913 | 4,358 | 1,913 |
| Dividend income from – Financial assets available-for-sale | 10,881 | 21,754 | 10,881 | 21,754 |
| – Subsidiaries | 371,890 | 139,677 | - | - |
| – Financial assets Held-for-trading | 17,083 | 7,298 | 40,745 | 27,294 |
| Recycling gain on financial assets – Available-for-sale (Note 24.2) | - | 24,565 | - | 24,565 |
| Other income | 34,991 | 22,857 | 218,842 | 220,816 |
| Total | 675,783 | 398,149 | 588,874 | 538,963 |

10 – IMPAIRMENT CHARGES FOR LOANS AND RECEIVABLES AND OTHER LOSSES

ACCOUNTING POLICY

The Company and the Group recognise the changes in the impairment provisions for loans and receivables which are assessed as per the Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments – Recognition and Measurement'. The methodology adopted by the Company and the Group is explained in Note 22.3 to these Financial Statements.

LOSS ON DISPOSAL OF COLLATERALS INCLUDING WRITE-OFFS

Loans and receivables (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans and receivables are secured, this is generally after receipt of any proceeds from the realisation of security.

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Impairment on loans and receivables | | | | |
| Individual impairment | 89,968 | (231,332) | 100,811 | (231,332) |
| Collective impairment | (21,229) | (312,622) | 32,327 | (280,736) |
| Loss on disposal of collaterals including write-offs | 147,026 | 802,304 | 149,681 | 802,771 |
| Total | 215,765 | 258,350 | 282,819 | 290,703 |

Notes to the Financial Statements

11 – PERSONNEL EXPENSES

ACCOUNTING POLICY

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

Employees are eligible for Employees' Provident Fund (EPF) contribution and Employees' Trust Fund (ETF) contribution in accordance with the respective statutes and regulations.

Retirement benefit obligation is recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability in accordance with Sri Lanka Accounting Standard – LKAS 19 – 'Employee Benefits'.

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Remuneration | 2,315,180 | 1,637,318 | 2,693,152 | 1,876,751 |
| Employee benefit – Defined contribution plans (EPF/ETF) | 176,328 | 118,515 | 205,918 | 138,607 |
| Employee benefit – Retirement benefit obligation – Gratuity (Note 40.1.2) | 64,734 | 51,184 | 72,109 | 55,194 |
| Total | 2,556,242 | 1,807,017 | 2,971,179 | 2,070,552 |

12 – BENEFITS, CLAIMS AND UNDERWRITING EXPENDITURE

ACCOUNTING POLICY

INSURANCE – BENEFITS, CLAIMS AND EXPENSES RECOGNITION GROSS BENEFITS AND CLAIMS

Gross benefits and claims for non-life insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claim. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

REINSURANCE CLAIMS

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Net benefits and claims | - | - | 2,198,836 | 1,899,755 |
| Underwritings and net acquisition costs | - | - | 384,976 | 350,023 |
| Total | - | - | 2,583,812 | 2,249,778 |

Notes to the Financial Statements

13 — OTHER OPERATING EXPENSES

ACCOUNTING POLICY

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at the profit for the year.

CROP INSURANCE LEVY (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Directors' emoluments | 4,840 | 3,015 | 6,202 | 4,093 |
| Auditors' remunerations | 4,968 | 4,660 | 8,367 | 7,719 |
| Non-audit fees to Auditors | 3,502 | 4,859 | 4,510 | 7,000 |
| Professional fees | 15,775 | 27,785 | 17,937 | 32,892 |
| Advertising expenses | 37,800 | 23,361 | 40,463 | 26,341 |
| Legal fees | 4,502 | 9,314 | 4,502 | 10,156 |
| Office administration and establishment expenses | 2,599,381 | 2,097,239 | 2,614,273 | 2,162,850 |
| Total | 2,670,768 | 2,170,233 | 2,696,254 | 2,251,051 |

14 — VAT AND NBT ON FINANCIAL SERVICES

ACCOUNTING POLICY

VAT ON FINANCIAL SERVICES

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before income tax and emoluments payable. Emoluments payable include cash benefits, non-cash benefits including terminal benefits.

NBT ON FINANCIAL SERVICES

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No. 9 of 2009 and subsequent amendments thereto with effect from 1 January 2014. NBT on financial services is calculated at 2% of the value addition used for the purpose of VAT on financial services.

| For the year ended 31 March | Company | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| VAT on financial services | 797,080 | 546,036 | 817,723 | 559,964 |
| NBT on financial services | 126,695 | 110,217 | 126,695 | 110,217 |
| Total | 923,775 | 656,253 | 944,418 | 670,181 |

Notes to the Financial Statements

15 — INCOME TAX EXPENSE

ACCOUNTING POLICY

CURRENT TAX

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto at the rates specified below:

| Company | Tax rate | |
|---|---------------|-------------|
| | 2017 (%) | 2016 (%) |
| People's Leasing & Finance PLC | 28 | 28 |
| People's Leasing Fleet Management Limited | 28 | 28 |
| People's Microfinance Limited | 28 | 28 |
| People's Insurance PLC | 14 | 28 |
| People's Leasing Property Development Limited | 10/28 | Exempt/28 |
| People's Leasing Havelock Properties Limited | Exempt | Exempt |

PEOPLE'S INSURANCE PLC

According to the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto, any company which is liable to pay income tax at the rate of 28%, lists its shares on the Colombo Stock Exchange (CSE) by way of a minimum Initial Public Offering (IPO) through which not less than 20% of its shares is issued to the general public on or before 1 April 2017, the income tax rate will be reduced by 50% for the year of assessment in which, the such shares are listed and for another two years of assessment, provided that such company after listing continues to maintain a minimum public float of 20%.

Accordingly, 25% of the shares of the Company was offered and issued to the general public by way of an IPO in December 2015 and shares of the Company were listed on the CSE in January 2016. As at 31 December 2016, the public float of the Company's shares was 24.94% while the Company was liable for income tax at 28% (before the tax reduction). Hence, the Company was considered eligible for the 50% tax reduction as per the said Act, during the reporting period and income tax was calculated at 14% (2016 – 28%).

PEOPLE'S LEASING PROPERTY DEVELOPMENT LIMITED

Pursuant to the agreement dated 3 December 2008, entered into by People's Leasing Property Development Limited with the Board of Investment, under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years, reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations, whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years, immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate, after the expiration of the 10% concessionary tax period. Non-BOI income is liable for normal rate of 28%.

Notes to the Financial Statements

PEOPLE'S LEASING HAVELOCK PROPERTIES LIMITED

Pursuant to the agreement dated 16 December 2010, entered into by People's Leasing Havelock Properties Limited with the Board of Investment, under Section 17 of the Board of Investment Law, for the business of setting up and operating a mixed development project, the Inland Revenue Act relating to the imposition, payment and recovery of income tax shall not apply for a period of five years, reckoned from the year in which the Company makes profit or any year of assessment not later than two years reckoned from the date of commencement of its commercial operations, whichever is earliest. The Company is eligible for a 10% concessionary tax rate for a period of 2 years, immediately succeeding the last date of tax exemption period and a 20% concessionary tax rate, after the expiration of the 10% concessionary tax period.

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Statement of Profit or Loss | | | | |
| Current income tax charge | 1,359,096 | 1,917,826 | 1,527,554 | 2,094,087 |
| Deferred tax (reversal)/charge for the year (Note 39.1) | 107,544 | (122,092) | 115,063 | (128,726) |
| Income tax expense recognised in Statement of Profit or Loss | 1,466,640 | 1,795,734 | 1,642,617 | 1,965,361 |
| Statement of Comprehensive Income | | | | |
| Deferred tax charge for the year (Note 39.1) | 6,270 | 5,501 | 6,493 | 6,968 |
| Income tax charge recognised in Statement of Comprehensive Income | 6,270 | 5,501 | 6,493 | 6,968 |
| Effective tax rate (excluding deferred tax) (%) | 24.82 | 31.22 | 24.8 | 31.06 |
| Effective tax rate (%) | 26.78 | 29.23 | 26.67 | 29.15 |

15.1 RECONCILIATION OF ACCOUNTING PROFIT AND TAXABLE INCOME

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Profit as per Statement of Profit or Loss | 5,475,894 | 6,143,088 | 6,158,108 | 6,743,077 |
| Add: Disallowable expenses | 1,568,676 | 1,601,843 | 1,755,107 | 1,730,012 |
| Add: Lease capital recoverable | 23,267,266 | 19,835,681 | 23,267,266 | 19,835,681 |
| Less: Allowable expenses | 24,264,890 | 20,475,237 | 24,323,423 | 20,520,898 |
| Less: Exempted/allowable income | 431,150 | 128,513 | 589,490 | 170,855 |
| Statutory income | 5,615,796 | 6,976,862 | 6,267,568 | 7,617,017 |
| Less: Tax loss set off (Note 15.2) | - | - | 13,492 | 7,765 |
| Assessable income | 5,615,796 | 6,976,862 | 6,254,076 | 7,609,252 |
| Taxable income | 5,615,796 | 6,976,862 | 6,254,076 | 7,609,252 |
| At the effective income tax rate | 1,571,525 | 1,953,522 | 1,736,140 | 2,130,591 |
| (Over) provision – previous years | (212,429) | (35,696) | (208,586) | (36,504) |
| Current tax on profits for the year | 1,359,096 | 1,917,826 | 1,527,554 | 2,094,087 |
| Deferred tax charged/(reversal) for the year | 107,544 | (122,092) | 115,063 | (128,726) |
| Tax expense for the year | 1,466,640 | 1,795,734 | 1,642,617 | 1,965,361 |

Notes to the Financial Statements

15. INCOME TAX EXPENSE (CONTD.)

15.2 TAX LOSSES BROUGHT FORWARD AND UTILISED DURING THE YEAR

| For the year ended 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Tax losses brought forward | - | - | 13,733 | 21,498 |
| Tax losses utilised during the year | - | - | (13,492) | (7,765) |
| Tax losses not utilised and carried forward | - | - | 241 | 13,733 |

16 — BASIC EARNINGS PER ORDINARY SHARE (EPS)

ACCOUNTING POLICY

Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company 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 potentially dilutive ordinary shares.

Basic earnings per share is calculated by dividing the net profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, as per Sri Lanka Accounting Standard – LKAS 33 – 'Earnings per share'.

| For the year ended 31 March | Group | |
|--|----------------------|---------------|
| | 2017 | 2016 |
| Profit attributable to equity holders of the Company (Rs.) | 4,255,132,605 | 4,708,129,507 |
| Weighted average number of ordinary shares | 1,579,862,482 | 1,579,862,482 |
| Basic earnings per ordinary share (Rs.) | 2.69 | 2.98 |

17 — DIVIDEND PER ORDINARY SHARE

| For the year ended 31 March | Company | |
|--|----------------------|---------------|
| | 2017 | 2016 |
| Ordinary shares | | |
| Out of dividend received (Rs.) | 244,088,046 | 257,490,624 |
| Out of normal profits (Rs.) | 1,558,236,718 | 1,546,132,866 |
| Withholding tax deducted at source (Rs.) | 172,503,339 | 171,204,613 |
| Cash dividend paid (Rs.) | 1,974,828,103 | 1,974,828,103 |
| Weighted average number of ordinary shares | 1,579,862,482 | 1,579,862,482 |
| Dividend per ordinary share (Rs.) | 1.25 | 1.25 |

Notes to the Financial Statements

A final dividend of Rs. 0.50 per share was paid for the year 2015/16 in July 2016. An interim dividend of Rs. 0.75 per share was paid in January 2017 to the ordinary shareholders of the Company for the year 2016/17 (interim dividend 2015/16 – Rs. 0.75). A final dividend of Rs. 0.50 per share has been proposed by the Board of Directors for the year 2016/17 to be approved at the Annual General Meeting. However, no provision is made for this proposed dividend in these Financial Statements in accordance with Sri Lanka Accounting Standard – LKAS 10 – ‘Events after the Reporting Period’.

18 – ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

ACCOUNTING POLICY

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in Sri Lanka Accounting Standard – LKAS 39 – ‘Financial Instruments: Recognition and Measurement’ under the headings of the Statement of Financial Position.

18.1 COMPANY

| As at 31 March 2017 | FVTPL Rs. '000 | HTM Rs. '000 | L & R Rs. '000 | AFS Rs. '000 | Total Rs. '000 |
|--|-------------------|------------------|--------------------|-----------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | - | 5,591,170 | - | 5,591,170 |
| Balances with banks and financial institutions | - | - | 2,089,989 | - | 2,089,989 |
| Financial assets – Held-for-trading | 201,215 | - | - | - | 201,215 |
| Loans and receivables | - | - | 134,054,702 | - | 134,054,702 |
| Financial assets – Available-for-sale | - | - | - | 275,703 | 275,703 |
| Financial assets – Held-to-maturity | - | 2,968,042 | - | - | 2,968,042 |
| Other financial assets | - | - | 121,615 | - | 121,615 |
| Total financial assets | 201,215 | 2,968,042 | 141,857,476 | 275,703 | 145,302,436 |

| As at 31 March 2017 | FVTPL Rs. '000 | Other amortised cost Rs. '000 | Total Rs. '000 |
|------------------------------------|-------------------|----------------------------------|--------------------|
| Liabilities | | | |
| Due to banks | - | 35,584,408 | 35,584,408 |
| Due to customers | - | 44,722,552 | 44,722,552 |
| Debt securities issued | - | 38,673,277 | 38,673,277 |
| Other financial liabilities | - | 2,725,166 | 2,725,166 |
| Derivative financial instruments | 8,363 | - | 8,363 |
| Total financial liabilities | 8,363 | 121,705,403 | 121,713,766 |

Notes to the Financial Statements

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

18.2 COMPANY

| As at 31 March 2016 | FVTPL Rs. '000 | HTM Rs. '000 | L & R Rs. '000 | AFS Rs. '000 | Total Rs. '000 |
|--|-------------------|------------------|--------------------|-----------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | - | 3,206,733 | - | 3,206,733 |
| Balances with banks and financial institutions | - | - | 847,448 | - | 847,448 |
| Financial assets – Held-for-trading | 211,651 | - | - | - | 211,651 |
| Loans and receivables | - | - | 109,872,415 | - | 109,872,415 |
| Financial assets – Available-for-sale | - | - | - | 500,357 | 500,357 |
| Financial assets – Held-to-maturity | - | 4,930,236 | - | - | 4,930,236 |
| Other financial assets | - | - | 132,779 | - | 132,779 |
| Total financial assets | 211,651 | 4,930,236 | 114,059,375 | 500,357 | 119,701,619 |

| As at 31 March 2016 | FVTPL Rs. '000 | Other amortised cost Rs. '000 | Total Rs. '000 |
|------------------------------------|-------------------|----------------------------------|-------------------|
| Liabilities | | | |
| Due to banks | - | 26,431,628 | 26,431,628 |
| Due to customers | - | 33,836,428 | 33,836,428 |
| Debt securities issued | - | 34,387,677 | 34,387,677 |
| Other financial liabilities | - | 2,730,484 | 2,730,484 |
| Total financial liabilities | - | 97,386,217 | 97,386,217 |

18.3 GROUP

| As at 31 March 2017 | FVTPL Rs. '000 | HTM Rs. '000 | L & R Rs. '000 | AFS Rs. '000 | Total Rs. '000 |
|--|-------------------|------------------|--------------------|------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | - | 6,379,909 | - | 6,379,909 |
| Balances with banks and financial institutions | - | - | 3,789,047 | - | 3,789,047 |
| Financial assets – Held-for-trading | 529,301 | - | - | - | 529,301 |
| Loans and receivables | - | - | 135,469,783 | - | 135,469,783 |
| Insurance and reinsurance receivables | - | - | 267,523 | - | 267,523 |
| Financial assets – Available-for-sale | - | - | - | 1,094,569 | 1,094,569 |
| Financial assets – Held-to-maturity | - | 2,968,042 | - | - | 2,968,042 |
| Total financial assets | 529,301 | 2,968,042 | 145,906,262 | 1,094,569 | 150,498,174 |

Notes to the Financial Statements

| As at 31 March 2017 | FVTPL Rs. '000 | Other amortised cost Rs. '000 | Total Rs. '000 |
|---|-------------------|----------------------------------|--------------------|
| Liabilities | | | |
| Due to banks | - | 37,085,398 | 37,085,398 |
| Due to customers | - | 44,465,568 | 44,465,568 |
| Debt securities issued | - | 38,569,262 | 38,569,262 |
| Other financial liabilities | - | 2,563,187 | 2,563,187 |
| Derivative financial instruments | 8,363 | - | 8,363 |
| Insurance liabilities and reinsurance payable | - | 55,879 | 55,879 |
| Total financial liabilities | 8,363 | 122,739,294 | 122,747,657 |

18.4 GROUP

| As at 31 March 2016 | FVTPL Rs. '000 | HTM Rs. '000 | L & R Rs. '000 | AFS Rs. '000 | Total Rs. '000 |
|--|-------------------|------------------|--------------------|------------------|--------------------|
| Assets | | | | | |
| Cash and cash equivalents | - | - | 3,555,643 | - | 3,555,643 |
| Balances with banks and financial institutions | - | - | 2,543,016 | - | 2,543,016 |
| Financial assets – Held-for-trading | 527,438 | - | - | - | 527,438 |
| Loans and receivables | - | - | 111,156,437 | - | 111,156,437 |
| Insurance and reinsurance receivables | - | - | 206,303 | - | 206,303 |
| Financial assets – Available-for-sale | - | - | - | 1,739,956 | 1,739,956 |
| Financial assets – Held-to-maturity | - | 4,930,236 | - | - | 4,930,236 |
| Total financial assets | 527,438 | 4,930,236 | 117,461,399 | 1,739,956 | 124,659,029 |

| As at 31 March 2016 | FVTPL Rs. '000 | Other amortised cost Rs. '000 | Total Rs. '000 |
|---|-------------------|----------------------------------|-------------------|
| Liabilities | | | |
| Due to banks | - | 28,059,677 | 28,059,677 |
| Due to customers | - | 33,677,260 | 33,677,260 |
| Debt securities issued | - | 34,283,621 | 34,283,621 |
| Other financial liabilities | - | 2,888,399 | 2,888,399 |
| Insurance liabilities and reinsurance payable | - | 44,333 | 44,333 |
| Total financial liabilities | - | 98,953,290 | 98,953,290 |

FVTPL: Fair value through profit or loss HTM: Held-to-maturity L & R: Loans and receivables AFS: Available-for-sale

Notes to the Financial Statements

19 — CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents include cash in hand, placements with banks and loans at call and at short notice that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short-term commitments. They are brought to Financial Statements at their face values or the gross values, where appropriate. There were no cash and cash equivalents held by the Group companies that were not available for use by the Group.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Securities purchased under agreements to re-sell at a specified future date are recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash and cash equivalents', reflecting the transaction's economic substance as a loan provided by the Company and the Group. The difference between the purchase and resale prices is recorded in 'Interest income' and is accrued over the life of the agreement using the EIR.

| As at 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Cash in hand | 533,166 | 416,678 | 547,300 | 437,047 |
| Balance with banks | 2,544,977 | 1,214,843 | 2,796,563 | 1,367,925 |
| Local banks | 1,383,588 | 1,214,843 | 1,635,174 | 1,367,925 |
| Foreign banks (Note 19.1) | 1,161,389 | – | 1,161,389 | – |
| Savings Accounts with banks | 57,528 | 54,375 | 57,554 | 54,429 |
| Savings deposits in foreign currency | 5,928 | 8,701 | 5,928 | 8,701 |
| Securities under reverse repurchase agreements | 2,449,571 | 1,512,136 | 2,972,564 | 1,687,541 |
| Total | 5,591,170 | 3,206,733 | 6,379,909 | 3,555,643 |

19.1 FOREIGN BANKS

The above balance represents Rs. 1,161 million (Taka 614 million) transferred to a Bangladesh Bank with the intention of investing in the Joint Venture with Alliance Leasing and Finance Company Limited in Bangladesh.

Notes to the Financial Statements

20 — BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

ACCOUNTING POLICY

Balances with banks and financial institutions include fixed deposits and deposits in foreign currency.

Balances with banks and financial institutions are carried at amortised cost in the Statement of Financial Position.

| As at 31 March | Company | | Group | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Fixed deposits | | | | |
| Local currency | 2,089,989 | 339,642 | 3,778,347 | 2,031,330 |
| Foreign currency | - | 507,806 | 10,700 | 511,686 |
| Total | 2,089,989 | 847,448 | 3,789,047 | 2,543,016 |

21 — FINANCIAL ASSETS – HELD-FOR-TRADING

ACCOUNTING POLICY

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 'Net Gains/(Losses) on Financial Assets – Held-for-trading' and dividend income is recorded in 'Other operating income' according to the terms of the contract or when the right to receive the payment has been established.

Financial assets held-for-trading include quoted equity securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

| As at 31 March | Company | | Group | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Quoted equity securities (Note 21.1) | 201,215 | 211,651 | 529,301 | 527,438 |
| Total | 201,215 | 211,651 | 529,301 | 527,438 |

Notes to the Financial Statements

21. FINANCIAL ASSETS – HELD-FOR-TRADING (CONTD.)

21.1 QUOTED EQUITY SECURITIES

COMPANY

| As at 31 March | 2017 | | | 2016 | | |
|---|---------------|---------------------|-----------------------|---------------|---------------------|-----------------------|
| | No. of Shares | Total Cost Rs. '000 | Market Value Rs. '000 | No. of Shares | Total Cost Rs. '000 | Market Value Rs. '000 |
| Bank, Finance & Insurance | | | | | | |
| Nations Trust Bank PLC | 392,871 | 25,877 | 29,072 | 392,871 | 25,877 | 29,151 |
| Commercial Bank of Ceylon PLC – Voting | 218,084 | 21,771 | 28,438 | 215,372 | 21,418 | 27,029 |
| Commercial Bank of Ceylon PLC – Non-voting | 108,053 | 9,197 | 11,140 | 106,374 | 9,024 | 12,020 |
| Sampath Bank PLC – Voting | 130,752 | 25,655 | 33,865 | 124,285 | 24,086 | 28,088 |
| Hatton National Bank PLC – Non-voting | 10,523 | 1,260 | 1,947 | 10,360 | 1,230 | 1,772 |
| Seylan Bank PLC – Voting | 76,549 | 5,912 | 6,660 | 75,000 | 5,777 | 6,450 |
| Seylan Bank PLC – Non-voting | 170,721 | 5,605 | 9,338 | 165,000 | 5,292 | 10,395 |
| Diversified Holdings | | | | | | |
| Aitken Spence PLC | 82,800 | 16,287 | 4,653 | 82,800 | 16,287 | 6,086 |
| John Keells Holdings PLC | 363,010 | 64,713 | 50,060 | 317,635 | 58,587 | 47,010 |
| John Keells Holdings PLC – Warrants | - | - | - | 3,515 | 222 | 33 |
| Hemas Holdings PLC | - | - | - | 75,000 | 6,446 | 6,045 |
| Melstacorp Limited | 200,000 | 6,067 | 11,840 | 100,000 | 12,133 | 20,620 |
| Hayleys PLC | 3,800 | 1,249 | 1,007 | 3,800 | 1,249 | 934 |
| Vallibel One PLC | 350,000 | 8,769 | 6,125 | 350,000 | 8,769 | 6,230 |
| Manufacturing | | | | | | |
| Tokyo Cement Company (Lanka) PLC – Non-voting | 110,000 | 4,650 | 5,830 | 110,000 | 4,650 | 3,553 |
| Textured Jersey Lanka PLC | - | - | - | 150,000 | 4,784 | 4,755 |
| Hotels & Travels | | | | | | |
| John Keells Hotels PLC | 100,000 | 2,001 | 1,000 | 100,000 | 2,001 | 1,200 |
| Power & Energy | | | | | | |
| Mackwoods Energy PLC | 100,000 | 1,400 | 240 | 100,000 | 1,400 | 280 |
| | | 200,413 | 201,215 | | 209,232 | 211,651 |

Notes to the Financial Statements

GROUP

| As at 31 March | 2017 | | | 2016 | | |
|---|---------------|---------------------|-----------------------|---------------|---------------------|-----------------------|
| | No. of Shares | Total Cost Rs. '000 | Market Value Rs. '000 | No. of Shares | Total Cost Rs. '000 | Market Value Rs. '000 |
| Bank, Finance & Insurance | | | | | | |
| Nations Trust Bank PLC | 392,871 | 25,877 | 29,072 | 392,871 | 25,877 | 29,151 |
| Commercial Bank of Ceylon PLC – Voting | 425,715 | 43,276 | 55,513 | 420,056 | 42,554 | 52,717 |
| Commercial Bank of Ceylon PLC – Non-voting | 171,812 | 14,405 | 17,714 | 169,116 | 14,119 | 19,110 |
| Sampath Bank PLC – Voting | 857,807 | 190,962 | 222,173 | 797,150 | 176,416 | 180,155 |
| Hatton National Bank PLC – Non-voting | 112,263 | 12,396 | 20,769 | 110,360 | 12,051 | 18,872 |
| National Development Bank PLC | 63,176 | 9,006 | 8,819 | 60,855 | 8,651 | 10,272 |
| Seylan Bank PLC – Voting | 76,549 | 5,912 | 6,660 | 75,000 | 5,777 | 6,450 |
| Seylan Bank PLC – Non-voting | 170,721 | 5,605 | 9,338 | 165,000 | 5,292 | 10,395 |
| Diversified Holdings | | | | | | |
| Aitken Spence PLC | 82,800 | 16,287 | 4,653 | 82,800 | 16,287 | 6,086 |
| John Keells Holdings PLC | 701,082 | 117,898 | 96,679 | 613,448 | 111,773 | 90,789 |
| John Keells Holdings PLC – Warrants | - | - | - | 3,515 | 222 | 33 |
| Hemas Holdings PLC | - | - | - | 183,335 | 15,265 | 14,777 |
| Melstacorp Limited | 400,000 | 12,837 | 23,680 | 200,000 | 24,133 | 41,240 |
| Hayleys PLC | 3,800 | 1,249 | 1,007 | 3,800 | 1,249 | 934 |
| Vallibel One PLC | 350,000 | 8,769 | 6,125 | 350,000 | 8,769 | 6,230 |
| Sunshine Holdings PLC | 50,000 | 2,775 | 2,305 | - | - | - |
| Chemicals & Pharmaceuticals | | | | | | |
| CIC Holdings PLC – Non-voting | 87,000 | 6,740 | 5,429 | 50,000 | 4,250 | 4,775 |
| Manufacturing | | | | | | |
| Tokyo Cement Company (Lanka) PLC – Non-voting | 110,000 | 4,650 | 5,830 | 110,000 | 4,650 | 3,553 |
| Textured Jersey Lanka PLC | 99,000 | 4,065 | 3,663 | 275,000 | 8,616 | 8,718 |
| Kelani Cables PLC | 20,000 | 2,522 | 2,350 | 35,000 | 4,446 | 3,938 |
| Hotels & Travels | | | | | | |
| John Keells Hotels PLC | 100,000 | 2,001 | 1,000 | 100,000 | 2,001 | 1,200 |
| Motors | | | | | | |
| United Motors Lanka PLC | 50,000 | 5,000 | 3,900 | 50,000 | 5,000 | 4,150 |
| Power & Energy | | | | | | |
| Mackwoods Energy PLC | 100,000 | 1,400 | 240 | 100,000 | 1,400 | 280 |
| Land & Property | | | | | | |
| Overseas Realty (Ceylon) PLC | 101,594 | 2,257 | 2,052 | - | - | - |
| Plantation | | | | | | |
| Horana Plantations PLC | 20,000 | 768 | 330 | 20,000 | 768 | 338 |
| Pharmaceutical & Healthcare | | | | | | |
| Asiri Hospital Holdings PLC | - | - | - | 500,000 | 11,260 | 12,000 |
| The Lanka Hospital Corporation PLC | - | - | - | 25,000 | 1,363 | 1,275 |
| | | 496,657 | 529,301 | | 512,189 | 527,438 |

Notes to the Financial Statements

22 — LOANS AND RECEIVABLES

ACCOUNTING POLICY

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 and the Company intend 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 and the Company, upon initial recognition, designate as available-for-sale; or
- Those for which the Group and the Company may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Loans and receivables' are subsequently measured at amortised cost using the effective interest rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognised in 'impairment (charge)/reversal on loans and receivables' in the Statement of Profit or Loss.

LEASE RECEIVABLES

When the Group and the Company are the lessor in a lease agreement, that transfers substantially all risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease. Amounts receivable under finance leases, net of initial rentals received, unearned lease income and provision for impairment, are classified as lease receivable and are presented within 'Loans and receivables to customers' in the Statement of Financial Position.

All other leases are classified as operating leases as required. When acting as lessor, the Group and the Company include the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

'DAY 1' DIFFERENCE FOR STAFF LOANS

All staff loans granted at below market interest rates were recognised at fair value. The difference between the fair value and the amount disbursed were treated as 'Day 1' difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans were subsequently measured at amortised costs.

RENEGOTIATED LOANS AND RECEIVABLES

Where possible, the Group and the Company seek to restructure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans and receivables to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to any criteria are met and that future payments are likely to occur. The loans and receivables continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Notes to the Financial Statements

REVERSALS OF IMPAIRMENT

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the Statement of Profit or Loss.

| As at 31 March | Company | | Group | |
|---|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Gross loans and receivables (Note 22.1.1) | 135,704,299 | 111,453,273 | 137,260,648 | 112,814,164 |
| Less: | | | | |
| Individual impairment charges (Note 22.4) | 231,999 | 142,031 | 242,842 | 142,031 |
| Collective impairment charges (Note 22.4) | 1,417,598 | 1,438,827 | 1,548,023 | 1,515,696 |
| Net loans and receivables | 134,054,702 | 109,872,415 | 135,469,783 | 111,156,437 |

22.1 ANALYSIS

22.1.1 ANALYSIS BY PRODUCT

| As at 31 March | Company | | Group | |
|---|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| By product | | | | |
| Lease/Ijarah receivables | 77,259,155 | 64,222,886 | 77,253,372 | 64,222,886 |
| Hire-purchase/Murabaha receivables | 5,070,292 | 11,343,420 | 6,310,400 | 12,226,642 |
| Term loans | 49,286,597 | 32,562,690 | 48,814,577 | 32,729,938 |
| Staff loans | 459,685 | 458,001 | 499,390 | 494,014 |
| Related party receivables (Note 22.1.1.1) | 962,219 | 1,094,771 | 25,160 | 19,519 |
| Debentures | - | - | 1,691,398 | 1,349,660 |
| Margin trading receivables | 1,772,360 | 1,594,022 | 1,772,360 | 1,594,022 |
| Factoring receivables | 893,991 | 177,483 | 893,991 | 177,483 |
| Gross total | 135,704,299 | 111,453,273 | 137,260,648 | 112,814,164 |

Notes to the Financial Statements

22. LOANS AND RECEIVABLES (CONTD.)

22.1.1.1 RELATED PARTY RECEIVABLES

| As at 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| People's Bank | - | - | 25,160 | 19,519 |
| People's Leasing Property Development Limited | 488,102 | 955,609 | - | - |
| People's Leasing Fleet Management Limited | 5,415 | 3,313 | - | - |
| People's Leasing Havelock Properties Limited | 463,077 | 94,648 | - | - |
| People's Microfinance Limited | 954 | 3,648 | - | - |
| People's Insurance PLC | 4,671 | 37,553 | - | - |
| Total | 962,219 | 1,094,771 | 25,160 | 19,519 |

22.1.2 ANALYSIS BY CURRENCY

| As at 31 March | Company | | Group | |
|--------------------|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Sri Lankan Rupee | 135,704,299 | 111,453,273 | 137,260,648 | 112,814,164 |
| Gross total | 135,704,299 | 111,453,273 | 137,260,648 | 112,814,164 |

22.1.3 ANALYSIS BY INDUSTRY

| As at 31 March | Company | | Group | |
|--------------------|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Agriculture | 5,382,854 | 1,681,233 | 5,658,355 | 1,887,620 |
| Manufacturing | 1,548,465 | 19,677 | 1,556,278 | 19,677 |
| Tourism | 861,856 | 502,944 | 866,935 | 507,297 |
| Transport | 13,641,030 | 13,728,536 | 13,649,723 | 13,733,613 |
| Construction | 5,303,830 | 4,221,837 | 5,326,053 | 4,135,845 |
| Traders | 13,246,210 | 17,347,120 | 13,589,565 | 17,666,654 |
| Services | 53,944,797 | 51,099,066 | 54,446,462 | 50,447,696 |
| Industry | 631,935 | 1,422,429 | 810,306 | 1,556,792 |
| Financial Services | 2,881,056 | 2,731,535 | 2,789,780 | 2,213,144 |
| Others | 38,262,266 | 18,698,896 | 38,567,191 | 20,645,826 |
| Gross total | 135,704,299 | 111,453,273 | 137,260,648 | 112,814,164 |

Notes to the Financial Statements

22.2 RENTALS RECEIVABLE ON LEASE, HIRE-PURCHASE AND ISLAMIC FINANCE

| As at 31 March | 2017 | | | | 2016 | | | |
|---------------------------------------|-----------------------------|-----------------------|--------------------------|-------------------|-----------------------------|-----------------------|--------------------------|-------------------|
| | Within one year Rs. '000 | 1-5 years Rs. '000 | Over 5 years Rs. '000 | Total Rs. '000 | Within one year Rs. '000 | 1-5 years Rs. '000 | Over 5 years Rs. '000 | Total Rs. '000 |
| Lease | | | | | | | | |
| Gross rentals receivable | 36,083,408 | 56,344,774 | 14,642 | 92,442,824 | 30,076,202 | 45,261,701 | 20,117 | 75,358,020 |
| Less: Unearned income | 9,264,908 | 10,104,130 | 175 | 19,369,213 | 7,008,948 | 7,068,822 | 280 | 14,078,050 |
| Net rentals receivable | 26,818,500 | 46,240,644 | 14,467 | 73,073,611 | 23,067,254 | 38,192,879 | 19,837 | 61,279,970 |
| Less: Rentals received in advance | | | | 19,607 | | | | 52,148 |
| Less: Allowance for impairment losses | | | | 720,089 | | | | 865,451 |
| Total net rentals receivable | 26,818,500 | 46,240,644 | 14,467 | 72,333,915 | 23,067,254 | 38,192,879 | 19,837 | 60,362,371 |
| Hire-purchase | | | | | | | | |
| Gross rentals receivable | 2,680,829 | 1,205,564 | - | 3,886,393 | 5,823,426 | 4,552,132 | 482 | 10,376,040 |
| Less: Unearned income | 292,067 | 99,053 | - | 391,120 | 967,239 | 556,335 | - | 1,523,574 |
| Net rentals receivable | 2,388,762 | 1,106,511 | - | 3,495,273 | 4,856,187 | 3,995,797 | 482 | 8,852,466 |
| Less: Rentals received in advance | | | | 953 | | | | 1,256 |
| Less: Allowance for impairment losses | | | | 154,278 | | | | 319,376 |
| Total net rentals receivable | 2,388,762 | 1,106,511 | - | 3,340,042 | 4,856,187 | 3,995,797 | 482 | 8,531,834 |
| Ijarah/Murabaha | | | | | | | | |
| Gross rentals receivable | 3,007,685 | 4,189,365 | 710 | 7,197,760 | 2,617,073 | 4,153,153 | 974 | 6,771,200 |
| Less: Unearned income | 712,494 | 703,421 | 11 | 1,415,926 | 629,966 | 653,173 | 13 | 1,283,152 |
| Net rentals receivable | 2,295,191 | 3,485,944 | 699 | 5,781,834 | 1,987,107 | 3,499,980 | 961 | 5,488,048 |
| Less: Rentals received in advance | | | | 711 | | | | 774 |
| Less: Allowance for impairment losses | | | | 23,343 | | | | 14,490 |
| Total net rentals receivable | 2,295,191 | 3,485,944 | 699 | 5,757,780 | 1,987,107 | 3,499,980 | 961 | 5,472,784 |

Notes to the Financial Statements

22. LOANS AND RECEIVABLES (CONTD.)

22.3 IMPAIRMENT ALLOWANCE FOR LOANS AND RECEIVABLES

ACCOUNTING POLICY

IMPAIRMENT OF FINANCIAL ASSETS

The Group and the Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets are impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'Incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

LOANS AND RECEIVABLES

Losses for impaired loans and receivables are recognised promptly when there is objective evidence that an impairment has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The carrying amount of impaired loans and receivables on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

INDIVIDUALLY ASSESSED LOANS AND RECEIVABLES

For all loans and receivables that are considered individually significant, the Company and the Group assess on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and
- a significant downgrading in credit rating by an external credit rating agency.

For those loans and receivables where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Company's aggregate exposure to the customer;
- the viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the extent of other creditors' commitments ranking ahead of, or *pari passu* with, the Company and the likelihood of other creditors continuing to support the Company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigates) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain, and make payments in, the currency of the loan if not denominated in local currency; and
- the likely dividend available on liquidation or bankruptcy;

Notes to the Financial Statements

Impairment losses are calculated by discounting the expected future cash flows of loans and receivables at its original effective interest rate and comparing the resultant present value with the loans and receivables current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses reassessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

COLLECTIVELY ASSESSED LOANS AND RECEIVABLES

Impairment is assessed on a collective basis to cover losses which have been incurred but have not yet been identified on loans and receivables subject to individual assessment.

INCURRED BUT NOT YET IDENTIFIED IMPAIRMENT

Individually assessed loans and receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the group has incurred as a result of events occurring before the reporting date, which the Group and the Company are not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the Group, those loans and receivables are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account;

- historical loss experienced in portfolios of similar credit risk; and
- the Management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

Loans and receivables are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans and receivables in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover the inherent loss. These additional macro and portfolio risk factors may include:

- recent lending portfolio growth and product mix
- unemployment rates, Gross Domestic Production (GDP) growth, inflation
- exchange rates, interest rates
- changes in laws and regulations

IMPAIRMENT CHARGES FOR LOANS AND RECEIVABLES

The Group and the Company review its individually significant loans and receivables including rental receivable at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Profit or Loss. In particular, the Management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and receivables including rental receivable that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, characteristic of assets, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Notes to the Financial Statements

22. LOANS AND RECEIVABLES (CONTD.)

22.4 MOVEMENT IN INDIVIDUAL AND COLLECTIVE IMPAIRMENT CHARGES DURING THE YEAR

A reconciliation of the allowance for impairment losses for loans and receivables, by class, is as follows:

| | Company | | | | | | | | Total Rs. '000 |
|-----------------------------------|-------------------|------------------------------|--------------------|------------------------|---------------------------------|---------------------|--------------------------------|-----------------------|-------------------|
| | Lease Rs. '000 | Hire Purchase Rs. '000 | Ijarah Rs. '000 | Term Loans Rs. '000 | Re-finance Loans Rs. '000 | Murabah Rs. '000 | Trading Murabah Rs. '000 | Factoring Rs. '000 | |
| At 1 April 2015 | 1,000,288 | 619,450 | 8,435 | 450,669 | 26,334 | 13,195 | 6,441 | – | 2,124,812 |
| Charge/(Reversal) for the year | (134,837) | (300,074) | (941) | (94,316) | (19,321) | (6,199) | 4,635 | 7,099 | (543,954) |
| At 31 March 2016 | 865,451 | 319,376 | 7,494 | 356,353 | 7,013 | 6,996 | 11,076 | 7,099 | 1,580,858 |
| Individual impairment | 90,089 | 3,032 | – | 46,693 | 2,217 | – | – | – | 142,031 |
| Collective impairment | 775,362 | 316,344 | 7,494 | 309,660 | 4,796 | 6,996 | 11,076 | 7,099 | 1,438,827 |
| | 865,451 | 319,376 | 7,494 | 356,353 | 7,013 | 6,996 | 11,076 | 7,099 | 1,580,858 |
| At 1 April 2016 | 865,451 | 319,376 | 7,494 | 356,353 | 7,013 | 6,996 | 11,076 | 7,099 | 1,580,858 |
| Charge/(Reversal) for the year | (145,362) | (165,098) | 9,059 | 339,574 | (1,618) | (206) | 4,849 | 27,541 | 68,739 |
| At 31 March 2017 | 720,089 | 154,278 | 16,553 | 695,927 | 5,395 | 6,790 | 15,925 | 34,640 | 1,649,597 |
| Individual impairment | 82,813 | 7 | – | 148,280 | 899 | – | – | – | 231,999 |
| Collective impairment | 637,276 | 154,271 | 16,553 | 547,647 | 4,496 | 6,790 | 15,925 | 34,640 | 1,417,598 |
| | 720,089 | 154,278 | 16,553 | 695,927 | 5,395 | 6,790 | 15,925 | 34,640 | 1,649,597 |

| | Group | | | | | | | | Total Rs. '000 |
|-----------------------------------|-------------------|------------------------------|--------------------|------------------------|---------------------------------|---------------------|--------------------------------|-----------------------|-------------------|
| | Lease Rs. '000 | Hire Purchase Rs. '000 | Ijarah Rs. '000 | Term Loans Rs. '000 | Re-finance Loans Rs. '000 | Murabah Rs. '000 | Trading Murabah Rs. '000 | Factoring Rs. '000 | |
| At 1 April 2015 | 1,000,288 | 620,902 | 8,435 | 494,200 | 26,334 | 13,195 | 6,441 | – | 2,169,795 |
| Charge/(Reversal) for the year | (134,837) | (298,139) | (941) | (64,365) | (19,321) | (6,199) | 4,635 | 7,099 | (512,068) |
| At 31 March 2016 | 865,451 | 322,763 | 7,494 | 429,835 | 7,013 | 6,996 | 11,076 | 7,099 | 1,657,727 |
| Individual impairment | 90,089 | 3,032 | – | 46,693 | 2,217 | – | – | – | 142,031 |
| Collective impairment | 775,362 | 319,731 | 7,494 | 383,142 | 4,796 | 6,996 | 11,076 | 7,099 | 1,515,696 |
| | 865,451 | 322,763 | 7,494 | 429,835 | 7,013 | 6,996 | 11,076 | 7,099 | 1,657,727 |
| At 1 April 2016 | 865,451 | 322,763 | 7,494 | 429,835 | 7,013 | 6,996 | 11,076 | 7,099 | 1,657,727 |
| Charge/(Reversal) for the year | (145,362) | (140,870) | 9,059 | 379,745 | (1,618) | (206) | 4,849 | 27,541 | 133,138 |
| At 31 March 2017 | 720,089 | 181,893 | 16,553 | 809,580 | 5,395 | 6,790 | 15,925 | 34,640 | 1,790,865 |
| Individual impairment | 82,813 | 1,421 | – | 157,709 | 899 | – | – | – | 242,842 |
| Collective impairment | 637,276 | 180,472 | 16,553 | 651,871 | 4,496 | 6,790 | 15,925 | 34,640 | 1,548,023 |
| | 720,089 | 181,893 | 16,553 | 809,580 | 5,395 | 6,790 | 15,925 | 34,640 | 1,790,865 |

Notes to the Financial Statements

23 — INSURANCE AND REINSURANCE RECEIVABLES

ACCOUNTING POLICY

INSURANCE – PRODUCT CLASSIFICATION

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders, if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable, if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

REINSURANCE

The Group cedes insurance risk in the normal course of business of People's Insurance PLC. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired or when the contract is transferred to another party.

REINSURANCE RECEIVABLES

Reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit or Loss.

INSURANCE RECEIVABLES

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit or Loss.

Notes to the Financial Statements

23. INSURANCE AND REINSURANCE RECEIVABLES (CONTD.)

DEFERRED EXPENSES

DEFERRED ACQUISITION COSTS (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, deferred acquisition costs (DAC) for non-life insurance is amortised over the period on the basis unearned premium reserve (UPR) is amortised.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

REINSURANCE COMMISSIONS

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

| As at 31 March | Company | | Group | |
|-------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Reinsurance receivables | - | - | 91,743 | 95,600 |
| Insurance receivables | - | - | 175,780 | 110,703 |
| Total | - | - | 267,523 | 206,303 |

24 — FINANCIAL ASSETS – AVAILABLE-FOR-SALE

ACCOUNTING POLICY

Available-for-sale financial assets include equity investments 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. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group and the Company have not designated any loans or receivables as available-for-sale.

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

Unrealised gains and losses are recognised directly in equity (Statement of 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 Statement of Profit or Loss in 'Other operating income'. Where the Group and the Company hold 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 assets is reported as interest income using the effective interest rate (EIR).

Notes to the Financial Statements

Dividends earned whilst holding available-for-sale financial assets are recognised in the Statement of Profit or Loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'Impairment charges for loans and receivables and other losses' and removed from the 'Available-for-sale reserve'.

IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

For available-for-sale financial assets, the Group and the Company review its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. In the case of debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss.

IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

The Group and the Company review its financial assets classified as available-for-sale at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and receivables.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. The Group generally treats 'significant' as 20% or more and 'prolonged' as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the Statement of Profit or Loss is removed from equity and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increases in the fair value after impairment are recognised in Statement of Comprehensive Income.

| As at 31 March | Company | | Group | |
|--------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Equity securities (Note 24.1) | 193,166 | 255,099 | 193,166 | 255,099 |
| Treasury Bills | - | - | 774,148 | 1,194,219 |
| Unit trusts | 82,537 | 245,258 | 127,255 | 290,638 |
| Net available-for-sale assets | 275,703 | 500,357 | 1,094,569 | 1,739,956 |

Notes to the Financial Statements

24. FINANCIAL ASSETS – AVAILABLE-FOR-SALE (CONTD.)

24.1 EQUITY SECURITIES – COMPANY AND GROUP

| As at 31 March | 2017 | | | 2016 | | |
|--|---------------|-----------------------------|-----------------------|---------------|-----------------------------|-----------------------|
| | No. of Shares | Cost of Investment Rs. '000 | Market Value Rs. '000 | No. of Shares | Cost of Investment Rs. '000 | Market Value Rs. '000 |
| Quoted Investments | | | | | | |
| Sanasa Development Bank PLC | 1,951,073 | 188,473 | 193,156 | 1,866,047 | 177,709 | 255,089 |
| | - | 188,473 | 193,156 | - | 177,709 | 255,089 |
| Unquoted Investments | | | | | | |
| Credit Information Bureau of Sri Lanka | 100 | 10 | 10 | 100 | 10 | 10 |
| City Finance Corporation Limited (Note 24.3) | 50,000,000 | 50,000 | - | 50,000,000 | 50,000 | - |
| Total | | 238,483 | 193,166 | | 227,719 | 255,099 |

24.2 MOVEMENTS IN AVAILABLE-FOR-SALE RESERVE

| As at 31 March | Company | | Group | |
|--|---------------|----------------|---------------|----------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 124,780 | 99,029 | 109,575 | 101,918 |
| Recycling to Statement of Profit or Loss | - | (24,565) | - | (24,565) |
| Gain/(losses) on remeasuring | (93,771) | 50,316 | (89,497) | 32,855 |
| Movement due to change in ownership | - | - | - | (633) |
| Balance as at 31 March | 31,009 | 124,780 | 20,078 | 109,575 |

24.3 CITY FINANCE CORPORATION LIMITED

| As at 31 March | Company | | Group | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | - | - | - | - |
| Transfer from investment in associate | 50,000 | 50,000 | 50,000 | 50,000 |
| Less: Impairment charges | 50,000 | 50,000 | 50,000 | 50,000 |
| Balance as at 31 March | - | - | - | - |

Notes to the Financial Statements

25 – FINANCIAL ASSETS – HELD-TO-MATURITY

ACCOUNTING POLICY

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group and the Company have the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the 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 Profit or Loss. The losses arising from impairment of such investments are recognised in the Statement of Profit or Loss in 'impairment charges for loans and receivables and other losses'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

IMPAIRMENT OF HELD-TO-MATURITY FINANCIAL ASSETS

An impairment loss in respect of held-to-maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognised in Statement of Profit or Loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in Impairment loss is reversed through Statement of Profit or Loss.

| As at 31 March | Company | | Group | |
|----------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Treasury Bills | 2,943,080 | 2,248,602 | 2,943,080 | 2,248,602 |
| Treasury Bonds | 24,962 | 2,681,634 | 24,962 | 2,681,634 |
| Total | 2,968,042 | 4,930,236 | 2,968,042 | 4,930,236 |

26 – INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICY

Investments in subsidiaries are stated at cost, net of any impairment losses which are charged to the Statement of Profit or Loss in the Company's Financial Statements and it is in accordance with the Sri Lanka Accounting Standard – LKAS 27 – 'Consolidated and Separate Financial Statements'.

Subsidiaries are entities that are controlled by the Group and the Company. Subsidiaries are consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Company is presumed to control an investee when it is exposed, or has right to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Intra-group balances and transactions, income, expenses and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the Consolidated Financial Statements.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company.

Notes to the Financial Statements

26. INVESTMENTS IN SUBSIDIARIES (CONTD.)

Non-controlling interests are presented separately in the consolidated Statement of Profit or Loss and within equity in the consolidated Statement of Financial Position, but separate from parent shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in a deficit balance. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

All subsidiaries of the Company have been incorporated in Sri Lanka. A list of subsidiaries with their principal activities are given in Note 1.2.

| As at 31 March | 2017 | | | 2016 | | |
|---|--------------|------------------|--|--------------|------------------|--|
| | Holding % | Cost Rs. '000 | Directors'/ Market Valuation Rs. '000 | Holding % | Cost Rs. '000 | Directors'/ Market Valuation Rs. '000 |
| Company | | | | | | |
| People's Leasing Fleet Management Limited | 100.00 | 175,000 | 288,838 | 100.00 | 75,000 | 181,449 |
| People's Leasing Property Development Limited | 100.00 | 550,000 | 1,045,042 | 100.00 | 550,000 | 987,184 |
| People's Leasing Havelock Properties Limited | 100.00 | 600,000 | 566,204 | 100.00 | 600,000 | 588,956 |
| People's Microfinance Limited | 100.00 | 150,000 | 218,223 | 100.00 | 50,000 | 123,661 |
| People's Insurance PLC | 75.00 | 600,000 | 1,098,000 | 75.00 | 600,000 | 1,014,000 |
| Total | | 2,075,000 | 3,216,307 | | 1,875,000 | 2,895,250 |

Subsidiaries are not quoted in the Colombo Stock Exchange except People's Insurance PLC. The Directors' valuation of investment in subsidiaries has been carried out on net asset basis. People's Insurance PLC has been valued at market value basis.

The following table summarises the information relating to the Group's subsidiary that has a material non-controlling interest (NCI).

PEOPLE'S INSURANCE PLC – NON-CONTROLLING INTEREST (NCI) PERCENTAGE – 25%

| For the year ended 31 March | 2017 Rs. '000 | 2016 Rs. '000 |
|---|------------------|------------------|
| Net operating income | 4,437,537 | 3,724,742 |
| Less: Operating expenses | 3,614,010 | 3,124,884 |
| Profit before income tax | 823,527 | 599,858 |
| Less: Income tax expense | 77,590 | 122,436 |
| Profit after tax | 745,937 | 477,422 |
| Profit allocated to non-controlling interest (NCI) | 186,484 | 119,356 |

Notes to the Financial Statements

26.1 SUMMARISED FINANCIAL INFORMATION OF PEOPLE'S INSURANCE PLC

| As at 31 March | People's Insurance PLC | |
|--|------------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 |
| Cash and cash equivalents | 711,819 | 278,917 |
| Balances with banks and financial institutions | 1,914,778 | 1,821,104 |
| Loans and receivables | 1,820,649 | 1,476,224 |
| Insurance and reinsurance receivables | 779,616 | 670,784 |
| Financial assets – Available-for-sale | 818,866 | 1,239,599 |
| Property, plant and equipment & intangible assets | 41,380 | 52,464 |
| Other assets | 587,932 | 546,230 |
| Total liabilities | 3,985,164 | 3,723,150 |
| Net assets value | 2,689,876 | 2,362,172 |
| Carrying amount of non-controlling interest (NCI) | 672,469 | 590,543 |
| Cash flows from operating activities | 893,728 | 688,214 |
| Cash flows from investing activities | (410,848) | (550,350) |
| Cash flows from financing activities | (420,000) | (120,000) |
| Net increase in cash and cash equivalents | 62,880 | 17,864 |

27 — INVESTMENT IN ASSOCIATE

ACCOUNTING POLICY

Investment in associate is accounted for at cost in the Company's Financial Statements and under the equity method in the Consolidated Financial Statements.

Under the equity method, the investment in associate is initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the Company's net investment in associate.

Associate is an entity in which the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Company holds 20% or more of the voting power of another entity.

Investment in associate is accounted for using the equity method and is recognised initially at cost in terms of the Sri Lanka Accounting Standard – LKAS 28 – 'Investments in Associates and Joint Ventures'. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised but is subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses.

The consolidated Financial Statements include the Company's share of the income and expenses and equity movements of the associate, after adjustments being made to align the accounting policies with those of the Group from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Notes to the Financial Statements

27. INVESTMENTS IN ASSOCIATE (CONTD.)

When the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profit and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment cost in accordance with the Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement'.

27.1 DETAILS OF ASSOCIATE

| As at 31 March | Holding | | Company | | Group | |
|---|--------------|-----------|------------------|------------------|------------------|------------------|
| | 2017 % | 2016 % | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Quoted equity share | | | | | | |
| People's Merchant Finance PLC (Note 27.1.1) (25,014,002 ordinary shares) | 37.06 | 37.06 | 586,427 | 586,427 | 476,382 | 550,257 |
| Total | | | 586,427 | 586,427 | 476,382 | 550,257 |

27.1.1 PEOPLE'S MERCHANT FINANCE PLC

Pursuant to a direction issued by the Monetary Board of the Central Bank of Sri Lanka to amalgamate People's Merchant Finance PLC with People's Leasing & Finance PLC ('the Company'), the Company made an announcement thereon to the Colombo Stock Exchange on 29 July 2016.

However, the Monetary Board of the Central Bank of Sri Lanka has granted an extension of one year until 31 March 2018 to effect the merger of People's Merchant Finance PLC with the Company.

27.2 SUMMARISED FINANCIAL INFORMATION OF ASSOCIATE

Summarised financial information to carrying amount of the interest in Associate recognised in the Consolidated Financial Statements is as follows:

PEOPLE'S MERCHANT FINANCE PLC – PERCENTAGE – 37.06%

| For the year ended 31 March | People's Merchant Finance PLC | |
|--|-------------------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 |
| Ownership interest | | |
| Net operating income | 33,188 | 36,364 |
| Less: Operating expenses | 236,222 | 87,918 |
| Loss before tax | (203,034) | (51,554) |
| Less: Income tax expense | (3,682) | (15,384) |
| Loss after tax | (199,352) | (36,170) |
| Share of results of equity accounted investee recognised in Statement of Profit or Loss | (73,875) | (36,170) |

Notes to the Financial Statements

| As at 31 March | People's Merchant Finance PLC | |
|------------------------------------|-------------------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 |
| Ownership interest | | |
| Total assets | 3,462,512 | 1,353,398 |
| Total liabilities | 3,099,058 | 1,127,576 |
| Net assets | 363,454 | 225,822 |
| Group's share of net assets | 134,687 | 83,684 |

28 — INVESTMENT PROPERTY

ACCOUNTING POLICY

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are initially recognised at cost. Subsequent to initial recognition the investment properties are stated at fair values, which reflect market conditions at the Statement of Financial Position date. Gains or losses arising from changes in fair value are included in the Statement of Profit or Loss in the year in which they arise.

Where Group companies occupy a significant portion of the investment property of a subsidiary, such investment properties are treated as property, plant and equipment in the Consolidated Financial Statements, and accounted for as per Sri Lanka Accounting Standard – LKAS 16 – 'property, plant and equipment'.

DERECOGNITION

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the Statement of Profit or Loss in the year of retirement or disposal.

SUBSEQUENT TRANSFERS TO/FROM INVESTMENT PROPERTY

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development.

Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner occupied property becomes an investment property, the Company, accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Statement of Profit or Loss. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the Statement of Profit or Loss.

Notes to the Financial Statements

28. INVESTMENT PROPERTY (CONTD.)

FAIR VALUE OF INVESTMENT PROPERTY

Investment property of the Group and the Company is reflected at fair value. When current market prices of similar assets are available, such evidence is considered in estimating fair values of these assets. In the absence of such information, the Group and the Company determine a reasonable fair value estimate, amounts that can be attributed as fair values, taking into consideration of the discounted cash flow projections based on the estimates, derived from the evidence such as current market rents for similar properties and using discount rates that reflect uncertainty in the amount and timing of cash flows.

DETERMINING FAIR VALUE

External and independent valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued, values the investment property portfolio every year. In financial periods within that period the fair value is determined by the Board of Directors.

The fair values are based on market values, being the estimated amount for which a property could be sold in an orderly transaction between market participants at the measurement date.

INVESTMENT PROPERTY LEASED WITHIN THE GROUP

Any property leased out to parent or subsidiary is considered as owner-occupied from the perspective of the Group and adjustments are made for consolidation purposes.

OWNER OCCUPIED PROPERTIES AND INVESTMENT PROPERTY

In determining if a property qualifies as investment property the Group makes a judgment whether the property generates independent cash flows rather than cash flows that are attributable not only to the property but also other assets. Judgment is also applied in determining if ancillary services are significant, so that a property does not qualify as investment property.

| As at 31 March | Company | | Group | |
|---------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 90,752 | - | - | - |
| Addition during the year | - | 12,352 | - | - |
| Gain from fair value adjustment | 10,048 | - | - | - |
| Transfer during the year | - | 78,400 | - | - |
| Balance as at 31 March | 100,800 | 90,752 | - | - |

Land situated at No. 414, Wellangiriya, Singhapura, Hokandara is being constructed to rent out to People's Leasing Fleet Management Limited by the Company and the Company intends to earn rent income. Accordingly, this land and building have been classified as investment property in the Statement of Financial Position of the Company. However, according to Sri Lanka Accounting Standard – LKAS 40 – 'Investment Property', the said land and building are treated as property, plant and equipment in the Consolidated Statement of Financial Position since the property is owner-occupied from the perspective of the Group.

The Company carries investment property at market value. Market valuation of the above investment property was carried out as at 31 March 2017 by Mr K T D Tissera, FRICS (Eng.), who is an independent valuer not connected with the Company.

Notes to the Financial Statements

29 — PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

BASIS OF RECOGNITION

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 year.

Property, plant and equipment is recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be measured reliably.

BASIS OF 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 or replace a part of 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 at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The Company and the Group apply the cost model to property, plant and equipment and record at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

SUBSEQUENT COSTS

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

REPAIRS AND MAINTENANCE

Repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets, when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

CAPITAL WORK IN PROGRESS

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

DERECOGNITION

Property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the Statement of Profit or Loss in the year the asset is derecognised.

Notes to the Financial Statements

29. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

DEPRECIATION

Depreciation is recognised in Statement of Profit or Loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Lands are not depreciated.

The estimated useful lives are as follows;

| Class of asset | % per annum | Period |
|-----------------------------------|-------------|--------------|
| Freehold buildings | 2 | 50 years |
| Improvement of leasehold property | 25 | 4 years |
| Motor vehicles | 12.5 – 20 | 5 – 8 years |
| Computer hardware | 20 | 5 years |
| Office equipments | 10 – 20 | 5 – 10 years |
| Furniture and fittings | 20 | 5 years |

The above rates are consistently used by all the Group entities. The depreciation rates are determined separately for each significant part of an item of property, plant and equipment and commence to depreciate when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group and the Company depreciate the property, plant and equipment, using the straight-line method, over their estimated useful lives after taking into account of their estimated residual values. The estimated useful life reflects management's estimate of the period that the Group and the Company intend to derive future economic benefits from the use of the Group's property, plant and equipment. The residual value reflects management's estimated amount that the Group and the Company would currently obtain from the disposal of the asset, after deducting the estimated costs of disposal, as if the asset were already of the age and in the condition expected at the end of its useful life. Changes in the expected level of usage and technological developments could affect the economics, useful lives and the residual values of these assets which could then consequentially impact future depreciation charges.

Notes to the Financial Statements

29.2 PROPERTY, PLANT AND EQUIPMENT – COMPANY

| | Freehold land and buildings Rs. '000 | Improvement of leasehold properties Rs. '000 | Motor vehicles Rs. '000 | Computer hardware Rs. '000 | Office equipment Rs. '000 | Furniture and fittings Rs. '000 | Total Rs. '000 |
|---|--|---|-------------------------------|----------------------------------|---------------------------------|---------------------------------------|-------------------|
| Cost | | | | | | | |
| Balance as at 1 April 2016 | 683,660 | 56,872 | 186,684 | 477,150 | 451,634 | 357,636 | 2,213,636 |
| Additions | - | - | 102,711 | 68,672 | 98,462 | 40,214 | 310,059 |
| Disposals | - | - | (62,010) | (280) | (497) | (70) | (62,857) |
| Transfers | - | - | - | (575) | 575 | - | - |
| Balance as at 31 March 2017 | 683,660 | 56,872 | 227,385 | 544,967 | 550,174 | 397,780 | 2,460,838 |
| Less: Accumulated depreciation | | | | | | | |
| Balance as at 1 April 2016 | 1,820 | 56,516 | 99,954 | 371,632 | 293,278 | 269,836 | 1,093,036 |
| Charge for the year | 706 | 201 | 13,991 | 47,663 | 71,350 | 41,514 | 175,425 |
| Disposals | - | - | (62,010) | (28) | (273) | (56) | (62,367) |
| Transfers | - | - | - | (767) | 767 | - | - |
| Balance as at 31 March 2017 | 2,526 | 56,717 | 51,935 | 418,500 | 365,122 | 311,294 | 1,206,094 |
| Net book value as at 31 March 2017 | 681,134 | 155 | 175,450 | 126,467 | 185,052 | 86,486 | 1,254,744 |

| | Freehold land and buildings Rs. '000 | Improvement of leasehold properties Rs. '000 | Motor vehicles Rs. '000 | Computer hardware Rs. '000 | Office equipment Rs. '000 | Furniture and fittings Rs. '000 | Total Rs. '000 |
|---|--|---|-------------------------------|----------------------------------|---------------------------------|---------------------------------------|-------------------|
| Cost | | | | | | | |
| Balance as at 1 April 2015 | 596,071 | 57,173 | 188,052 | 439,633 | 411,622 | 334,175 | 2,026,726 |
| Additions | 158,737 | - | 19,748 | 37,143 | 41,520 | 23,494 | 280,642 |
| Disposals | - | - | (21,265) | - | (1,139) | (28) | (22,432) |
| Transfers | (71,148) | (301) | 149 | 374 | (369) | (5) | (71,300) |
| Balance as at 31 March 2016 | 683,660 | 56,872 | 186,684 | 477,150 | 451,634 | 357,636 | 2,213,636 |
| Less: Accumulated depreciation | | | | | | | |
| Balance as at 1 April 2015 | 1,120 | 53,624 | 113,507 | 312,522 | 222,903 | 214,369 | 918,045 |
| Charge for the year | 750 | 3,049 | 7,403 | 59,110 | 71,293 | 55,492 | 197,097 |
| Disposals | - | - | (20,990) | - | (918) | (25) | (21,933) |
| Transfers | (50) | (157) | 34 | - | - | - | (173) |
| Balance as at 31 March 2016 | 1,820 | 56,516 | 99,954 | 371,632 | 293,278 | 269,836 | 1,093,036 |
| Net book value as at 31 March 2016 | 681,840 | 356 | 86,730 | 105,518 | 158,356 | 87,800 | 1,120,600 |

Notes to the Financial Statements

29. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

29.2 PROPERTY, PLANT AND EQUIPMENT – GROUP

| | Freehold land and buildings Rs. '000 | Improvement of leasehold properties Rs. '000 | Motor vehicles Rs. '000 | Computer hardware Rs. '000 | Office equipment Rs. '000 | Furniture and fittings Rs. '000 | Work-in-progress Rs. '000 | Total Rs. '000 |
|---|---|---|----------------------------|-------------------------------|------------------------------|------------------------------------|------------------------------|-------------------|
| Cost | | | | | | | | |
| Balance as at 1 April 2016 | 2,841,602 | 58,583 | 451,319 | 533,859 | 698,624 | 376,210 | 696,679 | 5,656,876 |
| Additions | - | - | 222,058 | 79,503 | 106,404 | 40,861 | 630,406 | 1,079,232 |
| Disposals | - | - | (84,941) | (280) | (497) | (70) | - | (85,788) |
| Transfers | - | - | - | (575) | 575 | - | - | - |
| Balance as at 31 March 2017 | 2,841,602 | 58,583 | 588,436 | 612,507 | 805,106 | 417,001 | 1,327,085 | 6,650,320 |
| Less: Accumulated depreciation | | | | | | | | |
| Balance as at 1 April 2016 | 108,094 | 56,681 | 180,853 | 405,609 | 412,215 | 283,891 | - | 1,447,343 |
| Charge for the year | 44,246 | 513 | 38,359 | 57,560 | 77,358 | 43,819 | - | 261,855 |
| Disposals | - | - | (74,079) | (28) | (273) | (56) | - | (74,436) |
| Transfers | - | - | - | (767) | 767 | - | - | - |
| Balance as at 31 March 2017 | 152,340 | 57,194 | 145,133 | 462,374 | 490,067 | 327,654 | - | 1,634,762 |
| Net book value as at 31 March 2017 | 2,689,262 | 1,389 | 443,303 | 150,133 | 315,039 | 89,347 | 1,327,085 | 5,015,558 |

| | Freehold land and buildings Rs. '000 | Improvement of leasehold properties Rs. '000 | Motor vehicles Rs. '000 | Computer hardware Rs. '000 | Office equipment Rs. '000 | Furniture and fittings Rs. '000 | Work-in-progress Rs. '000 | Total Rs. '000 |
|---|---|---|----------------------------|-------------------------------|------------------------------|------------------------------------|------------------------------|-------------------|
| Cost | | | | | | | | |
| Balance as at 1 April 2015 | 2,682,819 | 57,173 | 423,032 | 487,226 | 654,050 | 352,720 | 328,049 | 4,985,069 |
| Additions | 158,783 | 1,711 | 52,673 | 46,259 | 46,082 | 23,813 | 368,630 | 697,951 |
| Disposals | - | - | (24,535) | - | (1,139) | (318) | - | (25,992) |
| Transfers | - | (301) | 149 | 374 | (369) | (5) | - | (152) |
| Balance as at 31 March 2016 | 2,841,602 | 58,583 | 451,319 | 533,859 | 698,624 | 376,210 | 696,679 | 5,656,876 |
| Less: Accumulated depreciation | | | | | | | | |
| Balance as at 1 April 2015 | 81,767 | 53,624 | 167,083 | 336,848 | 315,179 | 225,862 | - | 1,180,363 |
| Charge for the year | 26,327 | 3,214 | 26,018 | 68,761 | 97,954 | 58,219 | - | 280,493 |
| Disposals | - | - | (12,282) | - | (918) | (190) | - | (13,390) |
| Transfers | - | (157) | 34 | - | - | - | - | (123) |
| Balance as at 31 March 2016 | 108,094 | 56,681 | 180,853 | 405,609 | 412,215 | 283,891 | - | 1,447,343 |
| Net book value as at 31 March 2016 | 2,733,508 | 1,902 | 270,466 | 128,250 | 286,409 | 92,319 | 696,679 | 4,209,533 |

Notes to the Financial Statements

29.3 FULLY DEPRECIATED PROPERTY, PLANT AND EQUIPMENT

The initial cost of fully depreciated property, plant and equipment, which are still in use as at reporting date is as follows:

| As at 31 March | Company | | Group | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Improvement of leasehold properties | 53,282 | 52,607 | 53,282 | 52,607 |
| Motor vehicles | 49,394 | 78,664 | 49,505 | 78,664 |
| Computer hardware | 311,932 | 201,488 | 328,857 | 209,849 |
| Office equipment | 184,603 | 108,199 | 196,314 | 119,105 |
| Furniture and fittings | 216,244 | 86,446 | 225,299 | 91,607 |
| | 815,455 | 527,404 | 853,257 | 551,832 |

29.4 GROUP FREEHOLD LAND AND BUILDINGS

| Location | Address | Date of valuation | Method of valuation | Land extent 'perches' | Building area (Sq.Ft) | 2017 cost Rs. '000 | 2016/17 revaluation Rs. '000 | 2015/16 revaluation Rs. '000 |
|--|---|-------------------|---------------------|-----------------------|-----------------------|--------------------|------------------------------|------------------------------|
| People's Leasing & Finance PLC | | | | | | | | |
| Vehicle yards | | | | | | | | |
| Makola | No. 496, Makola North, Makola | 31.12.2016 | MCM | 90 perches | 11,600 | 7,632 | 45,000 | 45,000 |
| Mabima | No. 225/D, Nayagala Road, Heiyantuduwa, Mabima | 31.12.2016 | MCM | 330.75 perches | 820 | 21,722 | 68,000 | 68,000 |
| Meegahamulla | Kandepalla, Beligamuwa, Galewala | 31.12.2016 | MCM | 260 perches | 1,836 | 27,558 | 13,754 | 13,754 |
| Monaragala | No. 10, Pothuwil Road, Monaragala | 31.12.2016 | MCM | 125.9 perches | 1,376 | 41,056 | 45,000 | 45,000 |
| Administrative purpose | | | | | | | | |
| Bandarawela | No. 35/2D, Welimada Road, Bandarawela | 31.12.2016 | MCM | 8.3 perches | 5,194 | 31,257 | 40,000 | 40,000 |
| Jaffna | No. 10, Mahathma Gandhi Road, Jaffna | 31.12.2016 | MCM | 44.72 perches | - | 45,764 | 155,063 | 155,063 |
| Boralesgamuwa | No. 81, Old Kesbewa Road, Diulpitiya, Boralesgamuwa | 31.12.2016 | MCM | 42 perches | 13,366 | 52,000 | 50,000 | 50,000 |
| Hokandara | No. 414, Wellangiriya, Singhapura, Hokandara | 31.03.2017 | MCM | 224 perches | - | 71,148 | 100,800 | 78,400 |
| Matara | No. 367, Anagarika Dharmapala Mawatha, Matara | 31.12.2016 | MCM | 40 perches | - | 93,599 | 100,000 | 100,000 |
| Kandy | No. 86, Katugastota Road, Kandy | 31.12.2016 | MCM | 23.25 perches | - | 64,479 | 71,500 | 71,500 |
| Kandy | No. 296, Senanayaka Road, Kandy | 31.12.2016 | MCM | 47.1 perches | - | 142,711 | 154,575 | 154,575 |
| Anuradhapura | No. 50, Maithripala Senanayake Road, Anuradhapura | 31.12.2016 | MCM | 40.51 perches | - | 155,882 | 174,193 | 155,881 |
| | | | | | | 754,808 | 1,017,885 | 977,173 |
| People's Leasing Property Development Limited | | | | | | | | |
| Borella | No. 1.161, Maradana Road, Colombo 08 | 31.12.2016 | MCM | 104.90 perches | 127,621 | 1,532,414 | 2,088,500 | 2,088,500 |
| | | | | | | 1,532,414 | 2,088,500 | 2,088,500 |
| People's Leasing Havelock Properties Limited | | | | | | | | |
| Colombo 05 | No. 07, Havelock Road, Colombo 05 | 31.03.2017 | MCM | 111.45 perches | - | 554,380 | 1,000,000 | 975,000 |
| | | | | | | 554,380 | 1,000,000 | 975,000 |
| | | | | | | 2,841,602 | 4,106,385 | 4,040,673 |

MCM: Market Comparable Method

Notes to the Financial Statements

29. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

TEMPORARILY IDLE PROPERTY, PLANT AND EQUIPMENT

There were no property, plant and equipment idle as at 31 March 2017 and 31 March 2016.

PROPERTY, PLANT AND EQUIPMENT RETIRED FROM ACTIVE USE

There were no property, plant and equipment retired from active use as at 31 March 2017 and 31 March 2016.

TITLE RESTRICTION ON PROPERTY, PLANT AND EQUIPMENT

There were no restriction on the title of property, plant and equipment as at 31 March 2017 and 31 March 2016.

PROPERTY, PLANT AND EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

There were no items of property, plant and equipment pledged as securities for liabilities other than disclosed in Note 55 (Assets Pledged) to the Financial Statements.

COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT AND EQUIPMENT

There were no compensation received during the year from third parties for items of property, plant and equipment that were impaired, lost or given up (2016: Nil).

UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

Significant unobservable inputs used in measuring non-financial assets categorised as level 3 in fair value hierarchy disclosed in Note 51.7 to the Financial Statements.

30 — GOODWILL AND INTANGIBLE ASSETS

ACCOUNTING POLICY

The Group's intangible assets include the goodwill and customer list which were acquired in business combination and value of computer software.

BASIS OF RECOGNITION

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group and the Company in accordance with the Sri Lanka Accounting Standard – LKAS 38 – 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are stated in the Statement of Financial Position at cost less any accumulated amortisation and any accumulated impairment losses if any.

SUBSEQUENT EXPENDITURE

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

USEFUL ECONOMIC LIVES, AMORTISATION AND IMPAIRMENT

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

Notes to the Financial Statements

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates in accordance with LKAS 8. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straightline method to write down the cost of intangible assets to their residual values over their estimated useful economic lives at the rates as specified below:

| Class of asset | % per annum | Period |
|-------------------|-------------|---------|
| Computer software | 20 | 5 years |
| Customer list | 20 | 5 years |

The unamortised balances of intangible assets with finite lives are reviewed for impairment annually and whenever there is an indication for impairment and recognised in Statement of Profit or Loss to the extent that they are no longer probable of being recovered from the expected future benefits.

Goodwill that arises upon the acquisition of subsidiary is included in intangible assets. Goodwill is initially measured at cost. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss in such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Goodwill with infinite useful lives is assessed for impairment annually. The assessment of infinite life is reviewed annually to determine whether the infinite life continues to be supportable.

DERECOGNITION

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the Statement of Profit or Loss in the year the asset is derecognised.

| | Company | | | Group | | | |
|---|-------------------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------------|-------------------|
| | Computer software Rs. '000 | Goodwill Rs. '000 | Total Rs. '000 | Computer software Rs. '000 | Customer list Rs. '000 | Goodwill Rs. '000 | Total Rs. '000 |
| Cost | | | | | | | |
| Balance as at 1 April 2016 | 139,423 | 308,545 | 447,968 | 157,788 | 6,034 | 308,545 | 472,367 |
| Additions | - | - | - | - | - | - | - |
| Balance as at 31 March 2017 | 139,423 | 308,545 | 447,968 | 157,788 | 6,034 | 308,545 | 472,367 |
| Less: Accumulated amortisation | | | | | | | |
| Balance as at 1 April 2016 | 118,005 | - | 118,005 | 133,158 | 6,034 | - | 139,192 |
| Amortisation | 9,780 | - | 9,780 | 12,764 | - | - | 12,764 |
| Balance as at 31 March 2017 | 127,785 | - | 127,785 | 145,922 | 6,034 | - | 151,956 |
| Net book value as at 31 March 2017 | 11,638 | 308,545 | 320,183 | 11,866 | - | 308,545 | 320,411 |

Notes to the Financial Statements

30. GOODWILL AND INTANGIBLE ASSETS (CONTD.)

| | Company | | | Group | | | |
|---------------------------------------|-------------------------------|----------------------|-------------------|-------------------------------|---------------------------|----------------------|-------------------|
| | Computer software Rs. '000 | Goodwill Rs. '000 | Total Rs. '000 | Computer software Rs. '000 | Customer list Rs. '000 | Goodwill Rs. '000 | Total Rs. '000 |
| Cost | | | | | | | |
| Balance as at 1 April 2015 | 133,980 | 308,545 | 442,525 | 152,437 | 6,034 | 308,545 | 467,016 |
| Additions | 5,443 | – | 5,443 | 5,351 | – | – | 5,351 |
| Balance as at 31 March 2016 | 139,423 | 308,545 | 447,968 | 157,788 | 6,034 | 308,545 | 472,367 |
| Less: Accumulated amortisation | | | | | | | |
| Balance as at 1 April 2015 | 104,878 | – | 104,878 | 115,341 | 6,034 | – | 121,375 |
| Amortisation | 13,127 | – | 13,127 | 17,817 | – | – | 17,817 |
| Balance as at 31 March 2016 | 118,005 | – | 118,005 | 133,158 | 6,034 | – | 139,192 |
| Net book value as at 31 March 2016 | 21,418 | 308,545 | 329,963 | 24,630 | – | 308,545 | 333,175 |

Intangible assets include fully amortised software amounting to Rs. 100,625,192/- as at 31 March 2017 (Rs. 72,573,640/- – 31 March 2016), which are still in use as at the reporting date.

IMPAIRMENT TESTS FOR GOODWILL

Goodwill acquired through business combinations has been allocated to lease and hire purchase unit. The Group undertakes an annual test for impairment, based on value in use computation using cash flow projections based on financial budgets approved by the senior management. The discount rate of 14.52% and the projected growth rate of 5% are the key assumptions used for this purpose. The discount rate was estimated based on an average percentage of weighted average cost of capital of the Company. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the units to exceed their recoverable amount.

There were no restrictions existed on the title of the intangible assets of the Group and the Company as at the reporting date. Further, there were no items pledged as securities for liabilities. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year 2016/17.

31 — OTHER ASSETS

ACCOUNTING POLICY

The Company and the Group classify all their other assets as other financial assets and other non-financial assets. Other non-financial assets mainly comprise advance payments, VAT recoverable, inventory and sundry receivables. Advance payments are carried at historical cost.

Unsold vehicles at the reporting date are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow-moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business, less the estimated cost necessary to make the sale.

Other inventory materials at reporting date are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

Notes to the Financial Statements

| As at 31 March | Company | | Group | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Other financial assets | 121,615 | 132,779 | - | - |
| Non-financial assets (Note 31.1) | 817,173 | 631,287 | 1,026,638 | 1,334,274 |
| Total | 938,788 | 764,066 | 1,026,638 | 1,334,274 |

31.1 NON-FINANCIAL ASSETS

| As at 31 March | Company | | Group | |
|-------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Advance payments | 261,698 | 217,823 | 272,449 | 269,115 |
| VAT recoverable | - | 63,956 | 316 | 63,658 |
| Inventories | 17,109 | 46,000 | 22,848 | 62,229 |
| Other receivables | 538,366 | 303,508 | 731,025 | 939,272 |
| Total | 817,173 | 631,287 | 1,026,638 | 1,334,274 |

32 — DUE TO BANKS

ACCOUNTING POLICY

Due to banks include, bank overdrafts and long-term and short-term loans obtained from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

| As at 31 March | Company | | Group | |
|--|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Overdrafts | 616,359 | 451 | 876,594 | 376,395 |
| Long-term loans | 19,574,112 | 18,278,486 | 20,814,867 | 19,530,591 |
| Bank borrowings – Short-term loans | 15,393,937 | 8,049,277 | 15,393,937 | 8,049,277 |
| Redeemable preference shares (Note 32.1) | - | 103,414 | - | 103,414 |
| Total | 35,584,408 | 26,431,628 | 37,085,398 | 28,059,677 |

Notes to the Financial Statements

32. DUE TO BANKS (CONTD.)

32.1 REDEEMABLE PREFERENCE SHARES

| As at 31 March | Company | | Group | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Redeemable preference shares | - | 100,000 | - | 100,000 |
| Interest payable | - | 3,414 | - | 3,414 |
| Total | - | 103,414 | - | 103,414 |

32.2 LONG-TERM LOANS DETAILS

The table below provides details of the long-term borrowings of the Company:

| Name of the bank | Granted date | Facility amount Rs. '000 | Period | Interest rate | Security status |
|-------------------------|--------------|-----------------------------|----------|-----------------------|-----------------|
| Commercial Bank | 26.09.2013 | 750,000 | 04 years | AWPLR+1% | Secured |
| Commercial Bank | 01.09.2014 | 1,000,000 | 04 years | 9.00% | Secured |
| Commercial Bank | 23.10.2014 | 3,000,000 | 04 years | 8.00% | Secured |
| Commercial Bank | 06.02.2015 | 2,000,000 | 04 years | 7.25% – 8.5% | Secured |
| Commercial Bank | 14.07.2015 | 2,000,000 | 04 years | 7.25% – 10.5% | Secured |
| Commercial Bank | 08.09.2016 | 1,000,000 | 04 years | 14.00% | Secured |
| Sampath Bank | 31.12.2014 | 2,000,000 | 05 years | 7.00% – 8.5% | Secured |
| Indian Overseas Bank | 01.01.2013 | 650,000 | 04 years | AWPLR+2.85% | Secured |
| Indian Overseas Bank | 31.01.2014 | 500,000 | 04 years | 12.25% | Secured |
| Axis Bank | 30.12.2013 | 320,000 | 04 years | AWPLR+1.25% | Secured |
| Axis Bank | 27.03.2017 | 150,000 | 04 years | AWPLR+1.25% | Secured |
| Axis Bank | 27.03.2017 | 250,000 | 04 years | AWPLR+1.25% | Secured |
| People's Bank | 22.01.2015 | 1,500,000 | 04 years | 9.00% | Secured |
| People's Bank | 26.05.2015 | 4,250,000 | 04 years | 8.50% | Secured |
| People's Bank | 27.11.2015 | 2,000,000 | 04 years | 10.00% | Secured |
| People's Bank | 15.03.2016 | 2,000,000 | 04 years | AWPLR+1.75% | Secured |
| People's Bank | 02.06.2016 | 2,500,000 | 04 years | 06 month SLIBOR+1.75% | Secured |
| Hatton National Bank | 30.01.2015 | 2,000,000 | 04 years | 8.50% | Secured |
| Standard Chartered Bank | 25.04.2016 | 1,823,820 | 01 year | 01 year LIBOR+3% | Secured |
| Bank of Ceylon | 07.07.2016 | 3,000,000 | 04 years | 11.50% | Secured |

Details of the securities are disclosed in Note 55 – 'Assets Pledged' to the Financial Statements.

Notes to the Financial Statements

33 — DUE TO CUSTOMERS

ACCOUNTING POLICY

Due to customers include fixed deposits and savings deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

| As at 31 March | Company | | Group | |
|------------------|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Fixed deposits | 41,171,241 | 29,410,687 | 40,948,079 | 29,278,600 |
| Savings deposits | 3,551,311 | 4,425,741 | 3,517,489 | 4,398,660 |
| Total | 44,722,552 | 33,836,428 | 44,465,568 | 33,677,260 |

34 — DEBT SECURITIES ISSUED

ACCOUNTING POLICY

Debt Securities issued represent the funds borrowed by the Company and the Group for long-term and short-term liquidity requirements. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised.

| As at 31 March | Company | | Group | |
|-------------------------------|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Promissory Notes | 16,199 | 33,630 | 16,199 | 33,630 |
| Listed Debentures (Note 34.1) | 21,877,658 | 15,464,109 | 21,773,643 | 15,360,053 |
| Commercial Papers | 190,114 | 2,004,231 | 190,114 | 2,004,231 |
| Asset backed securities | 16,589,306 | 16,885,707 | 16,589,306 | 16,885,707 |
| Total | 38,673,277 | 34,387,677 | 38,569,262 | 34,283,621 |

34.1 LISTED DEBENTURES

In 2013, the Company issued Rs. 6,000 million worth of senior, unsecured, redeemable, AA(-) rated four year (2013/17) and five year (2013/18) debentures of Rs. 100/- each. In 2014, the Company issued Rs. 3,000 million worth of senior, unsecured, redeemable, AA(-) rated three year (2014/17) and four year (2014/18) debentures of Rs. 100/- each. In 2015, the Company issued Rs. 6,000 million worth of senior, unsecured, redeemable, AA(-) rated four year (2015/19) and five year (2015/20) debentures of Rs. 100/- each. In 2016, the Company issued Rs. 8,000 million worth of senior, unsecured, redeemable, AA(-) rated three year (2016/19), four year (2016/20) and five year (2016/21) debentures of Rs. 100/- each.

Notes to the Financial Statements

34. DEBT SECURITIES ISSUED (CONTD.)

SENIOR, UNSECURED, REDEEMABLE, AA(-) RATED

| As at 31 March | Face value Rs. '000 | Interest rate % | Repayment term | Issued date | Maturity date | Company | | Group | |
|----------------|------------------------|--------------------|----------------|-------------|---------------|-------------------|------------------|-------------------|------------------|
| | | | | | | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Option 01 | 1,986,500 | 16.50 | Semi annually | 27-Mar-2013 | 26-Mar-2017 | - | 2,054,163 | - | 2,054,163 |
| Option 02 | 1,583,500 | 16.75 | Semi annually | 27-Mar-2013 | 26-Mar-2018 | 1,628,738 | 1,637,931 | 1,577,138 | 1,586,331 |
| Option 03 | 2,430,000 | 17.00 | Annually | 27-Mar-2013 | 26-Mar-2018 | 2,655,027 | 2,511,351 | 2,602,612 | 2,458,895 |
| Type A | 1,800,070 | 8.75 | Annually | 15-Sep-2014 | 14-Sep-2017 | 1,835,393 | 1,526,950 | 1,835,393 | 1,526,950 |
| Type B | 1,199,930 | 9.63 | Annually | 15-Sep-2014 | 14-Sep-2018 | 1,225,666 | 1,529,733 | 1,225,666 | 1,529,733 |
| Type A | 2,175,780 | 9.60 | Semi annually | 13-Nov-2015 | 12-Nov-2019 | 2,245,624 | 2,247,874 | 2,245,624 | 2,247,874 |
| Type B | 3,824,220 | 9.95 | Annually | 13-Nov-2015 | 12-Nov-2020 | 3,952,078 | 3,956,107 | 3,952,078 | 3,956,107 |
| Type A | 542,040 | 11.90 | Semi annually | 16-Nov-2016 | 16-Nov-2019 | 563,496 | - | 563,496 | - |
| Type B | 659,350 | 12.25 | Semi annually | 16-Nov-2016 | 16-Nov-2020 | 686,304 | - | 686,304 | - |
| Type C | 6,798,610 | 12.60 | Semi annually | 16-Nov-2016 | 16-Nov-2021 | 7,085,332 | - | 7,085,332 | - |
| Total | 23,000,000 | | | | | 21,877,658 | 15,464,109 | 21,773,643 | 15,360,053 |

34.1.1 UTILISATION OF FUNDS RAISED VIA CAPITAL MARKET

| Objective as per Prospectus | Amount allocated as per prospectus in Rs. '000 | Proposed date of utilisation as per prospectus | Amount allocated from proceeds in Rs. '000 (A) | % of total proceeds | Amounts utilised in Rs. '000 (B) | % of utilisation against allocation (B/A) | Clarification if not fully utilised including where the funds are invested |
|--|--|--|--|---------------------|----------------------------------|---|--|
| Issue of listed, senior, unsecured, redeemable, rated debentures during the year 2015/16 | | | | | | | |
| The funds raised through this Debenture Issue will be utilised to finance working capital requirements to match the medium to long-term lending of PLC and to minimise the interest rate risk. | 6,000,000 | Within the next 12 months from the date of allotment | 6,000,000 | 100 | 6,000,000 | 100 | N/A |
| Issue of listed, senior, unsecured, redeemable, rated debentures during the year 2016/17 | | | | | | | |
| The funds raised through this Debenture Issue will be utilised to finance the budgeted lending portfolio and working capital requirements | 8,000,000 | Within the next 12 months from the date of allotment | 8,000,000 | 100 | 8,000,000 | 100 | N/A |

Notes to the Financial Statements

35 — OTHER FINANCIAL LIABILITIES

ACCOUNTING POLICY

Other financial liabilities include amounts payable to suppliers, insurance payable, dividend payable and other payables.

DIVIDENDS PAYABLE

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are recommended by and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Group.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date in accordance with the Sri Lanka Accounting Standard – LKAS 10 – ‘Events after the Reporting period’.

WITHHOLDING TAX ON DIVIDENDS, DISTRIBUTED BY THE COMPANY AND SUBSIDIARIES

Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised. Withholding tax on dividends distributed by the subsidiaries and associates dividends received by the Company from its subsidiaries and associates, have attracted a 10% deduction at source.

| As at 31 March | Company | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Amount payable to suppliers | 1,905,190 | 2,067,732 | 1,973,684 | 2,397,652 |
| Insurance payable | 599,782 | 529,820 | 82,049 | 67,988 |
| Dividend payable | 15,031 | 11,886 | 15,031 | 11,886 |
| Other payables | 205,163 | 121,046 | 492,423 | 410,873 |
| Total | 2,725,166 | 2,730,484 | 2,563,187 | 2,888,399 |

36 — DERIVATIVE FINANCIAL INSTRUMENTS

ACCOUNTING POLICY

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and induces. Derivatives are categorised as trading unless they are designated as hedging instruments.

All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains recognised in the Statement of Profit or Loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within Statement of Comprehensive Income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond held, are valued as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognised in the Statement of Profit or Loss. Embedded derivatives continue to be presented with the host contract and are not separately disclosed or included within derivatives.

Notes to the Financial Statements

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTD.)

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge);
- (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge); or
- (3) hedges of the net investment of a foreign operation (net investment hedges).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedging instruments is recognised in Equity. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Profit or Loss.

Amounts accumulated in Equity are reclassified to the Statement of Profit or Loss in the periods in which the hedged item affects profit or loss. When a hedging instrument expires or is sold or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in Equity at that time remains in Equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Profit or Loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in Equity is immediately transferred to the Statement of Profit or Loss.

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

Changes in the fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the Statement of Profit or Loss.

COMPANY AND GROUP

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

| As at 31 March | 2017 | | 2016 | |
|------------------------------------|-----------------------|--------------------------------|-----------------------|--------------------------------|
| | Liability Rs. '000 | Notional Amount Rs. '000 | Liability Rs. '000 | Notional Amount Rs. '000 |
| Forward foreign exchange contracts | 8,363 | 1,842,058 | – | – |
| Total | 8,363 | 1,842,058 | – | – |

Notes to the Financial Statements

HEDGE ACCOUNTING

The Company has raised USD 12 million on 25 April 2016 through foreign borrowings for a period of one year, against which a forward foreign exchange contract arrangement has been entered into with the People's Bank for USD 12 million which matured on 20 April 2017.

As per Sri Lanka Accounting Standard – LKAS 39 – 'Financial Instruments: Recognition and Measurement' the Company has identified this particular transaction as a 'Cash Flow Hedge' after documenting the hedge relationship.

The objective of the hedge is to reduce the variability of the cash flows of a foreign currency denominated above mentioned borrowing (only the capital portion) attributable to changes in LKR/USD exchange rate.

| Details | Description of the Hedge |
|---|--|
| Hedge instrument | Forward foreign exchange contracts Counterparty – People's Bank Notional amount – USD 12 million |
| Hedge item | USD denominated borrowing – USD 12 million Capital is repayable in full on 20 April 2017 |
| The periods when the cash flows are expected to occur | 22 July 2016 to 20 April 2017 |
| The amount recognised in Statement of Comprehensive Income during the year | Rs. 878,835 |
| Fair value of the hedge item as at 31 March 2017 | Rs. 1,824 million |
| Fair value of the hedge instrument as at 31 March 2017 | Rs. 8 million |
| Any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur | None |
| The amount that was reclassified from equity to Statement of Profit or Loss as a reclassification adjustment | None |

The expected impact to the Statement of Profit or Loss on the hedge is as follows:

| As at 31 March | Less than one year Rs. '000 |
|-----------------------------|--------------------------------|
| Forecast cash inflow | 1,837,080 |
| Less: Forecast cash outflow | 1,823,820 |
| Net effect | 13,260 |

Notes to the Financial Statements

37 — INSURANCE LIABILITIES AND REINSURANCE PAYABLE

ACCOUNTING POLICY

INSURANCE CONTRACT LIABILITIES

NON-LIFE INSURANCE CONTRACT LIABILITIES

Non-life insurance contract liabilities are recognised when contracts are entered and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Income by setting up a provision for liability adequacy.

DERECOGNITION OF INSURANCE PAYABLE

Insurance payables are derecognised when the obligation under the liability is discharged, cancelled or expired.

UNEXPIRED RISK RESERVE

The calculation of premium liability requires a comparison between the Company's held unearned premium reserves less deferred acquisition cost with the expected amount decided based on the significant management judgement. In estimating the unexpired risk liability, assumptions are made on the expected net claim ratio for each of business and claim management expenses incurred whilst these policies remain exposed for claims.

NON-LIFE INSURANCE CONTRACT LIABILITIES

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods and frequency/severity method.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident periods and significant business lines, but can also be further analysed by geographical area and claim types. Large claims may be separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Notes to the Financial Statements

Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

All general insurance contracts are subject to a Liability Adequacy Test (LAT). The LAT was carried out by Messrs NMG Financial Services Consulting (Pvt) Limited, Singapore.

| As at 31 March | Company | | Group | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Insurance liabilities (Note 37.1) | - | - | 3,481,231 | 3,137,255 |
| Reinsurance payables | - | - | 55,879 | 44,333 |
| Total | - | - | 3,537,110 | 3,181,588 |

37.1 INSURANCE LIABILITIES

| As at 31 March | Company | | Group | |
|---------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Outstanding claims provision | - | - | 1,275,074 | 1,269,156 |
| Provision for unearned premiums (net) | - | - | 2,206,157 | 1,868,099 |
| Provision for liability adequacy | - | - | - | - |
| Total | - | - | 3,481,231 | 3,137,255 |

38 — CURRENT TAX LIABILITIES

ACCOUNTING POLICY

The Group and the Company are subject to income taxes and other taxes including VAT and NBT on financial services. Significant judgement is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

The Group and the Company recognised assets and liabilities for current, deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income tax and/or deferred tax amounts in the period in which the determination is made.

Notes to the Financial Statements

38. CURRENT TAX LIABILITIES (CONTD.)

ECONOMIC SERVICE CHARGE (ESC)

As per the provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, the ESC is payable at 0.5% on 'Exempt Turnover' and is deductible from the income tax payments. Unclaimed ESC, if any, can be carried forward and set off against the income tax payable in the five subsequent years.

| As at 31 March | Company | | Group | |
|--------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Income tax payable | 289,978 | 937,999 | 337,291 | 1,017,694 |
| Total | 289,978 | 937,999 | 337,291 | 1,017,694 |

39 — DEFERRED TAX LIABILITIES/(ASSETS)

ACCOUNTING POLICY

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- — Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- — In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- — Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- — In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

Notes to the Financial Statements

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

| As at 31 March | Company | | Group | |
|------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Recognised under assets | - | - | (26,234) | (14,524) |
| Recognised under liabilities | 1,923,171 | 1,821,897 | 1,975,528 | 1,855,248 |
| 1,923,171 | 1,923,171 | 1,821,897 | 1,949,294 | 1,840,724 |

Net deferred tax assets/liabilities of one entity cannot be set-off against another entity's assets/liabilities since there is no legally enforceable right to set-off. Therefore, net deferred tax assets and liabilities of different entities are separately recognised in the Statement of Financial Position.

39.1 MOVEMENT IN DEFERRED TAX

| As at 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 1,821,897 | 1,949,490 | 1,840,724 | 1,976,418 |
| Charge for the year | 107,544 | (122,092) | 115,063 | (128,726) |
| Deferred tax charge relating to components of Statement of Comprehensive Income | (6,270) | (5,501) | (6,493) | (6,968) |
| Balance as at 31 March | 1,923,171 | 1,821,897 | 1,949,294 | 1,840,724 |

Notes to the Financial Statements

39. DEFERRED TAX LIABILITIES/(ASSETS) (CONTD.)

| As at 31 March 2017 | Company | | | | Group | | | |
|--|---------------------|--------------------------|-----------------------------|-----------------------------------|---------------------|--------------------------|-----------------------------|-----------------------------------|
| | Deferred tax assets | Deferred tax liabilities | Statement of profit or loss | Statement of comprehensive income | Deferred tax assets | Deferred tax liabilities | Statement of profit or loss | Statement of comprehensive income |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Retirement benefit obligation | 85,495 | - | (15,671) | 6,270 | 90,447 | 17 | (13,763) | 6,493 |
| Carry forward tax losses | - | - | - | - | 14,260 | - | 10,731 | - |
| Impairment allowances for loans and receivables | 70,560 | 93,479 | 22,919 | - | 95,119 | 93,479 | 9,067 | - |
| Accelerated depreciation allowance for tax purpose (Lease) | - | 1,883,139 | 66,604 | - | - | 1,883,140 | 66,809 | - |
| Accelerated depreciation allowance for tax purpose (PPE) | - | 100,563 | 33,692 | - | - | 170,439 | 42,219 | - |
| Fair value gains/losses – Freehold buildings | - | 2,045 | - | - | - | 2,045 | - | - |
| | 156,055 | 2,079,226 | 107,544 | 6,270 | 199,826 | 2,149,120 | 115,063 | 6,493 |
| Recognised under assets | | - | | | | (26,234) | | |
| Recognised under liabilities | | 1,923,171 | | | | 1,975,528 | | |
| | | 1,923,171 | | | | 1,949,294 | | |

| As at 31 March 2016 | Company | | | | Group | | | |
|--|---------------------|--------------------------|-----------------------------|----------------------|---------------------|--------------------------|-----------------------------|----------------------|
| | Deferred tax assets | Deferred tax liabilities | Statement of profit or loss | Comprehensive income | Deferred tax assets | Deferred tax liabilities | Statement of profit or loss | Comprehensive income |
| | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 | Rs. '000 |
| Retirement benefit obligation | 63,558 | - | (12,581) | 7,546 | 70,383 | - | (12,643) | 6,968 |
| Carry forward tax losses | - | - | - | - | 24,990 | - | (7,457) | - |
| Impairment allowances for loan receivables | - | - | - | - | 10,707 | - | (3,654) | - |
| Accelerated depreciation allowance for tax purpose (Lease) | - | 1,816,539 | (101,208) | - | - | 1,816,538 | (101,208) | - |
| Accelerated depreciation allowance for tax purpose (PPE) | - | 66,871 | (8,303) | - | - | 128,221 | (3,764) | - |
| Fair value gains/losses – Freehold buildings | - | 2,045 | - | (2,045) | - | 2,045 | - | - |
| | 63,558 | 1,885,455 | (122,092) | 5,501 | 106,080 | 1,946,804 | (128,726) | 6,968 |
| Recognised under assets | | - | | | | (14,524) | | |
| Recognised under liabilities | | 1,821,897 | | | | 1,855,248 | | |
| | | 1,821,897 | | | | 1,840,724 | | |

Deferred tax assets/liabilities have been calculated at the tax rate specific to each company.

Notes to the Financial Statements

40 — OTHER LIABILITIES

ACCOUNTING POLICY

Other liabilities include VAT on financial services payable, VAT payables, retirement benefit obligation, Value Added Tax (VAT) payable and other payable. These liabilities are recorded at amounts expected to be payable at the reporting date.

VALUE ADDED TAX (VAT) ON FINANCIAL SERVICES

Value Added Tax (VAT) on financial services is calculated in accordance with Value Added Tax Act No. 14 of 2002 and subsequent amendments thereto. The base for value added tax computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rates.

EMPLOYEE BENEFITS

RETIREMENT BENEFIT OBLIGATION – GRATUITY

The Group and the Company measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional actuary using the 'Projected Unit Credit method' (PUC) as required by the Sri Lanka Accounting Standard – LKAS 19 – 'Employee Benefits'.

RECOGNITION OF ACTUARIAL GAINS AND LOSSES

The Group and the Company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Statement of Comprehensive Income during the period in which it occurs.

FUNDING ARRANGEMENTS

The gratuity liability is not externally funded.

DEFINED CONTRIBUTION PLANS – EMPLOYEES' PROVIDENT FUND

The Group and the Company and employees contribute, to the Employees' Provident Fund managed by the Central Bank of Sri Lanka, 12% and 8% respectively on the gross salary of each employee.

DEFINED CONTRIBUTION PLANS – EMPLOYEES' TRUST FUND

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

RETIREMENT BENEFIT OBLIGATION

The cost of the retirement benefit obligation is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future gratuity increases. Due to the long-term nature of such obligation, these estimates are subjected to significant uncertainty. All assumptions are reviewed at each reporting date.

Notes to the Financial Statements

40. OTHER LIABILITIES (CONTD.)

| As at 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| VAT on financial services payable | 100,331 | 67,249 | 101,529 | 69,139 |
| Value added tax (VAT) payable | 13,187 | – | 30,910 | 14,800 |
| Retirement benefit obligation (Note 40.1) | 305,339 | 226,994 | 327,278 | 238,848 |
| Other Payable | 1,413,698 | 1,123,424 | 1,437,194 | 1,144,246 |
| Total | 1,832,555 | 1,417,667 | 1,896,911 | 1,467,033 |

40.1 RETIREMENT BENEFIT OBLIGATION

| As at 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 226,994 | 155,111 | 238,848 | 163,547 |
| Amount recognised in Statement of Profit or Loss (Note 40.1.2) | 64,734 | 51,184 | 72,109 | 55,194 |
| Actuarial (gain)/loss (Note 40.1.3) | 22,380 | 26,951 | 25,157 | 26,893 |
| Benefits paid during the year | (8,769) | (6,252) | (8,836) | (6,786) |
| Balance as at 31 March | 305,339 | 226,994 | 327,278 | 238,848 |

40.1.1 AMOUNT RECOGNISED IN STATEMENT OF PROFIT OR LOSS

| As at 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Current service cost | 37,495 | 28,258 | 43,577 | 31,876 |
| Net interest on the net defined benefit liability | 27,239 | 22,926 | 28,532 | 23,318 |
| Total amount recognised in Statement of Profit or Loss | 64,734 | 51,184 | 72,109 | 55,194 |

40.1.2 AMOUNT RECOGNISED IN STATEMENT OF COMPREHENSIVE INCOME

| As at 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Losses/(Gains) due to changes in assumptions | (26,178) | 8,919 | (23,234) | 8,918 |
| Experience Losses/(Gains) arising during the year | 48,558 | 18,032 | 48,391 | 17,975 |
| Total actuarial (losses)/gains recognised in Statement of Comprehensive Income | 22,380 | 26,951 | 25,157 | 26,893 |

Notes to the Financial Statements

An actuarial valuation of the retirement benefit obligations was carried out as at 31 March 2017 by Messrs Smiles Global (Private) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the liability is the Projected Unit Credit (PUC), the method recommended by the Sri Lanka Accounting Standard LKAS 19 – ‘Employee Benefits’.

| As at 31 March | Company/Group | |
|------------------------------|------------------------------------|-----------------------------|
| | 2017 | 2016 |
| Actuarial assumptions | | |
| Discount rate | 12.80% | 12.00% |
| Future salary increment rate | 10.00% | 10.50% |
| Mortality | A1967/70 ultimate mortality | A1967/70 ultimate mortality |
| Disability | Standard RI rates | Standard RI rates |
| Retirement age | 55 Years | 55 Years |

Expected average working life of the active participants is 10.38 years for the year ended 31 March 2017. (9.71 years – 2016).

SENSITIVITY OF ASSUMPTIONS EMPLOYED IN ACTUARIAL VALUATION

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measures.

The sensitivity of the Statement of Comprehensive Income and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the employment benefit obligation for the year.

| | | 2017 | | 2016 | |
|--|----|---|--|---|--|
| | | Effect on Statement of Comprehensive Income increase/(reduction) in results for the year Rs. '000 | Effect on employee benefit obligation increase/(reduction) in the liability Rs. '000 | Effect on Statement of Comprehensive Income increase/(reduction) in results for the year Rs. '000 | Effect on employee benefit obligation increase/(reduction) in the liability Rs. '000 |
| Increase/(decrease) in discount rate | 1 | 17,391 | (17,391) | 13,255 | (13,255) |
| | -1 | (19,485) | 19,485 | (14,942) | 14,942 |
| Increase/(decrease) in salary increment | 1 | (20,302) | 20,302 | (15,013) | 15,013 |
| | -1 | 18,398 | (18,398) | 13,539 | (13,539) |

Notes to the Financial Statements

41 — CAPITAL

| As at 31 March | Company/Group | | | |
|---|----------------------|-------------------|---------------|------------|
| | 2017 | | 2016 | |
| | Number | Rs. '000 | Number | Rs. '000 |
| Ordinary shares as at 1 April | 1,579,862,482 | 13,136,073 | 1,579,862,482 | 12,936,073 |
| Transfer from preference shares on redemption | - | 100,000 | - | 200,000 |
| Ordinary shares as at 31 March | 1,579,862,482 | 13,236,073 | 1,579,862,482 | 13,136,073 |

41.1 STATED CAPITAL

| As at 31 March | Company/Group | | | |
|--|----------------------|-------------------|---------------|-------------|
| | 2017 | | 2016 | |
| | Number | Rs. '000 | Number | Rs. '000 |
| Fully paid ordinary shares | 1,579,862,482 | 11,886,073 | 1,579,862,482 | 11,886,073 |
| Transfer from preference shares on redemption | - | 1,350,000 | - | 1,250,000 |
| Issued capital | 1,579,862,482 | 13,236,073 | 1,579,862,482 | 13,136,073 |
| Fully paid cumulative redeemable preference shares | 135,000,000 | 1,350,000 | 135,000,000 | 1,350,000 |
| Transfer to ordinary shares on redemption | (135,000,000) | (1,350,000) | (125,000,000) | (1,250,000) |
| Preference share capital | - | - | 10,000,000 | 100,000 |
| Total | - | 13,236,073 | - | 13,236,073 |

RIGHTS, PREFERENCES AND RESTRICTIONS OF CLASSES OF CAPITAL

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. The holders of ordinary shares have the right to receive dividend as declared from time to time and are entitled to one vote per share at the Annual General Meeting of the Company.

CAPITAL MANAGEMENT

The primary objectives of the Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

Notes to the Financial Statements

REGULATORY CAPITAL

| As at 31 March | 2017 | | 2016 | |
|---------------------------------------|-------------------|----------------|------------|----------|
| | Actual | Required | Actual | Required |
| Core capital (Rs. '000) | 24,231,162 | 400,000 | 22,222,893 | 400,000 |
| Core capital ratio (%) | 17.56 | 5.00 | 19.56 | 5.00 |
| Total risk weighted capital ratio (%) | 16.37 | 10.00 | 18.14 | 10.00 |

Regulatory capital consists of core capital, which comprises stated capital, statutory reserved fund, retained earnings including current year profit, general and other reserves less goodwill.

42 — STATUTORY RESERVE FUND

| As at 31 March | Company | | Group | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 1,421,483 | 1,204,116 | 1,421,483 | 1,204,116 |
| Transfer during the year | 200,463 | 217,367 | 200,463 | 217,367 |
| Balance as at 31 March | 1,621,946 | 1,421,483 | 1,621,946 | 1,421,483 |

'Statutory Reserve Fund' has been created during the year 2007 in accordance with the Finance Companies (Capital Funds) Direction No. 1 of 2003 issued by Central Bank of Sri Lanka. Accordingly 5% of the net profit for the period is transferred to the Statutory Reserve Fund during the financial year.

43 — RETAINED EARNINGS

| As at 31 March | Company | | Group | |
|---------------------------------|--------------------|------------------|--------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 7,682,230 | 6,489,599 | 8,600,098 | 7,403,781 |
| Super gain tax (Note 43.1) | - | (741,079) | - | (857,634) |
| Change in ownership | - | - | - | (229,115) |
| Profit for the year | 4,009,254 | 4,347,354 | 4,255,132 | 4,708,130 |
| Comprehensive income | (16,110) | (21,450) | (19,106) | (15,546) |
| Transfers to reserves | (200,463) | (217,367) | (200,463) | (217,367) |
| Dividend paid | (1,974,827) | (1,974,827) | (1,974,827) | (1,974,827) |
| Redemption of preference shares | (100,000) | (200,000) | (100,000) | (200,000) |
| Share issue expenses | - | - | - | (17,324) |
| Balance as at 31 March | 9,400,084 | 7,682,230 | 10,560,834 | 8,600,098 |

Notes to the Financial Statements

43. RETAINED EARNINGS (CONTD.)

43.1 SUPER GAIN TAX

As per the provisions of Part III of the Finance Act No. 10 of 2015 which was certified on 30 October 2015, the Company and the Group are liable for Super Gain Tax of Rs. 741 million and Rs. 858 million respectively. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the Financial Statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by The Institute of Chartered Accountants of Sri Lanka dated 24 November 2015.

44 — OTHER RESERVES

EQUITY RESERVES

The reserves recorded in equity (Statement of Comprehensive Income) on the Statement of Financial Position include:

- — 'Available-for-sale' reserve, which comprises changes in fair value of available-for-sale financial assets.
- — 'General reserve' represents the amounts set aside by the Directors for general application. The purpose of setting up the general reserve is to meet the potential future unknown liabilities.
- — 'Tax equalisation reserve' comprises an amount set aside by the Directors to meet any tax liabilities that may arise in the future.
- — 'Revaluation reserve' relates to revaluation adjustment of investment property transferred from property, plant and equipment.

44.1 COMPANY

| | Opening balance as at 1 April 2016 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance as at 31 March 2017 Rs. '000 |
|----------------------------|---|------------------------------------|--|
| General reserve | 300,000 | – | 300,000 |
| Tax equalisation reserve | 100,000 | – | 100,000 |
| Available-for-sale reserve | 124,780 | (93,771) | 31,009 |
| Cash flow hedge reserve | – | 879 | 879 |
| Revaluation reserve | 7,302 | – | 7,302 |
| Total | 532,082 | (92,892) | 439,190 |

| | Opening balance as at 1 April 2015 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance as at 31 March 2016 Rs. '000 |
|----------------------------|---|------------------------------------|--|
| General reserve | 300,000 | – | 300,000 |
| Tax equalisation reserve | 100,000 | – | 100,000 |
| Available-for-sale reserve | 99,029 | 25,751 | 124,780 |
| Cash flow hedge reserve | 6,971 | (6,971) | – |
| Revaluation reserve | – | 7,302 | 7,302 |
| Total | 506,000 | 26,082 | 532,082 |

Notes to the Financial Statements

44.2 GROUP

| | Opening balance as at 1 April 2016 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance as at 31 March 2017 Rs. '000 |
|----------------------------|---|------------------------------------|--|
| General reserve | 300,000 | - | 300,000 |
| Tax equalisation reserve | 100,000 | - | 100,000 |
| Available-for-sale reserve | 109,575 | (89,497) | 20,078 |
| Cash flow hedge reserve | - | 879 | 879 |
| Total | 509,575 | (88,618) | 420,957 |

| | Opening balance as at 1 April 2015 Rs. '000 | Movement/ Transfers Rs. '000 | Closing balance as at 31 March 2016 Rs. '000 |
|----------------------------|---|------------------------------------|--|
| General reserve | 300,000 | - | 300,000 |
| Tax equalisation reserve | 100,000 | - | 100,000 |
| Available-for-sale reserve | 101,918 | 7,657 | 109,575 |
| Cash flow hedge reserve | 6,971 | (6,971) | - |
| Total | 508,889 | 686 | 509,575 |

45 — NON-CONTROLLING INTEREST

Non controlling interest are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Non-controlling interest represents 25% of net assets of the Subsidiary, People's Insurance PLC.

| As at 31 March | Group | |
|---|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 |
| Balance as at 1 April | 1,003,043 | - |
| Listing of a subsidiary with non-controlling interest | - | 974,006 |
| Profit for the year | 186,484 | 33,416 |
| Other comprehensive income | 442 | (4,379) |
| Dividend paid for the year | (105,000) | - |
| Balance as at 31 March | 1,084,969 | 1,003,043 |

Notes to the Financial Statements

46 — CONTINGENT LIABILITIES AND COMMITMENTS

COMMITMENTS AND CONTINGENCIES

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 readily measured as defined in the Sri Lanka Accounting Standard LKAS – 37 – ‘Provisions, Contingent Liabilities and Contingent Assets’. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

LEGAL CLAIMS

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company and the Group have formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Company and the Group make adjustments to account for any adverse effects which the claims may have on its financial standing. At the Reporting date the Company and the Group had several unresolved legal claims. The significant unresolved legal claims against the Company and Group for which legal advisor of the Company advised as the loss is possible, but not probable, that the action will succeed. Accordingly, no provision for any claims has been made in these Financial Statements.

CONTINGENT LIABILITIES, COMMITMENTS OF OTHER GROUP ENTITIES

The Company's and the Group's share of any contingencies and capital commitments of subsidiaries and the Associate for which the Company is also liable severally or otherwise is included with appropriate disclosures.

PROVISIONS FOR LIABILITIES AND CONTINGENCIES

The Company and the Group receive legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognised in the Financial Statements are described as follows:

| As at 31 March | Company | | Group | |
|------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Contingent liabilities (Note 46.1) | 978,275 | 783,168 | 978,275 | 783,168 |
| Commitments (Note 46.2) | 5,461,703 | 1,568,642 | 5,737,249 | 2,167,322 |
| Total | 6,439,978 | 2,351,810 | 6,715,524 | 2,950,490 |

Notes to the Financial Statements

46.1 CONTINGENT LIABILITIES

In the normal course of business, the Group and the Company make various irrecoverable commitments and incur certain contingent liabilities with legal recourse to its customers and would be a party to litigation due to its operations. Even though, these obligations may not be recognised in the Statement of Financial Position, they do contain operational risk and therefore form a part of the overall risk profile of the Group and the Company. However, no material losses are anticipated as a result of these transactions.

| As at 31 March | Company | | Group | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Accidents of leased out vehicles | 292,912 | 130,925 | 292,912 | 130,925 |
| Guarantees – Related parties | 650,000 | 625,000 | 650,000 | 625,000 |
| Guarantees – Others | 30,935 | 14,100 | 30,935 | 14,100 |
| Pending bill retirements | 4,428 | 13,143 | 4,428 | 13,143 |
| Total | 978,275 | 783,168 | 978,275 | 783,168 |

46.2 COMMITMENTS

The Group and the Company has commitments for acquisition of property, plant and equipment, intangible assets and unutilised facilities incidental to the ordinary course of business as at 31 March as follows:

| As at 31 March | Company | | Group | |
|----------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Capital Commitments | | | | |
| Approved and contracted for | – | – | 224,818 | 578,787 |
| Approved but not contracted for | 495,000 | – | 545,728 | 19,893 |
| Derivative financial instruments | 1,855,451 | – | 1,855,451 | – |
| | 2,350,451 | – | 2,625,997 | 598,680 |
| Unutilised Facilities | | | | |
| Margin trading | 656,697 | 555,984 | 656,697 | 555,984 |
| Fasttrack | 2,218,805 | 835,399 | 2,218,805 | 835,399 |
| Factoring | 235,750 | 177,259 | 235,750 | 177,259 |
| | 3,111,252 | 1,568,642 | 3,111,252 | 1,568,642 |
| Total | 5,461,703 | 1,568,642 | 5,737,249 | 2,167,322 |

Notes to the Financial Statements

46. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

LITIGATION AGAINST THE COMPANY

Litigation is a common occurrence in the finance industry due to the nature of the business undertaken. The Company has formal controls and policies for managing legal claims. Pending legal claims where the Company had already made provisions for possible losses in its Financial Statements or has a reasonable security to cover the damages are not included below as the Company does not expect cash outflows from such claims. However, further adjustments are made to Financial Statements if necessary on the adverse effects of legal claims based on the professional advice obtained on the certainty of the outcome and also based on a reasonable estimate.

As of the date of the Statement of Financial Position, forty (40) clients have filed cases against the Company. The Company's legal counsel is of the opinion that litigation which is currently pending will not have a material impact on the reported financial results or future operations of the Company.

47 — NON-CASH ITEMS INCLUDED IN PROFIT BEFORE TAX

| As at 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Depreciation of property, plant and equipment | 177,214 | 197,097 | 263,644 | 280,493 |
| Amortisation of intangible assets | 9,779 | 13,127 | 12,764 | 17,817 |
| Impairment losses on loans and receivables | 215,761 | 258,350 | 282,819 | 290,703 |
| Charge for retirement benefit obligation | 64,734 | 51,184 | 72,109 | 55,194 |
| (Gain) on sale of property, plant and equipment | (40,705) | (5,699) | (40,705) | (5,699) |
| Net trading income from sale of vehicles | (4,358) | (1,913) | (4,358) | (1,913) |
| Net gains/(losses) on financial assets – Held-for-trading | (8,257) | 40,355 | (43,869) | 71,903 |
| Fair value gain on investment property | (10,048) | – | – | – |
| Total | 404,120 | 552,501 | 542,404 | 708,498 |

48 — CHANGE IN OPERATING ASSETS

| As at 31 March | Company | | Group | |
|--|---------------------|---------------------|---------------------|---------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Net (increase) in balances with banks and financial institutions | (1,242,541) | (521,127) | (1,246,031) | (712,348) |
| Net (increase)/decrease in financial assets – Held-for-trading | 18,693 | (55,813) | 42,006 | (96,073) |
| Net (increase) in loans and receivables | (24,393,694) | (11,717,657) | (24,591,807) | (13,448,371) |
| Net (increase)/decrease in derivative financial instrument | 9,242 | (99,164) | 9,242 | (99,164) |
| Net (increase) in insurance and reinsurance receivables | – | – | (61,220) | (19,003) |
| Net decrease in financial assets – Available-for-sale | 130,883 | 163,602 | 555,890 | 311,676 |
| Net decrease in financial assets – Held-to-maturity | 1,962,194 | 336,171 | 1,962,194 | 336,171 |
| Net (increase)/decrease in other assets | (174,722) | (40,869) | 307,636 | 434,566 |
| Total | (23,689,945) | (11,934,857) | (23,022,090) | (13,292,546) |

Notes to the Financial Statements

49—CHANGE IN OPERATING LIABILITIES

| As at 31 March | Company | | Group | |
|--|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Net increase/(decrease) in due to customers | 10,886,124 | (257,334) | 10,788,308 | (324,151) |
| Net (decrease) in other financial liabilities | (5,318) | (503,961) | (325,212) | (277,513) |
| Net increase in insurance liabilities and reinsurance payables | - | - | 355,522 | 287,230 |
| Net increase/(decrease) in other liabilities | 85,072 | (130,033) | (9,397) | (448,083) |
| Total | 10,965,878 | (891,328) | 10,809,221 | (762,517) |

50—RELATED PARTY DISCLOSURE

50.1 PARENT AND ULTIMATE CONTROLLING PARTY

The immediate Parent of the Company is People's Bank which is a Government-owned entity.

50.2 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL (KMP) AND THEIR FAMILY MEMBERS

As per the Sri Lanka Accounting Standard LKAS – 24 – 'Related Party Disclosures', the KMPs include those who are having authority and responsibility for planning, directing and controlling the activities of the Company. Accordingly, the Board of Directors of the Company, Immediate Parent Company and members of the Corporate Management of the Company have been classified as KMPs of the Company.

The Company carries out transactions with KMPs and their close family members in the ordinary course of its business on an arm's length basis at commercial rates.

50.2.1 TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR CLOSE FAMILY MEMBERS

REMUNERATION TO KEY MANAGEMENT PERSONNEL

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| (a) Remuneration to Board of Directors | | | | |
| Short-term employees benefits (Directors' emoluments) | 4,840 | 3,015 | 6,202 | 4,093 |
| Total | 4,840 | 3,015 | 6,202 | 4,093 |

| For the year ended 31 March | Company/Group | |
|---|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 |
| (b) Remuneration to Corporate Management | | |
| Short-term employees benefits | 182,331 | 74,227 |
| Post-employment benefits | 15,229 | 6,893 |
| Total | 197,560 | 81,120 |

Notes to the Financial Statements

50. RELATED PARTY DISCLOSURE (CONTD.)

In addition to the above, the Company has also provided non-cash benefits such as company maintained vehicles to KMPs in line with the approved employment terms of the Company.

50.2.2 SHARE TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

| For the year ended 31 March | Company/Group | |
|-----------------------------|------------------|-----------|
| | 2017 | 2016 |
| No. of ordinary shares held | 2,702,744 | 2,594,476 |
| Dividend paid (Rs. '000) | 3,080 | 2,731 |

50.2.3 TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING KEY MANAGEMENT PERSONNEL (KMPs), THEIR CLOSE FAMILY MEMBERS (CFMs) AND OTHER RELATED ENTITIES

| | Board of Directors | | Corporate Management | | Total | |
|---|--------------------|------------------|----------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| (a) Items in Statement of Profit or Loss | | | | | | |
| Interest income | 771 | 557 | 230 | 48 | 1,001 | 605 |
| Interest expense | - | - | 14,122 | 3,257 | 14,122 | 3,257 |
| (b) Items in Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Loans and receivables | 2,829 | 3,470 | 494 | 328 | 3,323 | 3,798 |
| Liabilities | | | | | | |
| Due to customers | - | - | 162,707 | 63,183 | 162,707 | 63,183 |

50.3 NET ACCOMMODATION AS A PERCENTAGE OF CAPITAL FUNDS

| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 % | 2016 % |
|---|------------------|------------------|-------------|-----------|
| People's Bank | - | 15,787 | - | 0.07 |
| People's Leasing Property Development Limited | 488,102 | 955,608 | 1.98 | 4.20 |
| People's Leasing Fleet Management Limited | 10,936 | 37,285 | 0.04 | 0.16 |
| People's Leasing Havelock Properties Limited | 484,401 | 97,616 | 1.96 | 0.43 |
| People's Microfinance Limited | 880,976 | 483,917 | 3.57 | 2.13 |
| People's Insurance PLC | 4,671 | 37,553 | 0.02 | 0.16 |
| Board of Directors | 2,829 | 3,470 | 0.01 | 0.02 |
| Corporate Management | 494 | 328 | 0.00 | 0.00 |
| Total net accommodation | 1,872,409 | 1,631,564 | 7.58 | 7.17 |

Notes to the Financial Statements

50.4 TRANSACTIONS WITH RELATED ENTITIES

TRANSACTIONS WITH GOVERNMENT OF SRI LANKA AND GOVERNMENT-RELATED ENTITIES

The immediate Parent of the Company is People's Bank which is Government-owned entity. The Company enters into transactions, arrangements and agreements with Government of Sri Lanka and its related entities. The significant financial dealings during the year and as at the Statement of Financial Position date are as follows:

| | Company | | Group | |
|---|-------------------|------------------|-------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| (a) Items in Statement of Profit or Loss | | | | |
| Interest income | 46,894 | 71,412 | 46,894 | 71,412 |
| Interest expense | - | 498,225 | - | 498,225 |
| (b) Items in Statement of Financial Position | | | | |
| Assets | | | | |
| Loans and receivables | 284,511 | 513,256 | 284,511 | 513,256 |
| Total | 284,511 | 513,256 | 284,511 | 513,256 |
| Liabilities | | | | |
| Due to banks | 12,897,806 | 9,776,731 | 12,897,806 | 9,776,731 |
| Total | 12,897,806 | 9,776,731 | 12,897,806 | 9,776,731 |

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

- Investments in Treasury Bills, Treasury Bonds
- Payments of statutory rates and taxes
- Payments for utilities mainly comprising of telephone, electricity and water
- Payments for employment retirement benefits – ETF
- Incidental payments such as RMV charges and CRIB fees that are paid based on standard rates.

(c) Individually Significant Transactions

There were no individually significant transactions with the Government of Sri Lanka and Government-related entities, other than on normal day-to-day business operations.

Notes to the Financial Statements

50. RELATED PARTY DISCLOSURE (CONTD.)

50.4.1 COMPANY

The Company had the undermentioned financial dealings during the financial year with the following related entities:

| | Immediate Parent | | Subsidiaries | | Associate | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| (a) Items in Statement of Profit or Loss | | | | | | |
| Interest income | 527,828 | 235,814 | 23,361 | 8,424 | - | - |
| Interest expense | 1,269,208 | 621,569 | 231,574 | 234,108 | - | - |
| Fee and commission income | 343 | 343 | 575,332 | 489,191 | - | - |
| Other operating income | 19,589 | - | 457,676 | 201,468 | 5,000 | - |
| Benefits, claims and underwriting expenditure | - | - | 118,030 | 77,210 | - | - |
| Other operating expenses | 31,834 | 31,077 | 246,686 | 246,686 | - | - |
| (b) Items in Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | 2,813,229 | 1,705,417 | - | - | - | - |
| Balances with banks and financial institutions | 2,089,989 | 582,993 | - | - | - | - |
| Loans and receivables | - | 15,787 | 1,869,084 | 1,611,979 | - | - |
| Financial assets – Held-to-maturity | 2,446,154 | 1,297,097 | - | - | - | - |
| Investments in subsidiaries/associate | - | - | 2,075,000 | 1,875,000 | 586,427 | 586,427 |
| Other assets | - | 15,769 | 121,615 | 132,779 | - | - |
| Liabilities | | | | | | |
| Due to banks | 11,014,165 | 9,880,596 | - | - | - | - |
| Due to customers | - | - | 256,983 | 159,168 | - | - |
| Debt securities issued | 1,543,172 | 1,065,714 | 104,015 | 104,056 | - | - |
| Other financial liabilities | - | - | 563,240 | 518,541 | - | - |
| Other liabilities | 5,008 | 4,636 | - | - | - | - |
| (c) Transactions | | | | | | |
| Transaction cost on debenture issue and securitisation | 23,935 | 23,935 | - | - | - | - |
| Dividend paid | 1,481,121 | 1,481,121 | - | - | - | - |
| Insurance premium paid in respect of customers introduced by People's Leasing & Finance PLC | - | - | 3,186,968 | 2,966,686 | - | - |
| (d) Off-Balance Sheet Items | | | | | | |
| Guarantees | - | - | 650,000 | 625,000 | - | - |

Notes to the Financial Statements

50.4.2 GROUP

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

| | Immediate Parent | | Associate | |
|---|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| (a) Items in Statement of Profit or Loss | | | | |
| Interest income | 534,922 | 245,942 | - | - |
| Interest expenses | 1,269,208 | 621,569 | - | - |
| Net earned premiums | 221,130 | 212,163 | - | - |
| Fee and commission income | 29,521 | 125,249 | - | - |
| Other operating income | 101,584 | 32,143 | 5,000 | - |
| Benefits, claims and underwriting expenditure | 51,846 | 78,520 | - | - |
| Other operating expenses | 32,734 | 31,977 | - | - |
| (b) Items in Statement of Financial Position | | | | |
| Assets | | | | |
| Cash and cash equivalents | 3,033,895 | 1,849,447 | - | - |
| Balances with banks and financial institutions | 2,201,190 | 665,689 | - | - |
| Loans and receivables | - | 15,787 | - | - |
| Insurance and reinsurance receivables | 18,847 | 1,088 | - | - |
| Financial assets – Held-to-maturity | 2,446,154 | 1,297,097 | - | - |
| Investments in subsidiaries/associate | - | - | 586,427 | 586,427 |
| Other assets | 34,879 | 546,297 | - | - |
| Liabilities | | | | |
| Due to banks | 11,060,754 | 9,941,131 | - | - |
| Debt securities issued | 1,543,172 | 1,065,714 | - | - |
| Other liabilities | 8,502 | 8,712 | - | - |

51 — FAIR VALUE OF ASSETS AND LIABILITIES

ACCOUNTING POLICY

The following is a description of how fair values are determined for financial and non-financial assets and liabilities that are recorded at fair value using valuation techniques. These incorporate the Group's/Company's estimate of assumptions that a market participant would make when valuing the instruments.

51.1 FINANCIAL ASSETS – AVAILABLE-FOR-SALE

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of quoted investment securities. These quoted investment securities are valued using quoted market price in an active market of each securities.

Notes to the Financial Statements

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

51.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS – HELD-FOR-TRADING

Held-for-trading financial assets valued using valuation techniques primarily consist of quoted investments. These quoted assets are valued using quoted market price in an active market of each securities.

51.3 DERIVATIVES – ASSETS AND LIABILITIES

Derivative product is forward foreign exchange contracts valued using a valuation technique with market-observable inputs. The most frequently applied valuation techniques include forward foreign exchange spot and forward premiums.

51.4 FINANCIAL ASSETS AND LIABILITIES CARRIED AT AMORTISED COST

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under level 3 in the fair value hierarchy.

51.5 PROPERTY, PLANT AND EQUIPMENT DISCLOSED AT FAIR VALUE

Freehold land and buildings are disclosed at revalued amount, being their fair value at the revaluation date less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

51.6 VALUATION MODEL

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

VALUATION FRAMEWORK

The Company has an established control framework with respect to the measurement of fair values of trading and investment operations and all other significant assets and liabilities. Specific controls include:

- Periodic (daily, monthly or quarterly) reviewing of fair value measurements against observable market data.
- Periodic (at least annually) reviewing of fair value measurement models against changes in market conditions, significant judgments and assumptions.

51.7 DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Notes to the Financial Statements

The following table shows an analysis of assets and liabilities recorded/disclosed at fair value by level of the fair value hierarchy:

| 31 March 2017 | Company | | | | |
|--|-------------------|---------------------|---------------------|---------------------|-------------------|
| | Date of Valuation | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | |
| Financial assets – Available-for-sale | | | | | |
| Quoted investments | 31 March 2017 | 193,166 | – | – | 193,166 |
| Unit trusts | 31 March 2017 | – | 82,537 | – | 82,537 |
| | | 193,166 | 82,537 | – | 275,703 |
| Financial assets – Held-for-trading | | | | | |
| Quoted investments | 31 March 2017 | 201,215 | – | – | 201,215 |
| | | 201,215 | – | – | 201,215 |
| Non-financial assets – Investment property | | | | | |
| Lands and buildings | 31 March 2017 | – | – | 100,800 | 100,800 |
| | | – | – | 100,800 | 100,800 |
| | | 394,381 | 82,537 | 100,800 | 577,718 |
| Non-financial assets disclosed at fair value | | | | | |
| Freehold lands and buildings (Included under property, plant and equipment) | Note 29.4 | – | – | 1,017,885 | 1,017,885 |
| | | – | – | 1,017,885 | 1,017,885 |

| 31 March 2016 | Company | | | | |
|--|-------------------|---------------------|---------------------|---------------------|-------------------|
| | Date of Valuation | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | |
| Financial assets – Available-for-sale | | | | | |
| Quoted investments | 31 March 2016 | 255,099 | – | – | 255,099 |
| Unit trusts | 31 March 2016 | – | 245,258 | – | 245,258 |
| | | 255,099 | 245,258 | – | 500,357 |
| Financial assets – Held-for-trading | | | | | |
| Quoted investments | 31 March 2016 | 211,651 | – | – | 211,651 |
| | | 211,651 | – | – | 211,651 |
| Non-financial assets – Investment property | | | | | |
| Lands and buildings | 30 November 2015 | – | – | 90,752 | 90,752 |
| | | – | – | 90,752 | 90,752 |
| | | 466,750 | 245,258 | 90,752 | 802,760 |
| Non-financial assets disclosed at fair value | | | | | |
| Freehold lands and buildings (Included under property, plant and equipment) | Note 29.4 | – | – | 977,173 | 977,173 |
| | | – | – | 977,173 | 977,173 |

Notes to the Financial Statements

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

| 31 March 2017 | Group | | | | |
|--|-------------------|---------------------|---------------------|---------------------|-------------------|
| | Date of Valuation | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | |
| Financial assets – Available-for-sale | | | | | |
| Quoted investments | 31 March 2017 | 193,166 | – | – | 193,166 |
| Treasury Bills | 31 March 2017 | 774,148 | – | – | 774,148 |
| Unit trusts | 31 March 2017 | – | 127,255 | – | 127,255 |
| | | 967,314 | 127,255 | – | 1,094,569 |
| Financial assets – Held-for-trading | | | | | |
| Quoted investments | 31 March 2017 | 529,301 | – | – | 529,301 |
| | | 529,301 | – | – | 529,301 |
| | | 1,496,615 | 127,255 | – | 1,623,870 |
| Non-financial assets disclosed at fair value | | | | | |
| Freehold lands and buildings (Included under property, plant and equipment) | Note 29.4 | – | – | 4,106,385 | 4,106,385 |
| | | – | – | 4,106,385 | 4,106,385 |

| 31 March 2016 | Group | | | | |
|--|-------------------|---------------------|---------------------|---------------------|-------------------|
| | Date of Valuation | Level 1 Rs. '000 | Level 2 Rs. '000 | Level 3 Rs. '000 | Total Rs. '000 |
| Financial Assets | | | | | |
| Financial assets – Available-for-sale | | | | | |
| Quoted Investments | 31 March 2016 | 255,099 | – | – | 255,099 |
| Treasury Bills | 31 March 2016 | 1,194,219 | – | – | 1,194,219 |
| Unit trusts | 31 March 2016 | – | 290,638 | – | 290,638 |
| | | 1,449,318 | 290,638 | – | 1,739,956 |
| Financial assets – Held-for-trading | | | | | |
| Quoted Investments | 31 March 2016 | 527,438 | – | – | 527,438 |
| | | 527,438 | – | – | 527,438 |
| | | 1,976,756 | 290,638 | – | 2,267,394 |
| Non-financial assets disclosed at fair value | | | | | |
| Freehold lands and buildings (Included under property, plant and equipment) | Note 29.4 | – | – | 4,040,673 | 4,040,673 |
| | | – | – | 4,040,673 | 4,040,673 |

Notes to the Financial Statements

There were no material transfers between level 1 and level 2 during the 2016 and 2017. Valuation was carried out for lands and buildings by professionally qualified independent valuer in compliance with Sri Lanka Accounting Standard – SLFRS 13 – ‘Fair Value Measurement’.

The following table shows total fair value gains/losses recognised in the Statement of Profit or Loss during the year relating to assets and liabilities held at the respective year ended:

| For the year ended 31 March | Company | | Group | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 |
| Financial assets | | | | |
| Financial assets – Held-for-trading | | | | |
| Quoted investments | 8,257 | (40,355) | 43,869 | (71,903) |
| Total | 8,257 | (40,355) | 43,869 | (71,903) |

LEVEL 3 FAIR VALUE MEASUREMENT

RECONCILIATION

The following note shows a reconciliation from the beginning balances to the ending balances of fair value measurements in Level 3 of the fair value hierarchy:

| | Company | | Group | |
|--|------------------------------------|--|------------------------------------|--|
| | Investment property Rs. '000 | Freehold land & buildings Rs. '000 | Investment property Rs. '000 | Freehold land & buildings Rs. '000 |
| Balance as at 1 April 2015 | – | 764,816 | – | 3,269,816 |
| Additions | 12,352 | 158,737 | – | 158,783 |
| Disposals/transfers | 78,400 | (71,148) | – | – |
| Total gains/(losses) recognised in profit or loss: | | | | |
| Fair value recognised during the year | – | – | – | – |
| Depreciation of buildings | – | (750) | – | (26,327) |
| Fair value disclosed during the year | – | 125,518 | – | 638,401 |
| Balance as at 31 March 2016 | 90,752 | 977,173 | – | 4,040,673 |
| Balance as at 1 April 2016 | 90,752 | 977,173 | – | 4,040,673 |
| Additions | – | – | – | – |
| Disposals/transfers | – | – | – | – |
| Total gains/(losses) recognised in profit or loss: | | | | |
| Fair value recognised during the year | 10,048 | – | – | – |
| Depreciation of buildings | – | (706) | – | (44,246) |
| Fair value disclosed during the year | – | 41,418 | – | 109,958 |
| Balance as at 31 March 2017 | 100,800 | 1,017,885 | – | 4,106,385 |

Notes to the Financial Statements

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

UNOBSERVABLE INPUTS USED IN MEASURING FAIR VALUE

The table below sets out information about significant unobservable inputs used as at 31 March 2017 and 31 March 2016 in measuring non-financial instruments categorised as Level 3 in the fair value hierarchy:

| Type of instrument | Date of valuation | Fair value Rs. '000 | Valuation technique | Significant unobservable inputs | Weighted average range of estimates for unobservable inputs | Fair value measurement sensitivity to unobservable inputs |
|--------------------------------------|-------------------|------------------------|---------------------|------------------------------------|---|---|
| Company | | | | | | |
| As at 31 March 2017 | | | | | | |
| Investment property | | | | | | |
| Freehold lands | 31.03.2017 | 100,800 | MCM | Estimated price per perch | Rs. 450,000 | * |
| Property, plant and equipment | | | | | | |
| Freehold lands | 31.12.2016 | 958,631 | MCM | Estimated price per perch | Rs. 50,000 – Rs. 4,300,000 | * |
| Freehold buildings | 31.12.2016 | 59,254 | MCM | Estimated price per sq. ft. | Rs. 500 – Rs. 4,000 | * |
| | | | Income basis | Estimated rental value per sq. ft. | Rs. 20 – Rs. 60 | * |
| As at 31 March 2016 | | | | | | |
| Investment property | | | | | | |
| Freehold lands | 30.11.2015 | 78,400 | MCM | Estimated price per perch | Rs. 350,000 | * |
| Property, plant and equipment | | | | | | |
| Freehold lands | 30.11.2015 | 762,038 | MCM | Estimated price per perch | Rs. 50,000 – Rs. 3,750,000 | * |
| Freehold buildings | 30.11.2015 | 59,254 | MCM | Estimated price per sq. ft. | Rs. 500 – 4,000 | * |
| | | | Income basis | Estimated rental value per sq. ft. | Rs. 20 – Rs. 60 | * |
| Group | | | | | | |
| As at 31 March 2017 | | | | | | |
| Property, plant and equipment | | | | | | |
| Freehold lands | 31.12.2016 | 2,797,799 | MCM | Estimated price per perch | Rs. 50,000 – Rs. 10,000,000 | * |
| Freehold buildings | 31.12.2016 | 1,308,586 | MCM | Estimated price per sq. ft. | Rs. 500 – Rs. 11,000 | * |
| | | | Income basis | Estimated rental value per sq. ft. | Rs. 15 - 250 | * |
| As at 31 March 2016 | | | | | | |
| Property, plant and equipment | | | | | | |
| Freehold land | 30.11.2015 | 2,732,087 | MCM | Estimated price per perch | Rs. 50,000 – Rs. 10,000,000 | * |
| Freehold buildings | 30.11.2015 | 1,308,586 | MCM | Estimated price per sq.ft. | Rs. 500 – Rs. 11,000 | * |
| | | | Income basis | Estimated rental value per sq.ft. | Rs. 15 – Rs. 250 | * |

MCM: Market comparable method.

* Significant increases/(decreases) in any of these inputs in isolation would result in a significantly higher/(lower) fair value.

Notes to the Financial Statements

51.8 FAIR VALUE OF ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

Set out below is a comparison, by class of the carrying amount and fair values of the Group's and the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair value of non-financial assets and non-financial liabilities:

| | | Company | | | |
|--|---------|-----------------------------|------------------------|-----------------------------|------------------------|
| | | 31 March 2017 | | 31 March 2016 | |
| | | Carrying amount Rs. '000 | Fair value Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| Fair value hierarchy | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | | 5,591,170 | 5,591,170 | 3,206,733 | 3,206,733 |
| Balances with banks and financial institutions | | 2,089,989 | 2,089,989 | 847,448 | 847,448 |
| Loans and receivables | Level 2 | 134,054,702 | 129,572,102 | 109,872,415 | 109,379,201 |
| Financial assets – Held-to-maturity | Level 1 | 2,968,042 | 2,964,614 | 4,930,236 | 4,876,567 |
| Other financial assets | Level 2 | 121,615 | 121,615 | 132,779 | 132,779 |
| Total | | 144,825,518 | 140,339,490 | 118,989,611 | 118,442,728 |
| Financial Liabilities | | | | | |
| Due to banks | Level 2 | 35,584,408 | 35,117,204 | 26,431,628 | 25,972,070 |
| Due to customers | Level 2 | 44,722,552 | 44,563,734 | 33,836,428 | 33,752,251 |
| Debt securities issued | Level 2 | 38,673,277 | 38,350,522 | 34,387,677 | 34,800,780 |
| Other financial liabilities | Level 2 | 2,725,166 | 2,725,166 | 2,730,484 | 2,730,484 |
| Total | | 121,705,403 | 120,756,626 | 97,386,217 | 97,255,585 |

| | | Group | | | |
|--|---------|-----------------------------|------------------------|-----------------------------|------------------------|
| | | 31 March 2017 | | 31 March 2016 | |
| | | Carrying amount Rs. '000 | Fair value Rs. '000 | Carrying amount Rs. '000 | Fair value Rs. '000 |
| Fair value hierarchy | | | | | |
| Financial Assets | | | | | |
| Cash and cash equivalents | | 6,379,909 | 6,379,909 | 3,555,643 | 3,555,643 |
| Balances with banks and financial institutions | | 3,789,047 | 3,789,047 | 2,543,016 | 2,543,016 |
| Loans and receivables | Level 2 | 135,469,783 | 130,274,384 | 111,156,437 | 110,051,707 |
| Insurance and reinsurance receivables | | 267,523 | 267,523 | 206,303 | 206,303 |
| Financial assets – Held-to-maturity | Level 1 | 2,968,042 | 2,964,614 | 4,930,236 | 4,876,567 |
| Total | | 148,874,304 | 143,675,477 | 122,391,635 | 121,233,236 |
| Financial Liabilities | | | | | |
| Due to banks | Level 2 | 37,085,398 | 36,618,194 | 28,059,677 | 26,392,852 |
| Due to customers | Level 2 | 44,465,568 | 44,220,632 | 33,677,260 | 33,590,359 |
| Debt securities issued | Level 2 | 38,569,262 | 38,239,851 | 34,283,621 | 34,688,524 |
| Other financial liabilities | Level 2 | 2,563,187 | 2,563,187 | 2,888,399 | 2,888,399 |
| Insurance liabilities and reinsurance payable | | 55,879 | 55,879 | 44,333 | 44,333 |
| Total | | 122,739,294 | 121,697,743 | 98,953,290 | 97,604,467 |

Notes to the Financial Statements

51. FAIR VALUE OF ASSETS AND LIABILITIES (CONTD.)

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

The valuation techniques used to establish the Group's fair values are consistent with those used to calculate the fair values of financial instruments carried at fair value. The fair values calculated are for disclosure purposes only and do not have any impact on the Group's reported financial performance or position. The fair values calculated by the Group may be different from the actual amount that will be received/paid on the settlement or maturity of the financial instrument. As certain categories of financial instruments are not traded there is a significant level of management judgment involved in calculating the fair values.

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

For financial assets and financial liabilities that have a short-term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

LOANS AND RECEIVABLES

The fair value of loans and advances to customers with a maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of loans and advances with maturity of more than one year represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

DUE TO CUSTOMERS

The estimated fair value of deposits with no maturity period (Savings Deposits) is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits (Fixed Deposits) without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar risk and remaining maturity.

DUE TO BANKS AND DEBT SECURITIES ISSUED

Variable rate is a fair measure which reflects market movements. Hence the carrying value represents the fair value of the variable rate instruments.

The fair value of fixed rate borrowings with a maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads. The estimated fair value of fixed rates borrowing with maturity of more than one year represents the discounted amount of future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

Notes to the Financial Statements

52 — CURRENT/NON-CURRENT ANALYSIS

| | Company | | | | | |
|--|---------------------------------|--------------------------------|--------------------|---------------------------------|--------------------------------|-------------------|
| | 2017 | | | 2016 | | |
| | Within 12 months Rs. '000 | After 12 months Rs. '000 | Total Rs. '000 | Within 12 months Rs. '000 | After 12 months Rs. '000 | Total Rs. '000 |
| Assets | | | | | | |
| Cash and cash equivalents | 4,429,781 | 1,161,389 | 5,591,170 | 3,206,733 | – | 3,206,733 |
| Balances with banks and financial institutions | 2,089,989 | – | 2,089,989 | 847,448 | – | 847,448 |
| Financial assets – Held-for-trading | 201,215 | – | 201,215 | 211,651 | – | 211,651 |
| Loans and receivables | 61,044,051 | 73,010,651 | 134,054,702 | 42,472,862 | 67,399,553 | 109,872,415 |
| Financial assets – Available-for-sale | 275,693 | 10 | 275,703 | 500,347 | 10 | 500,357 |
| Financial assets – Held-to-maturity | 2,943,961 | 24,081 | 2,968,042 | 4,905,653 | 24,583 | 4,930,236 |
| Investments in subsidiaries | – | 2,075,000 | 2,075,000 | – | 1,875,000 | 1,875,000 |
| Investment in associate | – | 586,427 | 586,427 | – | 586,427 | 586,427 |
| Investment property | – | 100,800 | 100,800 | – | 90,752 | 90,752 |
| Property, plant and equipment | – | 1,254,744 | 1,254,744 | – | 1,120,600 | 1,120,600 |
| Goodwill and intangible assets | – | 320,183 | 320,183 | – | 329,963 | 329,963 |
| Other assets | 680,926 | 257,862 | 938,788 | 705,171 | 58,895 | 764,066 |
| Total assets | 71,665,616 | 78,791,147 | 150,456,763 | 52,849,865 | 71,485,783 | 124,335,648 |
| Liabilities | | | | | | |
| Due to banks | 25,289,517 | 10,294,891 | 35,584,408 | 14,575,997 | 11,855,631 | 26,431,628 |
| Due to customers | 39,114,584 | 5,607,968 | 44,722,552 | 30,032,523 | 3,803,905 | 33,836,428 |
| Debt securities issued | 15,611,133 | 23,062,144 | 38,673,277 | 12,450,032 | 21,937,645 | 34,387,677 |
| Other financial liabilities | 2,725,166 | – | 2,725,166 | 2,730,484 | – | 2,730,484 |
| Derivative financial instruments | 8,363 | – | 8,363 | – | – | – |
| Current tax liabilities | 289,978 | – | 289,978 | 937,999 | – | 937,999 |
| Deferred tax liabilities | – | 1,923,171 | 1,923,171 | – | 1,821,897 | 1,821,897 |
| Other liabilities | 1,832,555 | – | 1,832,555 | 1,417,667 | – | 1,417,667 |
| Total liabilities | 84,871,296 | 40,888,174 | 125,759,470 | 62,144,702 | 39,419,078 | 101,563,780 |
| Net assets | (13,205,680) | 37,902,973 | 24,697,293 | (9,294,837) | 32,066,705 | 22,771,868 |

Notes to the Financial Statements

52. CURRENT/NON-CURRENT ANALYSIS (CONTD.)

| | Group | | | | | |
|--|---------------------------------|--------------------------------|--------------------|---------------------------------|--------------------------------|--------------------|
| | 2017 | | | 2016 | | |
| | Within 12 months Rs. '000 | After 12 months Rs. '000 | Total Rs. '000 | Within 12 months Rs. '000 | After 12 months Rs. '000 | Total Rs. '000 |
| Assets | | | | | | |
| Cash and cash equivalents | 5,218,520 | 1,161,389 | 6,379,909 | 3,555,643 | – | 3,555,643 |
| Balances with banks and financial institutions | 3,789,047 | – | 3,789,047 | 2,543,016 | – | 2,543,016 |
| Financial assets – Held-for-trading | 529,301 | – | 529,301 | 527,438 | – | 527,438 |
| Loans and receivables | 61,396,569 | 74,073,214 | 135,469,783 | 42,166,940 | 68,989,497 | 111,156,437 |
| Insurance and reinsurance receivables | 267,523 | – | 267,523 | 206,303 | – | 206,303 |
| Financial assets – Available-for-sale | 1,094,559 | 10 | 1,094,569 | 1,739,946 | 10 | 1,739,956 |
| Financial assets – Held-to-maturity | 2,943,961 | 24,081 | 2,968,042 | 4,905,653 | 24,583 | 4,930,236 |
| Investment in associate | – | 476,382 | 476,382 | – | 550,257 | 550,257 |
| Property, plant and equipment | – | 5,015,558 | 5,015,558 | – | 4,209,533 | 4,209,533 |
| Goodwill and intangible assets | – | 320,411 | 320,411 | – | 333,175 | 333,175 |
| Deferred tax assets | – | 26,234 | 26,234 | – | 14,524 | 14,524 |
| Other assets | 768,776 | 257,862 | 1,026,638 | 1,275,379 | 58,895 | 1,334,274 |
| Total assets | 76,008,256 | 81,355,141 | 157,363,397 | 56,920,318 | 74,180,474 | 131,100,792 |
| Liabilities | | | | | | |
| Due to banks | 25,870,218 | 11,215,180 | 37,085,398 | 15,277,800 | 12,781,877 | 28,059,677 |
| Due to customers | 38,857,600 | 5,607,968 | 44,465,568 | 29,873,355 | 3,803,905 | 33,677,260 |
| Debt securities issued | 15,507,118 | 23,062,144 | 38,569,262 | 12,445,976 | 21,837,645 | 34,283,621 |
| Other financial liabilities | 2,563,187 | – | 2,563,187 | 2,888,399 | – | 2,888,399 |
| Derivative financial instruments | 8,363 | – | 8,363 | – | – | – |
| Insurance and reinsurance payable | – | 3,537,110 | 3,537,110 | 3,181,588 | – | 3,181,588 |
| Current tax liabilities | 337,291 | – | 337,291 | 1,017,694 | – | 1,017,694 |
| Deferred tax liabilities | – | 1,975,528 | 1,975,528 | – | 1,855,248 | 1,855,248 |
| Other liabilities | 1,896,911 | – | 1,896,911 | 1,467,033 | – | 1,467,033 |
| Total liabilities | 85,040,688 | 45,397,930 | 130,438,618 | 66,151,845 | 40,264,151 | 106,430,520 |
| Net assets | (9,032,432) | 35,957,211 | 26,924,779 | (9,231,527) | 33,901,799 | 24,670,272 |

Notes to the Financial Statements

53 — FINANCIAL REPORTING BY SEGMENT

● — ACCOUNTING POLICY

The Group's segmental reporting is based on the following operating segments: Business Segments and geographical segments.

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments.)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

Inter-segment transfers are accounted for at competitive fair market prices charged to inter company counterparts for similar services. Such services are eliminated on consolidation. As per the provision of Sri Lanka Reporting Standard – SLFRS 8 – 'the Operating Segment' of the Group has been identify based on the product and services offered by the Group of which level of risk and rewards are significantly differ from one another.

Top management of the Group considers the operating results and condition of its business segments in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues are described as follows:

LEASE AND HIRE PURCHASE

This segment includes Leasing and Hire Purchase products offered to the customers.

LOANS

This segment includes loan products offered to the customers.

ISLAMIC

This segment includes Ijarah, Murabaha and Trading Murabaha products offered to the customers.

INSURANCE BUSINESS

Insurance business segment includes general insurance.

OTHER BUSINESS

This segment includes all other business activities that Group engaged other than above segments.

Notes to the Financial Statements

53. FINANCIAL REPORTING BY SEGMENT (CONTD.)

| For the year ended 31 March | Lease and hire purchase | | Loans | | Islamic | | Insurance | | Other | | Eliminations | | GROUP | |
|---|----------------------------|-------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 | 2017 Rs.'000 | 2016 Rs.'000 |
| Interest income | 12,694,457 | 12,584,395 | 8,002,912 | 4,366,881 | 1,171,402 | 838,620 | 505,559 | 307,044 | 691,796 | 449,727 | (281,853) | (245,500) | 22,784,273 | 18,301,167 |
| Net earned premium | - | - | - | - | - | - | 3,826,629 | 3,371,843 | - | - | (132,602) | (88,672) | 3,694,027 | 3,283,171 |
| Net fee and commission income | 677,356 | 696,335 | 427,023 | 241,634 | 62,504 | 46,404 | - | - | 276,992 | 278,829 | (822,164) | (734,898) | 621,711 | 528,304 |
| Net gains/(losses) on financial assets – Held-for-trading | - | - | - | - | - | - | 35,612 | (31,548) | 8,257 | (40,355) | - | - | 43,869 | (71,903) |
| Other operating income | 387,488 | 310,193 | 244,282 | 107,639 | 35,756 | 20,671 | 69,737 | 77,403 | 304,931 | 228,691 | (453,320) | (205,634) | 588,874 | 538,963 |
| Gross income | 13,759,301 | 13,590,923 | 8,674,217 | 4,716,154 | 1,269,662 | 905,695 | 4,437,537 | 3,724,742 | 1,281,976 | 916,892 | (1,689,939) | (1,274,704) | 27,732,754 | 22,579,702 |
| Interest expenses | 6,709,632 | 5,556,333 | 4,229,924 | 1,928,090 | 619,142 | 370,272 | - | - | 625,147 | 374,850 | (364,089) | (223,495) | 11,819,756 | 8,006,050 |
| Total operating income | 7,049,669 | 8,034,590 | 4,444,293 | 2,788,064 | 650,520 | 535,423 | 4,437,537 | 3,724,742 | 656,829 | 542,042 | (1,325,850) | (1,051,209) | 15,912,998 | 14,573,652 |
| Impairment charges and Credit losses | (136,551) | 369,795 | 378,127 | (83,686) | 13,702 | (2,505) | - | - | 27,541 | 7,099 | - | - | 282,819 | 290,703 |
| Net operating income | 7,186,220 | 7,664,795 | 4,066,166 | 2,871,750 | 636,818 | 537,928 | 4,437,537 | 3,724,742 | 629,288 | 534,943 | (1,325,850) | (1,051,209) | 15,630,179 | 14,282,949 |
| Depreciation | 121,959 | 145,477 | 76,879 | 66,422 | 15,585 | 17,069 | 9,344 | 9,838 | 8,729 | 12,900 | 43,912 | 46,604 | 276,408 | 298,310 |
| Segment result | 3,469,915 | 4,335,139 | 2,187,524 | 1,504,325 | 320,192 | 288,892 | 1,119,089 | 1,188,091 | 323,298 | 292,462 | (317,492) | (195,651) | 7,102,526 | 7,413,258 |
| VAT and NBT on financial services | | | | | | | | | | | | | 944,418 | 670,181 |
| Share of (loss) of an associate (net of tax) | | | | | | | | | | | | | (73,875) | (36,170) |
| Income tax expense | | | | | | | | | | | | | 1,642,617 | 1,965,361 |
| Profit attributable to equity holders | | | | | | | | | | | | | 4,441,616 | 4,741,546 |
| As at 31 March | | | | | | | | | | | | | | |
| Segment assets | 85,376,148 | 78,132,261 | 53,818,850 | 35,672,650 | 10,909,971 | 9,167,098 | 6,675,040 | 6,085,322 | 6,110,768 | 6,928,029 | (5,527,380) | (4,884,568) | 157,363,397 | 131,100,792 |
| Total assets | 85,376,148 | 78,132,261 | 53,818,850 | 35,672,650 | 10,909,971 | 9,167,098 | 6,675,040 | 6,085,322 | 6,110,768 | 6,928,029 | (5,527,380) | (4,884,568) | 157,363,397 | 131,100,792 |
| Segment liabilities | 70,720,693 | 63,303,907 | 44,580,442 | 28,902,504 | 9,037,193 | 7,427,317 | 3,985,164 | 3,723,150 | 5,061,809 | 5,613,191 | (2,946,683) | (2,539,549) | 130,438,618 | 106,430,520 |
| Total liabilities | 70,720,693 | 63,303,907 | 44,580,442 | 28,902,504 | 9,037,193 | 7,427,317 | 3,985,164 | 3,723,150 | 5,061,809 | 5,613,191 | (2,946,683) | (2,539,549) | 130,438,618 | 106,430,520 |

54 — EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements, other than those disclosed below:

The Board of Directors of the Company has proposed a final dividend of Rs. 0.50 per share for the Ordinary Shareholders of the Company for the year ended 31 March 2017. This will be declared at the Annual General Meeting to be held on 30 June 2017, upon approval of the shareholders.

In accordance with Sri Lanka Accounting Standard – LKAS 10 'Events after the Reporting period', this proposed final dividend has not been recognised as a liability as at 31 March 2017. As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed that the Company has satisfied the 'Solvency Test' in accordance with Section 57 of the Companies Act No. 07 of 2007, having obtained a certificate from the Auditors, prior to recommending the final dividend for the year.

Notes to the Financial Statements

55 — ASSETS PLEDGED

The following assets have been pledged as securities for liabilities:

| Nature of assets | Nature of liabilities | Carrying amount pledged | | | | Included under |
|--------------------------------------|-----------------------|-------------------------|------------------|-------------------|------------------|--|
| | | Company | | Group | | |
| | | 2017 Rs. '000 | 2016 Rs. '000 | 2017 Rs. '000 | 2016 Rs. '000 | |
| Rentals receivables on lease | Securitisation | 13,402,153 | 26,341,527 | 13,402,153 | 26,341,527 | Loans and receivables |
| | Term loans | 26,033,061 | 25,910,361 | 26,033,061 | 25,910,361 | Loans and receivables |
| | Short-term loans | 2,758,991 | - | 2,758,991 | - | Loans and receivables |
| Rentals receivables on hire purchase | Securitisation | 1,072,458 | 3,519,133 | 1,072,458 | 3,519,133 | Loans and receivables |
| | Term loans | 1,326,592 | 3,448,403 | 1,326,592 | 3,448,403 | Loans and receivables |
| | Short-term loans | 168,767 | - | 168,767 | - | Loans and receivables |
| Rentals receivables on loans | Securitisation | 12,276,325 | - | 12,276,325 | - | Loans and receivables |
| Fixed deposits | Overdrafts | - | - | 12,000 | 10,000 | Balances with banks & financial institutions |
| Freehold lands and buildings | Term loans | - | - | 3,706,345 | 2,963,000 | Property, plant and equipment |

56 — COMPARATIVE INFORMATION

ACCOUNTING POLICY

The accounting policies have been consistently applied by the Company and the Group with those of the previous financial year in accordance with the Sri Lanka Accounting Standard – LKAS 1 – ‘Presentation of Financial Statements’. Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

The presentation and classification of the following items in these Financial Statements are amended to ensure the comparability with the current year:

| | Company | | | Group | | |
|------------------------------------|-------------------------------------|----------------------------------|------------------------|-------------------------------------|----------------------------------|------------------------|
| | As disclosed previously Rs. '000 | Current presentation Rs. '000 | Adjustment Rs. '000 | As disclosed previously Rs. '000 | Current presentation Rs. '000 | Adjustment Rs. '000 |
| Statement of profit or loss | | | | | | |
| Other operating expenses | 2,280,450 | 2,170,233 | 110,217 | 2,361,268 | 2,251,051 | 110,217 |
| VAT and NBT on financial services | 546,036 | 656,253 | (110,217) | 559,964 | 670,181 | (110,217) |

NBT on financial services included in other operating expenses has been reclassified to VAT & NBT on financial services.

Notes to the Financial Statements

56. COMPARATIVE INFORMATION (CONTD.)

| | Company | | | Group | | |
|--|-------------------------------------|----------------------------------|------------------------|-------------------------------------|----------------------------------|------------------------|
| | As disclosed previously Rs. '000 | Current presentation Rs. '000 | Adjustment Rs. '000 | As disclosed previously Rs. '000 | Current Presentation Rs. '000 | Adjustment Rs. '000 |
| Statement of financial position | | | | | | |
| Deferred tax assets | – | – | – | – | 14,524 | (14,524) |
| Deferred tax liabilities | 1,821,897 | 1,821,897 | – | 1,840,724 | 1,855,248 | (14,524) |

Deferred tax assets included in deferred tax liabilities have been reclassified to deferred tax assets.

57 — RISK MANAGEMENT

57.1 INTRODUCTION

Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities. The Company is primarily exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

RISK MANAGEMENT STRUCTURE

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed a subcommittee, Integrated Risk Management (IRM) Committee, which has the responsibility to monitor the overall risk process within the Company.

The IRM Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The IRM Committee is responsible for managing risk decisions and monitoring risk levels and reports on a periodical basis to the Board.

The Risk Management and Control Unit is responsible for monitoring compliance with risk principles, policies and limits across the Company.

ASSETS AND LIABILITIES COMMITTEE (ALCO)

ALCO is chaired by the Chief Executive Officer and has representatives from Deputy General Manager – Finance, Deputy General Managers Operations, Head of Deposits, Head of Finance, Head of Risk Management and Head of Treasury. The Committee meetings should be held at least once a month to monitor and manage the assets and liabilities of the Company and also overall liquidity position to keep the Company's liquidity at healthy levels, whilst satisfying regulatory requirements. The Chairman of ALCO, upon a request of any permanent member, may convene a special meeting of the Committee, when an issue arises that cannot wait until the next regularly scheduled meeting.

57.2 CREDIT RISK

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and groups of counterparties and by monitoring exposures in relation to such limits.

Notes to the Financial Statements

IMPAIRMENT ASSESSMENT

For accounting purposes, the Company uses a collective and individual model for the recognition of losses on impaired financial assets.

INDIVIDUALLY ASSESSED ALLOWANCES

The Company determines the allowances appropriate for each individually significant leases, hire purchase and loan on an individual basis, including any overdue payments of interests or credit rating downgrades. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date.

COLLECTIVELY ASSESSED ALLOWANCES

Allowances are assessed collectively for losses on leases, hire purchase and loans and for held-to-maturity debt investments that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Company generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Company would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends and other consumer data. The Company may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made, due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, loan to collateral ratios) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by Management to ensure alignment with the Company's overall policy.

57.2.1 MAXIMUM EXPOSURE TO CREDIT RISK

CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

The Company manages the credit quality of financial assets using internal credit ratings. The tables below show the credit quality by the class of asset for all financial assets exposed to credit risk, based on the Company's internal credit rating system. The amounts presented are gross of impairment allowances.

DEFINITION OF PAST DUE

The Company considers any amounts uncollected one day or more beyond their contractual due date as 'past due'.

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

| As at 31 March 2017 | Company | | | | | | |
|--|--|--|---------------------------|----------------------------|---------------------------------|-----------------------------------|--------------------|
| | Neither past due nor individually impaired Rs. '000 | Past due but not individually impaired | | | | Individually impaired Rs. '000 | Total Rs. '000 |
| | | Less than 3 months Rs. '000 | 3 to 6 months Rs. '000 | 6 to 12 months Rs. '000 | More than 12 months Rs. '000 | | |
| Cash and cash equivalents (excluding cash in hand) | 5,058,004 | - | - | - | - | - | 5,058,004 |
| Balances with banks and financial institutions | 2,089,989 | - | - | - | - | - | 2,089,989 |
| Financial assets – Held-for-trading | 201,215 | - | - | - | - | - | 201,215 |
| Loans and receivables | 88,291,009 | 42,821,353 | 2,312,348 | 510,330 | 1,105,133 | 664,126 | 135,704,299 |
| Financial assets – Available-for-sale | 275,703 | - | - | - | - | - | 275,703 |
| Financial assets – Held-to-maturity | 2,968,042 | - | - | - | - | - | 2,968,042 |
| Other financial assets | 121,615 | - | - | - | - | - | 121,615 |
| Total | 99,005,577 | 42,821,353 | 2,312,348 | 510,330 | 1,105,133 | 664,126 | 146,418,867 |

| As at 31 March 2016 | Company | | | | | | |
|--|--|--|---------------------------|----------------------------|---------------------------------|-----------------------------------|--------------------|
| | Neither past due nor individually impaired Rs. '000 | Past due but not individually impaired | | | | Individually impaired Rs. '000 | Total Rs. '000 |
| | | Less than 3 months Rs. '000 | 3 to 6 months Rs. '000 | 6 to 12 months Rs. '000 | More than 12 months Rs. '000 | | |
| Cash and cash equivalents (excluding cash in hand) | 2,790,055 | - | - | - | - | - | 2,790,055 |
| Balances with banks and financial institutions | 847,448 | - | - | - | - | - | 847,448 |
| Financial assets – Held-for-trading | 211,651 | - | - | - | - | - | 211,651 |
| Loans and receivables | 63,772,059 | 44,196,224 | 1,274,803 | 382,065 | 1,195,437 | 632,685 | 111,453,273 |
| Financial assets – Available-for-sale | 500,357 | - | - | - | - | - | 500,357 |
| Financial assets – Held-to-maturity | 4,930,236 | - | - | - | - | - | 4,930,236 |
| Other financial assets | 132,779 | - | - | - | - | - | 132,779 |
| Total | 73,184,585 | 44,196,224 | 1,274,803 | 382,065 | 1,195,437 | 632,685 | 120,865,799 |

Notes to the Financial Statements

| As at 31 March 2017 | Group | | | | | | |
|--|--|--|---------------------------|----------------------------|---------------------------------|-----------------------------------|--------------------|
| | Neither past due nor individually impaired Rs. '000 | Past due but not individually impaired | | | | Individually impaired Rs. '000 | Total Rs. '000 |
| | | Less than 3 months Rs. '000 | 3 to 6 months Rs. '000 | 6 to 12 months Rs. '000 | More than 12 months Rs. '000 | | |
| Cash and cash equivalents (excluding cash in hand) | 5,832,609 | - | - | - | - | - | 5,832,609 |
| Balances with banks and financial institutions | 3,789,047 | - | - | - | - | - | 3,789,047 |
| Financial assets – Held-for-trading | 529,301 | - | - | - | - | - | 529,301 |
| Loans and receivables | 90,557,422 | 41,902,162 | 2,326,225 | 534,450 | 1,265,420 | 674,969 | 137,260,648 |
| Insurance and reinsurance receivable | 267,523 | - | - | - | - | - | 267,523 |
| Financial assets – Available-for-sale | 1,094,569 | - | - | - | - | - | 1,094,569 |
| Financial assets – Held-to-maturity | 2,968,042 | - | - | - | - | - | 2,968,042 |
| Total | 105,038,513 | 41,902,162 | 2,326,225 | 534,450 | 1,265,420 | 674,969 | 151,741,739 |

| As at 31 March 2016 | Group | | | | | | |
|--|--|--|---------------------------|----------------------------|---------------------------------|-----------------------------------|--------------------|
| | Neither past due nor individually impaired Rs. '000 | Past due but not individually impaired | | | | Individually impaired Rs. '000 | Total Rs. '000 |
| | | Less than 3 months Rs. '000 | 3 to 6 months Rs. '000 | 6 to 12 months Rs. '000 | More than 12 months Rs. '000 | | |
| Cash and cash equivalents (excluding cash in hand) | 3,118,596 | - | - | - | - | - | 3,118,596 |
| Balances with banks and financial institutions | 2,543,016 | - | - | - | - | - | 2,543,016 |
| Financial assets – Held-for-trading | 527,438 | - | - | - | - | - | 527,438 |
| Loans and receivables | 63,294,407 | 43,235,561 | 1,980,573 | 871,670 | 2,799,268 | 632,685 | 112,814,164 |
| Insurance and reinsurance receivable | 206,303 | - | - | - | - | - | 206,303 |
| Financial assets – Available-for-sale | 1,739,956 | - | - | - | - | - | 1,739,956 |
| Financial assets – Held-to-maturity | 4,930,236 | - | - | - | - | - | 4,930,236 |
| Total | 76,359,952 | 43,235,561 | 1,980,573 | 871,670 | 2,799,268 | 632,685 | 125,879,709 |

Notes to the Financial Statements

57.2.2 ANALYSIS OF RISK CONCENTRATION

The following table shows the risk concentration by industry for the components of the Statement of Financial Position:

INDUSTRY ANALYSIS

| As at 31 March 2017 | Company | | | | | | | | | | |
|--|---------------------------------|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|---------------------|----------------------|----------------------|--------------------|-------------------|
| | Financial services* Rs. '000 | Agriculture Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transport Rs. '000 | Construction Rs. '000 | Traders Rs. '000 | Services Rs. '000 | Industry Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 5,591,170 | - | - | - | - | - | - | - | - | - | 5,591,170 |
| Balances with Banks and financial institutions | 2,089,989 | - | - | - | - | - | - | - | - | - | 2,089,989 |
| Financial assets – Held-for-trading | 120,460 | - | 18,677 | 1,000 | - | - | - | 54,713 | - | 6,365 | 201,215 |
| Loans and receivables | 2,881,056 | 5,382,854 | 1,548,465 | 861,856 | 13,641,030 | 5,303,830 | 13,246,210 | 53,944,797 | 631,935 | 38,262,266 | 135,704,299 |
| Less – Impairment charges | | | | | | | | | | | 1,649,597 |
| Net loans and receivables | | | | | | | | | | | 134,054,702 |
| Financial assets – Available-for-sale | 275,693 | - | - | - | - | - | - | 10 | - | - | 275,703 |
| Financial assets – Held-to-maturity | 2,968,042 | - | - | - | - | - | - | - | - | - | 2,968,042 |
| Other financial assets | 121,615 | - | - | - | - | - | - | - | - | - | 121,615 |

| As at 31 March 2016 | Company | | | | | | | | | | |
|--|---------------------------------|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|---------------------|----------------------|----------------------|--------------------|-------------------|
| | Financial services* Rs. '000 | Agriculture Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transport Rs. '000 | Construction Rs. '000 | Traders Rs. '000 | Services Rs. '000 | Industry Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 3,206,733 | - | - | - | - | - | - | - | - | - | 3,206,733 |
| Balances with Banks and financial institutions | 847,448 | - | - | - | - | - | - | - | - | - | 847,448 |
| Financial assets – Held-for-trading | 114,905 | - | 29,862 | 1,200 | - | - | - | 59,174 | - | 6,510 | 211,651 |
| Loans and receivables | 2,731,535 | 1,681,233 | 19,677 | 502,944 | 13,728,536 | 4,221,837 | 17,347,120 | 51,099,066 | 1,422,429 | 18,698,896 | 111,453,273 |
| Less – Impairment charges | | | | | | | | | | | 1,580,858 |
| Net loans and receivables | | | | | | | | | | | 109,872,415 |
| Financial assets – Available-for-sale | 500,347 | - | - | - | - | - | - | 10 | - | - | 500,357 |
| Financial assets – Held-to-maturity | 4,930,236 | - | - | - | - | - | - | - | - | - | 4,930,236 |
| Other financial assets | 132,779 | - | - | - | - | - | - | - | - | - | 132,779 |

* Financial services include banks, finance institutions and insurance companies.

Notes to the Financial Statements

INDUSTRY ANALYSIS

| As at 31 March 2017 | Group | | | | | | | | | | |
|--|---------------------------------|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|---------------------|----------------------|----------------------|--------------------|-------------------|
| | Financial services* Rs. '000 | Agriculture Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transport Rs. '000 | Construction Rs. '000 | Traders Rs. '000 | Services Rs. '000 | Industry Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 6,379,909 | - | - | - | - | - | - | - | - | - | 6,379,909 |
| Balances with banks and financial institutions | 3,789,047 | - | - | - | - | - | - | - | - | - | 3,789,047 |
| Financial assets – Held-for-trading | 370,058 | 330 | 41,959 | 1,000 | - | - | 3,900 | 101,332 | - | 10,722 | 529,301 |
| Loans and receivables | 2,789,780 | 5,658,355 | 1,556,278 | 866,935 | 13,649,723 | 5,326,053 | 13,589,565 | 54,446,462 | 810,306 | 38,567,191 | 137,260,648 |
| Less – Impairment charges | | | | | | | | | | | 1,790,865 |
| Net loans and receivables | | | | | | | | | | | 135,469,783 |
| Insurance and reinsurance receivable | - | - | - | - | - | - | - | - | - | 267,523 | 267,523 |
| Financial assets – Available-for-sale | 1,094,559 | - | - | - | - | - | - | 10 | - | - | 1,094,569 |
| Financial assets – Held-to-maturity | 2,968,042 | - | - | - | - | - | - | - | - | - | 2,968,042 |

| As at 31 March 2016 | Group | | | | | | | | | | |
|--|---------------------------------|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|---------------------|----------------------|----------------------|--------------------|-------------------|
| | Financial services* Rs. '000 | Agriculture Rs. '000 | Manufacturing Rs. '000 | Tourism Rs. '000 | Transport Rs. '000 | Construction Rs. '000 | Traders Rs. '000 | Services Rs. '000 | Industry Rs. '000 | Others Rs. '000 | Total Rs. '000 |
| Cash and cash equivalents | 3,555,643 | - | - | - | - | - | - | - | - | - | 3,555,643 |
| Balances with banks and financial institutions | 2,543,016 | - | - | - | - | - | - | - | - | - | 2,543,016 |
| Financial assets – Held-for-trading | 327,122 | 338 | 58,383 | 1,200 | - | - | - | 116,460 | - | 23,935 | 527,438 |
| Loans and receivables | 2,213,144 | 1,887,620 | 19,677 | 507,297 | 13,733,613 | 4,135,845 | 17,666,654 | 50,447,696 | 1,556,792 | 20,645,826 | 112,814,164 |
| Less – Impairment charges | | | | | | | | | | | 1,657,727 |
| Net loans and receivables | | | | | | | | | | | 111,156,437 |
| Insurance and reinsurance receivable | - | - | - | - | - | - | - | - | - | 206,303 | 206,303 |
| Financial assets – Available-for-sale | 1,739,946 | - | - | - | - | - | - | 10 | - | - | 1,739,956 |
| Financial assets – Held-to-maturity | 4,930,236 | - | - | - | - | - | - | - | - | - | 4,930,236 |

* Financial services include banks, finance institutions and insurance companies.

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

57.2.3 FAIR VALUE OF COLLATERAL AND CREDIT ENHANCEMENTS HELD

As a general principle, the Company endeavours to obtain adequate collateral to secure its credit portfolios. The Company focuses on quality and responsibility of such collateral to mitigate potential credit losses. Management monitors the market value of collateral, and requests additional collateral in accordance with the underlying agreement. A reasonable margin of safety is maintained in collateral values.

The main types of collateral obtained are, as follows:

- For commercial lending, charges over real estate properties, inventory, trade receivables and transfer of ownership over the vehicles
- For retail lending, mortgages over residential properties and transfer of ownership over the vehicles
- For securities lending and reverse repurchase transactions, cash or securities

The general creditworthiness of significant customers tends to be the most relevant indicator of credit quality of a facility extended to those parties. However, collateral provides additional security and the Company generally requests large borrowers to provide same. The Company may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees. As Company's focus on corporate customers is mainly based on their creditworthiness, business standing and reputation, Company does not insist on updated valuation of collateral from corporate clients. Such valuations will only be called for from corporate clients only if there is a foreseeable deterioration in credit standing or evidence of possible credit risk. Accordingly, the Company does not routinely update the valuation of collateral held against all facilities to significant customers. For impaired facilities, the Company usually obtains the current market value of the collateral, since it may be an input to the impairment measurement.

The following table shows the fair value of collateral and credit enhancements held by the Company:

| | As at 31 March 2017 | | As at 31 March 2016 | |
|--|---|--------------------------|---|--------------------------|
| | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 |
| Company | | | | |
| Cash and cash equivalents (excluding cash in hand) | 5,058,004 | 5,058,004 | 2,790,055 | 2,790,055 |
| Balances with banks and financial institutions | 2,089,989 | 2,089,989 | 847,448 | 847,448 |
| Financial assets – Held-for-trading | 201,215 | 201,215 | 211,651 | 211,651 |
| Loans and receivables | 134,054,702 | 507,129 | 109,872,415 | 588,604 |
| Financial assets – Available-for-sale | 275,703 | 275,703 | 500,357 | 500,357 |
| Financial assets – Held-to-maturity | 2,968,042 | 2,968,042 | 4,930,236 | 4,930,236 |
| Other financial assets | 121,615 | 121,615 | 132,779 | 132,779 |
| Total | 144,769,270 | 11,221,697 | 119,284,941 | 10,001,130 |

Notes to the Financial Statements

The following table shows the fair value of collateral and credit enhancements held by the Group:

| | As at 31 March 2017 | | As at 31 March 2016 | |
|--|---|--------------------------|---|--------------------------|
| | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 | Maximum exposure to credit risk Rs. '000 | Net exposure Rs. '000 |
| Group | | | | |
| Cash and cash equivalents (excluding cash in hand) | 5,832,609 | 5,832,609 | 3,118,596 | 3,118,596 |
| Balances with banks and financial institutions | 3,789,047 | 3,789,047 | 2,543,016 | 2,543,016 |
| Financial assets – Held-for-trading | 529,301 | 529,301 | 527,438 | 527,438 |
| Loans and receivables | 135,469,783 | 507,129 | 111,156,437 | 588,604 |
| Insurance and reinsurance receivable | 267,523 | 267,523 | 206,303 | 206,303 |
| Financial assets – Available-for-sale | 1,094,569 | 1,094,569 | 1,739,956 | 1,739,956 |
| Financial assets – Held-to-maturity | 2,968,042 | 2,968,042 | 4,930,236 | 4,930,236 |
| Total | 149,950,874 | 14,988,220 | 124,221,982 | 13,654,149 |

57.2.4 OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial assets and financial liabilities are offset and the net amount is presented in the Statement of Financial Position 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.

57.2.5 FINANCIAL ASSETS AND LIABILITIES NOT SUBJECT TO OFFSETTING

Amounts that do not qualify for offsetting include netting arrangements that only permit outstanding transactions with the same counterparty to be offset in an event of default or occurrence of other predetermined events. Such netting arrangements include repurchase agreements and other similar secured lending and borrowing arrangements.

The amount of the financial collateral received or pledged subject to netting arrangements but not qualified for offsetting are disclosed below:

| As at 31 March | 2017 | | | 2016 | | |
|--------------------------|--------------------------|---|------------------------|--------------------------|---|------------------------|
| | Gross amount Rs. '000 | Amount subject to netting but do not qualify for offsetting Rs. '000 | Net amount Rs. '000 | Gross amount Rs. '000 | Amount subject to netting but do not qualify for offsetting Rs. '000 | Net amount Rs. '000 |
| Company and Group | | | | | | |
| Financial Assets | | | | | | |
| Loans and receivables | 3,380,401 | 1,208,411 | 2,171,990 | 1,817,213 | 930,147 | 887,066 |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

57.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, the Management has arranged diversified funding sources in addition to its deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs.

A minimum holding of liquid assets in compliance with Finance Companies (Liquid Assets) Direction No. 4 of 2013 which shall not as the close of the business on any day, be less than the total of:

- a. 10% of the outstanding value of the time deposits and accrued interest payable at the close of the business on such day; and
- b. 15% of outstanding value of the savings deposits and accrued interest payable at the close of the business on such day; and
- c. 10% of the total outstanding borrowing and any payables.

Further, the Company maintaining assets in the form of Sri Lankan Government Treasury Bills and Government Securities equivalent to 7.5% of the average of its month end total deposit liabilities and unsecured borrowings of the 12 months preceding financial year.

The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, to reflect market conditions. Net liquid assets consist of cash, balances with banks and financial institutions and investment in Government Securities.

The Company stresses the importance of savings accounts as sources of funds to finance lending to customers. They are monitored using the advances to deposit ratio, which compares loans and advances to customers as a percentage of customer savings accounts and fixed deposits.

The ratios at the end of the year were as follows:

| As at 31 March | Company | | Group | |
|-------------------------------------|-------------|------|-------------|------|
| | 2017 | 2016 | 2017 | 2016 |
| Liquidity ratios | | | | |
| Advances to deposits ratios (Times) | 3.00 | 3.25 | 3.05 | 3.30 |
| Liquidity assets to deposits (%) | 19 | 24 | 25 | 34 |

57.3.1 ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 March 2017.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Company expects that many customers will not request repayment on the earliest date the Company could be required to pay and the table does not reflect the expected cash flows indicated by the Company's deposit retention history.

Notes to the Financial Statements

57.3.2 CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS AND LIABILITIES

| As at 31 March 2017 | Company | | | | | | Total |
|--|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Rs. '000 |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 3,140,419 | 2,450,751 | - | - | - | - | 5,591,170 |
| Restricted cash and cash equivalents | (1,161,389) | - | - | - | - | - | (1,161,389) |
| Balances with banks and financial institutions | - | 2,064,822 | 90,112 | - | - | - | 2,154,934 |
| Financial assets – Held-for-trading | - | 201,215 | - | - | - | - | 201,215 |
| Loans and receivables | 4,206,791 | 22,722,355 | 50,825,961 | 71,595,125 | 16,461,779 | 56,169 | 165,868,180 |
| Financial assets – Available-for-sale | - | 275,693 | - | - | - | 10 | 275,703 |
| Financial assets – Held-to-maturity | - | 50,000 | 3,008,615 | 25,000 | - | - | 3,083,615 |
| Other financial assets | - | 121,615 | - | - | - | - | 121,615 |
| Total undiscounted financial assets | 6,185,821 | 27,886,451 | 53,924,688 | 71,620,125 | 16,461,779 | 56,179 | 176,135,043 |
| Financial liabilities | | | | | | | |
| Due to banks | 616,359 | 16,717,889 | 8,626,677 | 12,278,448 | 658,527 | - | 38,897,900 |
| Due to customers | 3,496,981 | 13,249,509 | 24,520,743 | 5,381,959 | 1,701,551 | 40,598 | 48,391,341 |
| Debt securities issued | 12,837 | 3,316,546 | 10,869,674 | 21,607,639 | 14,624,094 | - | 50,430,790 |
| Other financial liabilities | - | 2,725,166 | - | - | - | - | 2,725,166 |
| Derivative financial instruments | - | 1,855,451 | - | - | - | - | 1,855,451 |
| Total undiscounted financial liabilities | 4,126,177 | 37,864,561 | 44,017,094 | 39,268,046 | 16,984,172 | 40,598 | 142,300,648 |
| Net undiscounted financial assets/(liabilities) | 2,059,644 | (9,978,110) | 9,907,594 | 32,352,079 | (522,393) | 15,581 | 33,834,395 |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

| As at 31 March 2016 | Company | | | | | | |
|--|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Total Rs. '000 |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 1,694,597 | 1,512,136 | – | – | – | – | 3,206,733 |
| Balances with banks and financial institutions | – | 771,982 | 81,715 | – | – | – | 853,697 |
| Financial assets – Held-for-trading | – | 211,651 | – | – | – | – | 211,651 |
| Loans and receivables | 6,053,568 | 13,077,758 | 36,626,129 | 63,585,144 | 16,261,430 | 76,729 | 135,680,758 |
| Financial assets – Available-for-sale | – | 500,347 | – | – | – | 10 | 500,357 |
| Financial assets – Held-to-maturity | – | 2,910,458 | 2,113,975 | 4,250 | 26,063 | – | 5,054,746 |
| Other financial assets | – | 132,779 | – | – | – | – | 132,779 |
| Total undiscounted financial assets | 7,748,165 | 19,117,111 | 38,821,819 | 63,589,394 | 16,287,493 | 76,739 | 145,640,721 |
| Financial liabilities | | | | | | | |
| Due to banks | 451 | 10,519,826 | 5,366,746 | 11,568,817 | 1,505,911 | – | 28,961,751 |
| Due to customers | 4,379,435 | 8,244,310 | 18,545,677 | 3,464,925 | 1,224,952 | 31,670 | 35,890,969 |
| Debt securities issued | – | 4,218,071 | 7,965,111 | 22,090,923 | 8,301,720 | – | 42,575,825 |
| Other financial liabilities | – | 2,730,484 | – | – | – | – | 2,730,484 |
| Total undiscounted financial liabilities | 4,379,886 | 25,712,691 | 31,877,534 | 37,124,665 | 11,032,583 | 31,670 | 110,159,029 |
| Net undiscounted financial assets/(liabilities) | 3,368,279 | (6,595,580) | 6,944,285 | 26,464,729 | 5,254,910 | 45,069 | 35,481,692 |

Notes to the Financial Statements

| As at 31 March 2017 | Group | | | | | | |
|--|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|--------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Total Rs. '000 |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 3,929,158 | 2,450,751 | - | - | - | - | 6,379,909 |
| Restricted cash and cash equivalents | (1,161,389) | - | - | - | - | - | (1,161,389) |
| Balances with banks and financial institutions | - | 3,548,663 | 339,354 | - | - | - | 3,888,017 |
| Financial assets – Held-for-trading | - | 529,301 | - | - | - | - | 529,301 |
| Loans and receivables | 4,438,177 | 22,722,355 | 50,825,961 | 71,595,125 | 16,461,779 | 56,169 | 166,099,566 |
| Insurance and reinsurance receivable | - | 779,616 | - | - | - | - | 779,616 |
| Financial assets – Available-for-sale | - | 1,094,559 | - | - | - | 10 | 1,094,569 |
| Financial assets – Held-to-maturity | - | 50,000 | 3,008,615 | 25,000 | - | - | 3,083,615 |
| Total undiscounted financial assets | 7,205,946 | 31,175,245 | 54,173,930 | 71,620,125 | 16,461,779 | 56,179 | 180,693,204 |
| Financial liabilities | | | | | | | |
| Due to banks | 891,365 | 16,936,104 | 9,380,838 | 13,285,970 | 983,266 | 227,270 | 41,704,813 |
| Due to customers | 3,532,486 | 13,043,310 | 24,515,551 | 5,428,532 | 1,701,551 | 40,598 | 48,262,028 |
| Debt securities issued | 12,837 | 3,312,370 | 10,856,929 | 21,486,834 | 14,624,094 | - | 50,293,064 |
| Other financial liabilities | - | 2,563,187 | - | - | - | - | 2,563,187 |
| Derivative financial instruments | - | 1,855,451 | - | - | - | - | 1,855,451 |
| Insurance liabilities and reinsurance payable | - | 55,879 | - | - | - | - | 55,879 |
| Total undiscounted financial liabilities | 4,436,688 | 37,766,301 | 44,753,318 | 40,201,336 | 17,308,911 | 267,868 | 144,734,422 |
| Net undiscounted financial assets/(liabilities) | 2,769,258 | (6,591,056) | 9,420,612 | 31,418,789 | (847,132) | (211,689) | 35,958,782 |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

| As at 31 March 2016 | Group | | | | | | |
|--|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Total Rs. '000 |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 2,043,507 | 1,512,136 | - | - | - | - | 3,555,643 |
| Balances with banks and financial institutions | - | 2,214,541 | 479,863 | - | - | - | 2,694,404 |
| Financial assets – Held-for-trading | - | 527,438 | - | - | - | - | 527,438 |
| Loans and receivables | 6,312,074 | 13,358,074 | 37,140,010 | 64,033,234 | 16,196,309 | 76,729 | 137,116,430 |
| Insurance and reinsurance receivable | - | 565,493 | 105,291 | - | - | - | 670,784 |
| Financial assets – Available-for-sale | - | 1,739,946 | - | - | - | 10 | 1,739,956 |
| Financial assets – Held-to-maturity | - | 2,910,458 | 2,113,975 | 4,250 | 26,063 | - | 5,054,746 |
| Total undiscounted financial assets | 8,355,581 | 22,828,086 | 39,839,139 | 64,037,484 | 16,222,372 | 76,739 | 151,359,401 |
| Financial liabilities | | | | | | | |
| Due to banks | 60,986 | 10,658,850 | 6,115,052 | 12,559,332 | 1,731,031 | 21,380 | 31,146,631 |
| Due to customers | 4,414,089 | 8,164,404 | 18,488,140 | 3,511,498 | 1,224,952 | 31,670 | 35,834,753 |
| Debt securities issued | - | 4,213,895 | 7,952,366 | 21,970,118 | 8,301,720 | - | 42,438,099 |
| Other financial liabilities | - | 2,888,399 | - | - | - | - | 2,888,399 |
| Insurance liabilities and reinsurance payable | - | 44,333 | - | - | - | - | 44,333 |
| Total undiscounted financial liabilities | 4,475,075 | 25,969,881 | 32,555,558 | 38,040,948 | 11,257,703 | 53,050 | 112,352,215 |
| Net undiscounted financial assets/(liabilities) | 3,880,506 | (3,141,795) | 7,283,581 | 25,996,536 | 4,964,669 | 23,689 | 39,007,186 |

57.3.3 COMMITMENTS AND GUARANTEES

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments.

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

Notes to the Financial Statements

| As at 31 March 2017 | Company | | | | | |
|---|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | Over 3 years Rs. '000 | Total Rs. '000 |
| Guarantees | - | 102,875 | 377,560 | 200,500 | - | 680,935 |
| Letters of credit | - | 4,428 | - | - | - | 4,428 |
| Accidents of leased out vehicles | - | 89,123 | 203,789 | - | - | 292,912 |
| Capital commitments | - | 3,235,002 | 371,250 | - | - | 3,606,252 |
| Forward exchange contracts | - | 1,855,451 | - | - | - | 1,855,451 |
| Total commitments and guarantees | - | 5,286,879 | 952,599 | 200,500 | - | 6,439,978 |

| As at 31 March 2016 | Company | | | | | |
|---|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | Over 3 years Rs. '000 | Total Rs. '000 |
| Guarantees | - | 5,050 | 505,100 | 128,950 | - | 639,100 |
| Letters of credit | - | 13,143 | - | - | - | 13,143 |
| Accidents of leased out vehicles | - | 98,204 | 32,721 | - | - | 130,925 |
| Capital commitments | - | 1,568,642 | - | - | - | 1,568,642 |
| Total commitments and guarantees | - | 1,685,039 | 537,821 | 128,950 | - | 2,351,810 |

| As at 31 March 2017 | Group | | | | | |
|---|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | Over 3 years Rs. '000 | Total Rs. '000 |
| Guarantees | - | 102,875 | 377,560 | 200,500 | - | 680,935 |
| Letters of credit | - | 4,428 | - | - | - | 4,428 |
| Accidents of leased out vehicles | - | 89,123 | 203,789 | - | - | 292,912 |
| Capital commitments | - | 3,304,290 | 548,043 | 29,465 | - | 3,881,798 |
| Forward exchange contracts | - | 1,855,451 | - | - | - | 1,855,451 |
| Total commitments and guarantees | - | 5,356,167 | 1,129,392 | 229,965 | - | 6,715,524 |

| As at 31 March 2016 | Group | | | | | |
|---|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|-------------------|
| | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | Over 3 years Rs. '000 | Total Rs. '000 |
| Guarantees | - | 5,050 | 505,100 | 128,950 | - | 639,100 |
| Letters of credit | - | 13,143 | - | - | - | 13,143 |
| Accidents of leased out vehicles | - | 98,204 | 32,721 | - | - | 130,925 |
| Capital commitments | - | 1,628,356 | 538,966 | - | - | 2,167,322 |
| Total commitments and guarantees | - | 1,744,753 | 1,076,787 | 128,950 | - | 2,950,490 |

The Company expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

57.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Company classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

57.4.1 INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. The Company policy is to continuously monitor interest rates on regular basis. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate financial assets and financial liabilities.

The following table demonstrates the sensitivity of the Company's Statement of Profit or Loss for the year ended 31 March 2017 and 31 March 2016 to a reasonably possible change in interest rates, with all other variables held:

| As at 31 March | 2017 Rs. '000 | 2016 Rs. '000 |
|---|------------------|------------------|
| Impact on Statement of Profit or Loss due to interest rate shocks | | |
| 0.50% | (35,986) | (23,941) |
| 1% | (71,972) | (47,882) |
| -0.50% | 35,986 | 23,941 |
| -1% | 71,972 | 47,882 |

INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

The table below analyses the Company's interest rate risk exposure on non-trading financial assets and liabilities. The Company's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

Notes to the Financial Statements

| 2017 | Company | | | | | | | |
|---|-----------------------------|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------------|
| | Carrying amount Rs. '000 | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Non-interest bearing Rs. '000 |
| Assets | | | | | | | | |
| Cash and cash equivalents | 5,591,170 | 63,456 | 2,449,571 | - | - | - | - | 3,078,143 |
| Balances with banks and financial institutions | 2,089,989 | 8,807 | 2,000,000 | 81,182 | - | - | - | - |
| Financial assets – Held-for-trading | 201,215 | - | - | - | - | - | - | 201,215 |
| Loans and receivables | 135,704,299 | 5,022,358 | 17,954,401 | 39,716,889 | 58,336,489 | 14,620,301 | 53,861 | - |
| Less: Impairment charges | 1,649,597 | | | | | | | |
| Net loans and receivables | 134,054,702 | | | | | | | |
| Financial assets – Available-for-sale | 275,703 | - | - | - | - | - | - | 275,703 |
| Financial assets – Held-to-maturity | 2,968,042 | 59,782 | 45,455 | 2,838,724 | 24,081 | - | - | - |
| Other financial assets | 121,615 | - | - | - | - | - | - | 121,615 |
| Total | 145,302,436 | 5,154,403 | 22,449,427 | 42,636,795 | 58,360,570 | 14,620,301 | 53,861 | 3,676,676 |
| Liabilities | | | | | | | | |
| Due to banks | 35,584,408 | 773,218 | 22,738,437 | 4,497,932 | 7,220,156 | 354,665 | - | - |
| Due to customers | 44,722,552 | 5,351,377 | 12,139,928 | 21,623,279 | 4,325,638 | 1,241,732 | 40,598 | - |
| Debt securities issued | 38,673,277 | 2,756,826 | 2,504,515 | 10,827,551 | 10,883,262 | 11,701,123 | - | - |
| Other financial liabilities | 2,725,166 | - | - | - | - | - | - | 2,725,166 |
| Derivative financial instruments | 8,363 | - | 8,363 | - | - | - | - | - |
| Total | 121,713,766 | 8,881,421 | 37,391,243 | 36,948,762 | 22,429,056 | 13,297,520 | 40,598 | 2,725,166 |
| Total interest sensitivity gap | 23,588,670 | (3,727,018) | (14,941,816) | 5,688,033 | 35,931,514 | 1,322,781 | 13,263 | |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

| 2016 | Company | | | | | | | Non-interest bearing Rs. '000 |
|--|-----------------------------|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|
| | Carrying amount Rs. '000 | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | |
| Assets | | | | | | | | |
| Cash and cash equivalents | 3,206,733 | 63,077 | 1,512,136 | - | - | - | - | 1,631,520 |
| Balances with banks and financial institutions | 847,448 | 30,645 | 740,558 | 76,245 | - | - | - | - |
| Financial assets – Held-for-trading | 211,651 | - | - | - | - | - | - | 211,651 |
| Loans and receivables | 111,453,273 | 6,414,018 | 9,945,421 | 27,694,281 | 52,624,771 | 14,703,231 | 71,551 | - |
| Less: Impairment charges | 1,580,858 | | | | | | | |
| Net loans and receivables | 109,872,415 | | | | | | | |
| Financial assets – Available-for-sale | 500,357 | - | - | - | - | - | - | 500,357 |
| Financial assets – Held-to-maturity | 4,930,236 | - | 2,908,343 | 1,997,310 | - | 24,583 | - | - |
| Other financial assets | 132,779 | - | - | - | - | - | - | 132,779 |
| Total | 119,701,619 | 6,507,740 | 15,106,458 | 29,767,836 | 52,624,771 | 14,727,814 | 71,551 | 2,476,307 |
| Liabilities | | | | | | | | |
| Due to banks | 26,431,628 | 65,034 | 12,387,511 | 3,773,937 | 9,256,970 | 948,176 | - | - |
| Due to customers | 33,836,428 | 5,722,654 | 7,648,465 | 16,661,404 | 2,902,755 | 869,480 | 31,670 | - |
| Debt securities issued | 34,387,677 | 1,908,166 | 4,104,986 | 7,727,686 | 13,773,305 | 6,873,534 | - | - |
| Other financial liabilities | 2,730,484 | - | - | - | - | - | - | 2,730,484 |
| Total | 97,386,217 | 7,695,854 | 24,140,962 | 28,163,027 | 25,933,030 | 8,691,190 | 31,670 | 2,730,484 |
| Total interest sensitivity gap | 22,315,402 | (1,188,114) | (9,034,504) | 1,604,809 | 26,691,741 | 6,036,624 | 39,881 | |

Notes to the Financial Statements

INTEREST RATE RISK EXPOSURE ON FINANCIAL ASSETS AND LIABILITIES

The table below analyses the Group's interest rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

| 2017 | Group | | | | | | | |
|--|-----------------------------|-----------------------|-----------------------------------|-------------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------------|
| | Carrying amount Rs. '000 | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Non-interest bearing Rs. '000 |
| Assets | | | | | | | | |
| Cash and cash equivalents | 6,379,909 | 586,476 | 2,449,616 | - | - | - | - | 3,343,817 |
| Balances with banks and financial institutions | 3,789,047 | 8,807 | 3,460,375 | 319,865 | - | - | - | - |
| Financial assets – Held-for-trading | 529,301 | - | - | - | - | - | - | 529,301 |
| Loans and receivables | 137,260,648 | 5,267,124 | 17,631,264 | 40,289,046 | 58,104,928 | 15,789,079 | 179,207 | - |
| Less: Impairment charges | 1,790,865 | | | | | | | |
| Net loans and receivables | 135,469,783 | | | | | | | |
| Insurance and reinsurance receivable | 267,523 | - | - | - | - | - | - | 267,523 |
| Financial assets – Available-for-sale | 1,094,569 | - | - | - | - | - | - | 1,094,569 |
| Financial assets – Held-to-maturity | 2,968,042 | 59,782 | 45,455 | 2,838,724 | 24,081 | - | - | - |
| Total | 150,498,174 | 5,922,189 | 23,586,710 | 43,447,635 | 58,129,009 | 15,789,079 | 179,207 | 5,235,210 |
| Liabilities | | | | | | | | |
| Due to banks | 37,085,398 | 1,048,224 | 22,826,549 | 4,715,515 | 7,626,785 | 641,055 | 227,270 | - |
| Due to customers | 44,465,568 | 5,300,093 | 11,938,867 | 21,618,640 | 4,325,638 | 1,241,732 | 40,598 | - |
| Debt securities issued | 38,569,262 | 2,752,811 | 2,504,515 | 10,727,551 | 10,883,262 | 11,701,123 | - | - |
| Other financial liabilities | 2,563,187 | - | - | - | - | - | - | 2,563,187 |
| Derivative financial instruments | 8,363 | - | 8,363 | - | - | - | - | - |
| Total | 122,691,778 | 9,101,128 | 37,278,294 | 37,061,706 | 22,835,685 | 13,583,910 | 267,868 | 2,563,187 |
| Total interest sensitivity gap | 27,806,396 | (3,178,939) | (13,691,584) | 6,385,929 | 35,293,324 | 2,205,169 | (88,661) | |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

| 2016 | Group | | | | | | | |
|--|-----------------------------|-----------------------|--------------------------------|----------------------------|--------------------------|--------------------------|--------------------------|----------------------------------|
| | Carrying amount Rs. '000 | On demand Rs. '000 | Less than 3 months Rs. '000 | 3 to 12 months Rs. '000 | 1 to 3 years Rs. '000 | 3 to 5 years Rs. '000 | Over 5 years Rs. '000 | Non-interest bearing Rs. '000 |
| Assets | | | | | | | | |
| Cash and cash equivalents | 3,555,643 | 238,536 | 1,512,136 | - | - | - | - | 1,804,971 |
| Balances with banks and financial institutions | 2,543,016 | 30,645 | 2,098,340 | 414,031 | - | - | - | - |
| Financial assets – Held-for-trading | 527,438 | - | - | - | - | - | - | 527,438 |
| Loans and receivables | 112,814,164 | 5,563,254 | 10,128,195 | 28,133,218 | 53,496,033 | 15,421,913 | 71,551 | - |
| Less: Impairment charges | 1,657,727 | - | - | - | - | - | - | - |
| Net loans and receivables | 111,156,437 | - | - | - | - | - | - | - |
| Insurance and reinsurance receivable | 206,303 | - | - | - | - | - | - | 206,303 |
| Financial assets – Available-for-sale | 1,739,956 | 49,745 | 534,100 | 610,374 | - | - | - | 545,737 |
| Financial assets – Held-to-maturity | 4,930,236 | - | 2,908,343 | 1,997,310 | - | 24,583 | - | - |
| Total | 124,659,029 | 5,882,180 | 17,181,114 | 31,154,933 | 53,496,033 | 15,446,496 | 71,551 | 3,084,449 |
| Liabilities | | | | | | | | |
| Due to banks | 28,059,677 | 447,328 | 12,454,842 | 4,026,115 | 9,997,837 | 1,112,175 | 21,380 | - |
| Due to customers | 33,677,260 | 5,696,914 | 7,570,456 | 16,605,985 | 2,902,755 | 869,480 | 31,670 | - |
| Debt securities issued | 34,283,621 | 1,904,110 | 4,104,986 | 7,727,686 | 13,673,305 | 6,873,534 | - | - |
| Other financial liabilities | 2,888,399 | - | - | - | - | - | - | 2,888,399 |
| Insurance liabilities and reinsurance payables | 44,333 | - | - | - | - | - | - | 44,333 |
| Total | 98,953,290 | 8,048,352 | 24,130,284 | 28,359,786 | 26,573,897 | 8,855,189 | 53,050 | 2,932,732 |
| Total interest sensitivity gap | 25,705,739 | (2,166,172) | (6,949,170) | 2,795,147 | 26,922,136 | 6,591,307 | 18,501 | |

57.4.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The only currency risk faced by the Company is from the funds invested in TAKA in Bangladesh. USD borrowing exposure has been managed using hedging strategies for repayment of such borrowings. Therefore, currency risk to the Company is minimal.

The tables below indicate the currencies to which the Company had significant exposures as at 31 March 2017 and the effect to the Gains/Losses in case of market exchange rates go up/drop by 1%. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Sri Lankan Rupee, with all other variables held constant, on the Statement of Profit or Loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities).

Notes to the Financial Statements

IMPACT ON STATEMENT OF PROFIT OR LOSS DUE TO EXCHANGE RATE SHOCKS

| | Change in currency rate in % | Company | | Group | |
|------|------------------------------------|--|--|--|--|
| | | 2017 Effect on profit before tax Rs. '000 | 2016 Effect on profit before tax Rs. '000 | 2017 Effect on profit before tax Rs. '000 | 2016 Effect on profit before tax Rs. '000 |
| USD | 1 | - | 59 | 773 | 59 |
| USD | -1 | - | (59) | (773) | (59) |
| TAKA | 1 | 11,337 | - | 11,337 | - |
| TAKA | -1 | (11,337) | - | (11,337) | - |

57.4.3 EQUITY PRICE RISK

The sensitivity analysis for equity price risk reflects how changes in the fair value of equity securities at the reporting date will fluctuate in response to assumed changes in equity market prices. The movements in the fair value of equity securities monitored by assessing the projected changes in the fair value of equity securities held by the portfolios in response to assumed equity price movements of +/- 1%.

| 1% increase/decrease in equity market prices | 2017 | | | 2016 | | |
|--|--|--|--|--|--|--|
| | Effect on net asset value Rs. '000 | Effect on profit before tax Rs. '000 | Effect on comprehensive income Rs. '000 | Effect on Net asset value Rs. '000 | Effect on profit before tax Rs. '000 | Effect on comprehensive income Rs. '000 |
| Company | | | | | | |
| Financial assets – Held-for-trading | 2,011 | 2,011 | - | 2,116 | 2,116 | - |
| Financial assets – Available-for-sale | 1,932 | - | 1,932 | 2,551 | - | 2,551 |
| Group | | | | | | |
| Financial assets – Held-for-trading | 5,294 | 5,294 | - | 5,274 | 5,274 | - |
| Financial assets – Available-for-sale | 1,932 | - | 1,932 | 2,551 | - | 2,551 |

57.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

Operational risk of the Company is managed through a Board approved operational risk management policy control framework which consists of monitoring and responding to potential risks.

57.6 INSURANCE RISKS

People's Insurance PLC (PI) is a subsidiary of the Company whose principal line of business is carrying out general insurance business. The following are the risks and their management arising from PI for its financial year ended 31 March 2017.

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

57.6.1 REGULATORY FRAMEWORK

Regulators are primarily interested in protecting the rights of policyholders and monitor closely to ensure that the PI is satisfactorily managing affairs for policyholders' benefit. At the same time, regulators are also interested in ensuring that the PI maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

As an insurer, the operations of the PI are subject to regulatory supervision of the Insurance Board of Sri Lanka (IBSL). PI has taken necessary action to comply with and complied with applicable regulations throughout the year.

57.6.2 NATURE AND EXTENT OF RISKS ARISING FROM INSURANCE CONTRACTS

OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING RISKS ARISING FROM INSURANCE CONTRACTS

PI willingly assumes risks of other organisations as its prime value creation activity. This is the core of the insurance business and there is no perfect way of measuring the potential impact on insured risk. For non-life insurance business, most significant risks arise from climate changes, natural disasters and terrorist activities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. PI's risk management framework focuses on strategic risk, assumed risks and the potential risks. PI identifies and categorises risks in terms of their source, their impact on PI and preferred strategies for dealing with them.

METHODS USED TO MANAGE RISKS

Risk Appetite and Risk Tolerance

PI has made a strategic decision to maintain a risk appetite moderately above the average of the insurance market, since it allows the best potential for creating shareholder value at an acceptable risk level. PI manages the volatility and potential downward risk through diversification.

Identification of Shock Losses

There are three areas of risk which have the potential to materially damage economic value that PI identified at present as having the greatest potential for shock losses. They are catastrophe, reserving and equity investment risk. PI manages the risk of shock losses by setting limits on the tolerance for specific risks and on the amount of capital that PI is willing to expose.

The table below sets out the concentration of non-life insurance contract liabilities by type of contract:

| | 31 March 2017 | | | 31 March 2016 | | |
|---------------|-------------------------------|------------------------------------|-----------------------------|-------------------------------|------------------------------------|-----------------------------|
| | Gross liabilities Rs. '000 | Reinsurance receivable Rs. '000 | Net liabilities Rs. '000 | Gross liabilities Rs. '000 | Reinsurance receivable Rs. '000 | Net liabilities Rs. '000 |
| Motor | 1,040,398 | 20,237 | 1,020,161 | 977,814 | 27,122 | 950,692 |
| Marine | 3,412 | 2,380 | 1,032 | 2,974 | 2,100 | 874 |
| Fire | 115,433 | 62,940 | 52,493 | 121,485 | 62,498 | 58,987 |
| Miscellaneous | 265,351 | 6,187 | 259,164 | 166,883 | 3,878 | 163,005 |
| Total | 1,424,594 | 91,744 | 1,332,850 | 1,269,156 | 95,598 | 1,173,558 |

Notes to the Financial Statements

CLAIMS DEVELOPMENT TABLE

The following tables show the estimates of cumulative incurred claims for each quarter, together with cumulative payments to date:

GROSS NON-LIFE INSURANCE OUTSTANDING CLAIMS PROVISION FOR 2017

| Accident period | Current estimate of cumulative claims incurred | | | | | | | |
|---|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2016/17 Rs. '000 | 2015/16 Rs. '000 | 2014/15 Rs. '000 | 2013/14 Rs. '000 | 2012/13 Rs. '000 | 2011/12 Rs. '000 | 2010/11 Rs. '000 | Total Rs. '000 |
| 2016 | 2,632,588 | 50,267 | 5,397 | (8,555) | (17,006) | (113) | (945) | 2,661,633 |
| 2015 | - | 2,180,488 | 31,044 | 35,874 | (5,165) | 6,377 | 1,703 | 2,250,321 |
| 2014 | - | - | 2,038,412 | (15,126) | 28,391 | 1,577 | 1,465 | 2,054,719 |
| 2013 | - | - | - | 2,040,056 | (167,837) | 50,297 | 3,148 | 1,925,664 |
| 2012 | - | - | - | - | 2,041,067 | (58,704) | 4,224 | 1,986,587 |
| 2011 | - | - | - | - | - | 1,395,553 | 2,762 | 1,398,315 |
| 2010 | - | - | - | - | - | - | 213,429 | 213,429 |
| Current estimate of cumulative claims incurred | 2,632,588 | 2,230,755 | 2,074,853 | 2,052,249 | 1,879,450 | 1,394,987 | 225,786 | 12,490,668 |

GROSS NON-LIFE INSURANCE OUTSTANDING CLAIMS PROVISION FOR 2016

| Accident period | Cumulative payments to date | | | | | | | |
|---------------------------------------|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2016/17 Rs. '000 | 2015/16 Rs. '000 | 2014/15 Rs. '000 | 2013/14 Rs. '000 | 2012/13 Rs. '000 | 2011/12 Rs. '000 | 2010/11 Rs. '000 | Total Rs. '000 |
| 2016 | (2,132,221) | (389,878) | (23,979) | (12,958) | (16,478) | (8,262) | (390) | (2,584,166) |
| 2015 | - | (1,745,594) | (395,616) | (28,525) | (53,691) | (16,664) | (1,718) | (2,241,808) |
| 2014 | - | - | (1,588,523) | (329,993) | (29,760) | (19,215) | (2,329) | (1,969,820) |
| 2013 | - | - | - | (1,623,442) | (252,384) | (57,574) | (3,495) | (1,936,895) |
| 2012 | - | - | - | - | (1,467,526) | (311,763) | (5,154) | (1,784,443) |
| 2011 | - | - | - | - | - | (895,011) | (72,227) | (967,238) |
| 2010 | - | - | - | - | - | - | (135,137) | (135,137) |
| Cumulative payments to date | (2,132,221) | (2,135,472) | (2,008,118) | (1,994,918) | (1,819,839) | (1,308,489) | (220,450) | (11,619,507) |
| Total gross claims outstanding | 500,367 | 95,283 | 66,735 | 57,331 | 59,611 | 86,498 | 5,336 | 871,161 |

Notes to the Financial Statements

57. RISK MANAGEMENT (CONTD.)

NET NON-LIFE INSURANCE OUTSTANDING CLAIMS PROVISION FOR 2017

| Accident period | Current estimate of cumulative claims incurred | | | | | | | |
|---|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2016/17 Rs. '000 | 2015/16 Rs. '000 | 2014/15 Rs. '000 | 2013/14 Rs. '000 | 2012/13 Rs. '000 | 2011/12 Rs. '000 | 2010/11 Rs. '000 | Total Rs. '000 |
| 2016 | 2,548,398 | 59,287 | 6,864 | (10,511) | (16,949) | (128) | (945) | 2,586,016 |
| 2015 | - | 2,099,663 | 16,076 | 34,203 | (3,982) | 6,454 | 1,599 | 2,154,013 |
| 2014 | - | - | 2,022,077 | (15,127) | 28,151 | 2,382 | 1,465 | 2,038,948 |
| 2013 | - | - | - | 2,033,106 | (158,485) | 51,344 | 3,157 | 1,929,122 |
| 2012 | - | - | - | - | 1,975,515 | (15,515) | 4,239 | 1,964,239 |
| 2011 | - | - | - | - | - | 1,223,455 | 4,621 | 1,228,076 |
| 2010 | - | - | - | - | - | - | 209,021 | 209,021 |
| Current estimate of cumulative claims incurred | 2,548,398 | 2,158,950 | 2,045,017 | 2,041,671 | 1,824,250 | 1,267,992 | 223,157 | 12,109,435 |

NET NON-LIFE INSURANCE OUTSTANDING CLAIMS PROVISION FOR 2016

| Accident period | Cumulative payments to date | | | | | | | |
|---------------------------------------|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2016/17 Rs. '000 | 2015/16 Rs. '000 | 2014/15 Rs. '000 | 2013/14 Rs. '000 | 2012/13 Rs. '000 | 2011/12 Rs. '000 | 2010/11 Rs. '000 | Total Rs. '000 |
| 2016 | (2,077,073) | (387,579) | (23,866) | (12,833) | (16,282) | (8,244) | (390) | (2,526,267) |
| 2015 | - | (1,758,034) | (369,486) | (27,883) | (31,860) | (16,664) | (1,614) | (2,205,541) |
| 2014 | - | - | (1,566,001) | (329,883) | (29,152) | (17,417) | (2,329) | (1,944,782) |
| 2013 | - | - | - | (1,594,309) | (226,969) | (32,280) | (3,495) | (1,857,053) |
| 2012 | - | - | - | - | (1,425,161) | (248,760) | (5,123) | (1,679,044) |
| 2011 | - | - | - | - | - | (882,354) | (71,904) | (954,258) |
| 2010 | - | - | - | - | - | - | (131,396) | (131,396) |
| Cumulative payments to date | (2,077,073) | (2,145,613) | (1,959,353) | (1,964,908) | (1,729,424) | (1,205,719) | (216,251) | (11,298,341) |
| Total gross claims outstanding | 471,325 | 13,337 | 85,664 | 76,763 | 94,826 | 62,273 | 6,906 | 811,094 |

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Supplementary Information

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Quarterly Analysis

STATEMENT OF PROFIT OR LOSS

| Rs. million | Company | | | | | | | | | |
|---|-----------------------------|--------------|---------------------------------|--------------|-----------------------------------|--------------|--------------------------------|--------------|---------------|---------------|
| | 1st Quarter April – June | | 2nd Quarter July – September | | 3rd Quarter October – December | | 4th Quarter January – March | | Total | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2017 | 2016 | 2017 | 2016 |
| Interest income | 4,819 | 4,519 | 5,263 | 4,479 | 5,808 | 4,442 | 6,151 | 4,436 | 22,041 | 17,876 |
| Less: Interest expenses | 2,396 | 1,987 | 2,828 | 1,887 | 3,237 | 1,992 | 3,369 | 2,075 | 11,830 | 7,941 |
| Net interest income | 2,423 | 2,532 | 2,435 | 2,592 | 2,571 | 2,450 | 2,782 | 2,361 | 10,211 | 9,935 |
| Fee and commission income | 244 | 211 | 291 | 225 | 313 | 252 | 285 | 264 | 1,134 | 952 |
| Net gains/losses on financial assets – Held-for-trading | (3) | 6 | 31 | 5 | (8) | (18) | (12) | (33) | 8 | (40) |
| Other operating income | 147 | 72 | 234 | 187 | 48 | 46 | 246 | 93 | 676 | 398 |
| Total operating income | 2,811 | 2,821 | 2,991 | 3,009 | 2,924 | 2,730 | 3,301 | 2,685 | 12,029 | 11,245 |
| Less: Impairment charges for loans and receivables and other losses | (13) | 298 | (53) | 82 | 121 | (89) | 160 | (33) | 216 | 258 |
| Net operating income | 2,824 | 2,523 | 3,044 | 2,927 | 2,803 | 2,819 | 3,141 | 2,718 | 11,813 | 10,987 |
| Less: | | | | | | | | | | |
| Personnel expenses | 610 | 423 | 618 | 433 | 649 | 464 | 680 | 487 | 2,556 | 1,807 |
| Depreciation of property, plant and equipment | 48 | 50 | 43 | 47 | 42 | 49 | 44 | 51 | 177 | 197 |
| Amortisation of intangible assets | 3 | 1 | 2 | 1 | 2 | 7 | 2 | 4 | 10 | 13 |
| Other operating expenses | 587 | 507 | 679 | 552 | 702 | 602 | 700 | 509 | 2,670 | 2,170 |
| Total operating expenses | 1,248 | 981 | 1,342 | 1,033 | 1,395 | 1,122 | 1,426 | 1,052 | 5,413 | 4,188 |
| Operating profit before VAT and NBT on financial services | 1,576 | 1,542 | 1,702 | 1,894 | 1,408 | 1,697 | 1,715 | 1,666 | 6,400 | 6,799 |
| Less: VAT and NBT on financial services | 167 | 108 | 174 | 138 | 212 | 153 | 372 | 257 | 924 | 656 |
| Operating profit after VAT and NBT on financial services | 1,409 | 1,434 | 1,528 | 1,756 | 1,196 | 1,544 | 1,343 | 1,409 | 5,476 | 6,143 |
| Less: Income tax expense | 395 | 428 | 386 | 500 | 349 | 487 | 337 | 381 | 1,467 | 1,796 |
| Profit for the period | 1,014 | 1,006 | 1,142 | 1,256 | 847 | 1,057 | 1,006 | 1,028 | 4,009 | 4,347 |

PROFIT AFTER TAX

[Rs. million]



○ 2016/17 ○ 2015/16

TOTAL ASSETS

[Rs. billion]



○ 2016/17 ○ 2015/16

Quarterly Analysis

STATEMENT OF FINANCIAL POSITION

| Rs. million | Company | | | | | | | |
|--|------------------------------|----------------|-----------------------------------|----------------|----------------------------------|----------------|-------------------------------|----------------|
| | 1st Quarter As at 30 June | | 2nd Quarter As at 30 September | | 3rd Quarter As at 31 December | | 4th Quarter As at 31 March | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2017 | 2016 |
| Assets | | | | | | | | |
| Cash and cash equivalents | 2,891 | 2,278 | 5,051 | 1,712 | 7,292 | 3,147 | 5,591 | 3,207 |
| Balances with banks and financial institutions | 80 | 331 | 81 | 335 | 83 | 340 | 2,090 | 847 |
| Derivative financial instruments | - | - | - | 24 | 6 | 21 | - | - |
| Financial assets – Held-for-trading | 215 | 191 | 221 | 261 | 211 | 243 | 201 | 212 |
| Loans and receivables | 115,020 | 99,268 | 126,517 | 103,302 | 132,755 | 107,424 | 134,055 | 109,872 |
| Financial assets – Available-for-sale | 473 | 1,021 | 309 | 822 | 285 | 843 | 276 | 500 |
| Financial assets – Held-to-maturity | 4,887 | 5,385 | 4,994 | 5,469 | 4,898 | 4,484 | 2,968 | 4,930 |
| Investments in subsidiaries | 1,875 | 1,875 | 1,975 | 1,875 | 2,075 | 1,875 | 2,075 | 1,875 |
| Investment in associate | 586 | - | 586 | 586 | 586 | 586 | 586 | 586 |
| Property, plant and equipment | 1,179 | 1,074 | 1,175 | 1,139 | 1,218 | 1,121 | 1,255 | 1,121 |
| Goodwill and intangible assets | 327 | 335 | 324 | 338 | 322 | 331 | 320 | 330 |
| Investment property | 91 | 4 | 91 | 83 | 91 | 87 | 101 | 91 |
| Other assets | 2,731 | 652 | 2,870 | 693 | 982 | 756 | 939 | 765 |
| Total assets | 130,355 | 112,414 | 144,194 | 116,639 | 150,804 | 121,258 | 150,457 | 124,336 |
| Liabilities | | | | | | | | |
| Due to banks | 33,038 | 21,729 | 37,448 | 25,036 | 32,476 | 24,794 | 35,584 | 26,432 |
| Due to customers | 34,875 | 34,025 | 39,257 | 34,287 | 42,637 | 33,790 | 44,723 | 33,836 |
| Debt securities issued | 31,726 | 26,788 | 35,619 | 27,245 | 43,139 | 32,819 | 38,673 | 34,388 |
| Other financial liabilities | 3,293 | 4,256 | 3,766 | 3,385 | 4,712 | 3,799 | 2,725 | 2,730 |
| Derivative financial instruments | - | 93 | 11 | - | - | - | 8 | - |
| Current tax liabilities | 1,051 | 763 | 532 | 581 | 456 | 755 | 290 | 938 |
| Deferred tax liabilities | 1,822 | 1,949 | 1,822 | 1,949 | 1,822 | 1,949 | 1,923 | 1,822 |
| Other liabilities | 1,592 | 1,375 | 1,652 | 1,450 | 1,830 | 1,508 | 1,834 | 1,418 |
| Total liabilities | 107,397 | 90,978 | 120,107 | 93,933 | 127,072 | 99,414 | 125,760 | 101,564 |
| Equity | | | | | | | | |
| Capital | 13,186 | 12,986 | 13,236 | 13,036 | 13,236 | 13,086 | 13,236 | 13,136 |
| Statutory reserve fund | 1,472 | 1,254 | 1,529 | 1,317 | 1,572 | 1,370 | 1,622 | 1,422 |
| Retained earnings | 7,806 | 6,606 | 8,841 | 7,749 | 8,460 | 6,774 | 9,400 | 7,682 |
| Other reserves | 494 | 590 | 481 | 604 | 464 | 614 | 439 | 532 |
| Total equity | 22,958 | 21,436 | 24,087 | 22,706 | 23,732 | 21,844 | 24,697 | 22,772 |
| Total liabilities and equity | 130,355 | 112,414 | 144,194 | 116,639 | 150,804 | 121,258 | 150,457 | 124,336 |

Ten Year Summary

| | Company | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
| FINANCIAL CAPITAL | | | | | | | | | | |
| Operating result | | | | | | | | | | |
| Income (Rs. million) | 23,859 | 19,186 | 20,542 | 20,628 | 18,205 | 12,912 | 9,212 | 7,155 | 6,396 | 4,590 |
| Interest income (Rs. million) | 22,041 | 17,876 | 19,248 | 19,534 | 17,245 | 12,002 | 8,263 | 6,523 | 5,745 | 3,973 |
| Interest expenses (Rs. million) | 11,830 | 7,941 | 9,248 | 11,266 | 10,140 | 6,302 | 3,542 | 3,133 | 3,209 | 2,161 |
| Net interest income (Rs. million) | 10,212 | 9,935 | 10,000 | 8,268 | 7,105 | 5,700 | 4,722 | 3,390 | 2,536 | 1,812 |
| Non-interest income (Rs. million) | 1,818 | 1,310 | 1,294 | 1,094 | 960 | 910 | 949 | 632 | 651 | 617 |
| Impairment charges and other losses (Rs. million) | 216 | 258 | 1,645 | 1,218 | 698 | 308 | 18 | 533 | 55 | 223 |
| Other operating expenses (Rs. million) [Note 2] | 6,338 | 4,844 | 4,274 | 3,757 | 3,232 | 2,522 | 1,931 | 1,389 | 1,242 | 853 |
| Profit before tax (PBT) (Rs. million) | 5,476 | 6,143 | 5,375 | 4,387 | 4,135 | 3,781 | 3,721 | 2,100 | 1,890 | 1,353 |
| Income tax expense (Rs. million) | 1,467 | 1,796 | 1,622 | 1,263 | 1,285 | 1,206 | 1,142 | 900 | 843 | 550 |
| Profit after tax (PAT) (Rs. million) | 4,009 | 4,347 | 3,753 | 3,124 | 2,850 | 2,575 | 2,580 | 1,200 | 1,047 | 803 |
| Return on assets (ROA) (%) | 3.99 | 5.19 | 4.75 | 4.15 | 4.70 | 5.62 | 8.59 | 7.45 | 8.18 | 7.17 |
| Cost to income ratio (%) | 45.01 | 37.24 | 34.63 | 37.01 | 36.54 | 32.58 | 27.49 | 27.70 | 30.49 | 33.65 |
| Financial position | | | | | | | | | | |
| Cash, balances with banks and reverse repurchase agreements (Rs. million) | 7,681 | 4,054 | 3,465 | 14,783 | 4,705 | 1,730 | 1,529 | 2,085 | 1,652 | 484 |
| Loans and receivables (Rs. million) | 134,055 | 109,872 | 98,411 | 90,218 | 88,404 | 71,289 | 49,385 | 26,717 | 22,533 | 19,222 |
| Investments in subsidiaries (Rs. million) | 2,075 | 1,875 | 1,875 | 1,475 | 1,475 | 3,118 | 1,805 | 900 | 225 | - |
| Investments in Government Securities (Rs. million) | 2,968 | 4,930 | 5,266 | 4,747 | 540 | - | - | - | - | - |
| Total assets (Rs. million) | 150,457 | 124,336 | 112,323 | 113,776 | 97,437 | 78,658 | 55,849 | 30,848 | 25,558 | 20,672 |
| Borrowings (Rs. million) | 74,258 | 60,819 | 49,848 | 48,605 | 56,232 | 58,740 | 39,930 | 20,072 | 17,003 | 14,752 |
| Deposits from customers (Rs. million) [Note 3] | 44,723 | 33,836 | 34,094 | 40,921 | 18,847 | - | - | - | - | - |
| Total equity (Rs. million) | 24,697 | 22,772 | 21,136 | 19,196 | 18,023 | 16,809 | 8,442 | 6,229 | 5,447 | 3,617 |
| Total liabilities and shareholders' funds (Rs. million) | 150,457 | 124,336 | 112,323 | 113,776 | 97,437 | 78,658 | 55,849 | 30,848 | 25,558 | 20,672 |
| Financial cash inlows/(outflows) | | | | | | | | | | |
| Operating activities (Rs. million) | (9,010) | (8,533) | (7,351) | 17,218 | 6,819 | (4,956) | (19,535) | (1,257) | (1,458) | (2,501) |
| Investing activities (Rs. million) | (69) | (397) | (231) | (170) | (89) | (1,507) | (88) | (998) | (1,405) | (57) |
| Financing activities (Rs. million) | 10,848 | 9,156 | (738) | (8,927) | (4,007) | 6,031 | 18,977 | 2,481 | 3,555 | 2,208 |
| Net cash flows (Rs. million) | 1,769 | 227 | (8,320) | 8,121 | 2,723 | (432) | (646) | 226 | 692 | (350) |
| HUMAN CAPITAL | | | | | | | | | | |
| Employees (Nos.) | 2,085 | 1,834 | 1,666 | 1,575 | 1,134 | 1,050 | 855 | 586 | 498 | 442 |
| PBT per employee (Rs. million) | 2.79 | 3.51 | 3.32 | 2.96 | 3.39 | 3.97 | 5.16 | 3.87 | 4.02 | 3.19 |
| Employees' salaries and benefits (Rs. million) | 2,556 | 1,807 | 1,565 | 1,338 | 1,026 | 763 | 593 | 386 | 320 | 262 |
| NATURAL CAPITAL | | | | | | | | | | |
| Investment (Rs. million) | 3.37 | 3.36 | 1.17 | 0.52 | 7.10 | 0.67 | 0.45 | 1.03 | 0.55 | N/T |
| Trees planted (Nos.) | 5,780 | 10,395 | 430 | 1,130 | 925 | 125 | 117 | N/T | N/T | N/T |
| Carbon footprint (tCo2eq) (Note 4) | 6,236 | 3,059 | 2,770 | - | - | - | - | - | - | - |
| SOCIAL AND RELATIONSHIP CAPITAL | | | | | | | | | | |
| Shareholders (Nos.) | 9,176 | 9,407 | 8,880 | 10,054 | 9,488 | 10,113 | 8 | 9 | 9 | 9 |
| Number of ordinary shares (Nos. million) | 1,580 | 1,580 | 1,580 | 1,580 | 1,560 | 1,560 | 50 | 50 | 50 | 50 |
| Earnings per ordinary share (EPS) (Rs.) | 2.54 | 2.75 | 2.38 | 1.98 | 1.80 | 1.63 | 1.63 | 0.76 | 0.66 | 0.51 |
| Net assets value per share (NAPS) (Rs.) | 15.63 | 14.41 | 13.38 | 12.15 | 11.41 | 10.64 | 5.34 | 3.94 | 3.45 | 2.29 |
| Market price per share (Rs.) [Note 5] | | | | | | | | | | |
| Highest | 20.10 | 26.50 | 28.00 | 15.70 | 16.70 | 18.30 | - | - | - | - |
| Lowest | 15.30 | 15.40 | 14.20 | 13.00 | 10.30 | 11.00 | - | - | - | - |
| Closing | 15.60 | 16.00 | 22.10 | 14.30 | 13.10 | 11.60 | - | - | - | - |

Ten Year Summary

| | Company | | | | | | | | | |
|--|-------------------------|------------------|------------------|----------------------|----------------------|---------|---------|---------|---------|---------|
| | 2016/17 | 2015/16 | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 | 2009/10 | 2008/09 | 2007/08 |
| Market capitalisation (Rs. million) | 24,646 | 25,278 | 34,915 | 22,592 | 20,436 | 18,096 | - | - | - | - |
| Price earnings ratio (PE) (Times) | 6.15 | 5.82 | 9.30 | 7.23 | 7.28 | 7.12 | - | - | - | - |
| Dividend per share (DPS) (Rs.) | 1.25 | 1.25 | 1.25 | 1.25 | 1.25 | 1.00 | 1.50 | 1.50 | 1.50 | 1.50 |
| Dividend paid (Rs. million) | 1,975 | 1,975 | 1,975 | 1,975 | 1,950 | 855 | 75 | 75 | 75 | 75 |
| Dividend yield (%) | 8.01 | 7.81 | 5.66 | 8.74 | 9.54 | 8.62 | - | - | - | - |
| Dividend cover (Times) | 2.03 | 2.20 | 1.90 | 1.58 | 1.46 | 3.01 | 34.40 | 16.00 | 13.96 | 10.70 |
| Dividend payout (%) | 49.26 | 45.43 | 52.62 | 63.22 | 68.42 | 33.20 | 2.91 | 6.25 | 7.16 | 9.34 |
| Return on equity (ROE) (%) | 16.89 | 19.80 | 18.61 | 16.79 | 16.36 | 20.39 | 35.17 | 20.56 | 23.10 | 24.15 |
| Return on capital employed (ROCE) (%) | 12.04 | 11.99 | 13.92 | 14.40 | 15.33 | 13.35 | 15.02 | 19.90 | 22.71 | 19.13 |
| Debt to equity (excluding deposits) (Times) | 3.01 | 2.67 | 2.36 | 2.68 | 3.29 | 3.49 | 5.11 | 4.18 | 4.38 | 4.67 |
| Debt to equity with contingent liabilities and commitments (Times) | 3.25 | 2.77 | 2.57 | 2.80 | 3.39 | 3.51 | 5.12 | 4.19 | 4.39 | 4.69 |
| Current ratio (Times) | 0.83 | 0.85 | 0.93 | 0.88 | 0.85 | 0.58 | 0.71 | 0.82 | 0.92 | 0.86 |
| Interest cover (Times) | 1.46 | 1.77 | 1.58 | 1.39 | 1.41 | 1.60 | 2.05 | 1.67 | 1.59 | 1.63 |
| Taxes paid to Government (Rs. million) | 2,828 | 2,915 | 1,793 | 581 | 848 | 1,703 | 1,098 | 918 | 493 | 343 |
| Taxes collected on behalf of Government (Rs. million) | 1,048 | 1,313 | 1,250 | 1,411 | 908 | 706 | 539 | 1,491 | 933 | 761 |
| Investment on community based CSR (Rs. million) | 187.64 | 76.25 | 71.68 | 55.48 | 32.90 | 25.33 | 21.55 | 11.97 | 16.45 | 9.00 |
| Capital adequacy ratios | | | | | | | | | | |
| Core capital ratio (required minimum – 5%) (%) | 17.56 | 19.56 | 20.22 | 19.12 | 21.15 | 25.50 | - | - | - | - |
| Total risk weighted capital ratio (required minimum – 10%) (%) | 16.37 | 18.14 | 19.04 | 18.05 | 20.06 | 25.50 | - | - | - | - |
| MANUFACTURED AND INTELLECTUAL CAPITAL | | | | | | | | | | |
| Branches (Nos.) | 103 | 92 | 89 | 85 | 33 | 34 | 30 | 23 | 19 | 19 |
| Brand value (Rs. million) | 7,588 | 9,317 | 4,918 | 4,265 | 3,015 | 1,796 | 1,915 | 623 | - | - |
| Credit Ratings and Key Accolades | | | | | | | | | | |
| Fitch Ratings Lanka | AA-(lka) | AA-(lka) | AA-(lka) | AA-(lka) | AA-(lka) | A+(lka) | A(lka) | A-(lka) | A-(lka) | A-(lka) |
| Fitch Ratings International | B | B | B+ | B+ | B+ | - | - | - | - | - |
| Standard & Poor's | B+/B | B+/B | B+/B | B+/B | B+/B | - | - | - | - | - |
| CA Sri Lanka Annual Report Awards: | | | | | | | | | | |
| Overall – Financial reporting | - | - | Silver | - | - | - | - | - | - | - |
| Overall – CSR | - | - | Gold | - | - | - | - | - | - | - |
| Overall – Corporate Governance | Gold | - | - | - | - | - | - | - | - | - |
| Overall – Management Commentary | - | Silver | - | - | - | - | - | - | - | - |
| Overall – Best disclosure on capital management in IR | Bronze | - | - | - | - | - | - | - | - | - |
| Sector | Gold | Gold | Gold | Gold | Gold | Gold | Gold | Gold | Gold | Silver |
| SLIM Nielsen – Financial Service Provider of the Year | - | Winner | Winner | Winner | Winner | - | - | - | - | - |
| Business Today – Top 30 Listed Corporate Entities | 14 Position | 17 Position | 14 Position | 18 Position | - | - | - | - | - | - |
| CCCSL – Ten Best Corporate Citizen Award | Second runner-up | Winner | Winner | - | Winner | - | Winner | Winner | - | - |
| SAFA – Best Presented Annual Report Award | Second runner-up | Second runner-up | Second runner-up | Certificate of Merit | Certificate of Merit | - | - | - | - | - |

N/T – Not tracked

Note:

1. Prior to 2012, all figures are as per Sri Lanka Accounting Standards (SLASs) prevailed at that time
2. Figures include total operating expenses and VAT & NBT on financial services (excluding impairment charges for loans and receivables and other losses)
3. After receiving the finance license in 2012, the Company started accepting fixed and savings deposits
4. The Company initiated evaluation of carbon emission from 2014/15
5. The Company's ordinary shares were quoted on the CSE on 03 November 2011

Statement of Profit or Loss in USD

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 USD '000 | 2016 USD '000 | 2017 USD '000 | 2016 USD '000 |
| Income | 156,977 | 132,602 | 182,463 | 156,055 |
| Interest income | 145,018 | 123,547 | 149,906 | 126,485 |
| Less: Interest expenses | 77,831 | 54,883 | 77,767 | 55,332 |
| Net interest income | 67,187 | 68,664 | 72,139 | 71,153 |
| Net earned premiums | - | - | 24,304 | 22,691 |
| Fee and commission income | 7,459 | 6,582 | 4,090 | 3,651 |
| Net gains/losses on financial assets – Held for trading | 54 | (279) | 289 | (497) |
| Other operating income | 4,446 | 2,752 | 3,874 | 3,725 |
| Total operating income | 79,146 | 77,719 | 104,696 | 100,723 |
| Less: Impairment charges for loans and receivables and other losses | 1,420 | 1,786 | 1,861 | 2,009 |
| Net operating income and other losses | 77,726 | 75,933 | 102,835 | 98,714 |
| Less: | | | | |
| Personnel expenses | 16,818 | 12,489 | 19,549 | 14,310 |
| Depreciation of property, plant and equipment | 1,166 | 1,362 | 1,735 | 1,939 |
| Amortisation of intangible assets | 64 | 91 | 84 | 123 |
| Benefits, claims and underwriting expenditure | - | - | 17,000 | 15,549 |
| Other operating expenses | 17,572 | 14,999 | 17,740 | 15,558 |
| Total operating expenses | 35,620 | 28,941 | 56,108 | 47,479 |
| Operating profit before VAT and NBT on financial services | 42,106 | 46,992 | 46,727 | 51,235 |
| Less :VAT and NBT on financial services | 6,078 | 4,536 | 6,214 | 4,632 |
| Operating profit after VAT and NBT on financial services | 36,028 | 42,456 | 40,513 | 46,603 |
| Share of (loss) of the associate (net of tax) | - | - | (486) | (250) |
| Profit before income tax expense | 36,028 | 42,456 | 40,027 | 46,353 |
| Less : Income tax expense | 9,650 | 12,411 | 10,807 | 13,583 |
| Profit for the year | 26,378 | 30,045 | 29,220 | 32,770 |

Exchange rate of USD was Rs. 151.99 as at 31 March 2017 (Rs. 144.69 as at 31 March 2016).

The Statement of Profit or Loss is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and does not form part of the Financial Statements.

Statement of Comprehensive Income in USD

| For the year ended 31 March | Company | | Group | |
|---|------------------|------------------|------------------|------------------|
| | 2017 USD '000 | 2016 USD '000 | 2017 USD '000 | 2016 USD '000 |
| Profit for the year | 26,378 | 30,045 | 29,220 | 32,770 |
| Other comprehensive income | | | | |
| Items to be reclassified to profit or loss in subsequent years (net of tax): | | | | |
| Cash flow hedges | | | | |
| Gains/(losses) on derivative financial investments | 6 | (48) | 6 | (48) |
| Financial assets - Available-for-sale | | | | |
| Gains/(losses) on remeasuring | (617) | 348 | (589) | 227 |
| Recycling to Statement of Profit or Loss | - | (170) | - | (170) |
| Net items to be reclassified to profit or loss in subsequent years | (611) | 130 | (583) | 9 |
| Items not to be reclassified to profit or loss in subsequent years (net of tax): | | | | |
| Actuarial gains and losses on retirement benefit obligation | (147) | (186) | (166) | (186) |
| Deferred tax effect on above | 41 | 52 | 43 | 48 |
| Deemed cost adjustment on transfers | - | 50 | - | - |
| Deferred tax effect on above | - | (14) | - | - |
| Net items not to be reclassified to profit or loss in subsequent years | (106) | (98) | (123) | (138) |
| Other comprehensive income for the year, net of tax | (717) | 32 | (706) | (129) |
| Total comprehensive income for the year | 25,661 | 30,077 | 28,514 | 32,641 |

Exchange rate of USD was Rs. 151.99 as at 31 March 2017 (Rs. 144.69 as at 31 March 2016).

The Statement of Comprehensive Income is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and does not form part of the Financial Statements.

Statement of Financial Position in USD

| As at 31 March | Company | | Group | |
|--|------------------|------------------|------------------|------------------|
| | 2017 USD '000 | 2016 USD '000 | 2017 USD '000 | 2016 USD '000 |
| Assets | | | | |
| Cash and cash equivalents | 36,786 | 22,163 | 41,976 | 24,574 |
| Balances with banks and financial institutions | 13,751 | 5,857 | 24,930 | 17,576 |
| Financial assets – Held-for-trading | 1,324 | 1,463 | 3,482 | 3,645 |
| Loans and receivables | 881,997 | 759,364 | 891,307 | 768,239 |
| Insurance and reinsurance receivables | – | – | 1,760 | 1,426 |
| Financial assets – Available-for-sale | 1,814 | 3,458 | 7,202 | 12,025 |
| Financial assets – Held-to-maturity | 19,528 | 34,074 | 19,528 | 34,074 |
| Investments in subsidiaries | 13,652 | 12,959 | – | – |
| Investment in associate | 3,858 | 4,053 | 3,134 | 3,803 |
| Investment property | 663 | 627 | – | – |
| Property, plant and equipment | 8,255 | 7,745 | 32,999 | 29,093 |
| Goodwill and intangible assets | 2,107 | 2,280 | 2,108 | 2,303 |
| Deferred tax assets | – | – | 173 | 100 |
| Other assets | 6,177 | 5,281 | 6,755 | 9,222 |
| Total assets | 989,912 | 859,324 | 1,035,354 | 906,080 |
| Liabilities | | | | |
| Due to banks | 234,123 | 182,678 | 243,999 | 193,930 |
| Due to customers | 294,247 | 233,855 | 292,556 | 232,755 |
| Debt securities issued | 254,446 | 237,665 | 253,762 | 236,945 |
| Other financial liabilities | 17,930 | 18,871 | 16,864 | 19,963 |
| Derivative financial instruments | 55 | – | 55 | – |
| Insurance liabilities and reinsurance payable | – | – | 23,272 | 21,989 |
| Current tax liabilities | 1,908 | 6,483 | 2,219 | 7,034 |
| Deferred tax liabilities | 12,653 | 12,592 | 12,998 | 12,822 |
| Other liabilities | 12,057 | 9,797 | 12,481 | 10,138 |
| Total liabilities | 827,419 | 701,941 | 858,206 | 735,576 |
| Equity | | | | |
| Capital | 87,085 | 90,788 | 87,085 | 90,788 |
| Statutory reserve fund | 10,671 | 9,824 | 10,671 | 9,824 |
| Retained earnings | 61,847 | 53,094 | 69,484 | 59,438 |
| Other reserves | 2,890 | 3,677 | 2,770 | 3,522 |
| Total shareholders' equity | 162,493 | 157,383 | 170,010 | 163,572 |
| Non-controlling interest | – | – | 7,138 | 6,932 |
| Total equity | 162,493 | 157,383 | 177,148 | 170,504 |
| Total liabilities and equity | 989,912 | 859,324 | 1,035,354 | 906,080 |
| Contingent liabilities and commitments | 42,371 | 16,254 | 44,184 | 20,392 |

Exchange rate of USD was Rs. 151.99 as at 31 March 2017 (Rs. 144.69 as at 31 March 2016).

The above Statement of Financial Position is solely for the convenience of Stakeholders (shareholders, investors, bankers and other users of Financial Statements) and does not form part of the Financial Statements.

Independent Assurance Report

GRI 102-56



EY

Building a better
working world

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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF PEOPLE'S LEASING & FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED IN THE ANNUAL REPORT – 2016/17.

INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of People's Leasing & Finance PLC ('the Company') engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators in the Annual Report – 2016/17 ('the Report').

- Reasonable assurance on the information on financial performance as specified on page 65 of the Report.
- Limited assurance on other information presented in the Report (General Standard Disclosures and Specific Standard Disclosures of the Global Reporting Initiatives (GRI) content Index pages 412 to 414), prepared in accordance with the requirements of the GRI Standards 'In accordance' – Comprehensive guidelines.

BASIS OF OUR WORK AND LEVEL OF ASSURANCE

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ('CASL').

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ('GRI Guidelines') and related information in particular, the requirements to achieve GRI Standards 'In accordance' – Comprehensive guideline publication, publicly available at GRI's global website at 'www.globalreporting.org'.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

MANAGEMENT OF THE COMPANY'S RESPONSIBILITY FOR THE REPORT

The management of the Company is responsible for the preparation of the self-declaration, the information and statements contained within the Report and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

ERNST & YOUNG'S RESPONSIBILITY

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative – GRI Standards 'In accordance' - Comprehensive guidelines. This report is made solely to the Company in accordance with our engagement letter dated 21 February 2017. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code for Ethics for Professional Accountants issued by the CASL.

KEY ASSURANCE PROCEDURES

We planned and performed our procedures to obtain the information and explanations considered necessary to

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA
K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA

Principal T P M Ruberu FCA FCCA

A member firm of Ernst & Young Global Limited

Independent Assurance Report

provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- — Interviewing relevant Company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- — Reviewing and validation of the information contained in the Report.
- — Checking the calculations performed by the Company on a sample basis through recalculation.
- — Reconciling and agreeing the data on financial performance is properly derived from the Company's audited Financial Statements for the year ended 31 March 2017.
- — Comparison of the content of the Report against the criteria for a Global Reporting Initiative GRI Standards 'In accordance' – Comprehensive guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

LIMITATIONS AND CONSIDERATIONS

Environmental and social performance data are subject to inherent limitations, given their nature and the methods used for determining, calculating and estimating such data.

CONCLUSION

Based on the procedures performed, as described above, we conclude that;

The information on financial performance as specified on page 65 of the Report is properly derived from the audited Financial Statements of the Company for the year ended 31 March 2017.

Nothing has come to our attention that causes us to believe that other information presented in the Report is not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from GRI Standards 'In accordance' – Comprehensive, Sustainability Reporting Guidelines.



Chartered Accountants

19 May 2017

Colombo

Subsidiary Information



Vision

To be appreciated for building lasting trust based on strength, stability and sustainability.

Mission

We will work with all our stakeholders with integrity and fairness, maintain high standards in sales and services, respect the creativity and commitment of our staff and offer sound insurance solutions to our clients for a sustainable future.

Organisational Profile

| | |
|---------------------------------|--|
| Name of the Company | People's Insurance PLC (PI) |
| Date of Incorporation | 22 July 2009 |
| Commenced commercial operations | January 2010 |
| Main Business | Registered as a non-life insurance provider under the Regulation of Insurance Industry Act. |
| Industry | We are the sixth largest non-life insurance company in terms of premium income in accordance with the statistics issued by the Insurance Association of Sri Lanka. |

Ownership Structure



PRODUCTS

Lifestyle Products: These products are tailored to individual needs and include Fire Insurance, Home Insurance, Personal Accident Insurance, Motor Vehicle Insurance, Travel Insurance and Solar Panel (Photo voltaic) Insurance.

Business Products: These products are targeted towards commercial operators and corporates and include Commercial Fire Insurance, Motor Vehicle Insurance, Goods In Transit/Marine (Cargo) Insurance, Fidelity Guarantee Insurance, Machinery/Electronic Equipment Insurance, Contractors' All Risks Insurance, Workmen's Compensation Insurance, Public Liability Insurance, Business Interruption (Consequential Loss) Insurance, Plate Glass Insurance, Burglary Insurance, Package Policy for SMEs, Business Travel Insurance, Product Liability Insurance, Professional Liability Insurance and Solar Panels (Photo voltaic) Insurance.

Strategic Priorities for the Year (2016)

Develop stronger networking ties with People's Bank.
 Increase the number of marketing officers and open new window offices in strategic locations.
 Organise and participate in joint promotional campaigns with PLC and People's Bank.
 Deploy technology to extend an efficient service with quick turn-around times.
 Invest in new product development and add value-added features to suit customer needs.

Key Activities During the Year (2016)

Shares of the Company were listed on CSE.
 Successfully adopted risk-based capital solvency regime.
 Entered into a bancassurance agreement with Sampath Bank.
 Internet payment gateway launched to facilitate customer settlements online.
 E-waste collection project was launched.
 Total gross written premium crossed Rs. 4 billion mark.
 Investment portfolio surpassed Rs. 5 billion.

Strategic Priorities of the Next Financial Year (2017)

Collaborate to secure further Group business opportunities.
 Set-up branches and window offices in strategic locations.
 Recruit new marketing officers.
 Revamp website for more interaction with users.
 Continue to work with Carbon Fund Sri Lanka to minimise the Company's carbon footprint.
 Make smart-investment decisions in consultation with the Board Investment Committee.
 Invest on well-focused social responsibility initiatives.

FINANCIAL HIGHLIGHTS

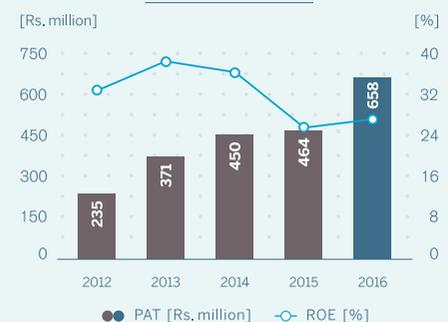
TOTAL ASSETS AND ROA



REVENUE



PAT AND ROE



Subsidiary Information



Vision

To improve sustainable livelihoods of the community and be the most sought after microfinance company in Sri Lanka.

Mission

To economically empower low income earners and micro-entrepreneurs by providing inclusive finance in a sustainable, ethical and profitable manner.

Organisational Profile

| | | |
|---------------------------------|---|-----------|
| Name of the Company | People's Microfinance Limited (PML) | GRI 203-2 |
| Date of Incorporation | 3 September 2010 | |
| Commenced commercial operations | March 2011 | |
| Main Business | Providing Microfinance facilities to the under-privileged, rural and urban population of Sri Lanka. | |
| Industry | The Company outreach as one of key microfinance institution in the country with past 6 years of operation | |

Ownership Structure



PRODUCTS

General Loan

The Loan product gradually increase its value based on the client's improving credit capacity with the expansion of their self-employment. Granting is based on small clusters in rural areas. Main focus on the client base extends to funding support to uplift the grass-root communities. Broadly falling under the unbankable category.

Small and Medium Enterprise (SME) Loan

By developing the SME product, the company targets those families who are economically active, and specifically engaged in small business. The Company motivates the selected families to commence new income sources and/or to expand their existing income sources. For example, the company caters to small enterprises such as cultivation, animal husbandry, small buying and selling business.

Asset-based Loan

The Company's strategic objective of developing above product is providing micro finance facilities to the under privileged, rural & urban population and providing asset backed facilities for client base as agricultural equipment's, equipment required for animal husbandry, three wheelers and motor bikes.

Strategic Priorities for the Year (2016/17)

Expand the outreach through branches to mitigate the intense competition in the industry.

Provide credit and support services to enhance customer loyalty.

Maintain transparency and trust with sound governance practices.

Key Activities During the Year (2016/17)

Prioritised facilities that fund materials and technology for the client.

Limitations were implemented for granting that mitigate multiple borrowings.

Strengthened the credit evaluation when providing loans to existing customers.

Introduced an improved file-maintenance process.

Implemented a higher-security vault system to enhance clients' data protection.

Strategic Priorities of the Next Financial Year (2017/18)

Provide extensive training for front line offices of the company to further enhance and provide better customer services

Conduct awareness programs for customers to increase financial literacy

FINANCIAL HIGHLIGHTS

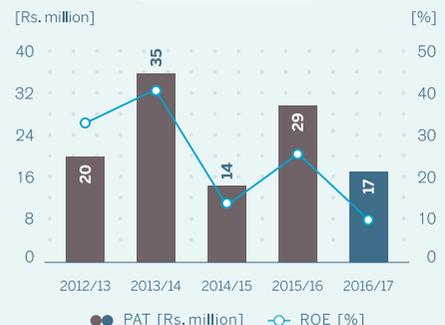
TOTAL ASSETS



REVENUE



PAT AND ROE



Subsidiary Information



Vision

Be the fleet solution provider to the future of mobility.

Mission

To be the most-admired, purpose-driven, eco-friendly service provider, embracing breakthrough business ideas in digitisation.

Organisational Profile

| | |
|---------------------------------|--|
| Name of the Company | People's Leasing Fleet Management Limited (PLFML) |
| Date of Incorporation | 6 August 2008 |
| Commenced commercial operations | August 2008 |
| Main Business | Products and services in fleet management, vehicle valuation, rent-a-car services and vehicle sales |
| Industry | As the sole registered fleet management Company in Sri Lanka, we continue to maintain our position within the industry |

Ownership Structure



PRODUCTS

Vehicle Fleet Services

Vehicle Fleet services consist of long-term hiring, short-term hiring and recovery services.

Long-term hiring (operating lease) has a target market of corporate clients and Government institutions. Short-term hiring, in the form of rent-a-car services are destined towards individuals seeking a vehicle temporarily. Recovery services to provide towing and carrier services for vehicles.

Valuation Services

Valuations are of key importance to our Parent Company of People's Leasing & Finance PLC, as they underpin asset-backed loans and leasing facilities awarded to customers. Accurate and reliable valuations help to improve the quality of the credit. We also offer valuation services to third parties, and extend our valuation services to machinery and equipment as well. Further, we carry out insurance motor claim assessment for insurance companies mainly People's Insurance PLC.

Vehicle Sales

The Company purchase repossessed vehicle from parent company, People's Leasing and Finance PLC under general tender procedures and resell them with market. This will result win-win situation for the both company and parent undertaking by offering fair values for repossessed assets.

Strategic Priorities for the Year 2016/17

Expand and upgrade the Rent-a-Car Unit with a variety of new vehicles.
Strengthen and update the user-friendly high-end IT System to support all operations.
Introduce regional concepts and centralise call centre operations (valuation units).
Develop operating lease product.

Key Activities During the Year (2016/17)

Invested Rs. 119 million on vehicles for both fleet operation and operating leases.
Expanded island-wide coverage of the valuation unit and motor claim assessment.
Started valuation unit call centre operations.
Relaunched operating lease product.

Strategic Priorities of the Next Financial Year (2017/18)

Use latest mobile supported technologies to provide speedy valuation services.
Strategically relocate vehicle fleet and valuation unit to provide better & speedy services to customers.
Expand operating lease product and further develop rent a car business.

FINANCIAL HIGHLIGHTS

TOTAL ASSETS

[Rs. million]



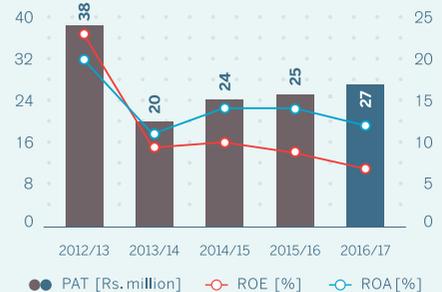
REVENUE

[Rs. million]



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[Rs. million]



Subsidiary Information



Organisational Profile

| | |
|---------------------------------|---|
| Name of the Company | People's Leasing Property Development Limited (PLPDL) |
| Date of Incorporation | 15 August 2008 |
| Commenced commercial operations | August 2011 |
| Main Business | The principal activity of the Company is in property development and the renting of properties. The Company chiefly engages in the implementation of projects and monitoring the construction of branches for People's Bank and People's Leasing & Finance PLC. |
| Industry | Property development |

Ownership Structure



PRODUCTS

People's Leasing Property Development Limited chiefly engages in the property development projects of People's Bank and the People's Leasing Group. The Company has already completed thirteen projects for People's Bank and one project for People's Leasing & Finance PLC which is in the pipeline.

Strategic Priorities for the Year 2016/17

Strengthen the financial position of the Company.

Key Activities During the Year (2016/17)

Settled a major portion of long-term loan – Rs. 968 million

Strategic Priorities of the Next Financial Year (2017/18)

Negotiate with People's Bank and PLC for new projects.

Better co-ordination with contractors with the purpose of completing more projects in the future.

Obtain service of other consultancy firms to improve competitiveness, quality of design and reduce over dependency on single firm.

FINANCIAL HIGHLIGHTS

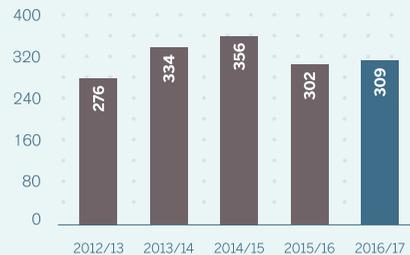
TOTAL ASSETS

[Rs. million]



REVENUE

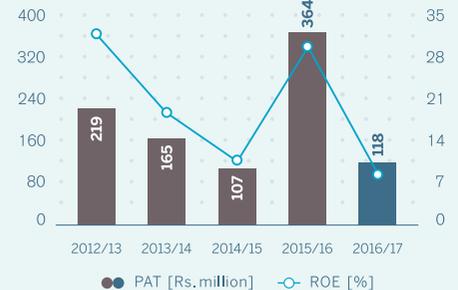
[Rs. million]



PAT & ROE

[Rs. million]

[%]



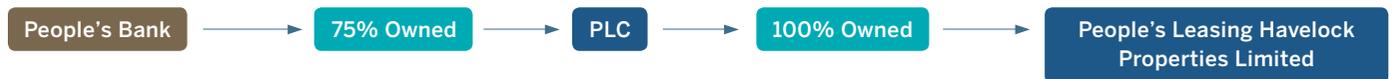
Subsidiary Information



Organisational Profile

| | |
|---------------------------------|---|
| Name of the Company | People's Leasing Havelock Properties Limited (PLHPL) |
| Date of Incorporation | 12 August 2010 |
| Commenced commercial operations | Commercial operations have not yet commenced |
| Main Business | The principal line of business is to construct and operate office complex |
| Industry | Construction and operation of commercial buildings. |

Ownership Structure



PRODUCTS

Carry out construction of office complex and operating as renting out or leasing.

Strategic Priorities for the Year 2016/17

Finished works on the building in development.

Key Activities During the Year (2016/17)

The Company invested Rs. 635 million during the year to bring the office complex to its present level.

Strategic Priorities of the Next Financial Year (2017/18)

Enter into rent agreements with People's Leasing & Finance PLC, People's Insurance PLC and People's Bank to commence the commercial operations of the completed building.

Initiate the construction of a new building on adjacent land.

FINANCIAL HIGHLIGHTS

TOTAL ASSETS

[Rs. million]



GRI Checklist

GRI 102-55

| GRI standard number | Disclosure title | Reason for omission | Page number | UNGC advance |
|---------------------|--|-------------------------------------|--------------------------|--------------|
| 102-1 | Name of the organisation | | 6 | |
| 102-2 | Activities, brands, products and services | | 103 | |
| 102-3 | Location of headquarters | | 11 | |
| 102-4 | Location of operations | | 427 | |
| 102-5 | Ownership and legal form | | 427 | |
| 102-6 | Markets served | | 71 | |
| 102-7 | Scale of the organisation | | 4 | |
| 102-8 | Information on employees and other workers | | 89 | |
| 102-9 | Supply chain | | 111 | |
| 102-10 | Significant changes to the organisation and its supply chain | | 106 | |
| 102-11 | Precautionary Principle or approach | | 74, 110, 113,241, 261 | |
| 102-12 | External initiatives | | 9 | |
| 102-13 | Membership of associations | | 114 | |
| 102-14 | Statement from senior decision-maker | | 13 | 1, 9 |
| 102-15 | Key impacts, risks and opportunities | | 39 | 7, 19 |
| 102-16 | Values, principles, standards and norms of behaviour | | 175,228, 231, 265 | 10 |
| 102-17 | Mechanisms for advice and concerns about ethics | | 98 | 10, 20, 1 |
| 102-18 | Governance structure | | 165, 173 | 20, 1 |
| 102-19 | Delegating authority | | 171, 172 | 20, 1 |
| 102-20 | Executive-level responsibility for economic, environmental and social topics | | 171 | 20, 1 |
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| 102-32 | Highest governance body's role in sustainability reporting | | 171 | 20, 1 |
| 102-33 | Communicating critical concerns | | 173 | 20, 1 |
| 102-34 | Nature and total number of critical concerns | | 173 | 20, 1 |
| 102-35 | Remuneration policies | | 232 | 20, 1 |
| 102-36 | Process for determining remuneration | | 232 | 20, 1 |
| 102-37 | Stakeholders' involvement in remuneration | Not reported due to confidentiality | | 20, 1 |
| 102-38 | Annual total compensation ratio | Not reported due to confidentiality | | 20, 1 |
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| 102-40 | List of stakeholder groups | | 48 | 21 |
| 102-41 | Collective bargaining agreements | | 98 | 21 |
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GRI Checklist

| GRI standard number | Disclosure title | Reason for omission | Page number | UNGC advance |
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| 304-2 | Significant impacts of activities, products and services on biodiversity | | 148 | 8 |
| 304-3 | Habitats protected or restored | | 148 | 8 |
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| 305-1 | Direct (Scope 1) GHG emissions | | 144 | 7, 8 |
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| 305-4 | GHG emissions intensity | | 144 | 8 |
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| 306-1 | Water discharge by quality and destination | | 145 | 8 |
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GRI Checklist

| GRI standard number | Disclosure title | Reason for omission | Page number | UNGC advance |
|---------------------|---|---------------------|-------------|--------------|
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| 308-1 | New suppliers that were screened using environmental criteria | | 142 | 8 |
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| 407-1 | Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk | | 98 | 3 |
| 408-1 | Operations and suppliers at significant risk for incidents of child labour | | 98 | 5 |
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| 410-1 | Security personnel trained in human rights policies or procedures | | 240 | 1 |
| 412-1 | Operations that have been subject to human rights reviews or impact assessments | | 98 | 1 |
| 412-2 | Employee training on human rights policies or procedures | | 98 | 1 |
| 412-3 | Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening | | 98 | 2 |
| 413-1 | Operations with local community engagement, impact assessments and development programmes | | 128 | 1 |
| 413-2 | Operations with significant actual and potential negative impacts on local communities | | 128 | 1 |
| 414-1 | New suppliers that were screened using social criteria | | 114 | 2 |
| 414-2 | Negative social impacts in the supply chain and actions taken | | 114 | 2 |
| 415-1 | Political contributions | | 129 | 10 |
| 417-1 | Requirements for product and service information and labelling | | 109 | |
| 417-2 | Incidents of non-compliance concerning product and service information and labelling | | 109 | |
| 417-3 | Incidents of non-compliance concerning marketing communications | | 107 | |
| 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data | | 110 | |
| 419-1 | Non-compliance with laws and regulations in the social and economic area | | 129 | |

Management Approach

GRI 103-1

GRI 103-2

GRI 103-3

GRI 102-47

| GRI standard number | Material GRI topic | Reason/s for materiality | Management approach (commitment, goal/target, responsible, resources, grievance, progress) |
|---------------------|--------------------------|---|---|
| GRI 201 | Economic performance | PLC supports job-creation and inclusive economic growth providing finance mainly for income generation purposes. | PLC is committed to generating economic value to its investors, financiers, employees and community through sustainable growth. Our financial capital consists of funds for disbursement under our flagship products and service categories. Stringent internal audits and risk management functions ensure sustainable financial performance and the integrated risk management committee identifies risks including risks due to climate change and ensures the implementation of appropriate systems to manage risks. The Company measures the present value of the promised retirement benefits for gratuity, which is a retirement benefit plan with the advice of an independent professional. |
| GRI 202 | Market presence | Guided by the local sourcing policy for staff, PLC recruits employees from the respective area of operation to fit in the island wide branch network. PLC also recruits young employees with future leadership potential, and invest in ongoing management and leadership development programmes to accelerate their career growth to take up leadership positions in the future. | |
| GRI 203 | Indirect economic impact | Increased economic activity in supporting the start-up of new enterprises is the best way to create new jobs. Major criticism of banks has been that the lending we do to small businesses. | |
| GRI 204 | Procurement practices | Local sourcing as a policy. Centralised procurement department register suppliers annually and screen them to ensure ethical sourcing. Foreign suppliers were sourced primarily to procure computer hardware and software | Having understood that social relevance is fundamental to our survival and success, PLC is committed to ensuring that our code of business conduct and ethics is adhered to and no bribery/corruption takes place in our operations. In the instance of such event, our Internal Auditors, Integrated Risk Management Committee and the Compliance Officers are responsible in investigating and taking due disciplinary actions. PLC actively cooperates with regulatory bodies to strengthening the financial systems of the country and in preventing fraudulent activities. Further, as a promoter of responsible sourcing, PLC ensures that procurement practices are handled centrally by the procurement department. Assessment of suppliers at the registration and periodic reviews including site visits and desk reviews are in place to evaluate our suppliers. Negative impact our operations have on community is minimal due to nature of our operations. However, we go the extra mile to help them overcome their vulnerabilities and thereby contribute to fulfil some of the UN declared SDGs. Our commitment for our customers is to stand by them during their difficult times and doing all we can to see them through to better days. In offering financial solutions, PLC makes best use of technology to deliver superior service to customers. ISO 27001: Information Security Management System certification and enabling customers to make informed decisions has earned PLC reputation as a trusted leader. |
| GRI 205 | Anti-corruption | PLC being a finance company, possesses a comprehensive Business Code of Ethics to protect customers from any unethical business practices. | |

Management Approach

| GRI standard number | Material GRI topic | Reason/s for materiality | Management approach (commitment, goal/target, responsible, resources, grievance, progress) |
|---------------------|-----------------------------------|--|---|
| 301 | Materials | Being a service organisation, paper, ICT and other office equipment comprise of material. We have not tracked material use. | PLC is committed to minimising our negative impact on environment. Although there are no laws and regulations to comply with, PLC has voluntarily prioritised environmental sustainability as a core area in our corporate responsibility framework. Guided by our environment policy, PLC is committed to involving all levels of staff to embrace green practices, practice responsible sourcing and financing. PLC tracks its group wide resource consumption and calculates its carbon footprint annually. Underpinned by a 'reduce first, then offset' approach, PLC became a carbon neutral company. Work in progress to streamline responsible sourcing and financing to take our green commitment forward involving our supply chain and customers. |
| 302 | Energy | With an island wide presence through our branch network, PLC is dependent on energy to run its fully automated system, office based functions and business travel. | |
| 304 | Biodiversity | Nature of PLC work does not negatively impact biodiversity. Being a responsible citizen PLC reports on the topic. | |
| 305 | Emissions | GHG emissions are an indirect negative impact of our business operations as financing of vehicles is our core business. | |
| 306 | Effluents and waste | Office based operations of PLC generate paper and food waste as the major types of waste in addition to small volumes of electronic waste. | |
| 307 | Environmental compliance | Our business operations do not come under compliance requirement. But PLC voluntarily report on its environmental performance, | |
| 308 | Supplier environmental Assessment | As a responsible citizen PLC ensure sustainable sourcing of its suppliers. | |
| 401 | Employment | Being a service organisation employees reconsidered as the most valued asset of PLC. | |
| 402 | Labour/ management relations | Periodic guidelines from regulators and management on financing, deposit mobilisation including changes in interest rates are material for our future business activity. | |
| 403 | Occupational health and safety | Safe and decent workplace is a prerequisite in offering financial solutions. Hence, office based operations are moderately significant for PLC. | |
| 404 | Training and education | Being a service organisation upgrading employee skills is very important to delight customers, ensure continued business and progress in a performance based culture. | |
| 405 | Diversity and equal opportunity | Having our business footprint across Sri Lanka, diversified operations through subsidiaries and with products such as Islamic finance, PLC value the diversity in staff provides them equal opportunity. | |

Management Approach

| GRI standard number | Material GRI topic | Reason/s for materiality | Management approach (commitment, goal/target, responsible, resources, grievance, progress) |
|---------------------|----------------------------|---|---|
| 406 | Non-discrimination | Being a socially responsible company PLC avoids discrimination on the grounds of race, ethnicity, gender, religion or political opinion. | |
| 408 | Child labour | Child labour results in under skilled an unhealthy workers for tomorrow. Abolition of child labour promotes economic and human development. | |
| 409 | Forced & compulsory labour | Forced and compulsory labour breeds poverty and therefore material for PLC. | |
| 410 | Security practices | Trained security personnel ensure work place safety and positively contributes to security of employees, customers, community. | |
| 413 | Local communities | Our business activity and infrastructure have impact on local community. We engage with them to anticipate and avoid negative impact on them. | PLC is committed to ensuring that its business operations have no negative impact on the community. Engagement of local communities, voluntary compliance and screening of suppliers at registration for negative impact on community are measured to prevent/mitigate negative social impact. Guided by our ICT policy we also take stringent measures and system review to ensure sensitive customer data is protected. |
| 414 | Supplier social assessment | PLC could be involved with impacts through its business relationship with other parties. Therefore due diligence is necessary to prevent/mitigate negative social impacts through supply chain. | |
| 417 | Marketing & labeling | Being a financial solutions provider, fair and responsible marketing communications as well as access to information about the composition of products and their proper use and disposal can help customers to make informed choices. | |
| 418 | Customer privacy | With due respect for customer privacy, taking reasonable measures to ensure the security of personal data we collect store process and disseminate is very important as a responsible financial solutions provider. | |
| 419 | Socioeconomic compliance | Compliance and being conscious of our impact on social systems within which we operate is a must to sustain our business operations. | |

CDSB Framework for Reporting Environmental Information and Natural Capital

An overview of how PLC adheres to the CDSB Framework is given below:

| | CDSB Framework for reporting environmental information and natural capital | Page Number |
|--------------------------------------|--|-------------|
| Relevance and materiality | P1 | 50 – 51 |
| Faithful representation | P2 | 9 – 11 |
| Connected with other information | P3 | 9 – 11 |
| Consistent and comparable | P4 | 9 – 11 |
| Clear and understandable | P5 | 9 – 11 |
| Verifiable | P6 | 9 – 11 |
| Forward looking | P7 | 11 |
| Policy, strategy and targets | REQ-01 | 38 – 39 |
| Risks and opportunities | REQ-02 | 38 – 39 |
| Governance | REQ-03 | 162 – 223 |
| Sources of environmental impact | REQ-04 | 144 – 145 |
| Performance and comparative analysis | REQ-05 | 56 – 61 |
| Outlook | REQ-06 | 11 |
| Organisational boundary | REQ-07 | 9 – 11 |
| Reporting policies | REQ-08 | 9 – 11 |
| Reporting period | REQ-09 | 9 – 11 |
| Restatements | REQ-10 | 9 – 11 |
| Conformance | REQ-11 | 9 – 11 |
| Assurance | REQ-12 | 405 – 406 |

Abbreviations

| | |
|-------------------|---|
| ACA | Associate Chartered Accountant |
| AGM | Annual General Meeting |
| ALCO | Assets and Liability Management Committee |
| ATM | Automated Teller Machine |
| AWPLR | Average Weighted Prime Lending Rate |
| BA | Bachelor of Arts |
| B Com | Bachelor of Commerce |
| BAC | Board Audit Committee |
| BCP | Business Continuity Plan |
| BSc | Bachelor of Science |
| CDSB | Climate Disclosure Standards Board |
| CBSL | Central Bank of Sri Lanka |
| CEO | Chief Executive Officer |
| CIM | Chartered Institute of Marketing |
| CIMA | Chartered Institute of Management Accountants |
| CMA | Certified Management Accountant |
| CSE | Colombo Stock Exchange |
| CSR | Corporate Social Responsibility |
| DGM | Deputy General Manager |
| DNV | Det Norske Veritas |
| DRP | Disaster Recovery Plan |
| EPF | Employees' Provident Fund |
| EPS | Earnings per Ordinary Share |
| ETF | Employees' Trust Fund |
| EVA | Economic Value Addition |
| FBIM | Fellowship of the British Institute of Management |
| FCMA | Fellow Chartered Management Accountant |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gases |
| GL | General Ledger |
| GRI | Global Reporting Initiative |
| HR | Human Resources |
| IBSL | Insurance Board of Sri Lanka – (IBSL) |
| ICASL/CASL | Institute of Chartered Accountants of Sri Lanka |
| ICT | Information and Communications Technology |
| IRMC | Integrated Risk Management Committee |
| IRMOC | Integrated Risk Management Operating Committee |
| IT | Information Technology |
| IUCN | International Union for Conservation of Nature |
| KMP | Key Management Personnel |
| KPI | Key Performance Indicators |

| | |
|-------------------|---|
| KRI | Key Risk Indicators |
| LFC | Licensed Financed Companies |
| LTV | Loan to Value Ratio |
| MBA | Master of Business Administration |
| MIS | Management Information Systems |
| MSc | Master of Science |
| MVA | Market Value Added |
| NASCO | National Sales Congress |
| NBFI | Non-Bank Financial Institution |
| NBT | Nation Building Tax |
| NCP | Natural Capital Partners of the UK |
| NIBM | National Institute of Business Management |
| NIM | Net Interest Margin |
| NPL | Non-Performing Loan |
| PAT | Profit After Tax |
| PBT | Profit Before Tax |
| PI | People's Insurance PLC |
| PLC | People's Leasing & Finance PLC |
| PLFML | People's Leasing Fleet Management Limited |
| PLHPL | People's Leasing Havelock Properties Limited |
| PLPDL | People's Leasing Property Development Limited |
| PML | People's Microfinance Limited |
| R&NC | Remuneration & Nomination Committee |
| ROA | Return on Assets |
| ROCE | Return on Capital Employed |
| ROE | Return on Equity |
| RPT | Related Party Transaction |
| RPTRC | Related Party Transactions Review Committee |
| SDG | Sustainable Development Goals |
| SEC | Securities and Exchange Commission of Sri Lanka |
| SLBC | Sri Lanka Broadcasting Corporation |
| SLFRS/LKAS | Sri Lanka Accounting Standards |
| SLIBOR | Sri Lanka Inter Bank Offer Rate |
| SLICM | Sri Lanka Institute of Credit Management |
| SLITAD | Sri Lanka Institute of Training & Development |
| SMC | Senior Management Committee |
| SME | Small and Medium Enterprises |
| TOR | Terms of Reference |
| UNGC | United Nations Global Compact Advanced Principles |
| VAPT | Vulnerability Assessment and Penetration Test |
| VAT | Value Added Tax |

Basis of Ratios

| Ratio | Formula |
|--|---|
| Earnings per ordinary share (Rs.) | Profit or loss attributable to ordinary shareholders/Weighted average number of ordinary shares outstanding |
| Net assets value per share (Rs.) | Total shareholders' equity/Number of ordinary shares |
| Market capitalisation (Rs.) | Closing market price per share*Number ordinary of shares |
| Price earnings (PE) (Times) | Market price per share/Earnings per ordinary share |
| Dividend yield (%) | Dividend per ordinary share (DPS)*100/Market price per share |
| Dividend cover (Times) | Profit or loss attributable to ordinary shareholders/Total dividend paid to ordinary shareholders |
| Dividend payout (%) | Total dividend paid to ordinary shareholders*100/Profit or loss attributable to ordinary shareholders |
| Earnings yield (%) | Earnings per ordinary share*100/Market price per share |
| Return on equity (ROE) (%) | Profit or loss attributable to ordinary shareholders *100/Average shareholders' equity |
| Return on asset (ROA) (%) | Profit before tax*100/Total average assets |
| Return on capital employed (ROCE) (%) | Profit before interest and tax*100/(Borrowings+Deposits+Equity) |
| Debt to Equity (Times) | Borrowings/Total shareholders' equity |
| Debt equity with contingencies (Times) | (Borrowings+Contingencies)/Total shareholders' equity |
| Debt to total Assets (Times) | Borrowings/Total assets |
| Cost to income ratio (%) | Total operating cost without VAT and NBT on financial services *100/Total operating income |
| Interest cover (Times) | Profit before interest and tax/Interest expenses |
| Operating profit margin (%) | Operating profit before VAT and NBT on FS*100/Interest income |
| Net interest margin (%) | Net interest income*100/Average interest earning assets |
| Advances to deposits (Times) | Gross loans and receivables/Total deposits |
| Impairment cover ratio (%) | Impairment provision/Non-performing portfolio*100 |
| Price to book value (PBV) (Times) | Market price per share/Net assets per share |
| Current ratio (Times) | Currents assets/Current liabilities |
| Employee turnover (%) | Number of attritions during the year*100/Average number of employees during the year |
| Total impairment provision to gross portfolio (%) | Total impairment provisions*100/Gross loans and receivables |
| Individual impairment to total loans and receivables (%) | Individual impairment*100/Gross loans and receivables |
| Collective impairment to total loans and receivables (%) | Collective impairment*100/Gross loans and receivables |
| Non-performing ratio (%) | Gross non-performing portfolio*100/Gross loans and receivables |

Glossary

A

ACCOUNTING POLICIES

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

ACCRUAL BASIS

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

AMORTISATION

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

ASSOCIATE

An entity in which the investor has significant influence and which is neither a subsidiary nor an interest in a joint venture.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

C

CAPITAL ADEQUACY RATIO

The relationship between capital and risk-weighted assets as prescribed by the Central Bank of Sri Lanka.

CASH EQUIVALENTS

Short-term, highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

COLLECTIVE IMPAIRMENT

Impairment assessment on a collective basis for homogeneous groups of loans and receivables that are not considered individually significant and to cover losses which have been incurred but have not yet been identified at the reporting date.

COMMERCIAL PAPER

An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities, which are debt, is usually issued at a discount, reflecting prevailing interest rates.

COMMITMENTS

Credit facilities approved but not utilised by the customers as at the reporting date.

CONSOLIDATED FINANCIAL STATEMENTS

Financial Statements of a holding (Parent) company and its subsidiaries based on their combined assets, liabilities and operating results.

CONTINGENCIES

A condition or situation existing on the reporting date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

CORPORATE GOVERNANCE

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

COST TO INCOME RATIO

Total operating expenses as a percentage of total operating income.

CREDIT RATINGS

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

CREDIT RISK

Credit risk is the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

D

DEFERRED TAX

Sum set aside for tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

DEPRECIATION

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

DERECOGNITION

Is the removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

DIVIDEND COVER

Profit attributable to shareholders divided by dividends paid to ordinary shareholders including tax withheld. This ratio measures the number of times dividend is covered by current year's attributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

E

EARNINGS PER ORDINARY SHARE (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

ECONOMIC VALUE ADDED (EVA)

A measure of productivity, which, takes into consideration cost of total invested equity.

EFFECTIVE INTEREST RATE (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Glossary

EFFECTIVE TAX RATE

Income tax expense divided by the profit before tax.

EMPLOYEE RETENTION RATIO

Represents the number of employees retained out of the employees attrition during the year as a percentage of average number of employees for the year end.

EQUITY METHOD

Method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

EXPOSURE

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

F

FAIR VALUE

The price that would be received to sell an asset or paid to transfer in an orderly transaction between market participants at the measurement date.

FINANCE LEASE

A lease in which, the lessee acquires all the financial benefits and risks attaching to ownership of the asset under lease.

FINANCIAL ASSET

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

FINANCIAL LIABILITY

Is a contractual obligation to deliver cash or another financial asset to another entity.

FOREIGN EXCHANGE CONTRACT

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

G

GROUP

A group is a parent and all its subsidiaries.

GUARANTEES

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

HEDGING

A strategy under which transactions are effected with the aim of providing cover against the risk of unfavourable price movements. (Interest rates, prices and commodities ect.)

HELD-TO-MATURITY INVESTMENTS (HTM)

Non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold-to-maturity.

HIRE PURCHASE

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

IMPAIRED LOANS AND RECEIVABLES

Loans and receivables where the Company does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

IMPAIRMENT PROVISIONS/ ALLOWANCES

Provision held as a result of the raising of a charge against profit for the incurred loss. An impairment provision may either be identified or unidentified and individual (specific) or collective (portfolio).

INDIVIDUAL IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts that do not qualify for collective assessment.

INTANGIBLE ASSET

An identifiable non-monetary asset without physical substance.

INTEREST COVER

Number of times interest expense is covered by earnings before interest and tax.

INTEREST RATE RISK

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

INTEREST SPREAD

This represents the difference between the average interest rate earned assets and the average interest rate paid on interest-bearing liabilities.

INVESTMENT PROPERTIES

A property (land or a building – or part of a building – or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

K

KEY MANAGEMENT PERSONNEL (KMP)

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

LIQUID ASSETS

Assets held in cash or in a form that can be converted to cash readily, such as short term deposits with banks, bills of exchange and Treasury Bills.

Glossary

LIQUIDITY RISK

The risk that an entity will encounter difficulty in meeting short term obligations associated with financial liabilities.

LOSS GIVEN DEFAULT (LGD)

The actual total loss that is experienced by the company when a customer defaults on a loan from that company.

M

MARKET CAPITALISATION

Total market value of a company's outstanding shares.

MATERIALITY

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

NET ASSETS VALUE PER SHARE

Shareholders' fund excluding preference shares if any, divided by the number of ordinary shares in issue.

NET INTEREST INCOME

The difference between income earned from interest bearing assets and cost incurred on financial instrument/facilities used for funding the interest-bearing assets.

NET INTEREST MARGIN

Net interest income expressed as a percentage of average interest earning assets.

NON-PERFORMING PORTFOLIO

The aggregate value of the advances portfolio that has been delinquent for a period of more than six months.

NON-PERFORMING RATIO (NPA RATIO)

Non performing Advance portfolio expressed as a percentage of total advance portfolio.

P

PARENT

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

PRICE EARNINGS RATIO (P/E RATIO)

Price earnings ratio shows what the market is willing to pay for a stock based on its current earnings.

R

RELATED PARTIES

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

RETURN ON ASSETS (ROA)

Profit after tax expressed as a percentage of the average assets; indicates overall effectiveness in generating profits with available assets.

RETURN ON EQUITY (ROE)

Net profit attributable to owners, expressed as percentage of average ordinary shareholders' equity.

REVERSE REPURCHASE AGREEMENTS

A reverse repurchase agreement with the agreement to sell at a higher price at a specific future date.

RISK-WEIGHTED ASSETS

Sum total of assets as per the Statement of Financial Position and the credit equivalent of assets that are not on the Statement of Financial Position multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

S

SEGMENTAL ANALYSIS

Disclosure of Company's assets, income and other information; broken down by activity and geographical area.

SHAREHOLDERS' FUNDS

Consist of issued and fully-paid up ordinary shares, redeemable preference shares and other reserves.

STAFF TURNOVER RATIO

Represents the number of employees attrition during the year as a percentage of average number of employees for the year end.

STATUTORY RESERVE FUND

A capital reserve created as per the provisions of Finance Companies (Capital Funds) Direction No. 1 of 2003.

SUBSIDIARY

An entity that is controlled by another entity which is known as the parent.

T

TIER I CAPITAL (CORE CAPITAL)

Representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL (SUPPLEMENTARY CAPITAL)

Representing general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

V

VALUE ADDED

Value of wealth created by providing financial and other related services less the cost of providing such services.

Y

YIELD

Rate of return on an investment in percentage terms, taking into account annual income and any change in capital value.

Branch Network

| Branch name | Address | Telephone |
|----------------------|---|---|
| Central | | |
| Dambulla | No. 513/1, Kadapaha, Anuradhapura Road, Dambulla | 066-2 284 252 |
| Digana | No. 118, Rajawella 2, Rajawella | 081-2 376 923 |
| Gampola | No. 131, Nuwara Eliya Road, Gampola | 081-2 353 030, 081-2 354 151, 081-2 354 159, 081-2 354 179 |
| Hatton | No. 199/B/1, Dimbula Road, Hatton | 051-2 225 683 |
| Kandy | No. 177, D S Senanayaka Weediya, Kandy | 081-2 236 280 |
| Kandy – Alsafa | No. 45, Katugasthota Road, Kandy | 081-2 205 043 |
| Kandy II | No. 483/B, William Gopallawa Mawatha, Kandy | 081-2 238 051/2/3 |
| Mahaiyawa | No. 288, Katugasthota Road, Kandy | 081-2 205 947 |
| Matale | No. 568, Trincomalee Street, Matale | 066-2 226 400 |
| Nawalapitiya | No. 65, Ambagamuwa Road, Nawalapitiya | 054-2 224 481/2/3 |
| Nuwara Eliya | No. 36, K. Ramanathan Complex Park Road, Nuwara Eliya | 052-2 224 120 |
| Pilimathalawa | No. 174, Kandy Road, Pilimathalawa | 081-2 056 336/7/8, 081-2 575 277 |
| Eastern | | |
| Ampara | No. 149, Kumarasiri Building, Nidahas Mawatha, Ampara | 063-2 223 053 |
| Batticaloa | No. 26, New Kalmunai Road, Batticaloa | 065-2 226 512 |
| Kalawanchikudi | Ward No. 9, Main Street, Kalawanchikudi | 065-2 251 660, 065-2 251 6621 |
| Kalmunai | No. 82, Main Street, Kalmunai | 067-2 225 486 |
| Kanthale | No. 72/1, Agrabodhi Mawatha, Kantale | 026-2 234 484 |
| Kattankudy | No. 187, Main Street, Kattankudy | 065-2 248 341 |
| Kinniya | No. 274, Main Street, Mancholaichenai, Kinniya | 026-2 237 093, 026-2 236 854 |
| Muttur | Main Street, Muttur | 026-2 238 276 |
| Trincomalee | No. 445/1, Dockyard Road, Trincomalee | 026-2 225 285 |
| North Central | | |
| Anuradhapura | No. 387, Harischandra Mawatha, Anuradhapura | 025-2 224 903 |
| Kekirawa | No. 12/A, Thalawa Road, Kekirawa | 025-2 264 821 |
| Medawachchiya | No. 17, Mannar Junction, Medawachchiya | 025-2 245 209 |
| Polonnaruwa | No. 407, Main Street, Kaduruwela, Polonnaruwa | 027-2 225 793 |
| Thambuttegama | No. 326, Queen Junction, Kurunegala Road, Thambuttegama | 025-2 276 180, 025-2 275 511 |
| North Western | | |
| Chilaw | No. 10, Colombo Road, Chilaw | 032-2 224 101 |
| Giriulla | Sangarakshitha Vidyala Building, Ground Floor, Kurunegala Road, Giriulla | 037-2 288 801 |
| Kuliyapitiya | No. 88, Kurunegala Road, Kuliyapitiya | 037-2 283 490, 037-2 281 353, 037-2 281 357 |
| Kurunegala | No. 103 A, Colombo Road, Kurunegala | 037-2 221 582 |
| Melsiripura | No. 237, Dambulla Road, Melsiripura | 037-2 250 229 |

Branch Network

| Branch name | Address | Telephone |
|-----------------------|--|---|
| Nattandiya | No. 26, Rathmalwatta, Nattandiya | 032-2 251 588, 032 2 252 588 |
| Narammala | No. 105, Kuliypitiya Road, Narammala | 037-2 249 651/51 |
| Puttalam | No. 97B, Kurunegala Road, Puttalam | 032-2 266 893/4 |
| Wariyapola | No. 119, Kurunegala Road, Wariyapola | 037-2 233 426 |
| Wennappuwa | No. 327 1/1, Colombo Road, Wennappuwa | 031-2 245 663 |
| Northern | | |
| Chunnakam | No. 15, K K S Road, Chunnakam | 021-2 241 105 |
| Jaffna | No. 12, Stanley Road, Jaffna | 021-2 228 031 |
| Kilinochchi | No. 253, Kandy Road, Kilinochchi | 021-2 280 125 |
| Mannar | No. 109, Hospital Road, Sinnakadai, Mannar | 023-2 251 342 |
| Vavuniya | No. 42 & 46, 1st Cross Street, Vavuniya | 024-2 225 860 |
| Sabaragamuwa | | |
| Balangoda | No. 118, A Barns Rathwatta Mawatha, Balangoda | 045-2 289 500 |
| Embilipitiya | No. 122, New Town Road, Embilipitiya | 047-2 261 971 |
| Godakawela | No. 52, Main Street, Godakawela | 045-2 240 607/8 |
| Kalawana | No. 43, Mathugama Road, Kalawana | 045-2 256 001/2 |
| Kegalle | No. 345, Main Street, Kegalle | 035-2 230 101 |
| Mawanella | No. 37, New Kandy Road, Mawanella | 035 2 249 363/4/5 |
| Pelmadulla | No. 118/1, Ratnapura Road, Pelmadulla | 045 2 276 081 |
| Ratnapura | No. 102, Colombo Road, Ratnapura | 045-2 224 755 |
| Warakapola | No. 117, Kandy Road, Warakapola | 035-2 268 114/24 |
| Southern | | |
| Akuressa | No. 75, Matara Road, Akuressa | 041-2 284 711/903 |
| Ambalangoda | No. 15A, Wickramasooriya Road, Ambalangoda | 091-2 255 647 |
| Ambalanthota | No. 32 1/1, Tissa Road, Ambalanthota | 047-2 225 265 |
| Bentota | No. 147, Galle Road, Bentota | 034-2 271 630 |
| Deniyaya | No. 150, Akuressa Road, Deniyaya | 041-2 273 341, 041-2 273 713/4 |
| Elpitiya | No. 40, Ambalangoda Road, Elpitiya | 091-2 290 837 |
| Galle | No. 118, Matara Road, Galle | 091-2 247 521 |
| Hambanthota | No. 102/K, Baddewela Road, Hambanthota | 047-2 221 276 |
| Kamburupitiya | No. 217, Matara Road, Kamburupitiya | 041-2 294 620/21 |
| Matara | No. 45/A, Anagarika Dharmapala Mawatha, Matara | 041-2 220 129 |
| Neluwa | No. 8, Dellawa Road, Neluwa | 091-2 255 647 |
| Tangalle | No. 138 A, Matara Road, Tangalle | 047-2 242 501-4 |
| Thissamaharama | No. 171, Main Street, Tissamaharama | 047-2 239 703, 047-2 239 671, 047-2 239 672 |
| Urubokka | No. 466 D, Main Street, Urubokka | 041-2 272 570/571 |
| Walasmulla | No. 74, Beliatta Road, Walasmulla | 047-2 245 651/652/653 |

Branch Network

| Branch name | Address | Telephone |
|----------------------|---|------------------------------|
| Uva | | |
| Badulla | No. 33/9, Modern Complex, Cocowatta Road, Badulla | 055-2 223 903/4 |
| Bandarawela | No. 35/2 D, Welimada Road, Bandarawela | 057-2 221 145 |
| Mahiyanganaya | No. 3, Siri Jayasanka Building, Kandy Road, Mahiyanganaya | 055-2 257 739 |
| Monaragala | No. 32, Pothuvil Road, Monaragala | 055-2 277 485 |
| Welimada | No. 11 A, Boralanda Road, Welimada | 057-2 244 994/6/7 |
| Wellawaya | No. 128, Monaragala Road, Wellawaya | 055-2 274 035/045 |
| Western | | |
| Awissawella | No. 15, Kudagama Road, Awissawella | 036-2 233 791 |
| Battaramulla | No. 261, Main Street, Battaramulla | 011-2 886 820 |
| Colpetty | No. 385, Galle Road, Colombo 03 | 011-2 376 476 |
| Dehiwala | No. 271, Galle Road, Mount Lavinia | 011-2 720 720 |
| Gampaha | No. 65, Yakkala Road, Gampaha | 033-2 232 732 |
| Grandpass | No. 507, Sirimavo Bandaranaike Mawatha, Colombo 14 | 011-2 340 013 |
| Hanwella | No. 132/3, Colombo Road, Hanwella | 036-2 251 330/31 |
| Havelock | No. 62, Havelock Road, Colombo 05 | 011-2 592 424 |
| Homagama | No. 121/3, High Level Road, Homagama | 011-2 098 141 |
| Horana | No. 101, Ratnapura Road, Horana | 034-2 267 701-6 |
| Ja-Ela | No. 112/A, Negombo Road, Ja-Ela | 011-2 228 074/8/9 |
| Kadawatha | No. 657A, Kandy Road, Bandarawatta, Kadawatha | 011-2 926 908-10 |
| Kaduwela | No. 349/A/1, New Kandy Road, Kothalawala, Kaduwela | 011-2 548 578/9 |
| Kalutara | No. 314 1/1, Main Street, Kalutara South | 034-2 235 799 |
| Kelaniya | No. 965, Kandy Road, Wedamulla, Kelaniya | 011-2 914 112 |
| Kirindiwela | No. 153, Sujaya Building, Gampaha Road, Kirindiwela | 033-5 622 733 |
| Maharagama | No. 215, High Level Road, Maharagama | 011-2 851 628 |
| Mathugama | No. 98 A, Agalawatta Road, Mathugama | 034-2 271 630 |
| Mirigama | No. 69/A, Giriulla Road, Mirigama | 033-2 275 256/7/8 |
| Metropolitan | No. 67, Sir Chittampalam A Gardiner Mawatha, Colombo 02 | 011-2 481 000/101 |
| Minuwangoda | No. 67 H, Colombo Road, Minuwangoda | 011-2 298 641 |
| Moratuwa | No. 553, Galle Road, Rawathawatta, Moratuwa | 011-2 648 471 |
| Negombo | No. 29/1, Colombo Road, Negombo | 031-2 223 230 |
| Nittambuwa | No. 83, Kandy Road, Nittambuwa | 033-2 298 110 |
| Nugegoda | No. 290, High Level Road, Nugegoda | 011-2 813 990 |
| Panadura | No. 482, Arthur V Dies Mawatha, Panadura | 038-2 237 331, 038-2 244 397 |
| Pettah | No. 319, Main Street, Colobmo 11 | 011-2 437 708 |
| Piliyandala | No. 71, Moratuwa Road, Piliyandala | 011-2 609 835 |
| Union Place | No. 167, Union Place, Colombo 02 | 011-2 377 877 |
| Ward Place | No. 24 A, Ward Place, Colobmo 07 | 011-2 678 691 |
| Wattala | No. 540, Negombo Road, Wattala | 011-2 948 441, 011-2 981 835 |
| Wellawatta | No. 507, Wellawatta, Colombo 06 | 011-2 361 562/3 |

Corporate Information

GRI 102-4

GRI 102-5

NAME OF COMPANY

People's Leasing & Finance PLC
(Subsidiary of People's Bank)

LEGAL FORM

Public Limited Liability Company
(Incorporated and domiciled in Sri Lanka)
quoted in the Colombo Stock Exchange

DATE OF INCORPORATION

22 August 1995

COMPANY REGISTRATION NUMBER

PB 647 PQ

ACCOUNTING YEAR-END

31 March

STOCK EXCHANGE LISTING

The Ordinary shares of the Company were quoted on the Main Board of the Colombo Stock Exchange (CSE) on 24 November 2011.

Senior, Unsecured, Redeemable, Rated four year (2013/17) and five year (2013/18) Debentures were listed on the Debt Securities Main Board of Colombo Stock Exchange on 4 April 2013.

Senior, Unsecured, Redeemable, Rated three year (2014/17) and four year (2014/18) Debentures were listed on the Debt Securities Main Board of Colombo Stock Exchange on 3 October 2014.

Senior, Unsecured, Redeemable, Rated four year (2015/19) and five year (2015/20) Debentures were listed on the Debt Securities Main Board of Colombo Stock Exchange on 20 November 2015.

Senior, Unsecured, Redeemable, Rated three year (2016/19), four year (2016/20) and five year (2016/21) Debentures were listed on the Debt Securities Main Board of Colombo Stock Exchange on 23 November 2016.

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

1161, Maradana Road, Borella
Colombo 08, Sri Lanka.
Postal Code: 00800
Telephone +94 11 2631631
Fax +94 11 2631980
Email: plclease@plc.lk
Web Address: www.plc.lk

COMPANY SECRETARY

Mr Rohan Pathirage

REGISTRARS

SSP Corporate Services (Pvt) Ltd
No. 101, Inner Flower Road,
Colombo 03, Sri Lanka.
Telephone: +94 11 2573894,
+94 11 2576871
Fax: +94 11 2573609
E-mail: sspsec@sltnet.lk

AUDITOR

Messrs Ernst & Young
Chartered Accountants,
201, De Saram Place,
P.O. Box 101, Colombo 10, Sri Lanka.

BANKERS

People's Bank
Sampath Bank PLC
Bank of Ceylon
Commercial Bank of Ceylon PLC
DFCC Bank PLC
Hatton National Bank PLC
HSBC
National Development Bank PLC

Nations Trust Bank PLC
Seylan Bank PLC
Standard Chartered Bank
Deutsche Bank
Habib Bank
Union Bank of Colombo PLC
Public Bank Berhad
Citibank N.A.
Indian Bank
Indian Overseas Bank
Pan Asia Banking Corporation PLC
Axis Bank

BRANCHES

Akuressa, Ambalangoda, Ambalanthota, Ampara, Anuradhapura, Awissawella, Badulla, Balangoda, Bandarawela, Battaramulla, Batticaloa, Bentota, Chilaw, Chunnakam, Colpetty, Dambulla, Dehiwala, Deniyaya, Digana, Elpitiya, Embilipitiya, Galle, Gampaha, Gampola, Giriulla, Godakawela, Grandpass, Hambanthota, Hanwellla, Hatton, Havelock, Homagama, Horana, Ja-Ela, Jaffna, Kadawatha, Kaduwela, Kalawanchikudi, Kalawana, Kalmunai, Kamburupitiya, Kalutara, Kandy, Kandy II, Kandy – Alsafa, Kanthale, Kattankudy, Kegalle, Kekirawa, Kelaniya, Kilinochchi, Kinniya, Kirindiwela, Kuliypitiya, Kurunegala, Mahaiyawa, Maharagama, Mahiyanganaya, Mannar, Matale, Matara, Medawachchiya, Mathugama, Mawanella, Melsiripura, Meerigama, Metropolitan, Minuwangoda, Monaragala, Moratuwa, Muttur, Narammala, Nawalapitiya, Nattandiya, Negombo, Neluwa, Nittambuwa, Nugegoda, Nuwara Eliya, Panadura, Pelmadulla, Pettah, Pilimathalawa, Piliyandala, Polonnaruwa, Puttalam, Ratnapura, Tangalle, Thambuttegama, Tissamaharama, Trincomalee, Union Place, Urubokka, Vavuniya, Walasmulla, Warakapola, Ward Place, Wariyapola, Wattala, Welimada, Wellawaya, Wellawatta, Wennappuwa

Corporate Information

BOARD OF DIRECTORS AND BOARD SUBCOMMITTEES

BOARD OF DIRECTORS

Mr Hemasiri Fernando – Chairman
Mr M P Amirthanayagam –
Deputy Chairman
Mr J P Amaratunga
Mr G B R P Gunawardana
Mr J A Fernando
Mr M A M Rizwan
Mr R M Jayasena
Dr A A S Gulamhusein

BOARD SUBCOMMITTEES

INTEGRATED RISK MANAGEMENT COMMITTEE

Mr M P Amirthanayagam – Chairman
Mr G B R P Gunawardana
Mr D P Kumarage
Mr A S Ibrahim
Mr Sanjeewa Bandaranayake
Mr L Fernando
Mr R Tennakoon

BOARD AUDIT COMMITTEE

Mr J P Amaratunga – Chairman
Mr M P Amirthanayagam
Mr M A M Rizwan

REMUNERATION AND NOMINATION COMMITTEE

Mr J P Amaratunga – Chairman
Mr M P Amirthanayagam
Mr J A Fernando

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

Mr M P Amirthanayagam – Chairman
Mr J A Fernando
Mr M A M Rizwan

FUNDING COMMITTEE

Mr J A Fernando – Chairman
Dr A A S Gulamhusein
Mr M A M Rizwan

SUBSIDIARY AND ASSOCIATE COMPANIES

SUBSIDIARY COMPANIES

People's Insurance PLC
People's Microfinance Limited
People's Leasing Fleet
Management Limited
People's Leasing Property
Development Limited
People's Leasing Havelock
Properties Limited

ASSOCIATE COMPANY

People's Merchant Finance PLC

CORPORATE MEMBERSHIPS

Asian Leasing and Finance Association
Credit Information Bureau of Sri Lanka
Financial Ombudsman-Sri Lanka
Leasing Association of Sri Lanka

VEHICLE YARDS

No. 429, 2 Division, Darley Road,
Colombo 10

No. 496, Makola North, Makola

No. 225/D, Nayagala Road,
Heiyanthuduwa, Mabima

No. 10, Pothuvil Road, Monaragala
Kandepalla, Beligamuwa, Galewela

TAX PAYER IDENTITY NUMBER (TIN)

114 156396 0000

VAT REGISTRATION NUMBER

114 156396 7000

CENTRAL BANK REGISTRATION NUMBER

046 (Under the Finance Business
Act No. 42 of 2011)

CREDIT AGENCY STATUS

An approved credit agency under the
Mortgage Act No. 6 of 1949 and the Trust
Receipt Ordinance No. 12 of 1947 by the
Department of Commerce.

CREDIT RATING

'AA-' (Ika) stable by Fitch Ratings
Lanka Limited

'B+/B' outlook stable by Standard &
Poor's Rating Services

'B' outlook stable by Fitch Ratings
International

FOR ANY CLARIFICATION ON THIS REPORT PLEASE WRITE TO:

The Chief Financial Officer,
People's Leasing & Finance PLC
1161, Maradana Road,
Colombo 08, Sri Lanka.
Postal Code: 00800
Telephone: +94 11 2631631
Fax: +94 11 2631980

Notice of Meeting

NOTICE IS HEREBY GIVEN THAT the Twenty First (21) Annual General Meeting of People's Leasing & Finance PLC will be held on 30 June 2017 at 2.30 p.m. at People's Bank Staff Training College Auditorium, 38, D R Wijewardhana Mawatha, Colombo 10 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 31 March 2017 and the Report of the Auditors thereon.
2. To declare a Final Dividend of cents fifty (Rs. 0.50) per Ordinary Share, as recommended by the Board of Directors.
3. To re-elect as a Director, Mr Goluhewage Bindu Rasitha Poojitha Gunawardana, who having been appointed to the Board in terms of Article 27(2) of the Articles of Association of the Company, retires at this Annual General Meeting
4. To reappoint Messrs Ernst & Young, 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 31 March 2018.
5. To authorise the Board of Directors to determine contributions to charities and other donations for the financial year ending 31 March 2018.

By Order of the Board,



Rohan Pathirage

Company Secretary

People's Leasing & Finance PLC

19 May 2017

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 19 May 2017.

Form of Proxy

I/ we..... of

being a member/s of People's Leasing & 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 |
| 3. Mr Jehan Prasanna Amaratunga | whom failing |
| 4. Mr Johnson Anthony Fernando | whom failing |
| 5. Mr Mohamed Anise Mohamed Rizwan | whom failing |
| 6. Mr Rathnayake Mudiyanse Jayasena | whom failing |
| 7. Dr Ali Asgar Shabbir Gulamhusein | whom failing |
| 8. Mr Goluhewage Bindu Rasitha Poojitha Gunawardana | |

as my/our Proxy to represent me/us and vote on my/our behalf at the Twenty First Annual General Meeting of the Company to be held on 30 June 2017 at 2.30 p.m. at People's Bank Staff Training Auditorium, 38, D.R. Wijewardhana Mawatha, Colombo 10 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 31 March 2017 and the Report of the Auditors thereon. | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. To declare a Final Dividend of cents fifty (Rs. 0.50) per Ordinary Share as recommended by the Board of Directors. | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To re-elect as a Director, Mr Goluhewage Bindu Rasitha Poojitha Gunawardana, who having been appointed to the Board in terms of Article 27 (2) of the Articles of Association of the Company, retires at this Annual General Meeting. | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To reappoint Messrs Ernst & Young, 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 31 March 2018. | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. To authorise the Board of Directors to determine contributions to charities and other donations for the financial year ending 31 March 2018. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this day of 2017.

.....
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 19(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.
6. An extract of Articles 15, 18 and 22 of the Articles of Association of the Company, which deals with meetings of shareholders and voting by shareholders, is produced herein for the information of the Shareholders.

"15. METHOD OF HOLDING MEETINGS

A meeting of shareholders (including a meeting where it is intended to propose a resolution as a special resolution) may be held by a number of shareholders who constitute a quorum, being assembled together at the place, date and time appointed for the meeting.

18. VOTING

1. Voting at a meeting of shareholders held under Article 15 above shall, unless a poll is demanded, be by a show of hands.
2. A declaration by the chairperson of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded in accordance with paragraph (3) of this Article.
3. At a meeting of shareholders, a poll may be demanded by –
 - (a) the chairperson; or
 - (b) not less than five (5) shareholders having the right to vote at the meeting; or
 - (c) a shareholder or shareholders representing not less than 10% of the total voting rights of all shareholders having the right to vote at the meeting.
4. A poll may be demanded either before or after the vote is taken on a resolution. However, the demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.
5. If a poll is taken, votes shall be counted according to the votes attached to the shares of each shareholder present and voting.
6. The chairperson of a shareholders' meeting is not entitled to a casting vote.

22. VOTES OF JOINT HOLDERS

Where two or more persons are registered as the holder of a share, the vote of the person named first in the share register and voting on a matter shall be accepted to the exclusion of the votes of the other joint holders. Where there are several executors or administrators of a deceased shareholder in whose sole name any shares stand, any one of such executors or administrators may vote in respect of such shares unless any other of such executors or administrators is present at the meeting at which such a vote is tendered and objects to the vote."

Feedback Form

We welcome your valuable feedback on this Integrated Annual Report 2016/17.

1 Your interest in PLC's performance is as a(n)

- Employee
- Customer
- Supplier
- Shareholder
- Investor
- Finance Analyst
- Journalist
- Local Resident
- Educator/Student
- Special interest group
- Regulatory Body
- Other

2 Please rate your answer on the scale from Excellent to Poor for 2.1 to 2.5

2.1 Meeting your information requirement

- Excellent
- Very Good
- Good
- Average
- Poor

2.2 Openness and transparency

- Excellent
- Very Good
- Good
- Average
- Poor

2.3 Clarity and ease of understanding

- Excellent
- Very Good
- Good
- Average
- Poor

2.4 Appearance and layout

- Excellent
- Very Good
- Good
- Average
- Poor

2.5 Overall impression of the report

- Excellent
- Very Good
- Good
- Average
- Poor

3 Which section did you find most useful?

- Business Model
- Management Discussion
- Stewardship
- Financial Reports
- Other

4 Which sections did you find least useful?

- Business Model
- Management Discussion
- Stewardship
- Financial Reports
- Other

5 In your opinion what are the sustainability topics/areas PLC needs to have better focus on ?

6 How do you think we could improve?

7 Please provide your overall impressions and comments about the integrated Annual Report 2016/17.

Your Name:

Your Email:

Inoka Jayawardhana

Chief Manager – Group Corporate Affairs and Investor Relations

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