



**PrimeGrameen**

MICRO FINANCE LIMITED

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 A Prime Lands Group Company

Annual Report 2013/14

*From Grassroots to Growth*

## VISION

“To be the leading and most successful micro finance provider with a human touch committed to helping poorest of the poor to overcome poverty and develop the economy of Sri Lanka”.

## MISSION

“To provide much needed micro financial assistance for self-employed entrepreneurs in Sri Lanka to develop sustainable enterprises & create friendly inclusive society devoid of class, creed and racial barriers”.

## CONTENTS

Chairman’s Review 04, CEO’s Review 06, Board of Directors 08, Senior Management 10,  
Report of the Directors 12, Management Discussion and Analysis 16, Sustainability Review 28,  
Corporate Governance Report 38, Risk Management Report 40,  
Directors’ Statement in Internal Control over Financial Reporting 42,  
Report of the Audit Committee 43, Independent Auditors’ Report 46, Income Statement 47,  
Statement of Comprehensive Income 48, Statement of Financial Position 49,  
Statement of Changes in Equity 50, Cash Flow Statement 51, Notes to the Financial Statements 52,  
Notice of Meeting 98, Form of Proxy Prime Grameen Micro Finance Limited,  
Brief Company Outline Inner Back Cover





## *From Grassroots to Growth*

We have dedicated our strength to empower the mothers and daughters of Sri Lanka to build a brighter future for the next generation. Our innovative financial products have helped over 450,000 women grow into successful entrepreneurs to date, fuelling the national economy from the grassroots. The numbers continue to increase as we reach out across the country to energise more enterprising women, driving rural development through a range of specialised programmes. Our sustainable business model and strong financial base has withstood external shocks to emerge a driving force in reducing poverty and enhancing quality of life across the country.









Management Information

# Chairman's Review

*"The capital base of the company has been fortified by an equity capital injection of Rs. 700 mn by Prime Lands."*



Dear shareholders,

I am happy to place before you the annual report of your company for the financial year 2013/14, and to announce that your company continued to go from strength to strength under our 3R strategy of resuscitation, revival and resurgence.

Since our acquisition of Prime Grameen in 2011, the company's balance sheet has continued to strengthen, until today it stands tall as one of the most stable financial institutions in the country and a frontrunner in Sri Lanka's burgeoning micro finance industry. The capital base of the company has been fortified by an equity capital injection of Rs. 700 mn by Prime Lands. A further Rs. 300 mn was invested as loan capital in the company, out of which Rs. 200 mn has already been repaid, again indicating the company's return towards sound financial health. Prime Grameen's reserves have been enhanced to meet statutory requirements.

The company has now entered a new era of stability and growth. Prime Grameen returned a profit after tax of Rs. 405 mn, topping its previous year's performance. I would also like to point out that this profitability comes coupled with a much stronger business portfolio, following the write-off of the Rs. 731 mn default portfolio handed down at the point of acquisition. Since 2011, Prime Grameen has shown rapid and consistent growth with micro finance membership increasing from 10,000 to 172,000, as at 31st March 2014. The deposit base increased by over 300% over the last three years, with an admirably low NPL ratio of only 0.4%. I am also proud to place on record that we have continued to meet our obligations to our depositors to the letter, with regards to capital and interest payments. The deposit base too, has continued to multiply indicating the growing consumer confidence in the company. The total deposit base expanded no less than three fold, from Rs. 1.1 bn to Rs. 3 bn, within the span of two and a half years.

This remarkable growth has been driven by parallel investments in strengthening management quality and service standards, upgrading the branch network and extending market reach by setting up new service centres. In addition, we have made heavy investments in IT infrastructure and IT solutions, for enhanced efficiency. On this solid foundation of sound financial health and operational efficiency, Prime Grameen is now poised for exponential growth.

I am confident our strategic growth plans for Prime Grameen, coupled with our market experience, will continue to ensure strong and sustained profitability over the next few years. In the new financial year we are targeting profits of Rs. 500 mn to Rs. 600 mn, and over the next 2 to 3 years we plan to double



our micro finance membership base from 172,000 to 350,000. I believe that our long years of experience in micro finance in Sri Lanka's rural markets, our wide geographic coverage, and our strong rapport with our customers will continue to place us well ahead of the competition. Prime Grameen is also currently in the process of evaluating future growth options in line with the national financial sector consolidation plans. I believe consolidation will strengthen the domestic financial sector and enhance benefits for consumers, through lower cost structures and diversified product offerings. As the only licenced finance company with a 100% stake in the micro finance industry in Sri Lanka, we look forward to being one of the strongest micro finance institutions to be selected by the Central Bank. However, any future decision regarding consolidation, will be based on opportunities to enrich and uplift our existing micro finance business to the next level. Therefore, Prime Grameen will remain a key operator in the domestic micro finance sector in the post consolidation era.

As the pioneer micro finance service provider in Sri Lanka, we are proud to be associated with the nation's economic success story by supporting the creation of a financially inclusive society. The reduced incidence of poverty in Sri Lanka are a perfect reflection of the positive interventions created through micro financing. We look forward to supporting the country's forward march in the future, by helping to build up grassroots capacities across the island.

I extend my sincere gratitude to the Board, managerial staff and other staff, for their contributions towards the success of the company. The current remarkable achievement, of returning the company to sound financial health and profitability, would not have been possible without their hard work. I am confident we can look forward to even greater achievements in the new financial year. My warmest appreciations go out to our depositors, for their trust in the company, and to our micro finance members, who have contributed towards this win-win situation for all stakeholders. The role of the Central Bank as a regulator has been outstanding throughout the year. Therefore, I would like to thank the Governor, the Director of the Department of SNFBI and all officials for their guidance and support.

Thank you

A handwritten signature in black ink, appearing to read 'B. Premalal', written over a faint rectangular outline.

**B. Premalal**  
Chairman

03rd September 2014

*“During the current year, despite the increasing competition, Prime Grameen continued to grow profits, deposits and assets in the financial year 2013/14.”*



# CEO's Review

My dear shareholders,

I am happy to report another year of strong performance by Prime Grameen, despite the increasing competition in Sri Lanka's micro finance sector.

Prime Grameen faced an increasingly competitive environment during the current financial year, with at least three finance companies venturing into the micro finance market. This is in addition to the large number of informal players already active in micro finance lending. According to Central Bank estimates there are over 15,000 formal and informal players operating in Sri Lanka's emerging micro finance sector. However, the micro finance market remains largely unregulated, with the current regulatory mandate of the Central Bank extending only up to registered non-bank financial institutes and the formal banking sector. Therefore, a majority of micro finance lenders in the country remain outside the regulatory framework. Over the recent past there has also been a trend of more formal financial institutions entering the micro finance sector. As many new entrants are inexperienced in micro finance lending and rural micro finance recipients are disadvantaged by poor financial literacy, such unregulated expansion of micro lending could cause negative outcomes. We believe that a national level plan for micro finance sector regulation will ensure professionalism and to safeguard consumer interests.

I believe micro finance is a key avenue of growth for the majority rural populations of this country and also provides many opportunities for expansion and growth for micro finance institutions. The sector continues to see strong growth in demand with an ever increasing customer base. In fact, micro finance in Sri Lanka has the potential to expand beyond the traditional target market of women, to include male populations across the country, that are also keen to develop as entrepreneurs. Therefore, supporting the growth of microfinance institutions and their activities will directly support national economic growth from the grassroots, and will uplift quality of life of thousands of people across the country.

Despite the increasing competition, Prime Grameen continued to grow profits, deposits and assets in the financial year 2013/14. Before tax profits increased 104% year-on-year, from Rs. 268 mn in 2012/13, to Rs. 549 mn in the current financial year. Despite lowering interest rates our deposit base continued to grow by 33.86% to reach Rs. 3 bn. Total assets increased by 36% to Rs. 5.8 bn. In addition, the company's balance sheet was strengthened further through provisioning for the legacy portfolio of Rs. 731 mn in NPLs. The full provisioning was made well ahead of the Central



Bank deadline, through a Central Bank approved asset revaluation. For the current year, Prime Grameen's NPL ratios remained well below the financial sector averages, at 0.4%. This was achieved by the organization tenaciously monitoring our business model on a weekly, monthly and annual basis which is one of the Key Performance Indicators of our organization. This mechanisms has resulted in us achieving very low default rate. Due to our regular direct contact we have been able to build a stronger relationships with our customers. The continuous demand for our services and the increase in the number of borrower base is a testimony to this fact.

In addition to our historic legacy as pioneers in Sri Lankan micro finance, Prime Grameen's strength also lies in the company's wide spread geographic coverage. During the year we continued to strengthen this competitive advantage with the addition of three more service centres to our service network. These new service centres are located in Nelliady in the Jaffna District, Norochcholaï in the Puttalam District, and Mullaitivu in Mullaitivu District. With these three new additions, our island wide service network now comprise of 48 branches, over 4,000 collection centres and five service centres. Today, we are one of the largest commercial micro finance service providers in the country, with over 700 field officers reaching out to customers across the island. During the year, we also continued to upgrade our branch network up to 36 branches, that had previously not been upgraded prior to acquisition by Prime Lands. By now, about 75 % of the branches have been strategically relocated and upgraded with enhanced facilities, including modern IT infrastructure.

Another priority during the year, was enhancing the skills and professionalism of our growing workforce. I believe our workforce, led by our highly experienced management cadre, most of whom have over 10 years of experience in micro finance in Sri Lanka, are a key competitive advantage of the company. During the current year, we continued to build our human capital base through new recruitments, training and development, to enhance productivity and competence which has helped us to penetrate the market.

In the coming years, we plan to expand our microfinance activities by building on our key strengths of historic experience in the Sri Lankan micro finance market across the island. We hope to reach out to new rural markets with a range of new products, customised for micro and SME sectors. Currently, the group-based micro finance lending model has been catering to the needs of women entrepreneurs in Sri Lanka. With our new products, we hope to extend our financial support model to include male customers as well. To ensure growth and development of our customers, we will continue to provide a range of support services, such as advisory services, tailor made savings products. I believe savings will create a financial safety net for rural families to deal with unexpected financial shocks that often creates setbacks to growth and development of micro entrepreneurs. Prime Grameen has gone a step further in this direction and strengthened the savings-based safety net with a contingency fund. The contingency fund can be utilised by microfinance members at times of emergencies, ensuring additional financial support. Therefore, I believe our micro finance expansion plans will enhance the country's grassroots economies, which will in turn, boost the overall national economic growth.

I would like to extend my sincere appreciations to the Governor of the Central Bank, Assistant Governors, and Directors of the Department of Supervision of Non-Bank Financial Institutions, and Bank Supervision and their support staff for their regulatory guidance during the year. I also extend my sincere thanks to the Chairman and Board of Directors for their confidence in me and their valuable inputs during the year. My thanks also go out to the senior staff and all employees for their hard work and dedication. I thank our fixed deposit and savings customers, for their trust in us, and all our loyal micro finance customers for their faith in the company. I would also like to thank our bankers, Seylan Bank, HNB and DFCC, for their support and assistance towards the company, during the year.

Sincerely



**B.M.D.C. Prabhath**  
Director/CEO

03rd September 2014

# Board of Directors



Left to Right:

B. Premalal  
*Chairman*

H.K.S.R Perera  
*Deputy Chairperson*

B.M.D.C. Prabhath  
*Director/CEO*

Ruwan Gallage  
*Director*

L.L.C.C. Thabiah  
*Director*

R. De S. Munasinghe (Retired)  
*Director*

W.S.P. Arangala  
*Director – MIS/Compliance*

S.L.Y. Liyanawatte  
*Director – Sales & Marketing*





# Senior Management



01



04



06



09



11



14

Left to Right:

01. Annesley Fernando  
*DGM – Operations*
02. Ruwan Fernando  
*DGM – HR*
03. Tharanga Deepal  
*DGM – Operations*
04. Sarath Galagoda  
(Retired)  
*DGM – Admin*
05. Bimal Seneviratne  
*DGM – Fixed Deposits*
06. Kamal Priyanga  
*AGM – Operations*
07. Mahinda Ratnayake  
*AGM – Operations*
08. Ramesh Fonseka  
*AGM – Compliance*
09. Pathum Cooray  
*AGM – Operations*
10. Dhanushka Prabath  
*AGM - Operations*
11. Sameera Gunasekara  
*Chief Accountant*
12. Pradeepa Dias  
*Head of ICT*
13. Wickrama Punchihewa  
*Head of Legal*
14. Anura Udawatte  
*Head of Training*
15. Manjula Munasinghe  
*Head of Business Systems &  
Development*





# Report of the Directors

The Directors of Prime Grameen Micro Finance Limited have pleasure in presenting to the shareholders the Annual Report on the state of affairs of the company together with the Audited Financial Statements for the year ended 31st March 2014.

## The Principal Activity of the Company

The principal activity of the company during the financial year 2013/14 was providing Micro Finance loans to small scale self employed enterprising women.

## Review of the operations

A review of operations of the company during the year ended 31<sup>st</sup> March 2014 given by the Chief Executive Officer appears on page 7 of the report.

<b>Profit</b>	<b>31st March 2014</b>	<b>31st March 2013</b>
The net profit for the year after providing for all expenses, known liabilities and depreciation	405,464,629	227,009,864
Balance available for appreciation	-	-
<b>Reserves</b>		
General reserves	82,897,989	82,897,989
Statutory reserves	97,824,884	16,731,958
Investment Fund	61,395,350	15,962,647

## Stated Capital

Stated capital of the company as at 31<sup>st</sup> March 2014 is Rs. 3,895,806,240.00 represented by 1,719,580,624 shares in issue. Given below is the composition of the 10 largest shareholders (Voting & Non-voting).

<b>Name</b>	<b>Shareholding %</b>
1. Prime Lands Pvt Ltd	81.412%
2. Seylan Bank PLC	13.561%
3. B.M.D.C Prabath	00.058%
4. H.M .Upali Seneviratne	00.009%
5. W.S.P Arangala	00.006%
6. S.L.Y. Liyanawatte	00.006%
7. S.T.D Peiris	00.006%
8. W.B.A Fernando	00.006%
9. J.S.B Galagoda	00.006%
10. S.A.Fernando	00.006%



## Capital Expenditure

Capital expenditure incurred on the acquisition of fixed assets during the period under review amounts to Rs.95,228,378. Details are given in note 23 of the accounts.

## Directors

Directors of the company who held office during the financial year ended 31<sup>st</sup> March 2014 are as follows-

Mr. B. Premalal	Chairman
Mrs. H.K.S.R Perera	Deputy Chairperson
Mr. B.M.D.C Prabhath	Director/CEO
Mr. S.L.Y Liyanawatte	Director Operations
Mr. W.S.P Arangala	Director-MIS/Compliance
Mr. R.P.K. Gallage	Non-Executive Director
Mr. R. De. S. Munasinghe	Independent Non-Executive Director (resigned w.e.f. 07.07.2014)
Mrs. L. L. C. C. Thambiah	Independent Non-Executive Director

To re-elect Mr. B.M.D.C Prabhath, Director/CEO of the Company who retires by rotation in terms of Article 95 of the Articles of Association of the Company. The directors unanimously support the re-election of Mr. B.M.D.C Prabhath as a Director of the Company.

## Directors' Interest in shares of the company.

Mr. B. Premalal and Mrs. H. K. S. R. Perera are nominees of Prime Lands (Pvt) Ltd which holds 81.412 % of the shares

Mr. B. M. D. C. Prabhath holds	0.058% of shares
Mr. W. S. P. Arangala holds	0.006% of shares
Mr. S. L. Y. Liyanawatte holds	0.006 % of shares
Mr. R. P. K. Gallage holds	0.005 % of shares
Mr. R. De. S. Munasinghe holds	0.005 % of shares

## Directors interests in contracts of the company

The Directors have no direct or indirect interests in any contracts or proposed contracts with the Company other than the following;

Mr. B. Premalal (Chairman) and Mrs. H. K. S. R. Perera (Deputy Chairperson) are also Directors and Shareholders of Prime Lands (Pvt) Ltd, which Company has entered into the following transactions during the year;

The Company obtained a Term Loan of Rs.50Mn at an interest rate of AWPR+2 in November 2013, for a period of 5 years

## Related Party Transactions

Details of related party transactions are set out in Note 39 of the financial statement

# Report of the Directors

## Board Sub Committees

The Board has appointed the following sub-committees to carry out certain delegated functions

### Integrated risk Management Committee

- Mr. R. De. S. Munasinghe (Independent Non-Executive Director) resigned w.e.f. 01.07.2014 and Mrs. L. L. C. C. Thambiah (Independent Non-Executive Director) was appointed w.e.f. 01.07.2014 - Chairperson of the Committee
- Mrs. H.K.S.R Perera (Non-Executive Director)
- Mr. B.M.D.C Prabhath (Executive Director)
- Mr. W.S.P Arangala (Executive Director)
- Mr. S.L.Y. Liyanawatte (Executive Director)
- Mr. Ramesh Fonseka

### Credit Committee

- Mr. B.M.D.C Prabhath (Chairman)
- Mr. W.S.P Arangala
- Mrs. L.L.C. C. Thambiah
- DGM Operations
- AGM operations
- Mr. R.Fonseka ( Secretary)

### Audit Committee

- Mr. R.P.K Gallage (Non-Executive Director) - Chairman of the Committee
- Mrs. H.K.S.R. Perera (Non-Executive Director)
- Mr. R. De. S. Munasinghe (Independent Non-Executive Director) resigned w.e.f. 07.07.2014 from the Board of Directors of the Company.

### Asset and Liability Committee(ALCO)

- Mr. B.M.D.C Prabhath (Executive Director) - Chairman of the Committee.
- Mr. W.S.P Arangala (Executive Director)
- Mr. S.L.Y Liyanawatte (Executive Director)
- Mr. B.S. Seneviratne
- Mr. Ramesh Fonseka

### Remuneration Committee

- Mr. B Premalal (Non-Executive Director) - Chairman of the Committee
- Mrs. H.K.S.R Perera (Non-Executive Director)
- Mr. R. De. S. Munasinghe (Independent Non-Executive Director)



### Procurement Committee

- Mr. B.M.D.C Prabhath (Executive Director) - Chairman of the Committee
- Mr. W.S.P Arangala (Executive Director)
- Mr. Sarath Galagoda

### Board Attendance

Details of the attendance of the Directors at the twelve (12) Board Meetings held during the year are as follows;

Name	No. of Meetings attended
Mr. B. Premalal	12
Mrs. H. K. S. R. Perera	12
Mr. B. M. D. C. Prabhath	12
Mr. W. S. P. Arangala	12
Mr. S. L.Y. Liyanawatte	12
Mr. R. P. K. Gallage	12
Mr. R. De. S. Munasinghe	11
Mrs. L.L.C.C. Thambiah (appointed w.e.f. 13.06.2013)	10

### Auditors of the Company

The Board of Directors has decided to retain the services of M/s Kreston MNS & Company Chartered Accountants as the External Auditors of the Company for the ensuing year.

### Dividends

The Board of Directors do not recommend a dividend payment during the year.

### Donations

The Company has granted Rs.1.1Mn as donations during the year.

By Order of the Board

**PRIME GRAMEN MICRO FINANCE LTD**

(Sgd.)

**Varners International (Pvt) Ltd**

Secretaries

Colombo

03rd September 2014

# Management Discussion and Analysis

## Our business

Established in 2000, as Ceylinco Grameen Credit Co. Ltd, the company was acquired in 2011 by the Prime Lands Group, Sri Lanka's leading real estate developer, and renamed Prime Grameen Micro Finance Ltd. A fully fledged finance company, registered and licensed to obtain public deposits, by the Central Bank of Sri Lanka, Prime Grameen is a leading micro finance operator in Sri Lanka. Prime Grameen is also the only licenced finance company in Sri Lanka engaged in micro finance services as its core business. Modelled on the world famous Grameen concept, pioneered by Nobel Laureate Prof. Muhammad Yunus of Bangladesh, Prime Grameen has developed a unique micro finance model to meet Sri Lankan requirements. By introducing commercial micro finance, Prime Grameen, has opened up a new growth avenue for grassroots entrepreneurs in Sri Lanka.

## Geographic scope

Prime Grameen has an island wide coverage including the conflict recovering North and East of Sri Lanka. Currently our extensive geographic reach includes a branch network of 48 fully fledged branches, 5 lending Service Centres and 4,892 Collection Centres.





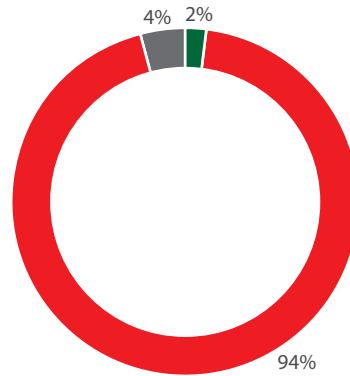
## Product portfolio

### Lending products

#### SAHANA LOANS

Sahana Loans are specially designed to meet emergency cash needs of existing micro credit customers with a credit line of up to Rs. 7,500

#### Lending portfolio



Easy Loans is a credit line of up to Rs. 250,000 for entrepreneurs holding current accounts with commercial banks



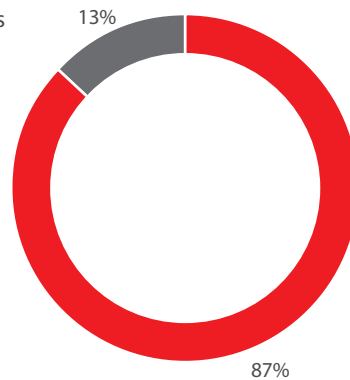
Micro Credit is the main leading activity of the company

■ Micro Credit    ■ Sahana Loans    ■ Easy Loans

### Deposit products

#### Deposit portfolio

Savings products



Fixed deposits: 1 month to 5-year tenure deposits.

■ Fixed Deposits    ■ Savings Products

Prime Grameen introduced its savings schemes in September 2012, to expand the product portfolio and services for micro credit customers. We believe savings should be an integral part of micro credit lending, as savings provide a safety net for loan recipients at times of contingency and also supports their development and quality of life improvements. The Prime Grameen savings concept takes customer convenience to heart and makes saving a user friendly activity with doorstep banking, where our officials visit small businesses at their business premises to collect their savings. We also provide high interest rates (Within CBSL Parameter) and value additions to encourage savings, as many small business, particularly in rural parts, do not have access to formal banking services. The Prime Grameen savings products include special minors accounts, with many attractive incentives, to encourage children to save, and to inculcate the saving habit from a young age.

# Management Discussion and Analysis



Prime Savings : A general savings product



Yalu: Savings account for minors targets children in rural areas, to inculcate the savings habit. Currently the savings scheme has around 20,000 account holders under the age of 18 years.



Sip Saviya: A special educational support savings account for children under the age of 8 years that will give an education grant of up to Rs. 20,000, in addition to savings interest.



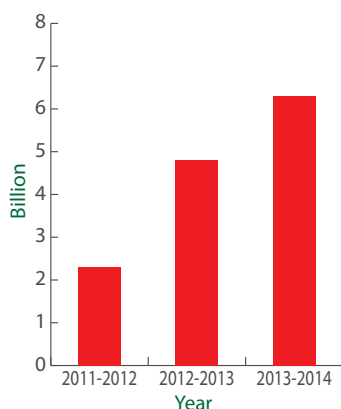
Miyulasi Sathkara: For micro credit customers to encourage savings.

## Micro finance

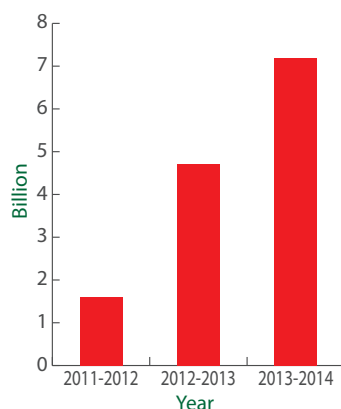
Prime Grameen is a pioneer in commercial micro credit in Sri Lanka and has over 13 years of experience in providing micro credit services to rural Sri Lankan communities, including populations in conflict affected parts of the country. The company continues to follow the Grameen model developed in Bangladesh, which is based on collateral-free lending for groups of rural women entrepreneurs. The model has proved highly successful and resilient in Sri Lanka, with minimum default rates in repayments.

During the current financial year, micro lending showed a growth of 31.7%, with total lending reaching Rs. 6.4 bn against Rs. 4.8 bn achieved in the financial year 2012/13. Cumulative micro credit lending since the take over by Prime Lands in June 2011 to 31st March 2014, amounted to Rs. 13.6 bn. The lending recovery rate stood at 99.06%. The Prime Grameen micro credit customer base comprised 172,000 women entrepreneurs, as at 31st March 2014.

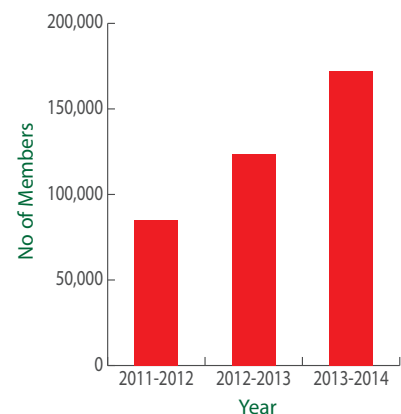
*Micro Lending Growth*



*Micro Lending Recovery*

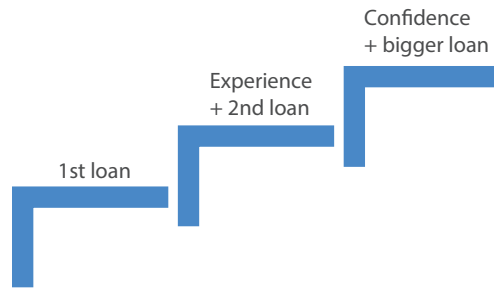


*Micro Customer Base Growth*





### Prime Grameen micro credit model



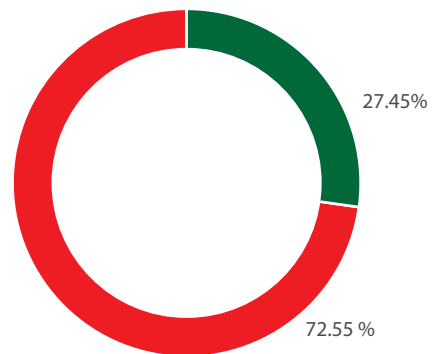
The 48 Prime Grameen branches disburse micro loans ranging from Rs. 25,000 to Rs. 150,000, to groups comprising 3 to 5 women. Loans are recovered through 4,892 Collection Centres, located in public areas, such as temples and community halls. This process allows over 700 Prime Grameen field staff to interact on a weekly basis, with the customers. This system of direct and regular customer contact allows for close monitoring of credit utilisation, while also building trust between the company and customers.

Prime Grameen credit is used to start up and/or develop self employments, such as retail shops, agricultural activities, apparel making, fisheries, cement blocks and brick manufacture and many other enterprises. The bulk of Prime Grameen micro credit is disbursed outside the western province, injecting funds into rural grassroots that are often underserved by the formal banking system.

### Supporting growth

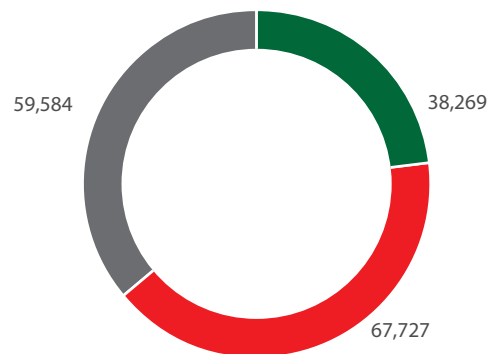
A majority of Prime Grameen micro credit recipients are not only women but are also mothers, who support their family incomes through their entrepreneurial activities. Therefore, the Prime Grameen credit lines are designed on a ladder model, with credit amounts gradually increasing, according to the repayment capacity of borrowers. Out of the 172,000 customer base, approximately 80% are second or third-time loan recipients, graduating onto larger credit lines, in line with their business expansion.

### Western vs Outside Western Loan Disbarment



■ Outside Western Province ■ Western Province

### Loan Recipients



■ 1st Time ■ 2nd Time ■ More than 2nd Time

# Management Discussion and Analysis

## Customer support services

As part of our customer support services Prime Grameen offers advisory services for business development and also maintains a Protection Scheme for emergency assistance for customers facing sudden, unforeseen difficulties. To date, Prime Grameen has been the launch pad for many grassroots entrepreneurs to build up their businesses and improve their quality of life.



## “Using leftover pieces of cloth, she knitted together a strong foundation for her life”

Indrani Hemalatha, Prime Grameen Dambulla Branch

10 years ago I only had the desire, will and the determination to start a business of my own. But having experimented with a few ideas, today I am the proud owner of three small scale business enterprises. We provide wedding planning services that include; renting wedding attire, bridal dressing & make up, catering service, renting event equipment and even provide function halls for weddings. All these services are available under one roof and my goal is to grow this business even more and become a renowned businesswoman of Sri Lanka. I am positive that to fulfill this dream, Prime Grameen Micro Finance will most certainly provide their herculean strength.



## “Why would we want to delay our journey of success, any longer?”

H.S Masahira, Member from Badulla Branch

When I think of our lives ‘then’ and ‘now’ it seems poles apart. But I am so happy because my 3 children did not have to face the hardships I endured all those years ago. I was able to provide for them and give them a good life only by swimming upstream, against the tide. Anyone can overcome life’s challenges and move upward if they have the determination and some financial support. Prime Grameen gave us that stability and support to rid us of our poverty stricken state. So with that kind of able support readily available, why would we want to delay our journey of success, any longer?



අම්මා කාන්තාවන් ලාභය  
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**“I had never experienced the love & affection of a Mother or Father ”**

H P Jenet Upamalika Member, Prime Grameen Nikaweratiya Branch

By now we have 4 direct employees and over 150 workers who have been provided employment opportunities as a result of our Puwak (Arecanut) business. We have machines that enable us to do a variety of functions such as chop, cut into cubes and also to slice the puwak after which we supply 1500kg to the local market. For all these activities, it was Prime Grameen who backed us and provided us with excellent financial support by giving loans at a much needed time along with easy repayment schemes to settle those very loans.



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**“Prime Grameen did lend a hand not only for our business development, but also provided investment opportunities for our future”**

H L Dayaseeli, Member from Matara Branch

It was in 2004 that I first found out about Prime Grameen as an institution that provides financial support to low income families. Thanks to a lady who came to cook for me I was coaxed into going for my first meeting with the Prime Grameen committee and was pleasantly surprised at how willing they were to lend a helping hand. There onwards I became a consistent member at the committee meetings and since I managed the money given to me skillfully, I was able to see a huge improvement in my bakery business. I have taken loans of Rs 25,000 going up to Rs 100,000 from Prime Grameen and have settled them in due course. As a result I was able to open fixed deposits and a women’s savings account with them. Therefore it is noteworthy to say that Prime Grameen did lend a hand not only for our business development, but also provided investment opportunities for our future.





# Management Discussion and Analysis

## Connecting to the latest technologies

We believe leveraging technology can enhance effectiveness and efficiency of our operations through cost savings, faster processing and better security systems. Therefore, since the takeover, the company has been involved in improving and standardising the IT infrastructure. In April 2013, we launched a sweeping upgrade to our existing systems to enhance performance following a systematic IT audit. The ICT infrastructure upgrading project commenced in April 2013 and is now nearing completion. The improved ICT infrastructure will support Prime Grameen's expansion plans with greater efficiencies while ensuring stronger security for customers.

Currently, all 48 branches and 5 Service Centres are networked for online connectivity and the central human resource system allows employees to access central internal resources. This facilitates real time live transactions, live updates, sharing of central resources and more efficient monitoring of daily activities. Out of 48 branches 31 have already been equipped with the latest IT facilities for front end service delivery and the remaining branches are also in the process of being transformed. The company's IT security infrastructure has been improved to be among the best in the country, for the best protection of financial data and customer privacy. In addition, a fully redundant operational environment has been created with the core banking services hosted in a virtual redundant environment. This has significantly minimised any unwarranted downtime risks and potential service interruptions due to such risk

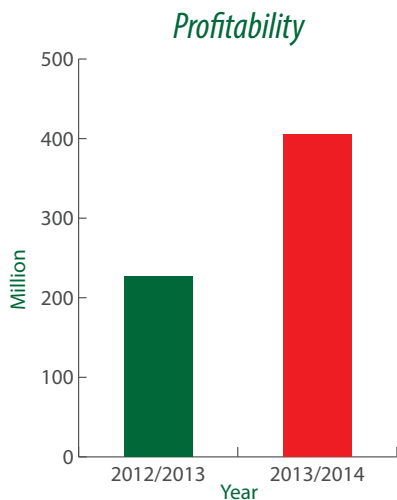
We have continued to incorporate ICTs to support and improve our daily operations and customer convenience in many different ways. In June 2013, we became the first micro finance company to introduce 'Branchless Banking,' through POS machines. This allows our field executives to collect deposits directly from the homes and business premises of our customers, greatly enhancing customer convenience, particularly in rural parts of the island where banks are not located within easy travelling distance.

In the new financial year, we plan to enhance the security of Prime Grameen branches while also rolling out a range of technology-driven services. These include mobile banking and internet banking and the payment of utility bills through the POS system. In addition, we are also in discussion with a number of banks to provide shared ATM facilities for our customers. These initiatives will significantly enhance Prime Grameen's market competitiveness, while expanding the reach of the company.

## Financial review

### Profitability

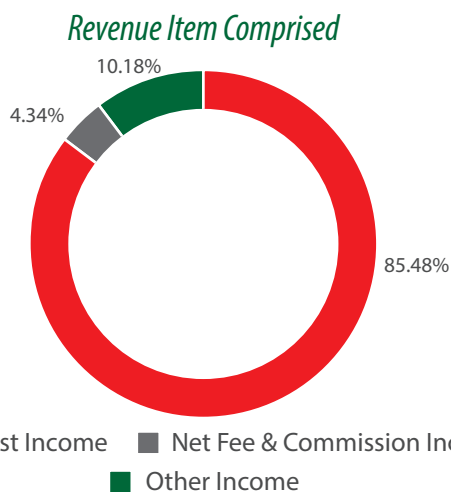
The company recorded a profit after tax of Rs. 405 mn in the financial year 2013/14, which is a growth in profitability by 78.61% compared to the profit after tax of Rs. 227 mn in the previous financial year. Profit before tax stood at Rs. 549 mn which is a growth of 142.18% against the previous year.



### Revenue

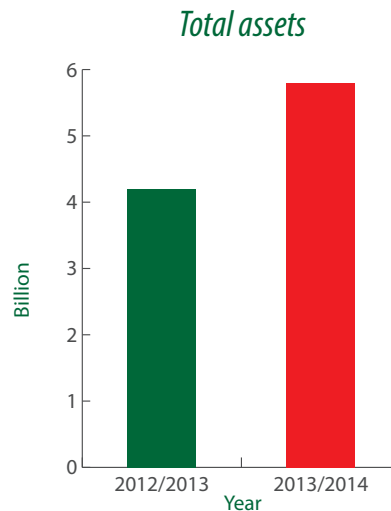
Total revenue showed a growth of 42.99% at Rs. 1.9 bn in the current financial year from Rs. 1.3 bn in the previous year.

Revenue Item Comprised	2012/2013	2013/2014
Interest income	1,118,939,655	1,689,119,884
Net fee & commission income	57,412,594	85,827,520
Other income	205,627,786	201,145,507
Total	1,381,980,035	1,976,092,911



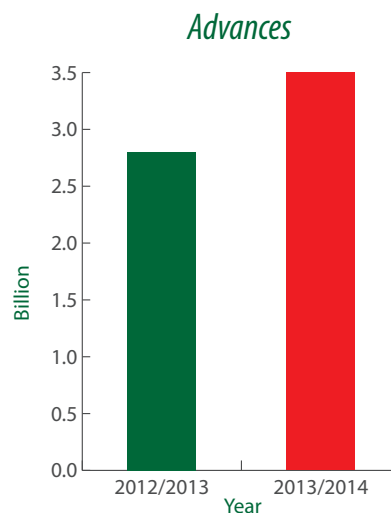
### Total assets

Total assets of the company, as at 31st March 2014, stood at Rs. 5.8 bn. This included advances, property, plant and equipment and investments in Treasury bills and bonds and in fixed deposits.



### Advances

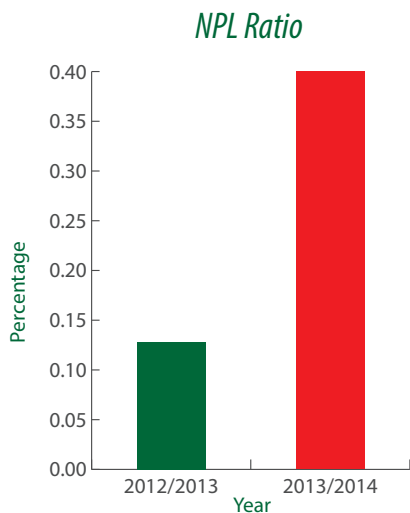
As at 31st March 2014, the lending portfolio stood at Rs. 3.5 bn, which is a growth of 23.7% from Rs. 2.8 bn in the previous financial year.



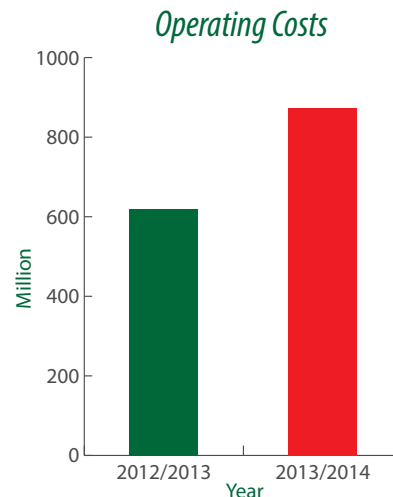
# Management Discussion and Analysis

## NPL Ratio

The overall recovery ratio for all lending products stood at 99.6% for and NPL of 0.4%. The NPL ratio has shown an improvement of 212.5% from the previous financial year, due to more stringent monitoring mechanisms.

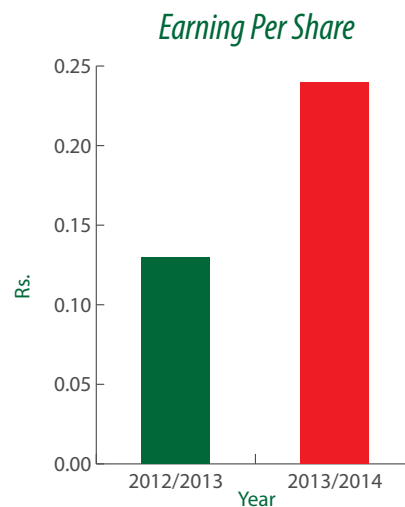
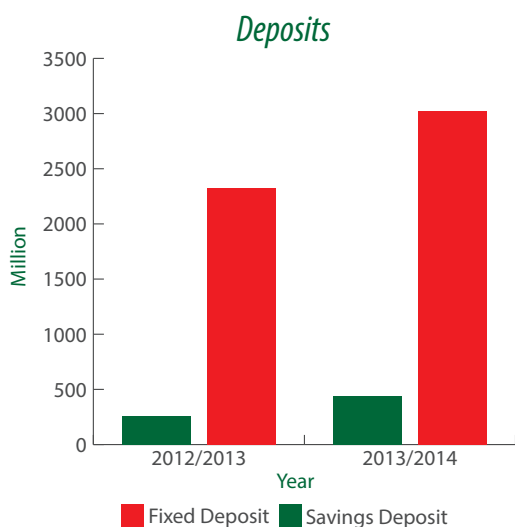


due to costs of expansion, including higher personnel costs and higher interest payments due to growth in the savings and fixed deposits. Interest pay outs increased to Rs. 542 mn, from Rs. 467 mn in the previous year.



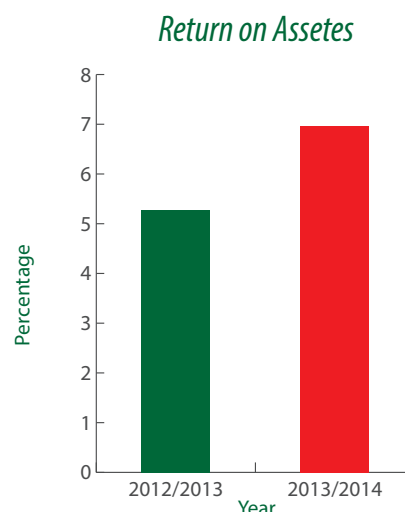
## Deposits

Deposits are the main funding source of the company, and as at 31st March 2014, the total deposit base of the company showed a growth of 33.86%, to Rs. 3 bn, from 2.3 bn in the previous financial year. Fixed deposits accounted for 87.3% of total deposits at Rs. 3 bn while savings accounted for 12.7% at Rs. 436 mn.



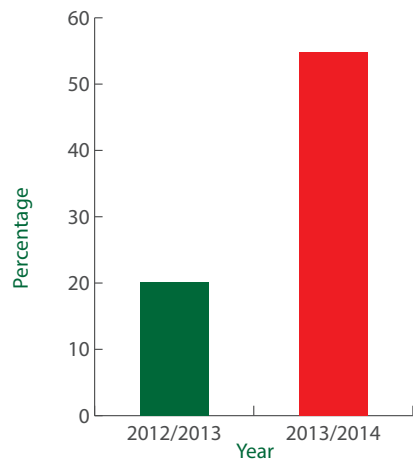
## Operating costs

Total operating costs increased to Rs. 873mn, from Rs. 620 mn in the previous financial year. This was mainly

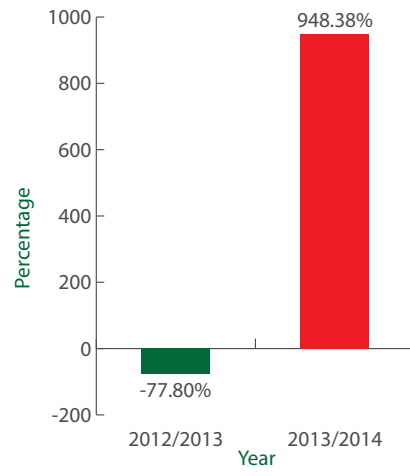




### *Return on Equity*



### *Growth in Shareholder Funds*









# Sustainability Report

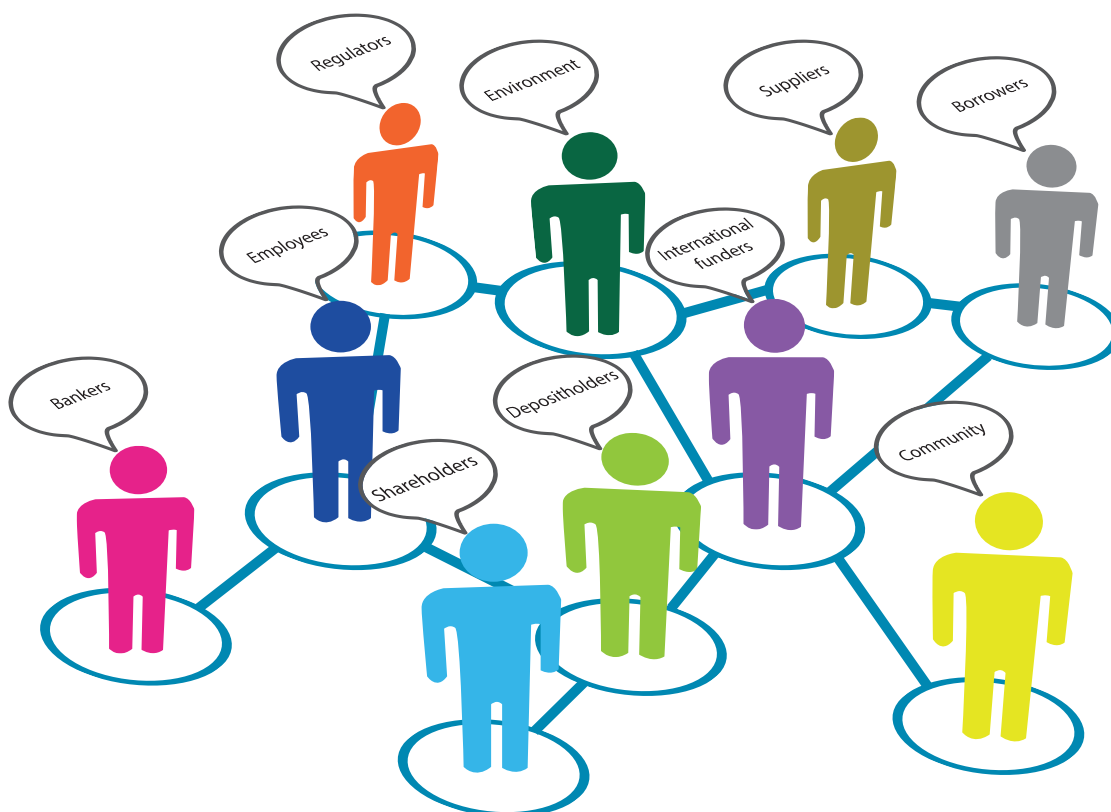


# Sustainability Review

As a specialised micro credit lender, for us, sustainability is not a stand alone concept related to financial sustainability limited to the company. For us, the wider social sustainability of rural communities is an integral aspect of long term business growth and prosperity. Therefore, the Prime Grameen business model has been designed to ensure growth and stability of not only the company, but also the grassroots communities of the country. Good governance and strong risk management is a core element of this process. Therefore, we believe sustainability also includes meeting our responsibilities towards a whole range of stakeholders. These stakeholders and the company response to meeting their needs are described below.

## Our stakeholders

### Meeting our stakeholders' needs



Stakeholder	Requirements from the company	Company response
Shareholders	Wealth creation and accountability	We ensure sustainable shareholder wealth creation through prudent financial management and business growth. We ensure accountability through regular communications with shareholders and by maintaining an open door policy. Shareholders can contact the management at any point.
Deposit holders	Financial stability and trust	Trust is maintained through the Prime Group brand image, employee service standards and accurate and timely payments.

Stakeholder	Requirements from the company	Company response
Borrowers	Financial and other forms of support for self employments	We provide secure financial services for people who do not have access to financial services. We also provide support services for business development.
Regulators	The Central Bank, the Inland Revenue Department and Company Registrar are the main regulatory stakeholders of the company	We comply with all regulations and directions from the regulators.
Bankers	Timely and accurate business operational information	Company with all contractual obligations and reporting requirements
Employees	Job security and growth opportunities	We provide a structured and stable work environment with many welfare facilities. We invest in training and career development. In addition, our employees have the satisfaction of serving those populations in need of support, ensuring service satisfaction.
Suppliers	Business stability and timely payments	We ensure prompt and accurate payments
International funders	collateral and risk	We comply with all national regulations and other good governance standards for industry best practices to ensure financial sustainability.
Community	Ethical business practices	We strive to maintain the highest standards of ethical and professional integrity in all our business activities. In addition, we conduct many community welfare programmes to assist those in need, particularly in underserved, rural communities.
Environment	Conservation	As a service provider our environmental impacts are limited to consumption of natural resources and impacts on the environment due to transportation. Nevertheless we attempt to conserve the environment by 2016

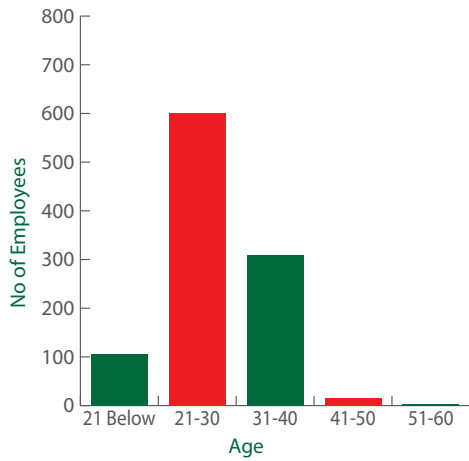
## Our human resources

At Prime Grameen we believe our human resources are a defining element of organisational success and long term sustainability. Our well trained and experienced teams have driven company growth despite rising competition in the micro credit sector of the country. In return, the company ensures opportunities for growth and many employment benefits for our staff.

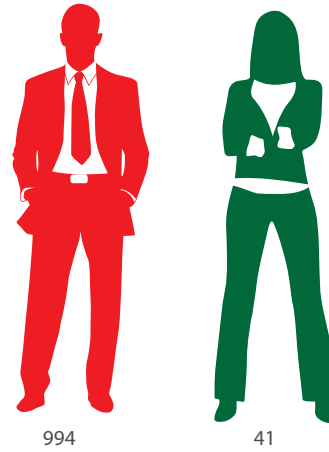
During the current year, our total work force continued to grow and stood at 1,035 as at 31st March 2014, from 760 as at the end of the previous financial year. Over 60% of our employees are below the age of 60 making our workforce a young and dynamic one with the energy for growth. Given the need for wide geographic coverage in the provision of our services, 704 personnel out of the total 1,035 cadre, are field officers, while 104 are executives. The total managerial staff, including assistant managers number only 203. A majority of our staff are local recruitments from outside the Colombo district, ensuring employment creation outside Colombo.

# Sustainability Review

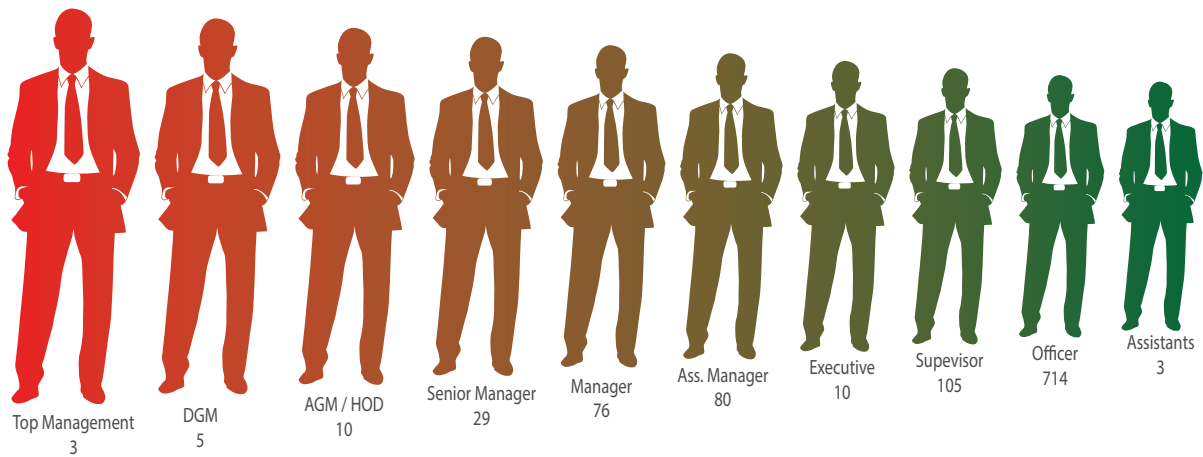
*Employees by Age as at 31.3.2014*



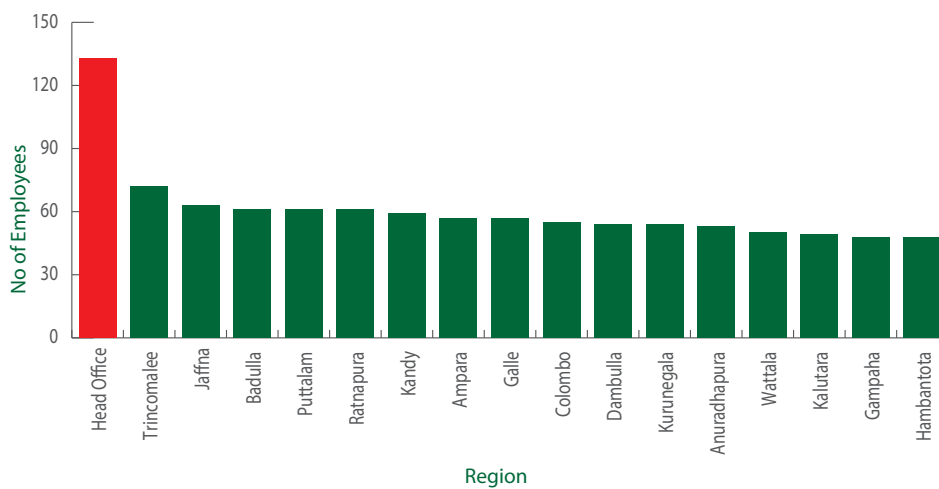
*Employees by Gender*



*Employees by Grade*



*Employees by Region*





## Human resource manual

With our workforce rapidly expanding in 2013, Prime Grameen developed an HR manual, to standardise company policies on key HR management areas. The manual also sets out a code of conduct for all employees to ensure service integrity and ethical behaviour of all staff. The manual will be published in the new financial year.

## Training and development

We believe employee training is an essential component of service quality improvement and customer satisfaction. Therefore, during the current year we invested Rs. 25 million on various training initiatives, compared to Rs. 15 million in the previous year, to equip our employees to deal with the many challenges they will face in their daily activities. Our training programme are designed to target new recruits and others.

### Training for new recruits

The company recruits school leavers as trainee field officers. These new recruits face an intensive induction training of 3 weeks, including 2 weeks of exposure at branches and 1 week of experience in the head office. They next undergo a 2 month on the job training period.

Training programme	Number of employees
Diploma course at the Institute of Bankers Sri Lanka on micro credit, partially or fully sponsored by the company.	25
Certificate course at the Institute of Bankers Sri Lanka on micro credit partially or fully sponsored by the company.	10
Certificate course on credit management at 31/03/2014.	16
Training workshops by the Central Bank of Sri Lanka on different topics such as finance, microfinance, IT, career development and law	20

## Performance based rewards

A performance based reward system, in the form of a profit share plan, has been introduced to motivate our employees based on set targets for branches. On achievement of targets the entire branch benefits from a profit sharing mechanism. In addition, we reward our employees with annual increments and twice a year bonus payments that are dependent on company performance.

## Health and safety

All employees, including trainees benefit from a life insurance cover of Rs. 1.5 mn, from first day of employment. This includes a basic insurance cover of Rs. 500,000, an accident cover of Rs. 500,000 and a permanent disability cover of Rs. 500,000. Since April 2014, permanent employees benefit from a Suwa Sampatha medical insurance cover.



Prime Grameen Micro Finance Ltd



# Sustainability Review

## Having fun at work

We encourage our employees to take part in recreational and social activities to energise our teams and infuse fun into work. During the current year, employees participated in many such recreational events including a Regional Cricket Tournament and events organised by the branches.



Regional Cricket Tournament



Regional Cricket Tournament



Runner up FHA Cricket Tournament



FHA Queen - 1st Runner up



Entertaining Year End Welfare Party



Main Sponser - Kaduwela Municipal Council  
Bicycle Race



### Mehevara News

This monthly newsletter on Prime Grameen activities is a communication tool that reaches all employees and is also available for customers and the general public via our website. The newsletter shares company news, new products and services, messages from the management and activities of our branch network. It also publishes customer testimonials.





# Sustainability Review

## Community welfare

Prime Grameen conducts many social welfare activities as part of the company's business activities and also as individual philanthropic activities. During the current year too, the company and the Prime Grameen branches scattered throughout the country continued to contribute towards social welfare.

Under the Yalu savings account for children, a children's entertainment event called Upul Mama's stage programmes, were held for preschool children. In addition, the company conducted lectures on accounting at the Holy Family Convent, Dehiwala. In another child friendly project the company collaborated with the Mirihana police station in a project called 'A letter to the Police from the School' where the company donated 50 letter boxes to schools in the Mirihana police area for children to communicate with the police.



Flood Donations at Hambantota



Free Seminars for School Students about Accounts for O level & A Level



Entertainments for Childrens with Sip Saviya Product - Upul Mama Drama



Pasalen Polisiyata Liyumak - School Project

Under the Sip Saviya children's savings accounts the student with the best Advanced Level results was awarded an Rs. 350,000 scholarship for further education. The Sip Saviya account also published a booklet on the care of new born children, which was distributed free of charge at the Lady Ridgeway Hospital and at all base hospitals.



Free Distribution of Health Booklet for Expecting Mothers



Free Distribution of Health Booklet for Expecting Mothers



Sip Saviya Product Launch



Scolership for Childrens of Security Forces



Children's Talent Shows in Miyulasi Sathkara Lottery Draw



Scolership for Advanced Level Rank No 1 in Gampaha District



# Sustainability Review

As a socially responsible action, Prime Grameen donated a house to a young orphan girl, Pavithra Warnakanthi, who lost both her parents in the Kebithigollawa bomb blast.



Lay of Foundation



Completed House



Team

## Other CSR Events



Donation of Echo Friendly Name Boards  
Kotte Municipal Division



Donation of Echo Friendly Name Boards  
Kotte Municipal Division





Donation of Echo Friendly Name Boards  
Kotte Municipal Division



Blood Donation Camp



Blood Donation Camp



Vesak Festival Dansasa



Vesak Festival Dansasa



Vesak Festival Dansasa

# Corporate Governance Report

Prime Grameen Micro Finance Ltd, though registered as a Licensed Finance Company by the Monetary Board of the Central Bank of Sri Lanka, and monitored by the Department of the Supervision of Non-Bank Financial Institutions is at present engaged only in Micro Finance operations.

The Board is pleased to confirm the Company's Compliance with the requirements as set out in the Regulations issued by the Central Bank of Sri Lanka.

The composition of the Board of Directors during the period under review is as follows;

	Name of the Director & Position held	Ex	N-Ex	In	N-In
1	Mr. B. Premalal - Chairman		✓		✓
2	Mrs. H.K.S.R Perera - Deputy Chairman		✓		✓
3	Mr. B. M. D. C. Prabhath - Director/CEO	✓			
4	Mr. W.S.P Arangala – Director – MIS/Compliance	✓			
5	Mr. S. L. Y. Liyanawatte – Director – Sales & Marketing	✓			
6	Mr. R. P. K. Gallage		✓	✓	
7	Mr. R. De S. Munasinghe (resigned w.e.f. 07.07.2014)		✓	✓	
8	Mrs. L. L. C. C. Thambiah (appointed w.e.f. 13.06.2013)		✓	✓	

**Ex** - Executive Director

**In** - Independent Director

**N-Ex** - Non-Executive Director

**N-In** - Non-Independent Director

The following table identifies the Company's compliance with the requirements of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

Corporate Governance Principle	Level of Compliance
<b>Composition of the Board</b>	<p><b>Requirement:</b> In accordance with Clause 4 it is preferable to have a balance of Executive and Non-executive Directors and the number of Independent non-executive Directors of the Board shall be at least one fourth of the total numbers of Directors.</p> <p><b>Company's Response:</b> The Board of Directors consisted of eight Directors during most the period under review of whom five are Non-Executive Directors including three Independent Non-executive Directors.</p>
<b>Chairman and CEO</b>	<p><b>Requirement:</b> With regard to Clause 7 (1) the roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by one and the same person after three years commencing from 01.01.2009</p> <p><b>Company's Response:</b> The positions of Chairman and CEO are separated to ensure a balance of power and authority. In addition the Chairman is a Non-Executive Director.</p>
<b>Frequency of Board Meetings</b>	<p><b>Requirement:</b> In accordance with Clause 3 Board Meetings should be held at least twelve times in a financial year.</p> <p><b>Company's Response:</b> The Board met 12 times during the year.</p>

Corporate Governance Principle	Level of Compliance
Company Secretary	<p><b>Requirement:</b> Under Clause 3 all the Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring that Board Procedures are followed especially in preparing the Agenda for the Board meetings and that applicable rules and regulations are complied with.</p> <p><b>Company's Response:</b> Varners International (Pvt) Ltd is the Corporate Secretaries for Prime Grameen Micro Finance Limited and is qualified to act as Company Secretaries in terms of the Companies Act No. 07 of 2007.</p> <p>Representatives of the Company Secretaries are present at all Board meetings and ensure that Board procedures are followed and applicable rules and regulations are complied with for the proper conduct of meetings.</p>
Audit Committee	<p><b>Requirement:</b> The Audit Committee should be comprised of a minimum of two independent Non-executive Directors or exclusively by Non-executive Directors, a majority of whom should be independent whichever is higher.</p> <p><b>Company's Response:</b> The Audit Committee comprises of two Independent Non-Executive Directors and one Non-Executive Director.</p>
Integrated Risk Management Committee	<p><b>Requirement:</b> The Integrated Risk Management Committee should be comprised of a minimum of one Non-executive Director, CEO and key management personnel supervising board risk categories.</p> <p><b>Company's Response:</b> The Risk Management Committee comprises of one Independent Non-Executive Director, one Non-Executive Director, three Executive Directors including the CEO and the Compliance Officer of the Company.</p>

The number of Board meetings held together with the attendance of each Director at these meetings during the financial year is tabulated below;

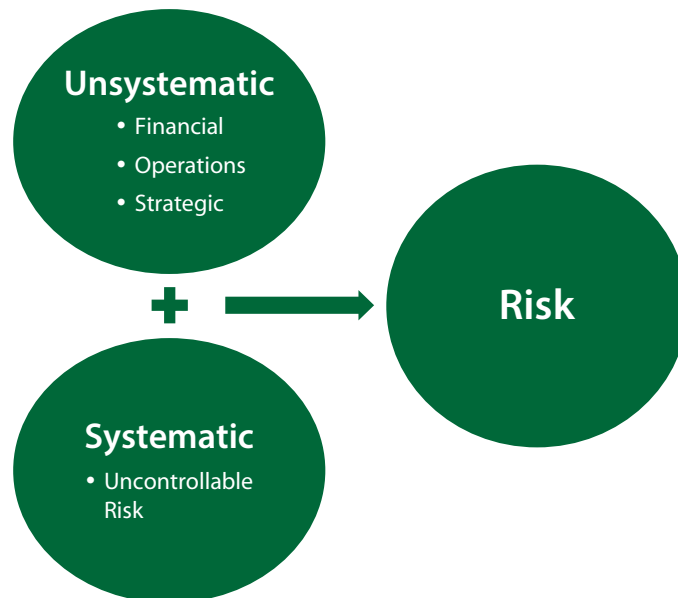
Name of Director	Total Board Meetings No. of Meetings	
	Held	Attended
Mr. B. Premalal	12	12
Mrs. H.K.S.R Perera	12	10
Mr. B.M.D.C Prabhath	12	12
Mr. S.L.Y Liyanawatte	12	12
Mr. W.S.P Arangala	12	12
Mr. R.P.K. Gallage	12	12
Mr. R. De. S. Munasinghe ( <i>resigned w.e.f. 07.07.2014</i> )	12	11
Mrs. L. L. C. C. Thambiah ( <i>appointed w.e.f. 13.06.2013</i> )	12	10



# Risk Management Report

As a financial institution engaged in providing Micro financial services to the financially exclusive small scale entrepreneurs, assuming and active management of financial risks are integral parts of our business strategy. This implies that the core mission for risk management is measured risk taking, as opposed to mere risk aversion or minimization. Risk management therefore is an integral part of the management and control system, ensuring the timely identification, analysis, measurement, management and reporting of risks.

The total risk factors consist of two segments. That is unsystematic or Idiosyncratic and systematic risk. Idiosyncratic risks arise within a firm and is generally under the control of the firm and its managers. On the other hand Systematic risks are out of control of a specific industry and takes place as a result of natural disasters, government policies etc. The Board has clearly identified that idiosyncratic risks are the factors it should mostly concentrate on, not only because its consequences are serious to the company but also because better Idiosyncratic risk management can mitigate systematic risk.



As illustrated in the table given below, the management has identified the industry specific (MFI) risk factors

Financial Risks	Operational Risks	Strategic Risks
<b>Credit Risk</b> <ul style="list-style-type: none"> <li>• Transaction Risk</li> <li>• Portfolio Risk</li> </ul>	Human Resource Risk	Governance Risk
<b>Liquidity Risk</b>	ICT Risk	Reputation Risk
<b>Market Risk</b> <ul style="list-style-type: none"> <li>• Interest Rate Risks</li> <li>• Foreign Exchange Risk</li> <li>• Investment Portfolio Risk</li> </ul>	Fraud(Integrity) Risk	External Business Risk
	Legal & Compliance Risk	

Company's risk management process is mandated by the Board of Directors and steered by the Board appointed Integrated Risk Management Committee (IRMC). The Committee is headed by an Independent Nonexecutive Director in compliance with clause 3 (a) of Finance Companies (corporate Governance) direction No 03 of 2008. The Board's risk appetite is reinforced by the implementation of appropriate and effective risk management system by the IRMC that ensures that risks and their impacts are identified and evaluated at an early stage and that contingency plans and measures are in place where necessary to handle risks and to prevent their accumulation. The IRMC meets quarterly, but not restricted, to assess and review all risk factors.

(Sgd.)

**Roland De. S. Munasinghe**  
Chairman IRMC

03rd September 2014

# Directors' Statement in Internal Control over Financial Reporting

The responsibility of the Directors in relation to the Financial Statements of the Company prepared in compliance and conformity with the requirements of the following rules, regulations and guidelines.

- Companies Act No 07 of 2007
- Finance Business Act no 42 of 2011
- Directions, Rules, Determinations, notice and guidelines issued under the Finance Business Act No 42 of 2011 by the Department of Supervision of Non-Bank Financial Institutions of Central Bank of Sri Lanka.

In preparing these Financial statements the Directors have ensured that the appropriate accounting policies have been selected and applied in consistent manner and any material variances if any have been disclosed and explained, Judgments and estimates have been made which are reasonable and prudent and all applicable standards as relevant have been followed.

The Directors have taken reasonable measures to safeguard the assets of the Company and to prevent and detect frauds and other irregularities. Accordingly, the Directors have taken steps to establish appropriate systems of internal controls comprising of internal audit, checks, risk assessment tests and financial and other controls to mitigate, prevent and detect fraud and other irregularities.

The Company's External Auditors M/s Kreston MNS & Co Chartered accountants were reappointed in terms of the Companies Act No 07 of 2007 and in accordance with a resolution passed at the last Annual General Meeting. They carried out reviews, and sample checks on the system of internal controls as they considered required and appropriate and necessary for expressing an opinion on the financial statements and internal Controls. They were provided with every opportunity to undertake the inspections they considered appropriate.

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the Reporting date have been paid or, where relevant, provided.

The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors, that there are adequate resources to continue in operation for the foreseeable future. Accordingly the Board continue to adopt the going concern basis in preparing the financial statements

BY ORDER OF THE BOARD

**PRIME GRAMEEN MICRO FINNACE LTD**

(Sgd.)

**Varners International (Pvt) Ltd**  
Company Secretary

03rd September 2014  
COLOMBO



# Report of the Audit Committee

The functions and the responsibilities of the Audit Committee had been recognized by the Board of Directors in ensuring that, the objectives of the Audit Committee is substantially fulfilled at all times. Foremost amongst the functions consisted of monitoring and improvement of Internal Control Systems, interfacing with independent auditors and the Company officials and monitoring of Audit compliance. In this endeavor the standard and the integrity of financial and other related documentation had been scrutinized to ensure that not only the legal and regulatory requirements but also provide adequate user friendly financial statements to the satisfaction of all stake holders.

All possible measures had been undertaken to monitor, review and develop procedures, systems and internal controls to safeguard the interests of shareholders and stakeholders. Through extensive examination and critical analysis of existing systems, improvements had been effected to further strengthen the control procedures and internal controls.

The Audit Committee consists of three Non executive Directors.

Ruwan Gallage

H.K.S.R Perera

R. De S. Munasinghe

The Audit Committee had been entrusted with the under mentioned core responsibilities by the Board which is to ensure:

1. Good governance with focus on audit, internal controls and procedures.
2. The reliability and integrity of Financial Statements.
3. The independence of External and Internal Auditors.
4. Compliance and fulfilling reporting requirements as per Central Bank Directions and instructions.

Four meetings of the Audit Committee had been held during this financial year and matters arising had been discussed with relevant personnel. In addition to the External Audit function carried out by Kreston MNS certain internal audit functions were out sourced from M/S KPMG Ford, Rhodes, Thornton & Co.

The Audit Committee recommended the appointment of M/s Kreston MNS & Co. Chartered Accountants as the external auditors to the Board.

The Audit Committee is of the view that management and the Auditor employed carried out their respective functions to the satisfaction of the Audit Committee and as per the guidelines and standards enumerated.

(Sgd.)

Ruwan Gallage - FCMA-UK, CGMA

Chairman

Audit Committee

03rd September 2014



# Financial Reports



## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRIME GRAMEEN MICRO FINANCE LIMITED

Chartered Accountants  
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50/2, Sir James Peiris Mawatha  
Colombo 02, Sri Lanka  
T +94 (0) 11 2323571  
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E audit@kreston.lk  
www.webasia.com/kreston

### Report on the Financial Statements

We have audited the accompanying Financial Statements of **PRIME GRAMEEN MICRO FINANCE LIMITED**, which comprise the Statement of Financial Position as at 31<sup>st</sup> March 2014, and the Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a Summary of Significant Accounting Policies and other explanatory Notes exhibited on pages 7 to 57.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Scope of Audit and Basis of Opinion

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 plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

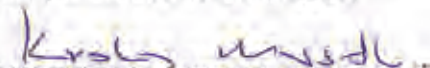
We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31<sup>st</sup> March 2014, and the Financial Statements give a true and fair view of the Company's Financial Position as at 31<sup>st</sup> March 2014 and 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

In our opinion, these Financial Statements also comply with the requirements of Section 151 (2) of the Companies Act No. 07 of 2007.

  
**CHARTERED ACCOUNTANTS  
COLOMBO.**  
16<sup>TH</sup> JUNE 2014  
SR/RB/rf  
SR-PrimeGramMicroFinan-cd2c8.doc



Partners  
Ms Y Shiran de Silva, FCA, FCMA  
Ms Sivasethi Balachandran, FCA, FCMA  
S Rajanathan, FCA, FCMA (UK)  
N K Atukorala, FCA, ACMA  
Ms H D S A Thilakeratne, FCA, ACMA  
K J Skandadasan, BSc (Madras), FCA, ACMA  
R L R Balasingham, FCA, ACMA

#### Kreston MNS & Co

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Correspondent firm within Grant Thornton International Ltd (Grant Thornton International)  
Grant Thornton International and the member and correspondent firms are not a worldwide partnership

# Income Statement

For the year ended		31.03.2014	31.03.2013
	Note	Rs.	Rs.
<b>Income</b>	5	1,976,092,911	1,381,980,035
Interest Income		1,689,119,884	1,118,939,655
Interest Expenses		(542,348,293)	(467,259,695)
<b>Net Interest Income</b>	6	1,146,771,591	651,679,960
Fee and commission Income		191,297,744	114,349,990
Fee and commission expenses		(105,470,224)	(56,937,396)
<b>Net fee and commission income</b>	7	85,827,520	57,412,594
<b>Net interest, fee and commission income</b>		1,232,599,111	709,092,554
Other operating Income	8	201,145,507	205,627,786
<b>Total operating Income</b>		1,433,744,618	914,720,340
Impairment gain / ( loss) on loans and receivables	9	(10,956,549)	(25,862,579)
<b>Net operating Income</b>		1,422,788,069	888,857,761
<b>Operating Expenses</b>			
Personnel Cost	10	(396,225,575)	(290,897,375)
Other operating expenses	11	(476,785,885)	(329,343,753)
<b>Total operating Expenses</b>		(873,011,460)	(620,241,128)
<b>Operating Profit before Value Added Tax (VAT)</b>		549,776,609	268,616,633
Provision for VAT	12	(73,029,587)	(27,658,621)
<b>Operating Profit after Value Added Tax (VAT)</b>		476,747,022	240,958,012
Taxation	13	(71,282,393)	(13,948,148)
<b>Profit for the Year</b>		405,464,629	227,009,864
Basic Earnings per share	14	0.24	0.13

Accounting Policies and Notes on Pages 7 to 57 form an intergal Part of these Financial Statements.

# Statement of Comprehensive Income

For the year ended	31.03.2014 Rs.	31.03.2013 Rs.
Profit for the year	405,464,629	227,009,864
Other comprehensive income for the year		
Actuarial gains / (Losses) on defined benefit plans	(4,714,158)	33,113,220
Revaluation Reserve on Land and Buildings (Note 23.1)	291,969,431	-
Total other comprehensive income for the year before tax	287,255,273	33,113,220
Deferred tax charge / credit relating to components of other Comprehensive income	-	-
- On revaluation of Property, Plant & Equipment - Note	(24,486,614)	-
- On Actuarial gains / (Losses) on defined benefit plan	1,319,964	(9,271,702)
Total other comprehensive income for the year net of tax	264,088,623	23,841,518
Total comprehensive income for the year net of tax	669,553,252	250,851,382

Accounting Policies and Notes on Pages 7 to 57 form an intergal Part of these Financial Statements.



# Statement of Financial Position

As at	Note	31.03.2014 Rs.	31.03.2013 Rs.
<b>ASSETS</b>			
Cash and Cash Equivalents	15	141,553,151	85,239,205
Loans and Advances to members	16	3,557,125,208	2,875,689,976
Loans and Advances to others	17	34,353,409	1,685,164
Financial Investments - Available- for- sale	18	234,000	234,000
Financial Investments - Held - to- maturity	19	232,835,004	53,264,537
Other Assets	20	137,061,860	70,883,419
Investment Properties	21	886,300,000	648,050,000
Intangible Assets	22	15,247,599	8,463,300
Property, Plant & Equipment	23	820,863,343	553,466,557
<b>Total Assets</b>		<b>5,825,573,574</b>	<b>4,296,976,157</b>
<b>LIABILITIES</b>			
Bank Overdraft	15	25,616,239	10,350,283
Due to customers	25	3,547,151,734	2,672,064,896
Debt issued and other borrowed funds	26	989,945,818	1,079,251,427
Income Tax Payable	27	60,759,171	17,896,547
Value added tax payable	28	214,811,940	177,590,659
Other Liabilities	29	124,789,910	188,826,537
Retiring Benefit Obligation	30	94,632,482	74,052,274
Deferred Tax Liability	24	27,714,187	6,344,693
		<b>5,085,421,480</b>	<b>4,226,377,315</b>
<b>SHAREHOLDERS' FUND</b>			
Stated Capital	31	3,895,806,240	3,895,806,240
General Reserve	32	82,897,989	82,897,989
Statutory Reserve Fund	33	97,824,884	16,731,958
Investment Fund	33	61,395,350	15,962,647
Revaluation Reserve		267,482,817	-
Accumulated Losses		(3,665,255,187)	(3,940,799,992)
		<b>740,152,094</b>	<b>70,598,842</b>
<b>Total Liabilities and Shareholders' Fund</b>		<b>5,825,573,574</b>	<b>4,296,976,157</b>

Accounting Policies and Notes on Pages 7 to 57 form an integral part of these Financial Statements.

I certify that the above Financial Statements comply with the requirements of the Companies Act No. 07 of 2007.




Accountant

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed on behalf of the Board of Directors.

Directors :  
16th June 2014

1. 

2. 

# Statement of Changes in Equity

	Stated Capital Rs.	General Reserve Rs.	Statutory Reserve Fund Rs.	Investment Fund Rs.	Revaluation Reserve Rs.	Accumulated Losses Rs.	Total Rs.
Balance as at 01.04.2012 as reported previously	3,895,806,240	82,897,989	-	-	-	(3,660,656,290)	318,047,939
Prior year adjustment - Note 2.4	-	-	-	-	-	(495,268,315)	(495,268,315)
Adjustment due to accounting policy change - Note 21.1	-	-	-	-	-	(3,032,164)	(3,032,164)
<b>Adjusted balance as at 01.04.2012</b>						(4,158,956,769)	(180,252,540)
Profit for the year	-	-	-	-	-	227,009,864	227,009,864
Total Other Comprehensive Income net of tax	-	-	-	-	-	23,841,518	23,841,518
Total Comprehensive Income	-	-	-	-	-	250,851,383	250,851,383
Transfers to Statutory Reserve Fund and Investment fund	-	-	16,731,958	15,962,647	-	(32,694,605)	-
<b>Balance as at 31.03.2013</b>	3,895,806,240	82,897,989	16,731,958	15,962,647	-	(3,940,799,992)	70,598,842
Profit for the year	-	-	-	-	-	405,464,629	405,464,629
Other Comprehensive Income net of tax	-	-	-	-	267,482,817	(3,394,194)	264,088,623
Total Comprehensive Income					267,482,817	402,070,435	669,553,252
Transfers to Statutory Reserve Fund and Investment fund			81,092,926	45,432,703	-	(126,525,631)	-
<b>Balance as at 31.03.2014</b>	3,895,806,240	82,897,989	97,824,884	61,395,350	267,482,817	(3,665,255,187)	740,152,094

Accounting Policies and Notes on Pages 7 to 57 form an integral Part of these Financial Statements.

# Cash Flow Statement

For the year ended		31.03.2014	31.03.2013
	Note	Rs.	Rs.
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit / (Loss) before Tax		476,747,022	240,958,012
Adjustments :			
Interest Expenses on Borrowings	6	23,411,751	42,609,894
Divident Income	8	(18,000)	(20,000)
Interest Expenses on Debentures	6	83,901,770	90,607,853
Interest Income on Fixed Deposit	6	(960,164)	-
Profit on Disposal of Property, Plant & Equipment	8	(335,497)	(339,800)
Project Participants written back	8	(13,468,059)	-
Member and loan protection Fund written back	8	(12,287,245)	-
Sundry Income	8	(500,000)	-
Provision for Impairment	9	10,956,549	25,862,579
Crop Insurance Levey	11	4,086,062	-
NBT on Financial Service	11	3,022,487	-
Fair valve gain on Investment Property	8	(149,513,000)	(180,450,000)
Ammortization on Intangible Assests	22	3,070,433	1,722,341
Depreciation - on Property, Plant & Equipment	23	31,556,405	21,289,413
Lease Interest	11	2,265,794	1,012,829
Provision for Value Added Tax	28	73,029,587	30,338,835
Gratuity Provision	10	21,460,125	21,186,543
Provision for Gewal Idam Waram Expense	26	-	4,000,000
<b>Operating Profit (Loss) before Changes in Operating Assets and Liabilities</b>		<b>556,426,020</b>	<b>298,778,498</b>
<b>(Increase) / Decrease in Operating Assets</b>			
Loans & Advances to members	17	(692,391,781)	(1,316,148,049)
Loans & Advances to others	17	(32,668,246)	20,376,234
Other Assets	20	(84,749,284)	(18,855,199)
<b>Increase / (Decrease) in Operating Liabilities</b>			
Due to Customers	25	888,554,898	1,178,758,745
Other Liabilities	26	(55,416,838)	28,597,659
<b>Cash Flow from Operating Activities</b>		<b>579,754,769</b>	<b>191,507,888</b>
Gratuity Paid	30	(5,594,075)	(6,105,300)
ESC Paid		(3,441,094)	(9,697,480)
VAT Paid	28	(35,808,306)	(8,168,385)
Income Tax Paid	27	(10,500,000)	-
WHT Paid	27	(233,355)	(225,897)
Notional Tax	27	(912,727)	(49,958)
<b>Net Cash flow from Operating Activities</b>		<b>523,265,211</b>	<b>167,260,868</b>



# Notes to the Financial Statements

For the year ended		31.03.2014	31.03.2013
	Note	Rs.	Rs.
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant & Equipment	23	(78,114,378)	(41,932,252)
Purchase of Intangible Asset	22	(9,854,731)	(6,740,960)
Proceeds from Sale of Property, Plant & Equipment		343,115	419,826
Investment in Government Security	19	(165,110,302)	(53,264,537)
Debenture redeemed		-	10,238,721
<b>Investment in Fixed Deposits</b>	19	(13,500,000)	-
<b>Net Cash Flow from Investing Activities</b>		(266,236,296)	(91,279,202)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Divident Income	8	18,000	20,000
Lease Instalments Paid	26	(8,289,231)	(6,273,244)
Interest payments on Debentures	6	(85,051,071)	(90,468,955)
Interest payments on Borrowings	26	(61,809,579)	(3,434,210)
Borrowings during the year	26	150,000,000	56,500,000
Loans repayments during the year	26	(210,849,043)	(32,589,178)
<b>Net Cash Flow from Financing Activities</b>		(215,980,924)	(76,245,587)
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		41,047,991	(263,921)
<b>Cash and Cash Equivalents at the beginning of the year</b>	15	74,888,922	75,152,843
<b>Cash and Cash Equivalents at the end of the year</b>	15	115,936,913	74,888,922

Accounting Policies and Notes on Pages 7 to 57 form an intergal Part of these Financial Statements.

## 1 CORPORATE INFORMATION

### 1.1 Domicile and Legal form

Prime Grameen Micro Finance Limited (Formerly Grameen Micro Credit Company Limited) (the Company) is incorporated as a public limited liability Company and domiciled in Sri Lanka. The registered office and the principal place of business of the Company is located at No. 168, Nawala Road, Nugegoda.

#### Name Change

The name of the Company was changed from Grameen Micro Credit Co. Limited to Prime Grameen Micro Finance Limited on 8th July 2011.

On 17th February 2010, the Company was registered as a Finance Company by the Monetary Board of the Central Bank of Sri Lanka in terms of section 2 of the Finance companies Act No. 78 of 1988 and is permitted in terms of section 7 (1) of the said Act to carry on finance business at "Grameen Nivahana", No. 168, Nawala Road, Nugegoda subject to the Company complying with the following Directions applicable to Registered Finance Companies :-

- (a) Finance Companies (Risk weighted Capital Adequacy Ratio) Direction No. 2 of 2006.
- (b) Finance Companies (Lending) Direction No. 1 of 2007
- (c) Finance Companies (Liquid Assets) Direction No. 1 of 2009
- (d) Finance Companies (Investments) Direction No. 7 of 2006
- (e) Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006
- (f) Finance Companies (Capital Funds) Direction No. 1 of 2003.

The Company has complied with the above Directions other than (a) and (c) above as at 31st March 2014.

The Central Bank of Sri Lanka has given extended time period to comply with the said two Directions as detailed below:-

Direction	Timeline
(i) Finance Companies (Risk weighted Capital Adequacy Ratio) Direction No. 2 of 2006.	31.03.2015
(ii) Finance Companies (Liquid Assets) Direction No. 01 of 2009	31.12.2014

The Company has been registered as a registered Finance Leasing Company establishment under section 5 of the Finance Leasing Act No 56 of 2000 and is permitted to carry on Finance Leasing Business with effect from 31st March 2014.

### 1.2 Principal Activities and Nature of Operations

The principal activities of the Company are the provision of micro finance facilities, primarily focusing on the lower income segment of the Community and accepting deposits.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements of Prime Grameen Micro Finance Limited have been prepared on a historical cost basis, except financial instruments which have all been measured at fair value. The financial statements are presented in Sri Lanka Rupees and all values are rounded to the nearest rupees, except where otherwise indicated.

## Notes to the Financial Statements

### 2.1.1 *Statement of compliance*

The Financial Statements of the Company which comprise the Statement of Financial position, Income Statement, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash flows and notes thereto have been prepared in accordance with the Sri Lanka Accounting Standards ( SLFRSs and LKASs) laid down by the Institute of Chartered Accountants Sri Lanka , and comply with the requirements of Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendment thereto.

### 2.1.2 *Presentation of financial statements*

The Company presents its statement of financial position broadly in order of liquidity. 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 40.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

## 2.2 *Significant accounting Judgments, Estimates and Assumptions*

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements are described in the relevant notes as follows.

### 2.2.1 *Going Concern*

When preparing financial statements, management has made assessment of the ability of the constituents of the Company to continue as a going concern, taking into account all available information about the future, including intentions of curtailment of businesses.

### 2.2.2 *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values.

### 2.2.3 *Impairment losses on loans and advances*

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement 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 advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances 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 whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, and the performance of different individual groups).

#### *2.2.4 Classification of Investment Property*

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on this remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognized immediately in profit or loss.

#### *2.2.5 Impairment of available for sale investments*

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Company also records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

#### *2.2.6 Deferred tax assets*

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised.

#### *2.2.7 Retirement benefit obligation*

The cost of the defined benefit gratuity plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. See Note 30 for the assumptions used.

### **2.3 Changes in Accounting Policy**

#### *2.3.1 Defined Benefit plan*

The company has adopted Sri Lanka Accounting Standard - LKAS 19 Revised - "Employee Benefits" with effect from 1st April 2013 as part of its mandatory application and changed its basis for determining the income or expense related to defined benefit plan.

## Notes to the Financial Statements

The actuarial gains or losses are credited or charged to statement of comprehensive income in the period in which they arise instead of charging to the income statement from 1st April 2013 onwards.

### 2.3.2 Investment Property

Company has changed its accounting policy for accounting of investment property from cost model to fair value model with effect from 1st April 2014.

### 2.3.3 Property, Plant & Equipment

Company has changed its accounting policy for Land & Building from cost model to revaluation model from 2013/2014.

### Impact of change in Accounting Policies

The change in accounting policy has been applied retrospectively as per Sri Lanka Accounting Standard (LKAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors". The following table summarises the financial effects on the Income Statement and the Statement of comprehensive income due to implementation of the new accounting policies

#### Income Statement

#### Statement of Comprehensive Income

Note 01 – Adjustment due to Fair Value gain from valuation of investment property of Investment property ( Note 08 and 21 )

Note 02 – Adjustment due to Actuarial gain/loss of retiring benefit obligation charged to other comprehensive income ( Note 11 and 30)

Note 03 – Adjustment due to reversal of Depreciation on investment property ( Note 21)

Note 04 – Revaluation surplus on Property, Plant & Equipment credited to other comprehensive income ( Note 23)

### 2.4 Prior year adjustment - Provision for Impairment of Financial Assets

Based on the computation of impairment of financial Assets, the provision required for impairment of financial Assets amounts to Rs. 495,268,315 as at 31st March 2012 as detailed below.

Amount to be provided as per 31.03.2012 Age Analysis	731,200,000
Less: Amount provided in 2012/2013	(25,000,000)
Amount collected from the customers during 2012/2013 & 2013/2014 included in the Age Analysis	<u>(210,931,685)</u>
Balance amount to be provided	<u>495,268,315</u>

The Company has made the provision of Rs. 495,268,315 on 1st April 2012 as per para 42 of LKAS 8 "Accounting Policies, changes in Accounting Estimates and Errors" in the following accounts.

Allowance for impairment loss – Loans and advances to members – Note 16.2	383,144,631
Provision for impairment loss – Loans and advances to others – Note 17.4	109,600,091
Provision for impairment – Amount due from Related Companies – Note 20.1.1 (a)	2,523,592
	<u>495,268,315</u>

## 2.5 Summary of significant accounting policies

### 2.5.1 Foreign currency transactions and Balances

Financial statements of the Company are presented in Sri Lankan Rupees, which is the Functional and presentation Currency of the Company.

Transactions in foreign currencies are translated to Sri Lankan Rupees at the spot rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the financial position date are translated to Sri Lanka rupees at the closing rate of exchange ruling at the date. The foreign currency gain or loss on monetary items and all differences are taken to Other Operating Income in the income statement. Foreign currency differences arising on translation of available for sale financial instruments are recognised to in Other Comprehensive Income statement. Non monetary assets are measured in terms of historical cost in foreign currency are translated using the exchange rate at the date of the transaction.

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.

### 2.5.2 Financial instruments – initial recognition and subsequent measurement

#### (i) 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, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

#### (ii) Loans and advances

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

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

After initial measurement, 'Loans and advances' are subsequently measured at amortised cost using the 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 income statement. The losses arising from impairment are recognised in the income statement

### (iii) Financial assets and financial liabilities designated at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned or incurred is accrued in 'Interest income' or 'Interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'Other operating income' when the right to the payment has been established.

### (iv) Available for sale financial investments

Available for sale investments include equity investments. 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.

Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in 'Other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Dividends earned whilst holding available for sale financial investments are recognised in the income statement 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 income statement in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

### (v) Held to maturity financial investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the 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 income statement. The losses arising from impairment of such investments are recognised in the income statement. If the Company 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 have to be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.



### 2.5.3 *Derecognition of financial assets and financial liabilities*

#### (i) **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 have expired
- The Company has transferred its rights to receive cash flows from the asset or has 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 Company has transferred substantially all the risks and rewards of the asset

Or

The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has 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 Company's continuing involvement in the asset. In that case, the Company 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 Company has retained.

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 Company could be required to repay.

#### (ii) **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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 profit or loss.

### 2.5.4 *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.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

## Notes to the Financial Statements

### 2.5.5 Impairment of financial assets

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is 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.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### (i) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued 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'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Company has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

#### (ii) Available for sale financial investments

For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

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. 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 income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

(ii) **Renegotiated loans**

Where possible, the Company seeks to restructure loans 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 to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

**2.5.6 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.

**2.5.7 Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) **Interest income and expense**

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts 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 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. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) **Fee and commission income**

The Company earns fee and commission income from a diverse range of services it provides to its customers. Such income is recognized as revenue when the services are provided.

## Notes to the Financial Statements

### (iii) Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

### (iv) Rent Income

Rent income is recognised on an accrual basis.

### (v) Other Income

Other income is recognised on an accrual basis.

### 2.5.8 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash in hand, demand deposits and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

### 2.5.9 Property and equipment

The cost of an item of property, plant and equipment comprise its purchase price and any directly attributable costs of bringing the assets to working condition for its intended use.

The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the assets to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located and borrowing costs on qualifying assets.

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.

Carrying amount of property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Land and buildings are measured at fair value less accumulated depreciation on buildings and impairment charged subsequent to the date of the revaluation. Where land and buildings are subsequently revalued, any increases in the carrying amount is recognized in other comprehensive income and accumulated in equity in the asset revaluation reserve. Decrease that off-set previous increases of the same asset are charged against the revaluation reserve statement of equity, any excess and all other decreases are charged to the income statement. Revaluation of property, plant and equipment are undertaken by professionally qualified independent valuers.

Other assets are stated at cost less accumulated depreciation and any accumulated impairment Loss.

<b>ASSETS</b>	<b>Estimated useful life</b>
Building	40 years
Others	5 years



### 2.5.10 Intangible assets

#### Basis of recognition

An Intangible asset is recognized if it is probable that future economic benefits associated with the asset will flow to the Company and the cost of the asset can be reliably measured.

#### Basis of measurement

Intangible assets acquired separately are measured on initial recognition at cost.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalized development costs, are not capitalized, and expenditure is charged against income statement in the year in which the expenditure is incurred.

#### Useful economic lives, amortization and impairment

The useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Useful economic lives, amortization and impairment the useful lives of intangible assets are assessed as either finite or indefinite lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

### 2.5.11 Investment Properties

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 service or for administrative purposes.

Investment property is initially measured at cost and subsequently at fair value with any change therein recognized in profit or loss. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of investment Property is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal of an investment property ( calculated as the difference between the net proceeds from disposal and the carrying amount of the item ) is recognized as profit or loss.

### 2.5.12 Leases

Property, Plant & Equipment on finance leases, which effectively transfer to the Company substantially all the risk and benefits incidental to ownership of the leased items, are capitalized and disclosed as finance leases at their cash price and depreciated over the period the Company is expected to benefit from the use of the leased assets.

## Notes to the Financial Statements

The corresponding principal amount payable to the lessor is shown as a liability. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the outstanding balance of the liability. The interest payable over the period of the lease is transferred to an interest in suspense account. The interest element of the rental obligations pertaining to each financial year is charged to the Income Statement over the period of lease.

### 2.5.13 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU 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 the 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 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 no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU'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, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

### 2.5.14 Retirement benefits

#### (i) Gratuity

Employees are eligible to receive gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years. This benefit is unfunded.

The cost of providing benefits under gratuity, which is a defined benefit plan, is determined by an actuarial valuation using the projected unit credit method. Actuarial gains and losses for defined benefit plans are recognized in full in the period in which they occur in the statement of comprehensive income.

The defined benefit asset or liability comprises the present value of the defined benefit obligation, less unrecognized past service costs and less the fair value of plan assets out of which the obligations are to be settled.

#### (ii) Defined contribution plan

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective Statutes and Regulations. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel expenses'.

The Company contributes to the following Schemes:

#### **Employees' Provident Fund**

The Company and employees contribute 12% and 8% respectively of the employee's monthly gross salary to the Employees' Provident Fund.

#### **Employees' Trust Fund**

The Company contributes 3% of the employee's monthly gross salary to the Employees' Trust Fund maintained by the Employees Trust Fund Board.

#### **2.5.15 Provisions**

Provisions are recognised when the Company 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

#### **2.5.16 Taxes**

##### **(i) Current Taxation**

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the reporting date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 13 to the Financial Statements.

##### **(ii) Deferred Taxation**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognized for all temporary differences.

Deferred tax assets are recognized for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except where deferred tax assets relating to the deductible temporary differences arise 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 the taxable profit or losses.

The carrying amount of a deferred tax asset is reviewed at each reporting date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax asset are reassessed at each reporting date and are recognize to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realized or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the reporting date.

## Notes to the Financial Statements

### (iii) Value Added Tax on Financial Services (VAT)

Company's total value addition was subjected to a 12% Value Added Tax as per section 25A of the Value Added Tax No. 14 of 2002 and amendments thereto.

### (iv) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

### (v) Crop Insurance Levy

In terms Section 14 of the Finance Act No 12 of 2013 all institutions under the purview of Finance Companies Act No 78 of 1988 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01st April 2013.

### (vi) Nation Building Tax (NBT)

The business of banking and finance will be liable for NBT at 2% of the liable turnover from 01.01.2014 onwards. The liable turnover with reference to the any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

## 3 Standards issued but not yet effective

Standard issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

- SLFRS 9 – Financial Instruments : Classification and Measurement
- SLFRS 10 - Consolidated Financial Statements
- SLFRS 12 - Disclosures of interest in other entities
- SLFRS 13 – Fair Value Measurement



#### 4 MEASUREMENT OF FINANCIAL INSTRUMENTS

Financial Assets and Financial Liabilities are measured on an ongoing basis at either fair value or amortised cost. The Summary of Significant accounting policies in Note 2 describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amount of Financial Assets and Liabilities by category as defined in LKAS 39-Financial Instruments:

Recognition and measurement and by statement of Financial Position heading:

Analysis of Financial instruments by measurement Basis

As at 31.03.2014

	Held for trading at Fair Value	Loans and advances at amortised cost	Held to maturity at amortised cost	Available for sale at Fair Value	Total Carrying Value
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	141,553,151	-	-	141,553,151
Loans and Advances to members	-	3,557,125,208	-	-	3,557,125,208
Loans and Advances to others	-	34,353,409	-	-	34,353,409
Financial investments- available- for- sale	-	-	-	234,000	234,000
Financial investments- held - to- maturity	-	-	232,835,004	-	232,835,004
Other Assets	-	70,186,528	-	-	70,186,528
<b>Total Financial Assets</b>	-	<b>3,803,218,296</b>	<b>232,835,004</b>	<b>234,000</b>	<b>4,036,287,300</b>

	Amortized cost Rs.	Held for Trading Rs.	Total Rs.
<b>Financial Liabilities</b>			
Bank Overdraft	25,616,239	-	25,616,239
Due to customers	3,547,151,734	-	3,547,151,734
Debt issued and other borrowed funds	989,945,818	-	989,945,818
Other Liabilities	60,156,861	-	60,156,861
<b>Total Financial liabilities</b>	<b>4,622,870,652</b>	<b>-</b>	<b>4,622,870,652</b>

## Notes to the Financial Statements

As at 31.03.2013

	Held for trading at Fair Value	Loans and advances at amortised cost	Held to maturity at amortised cost	Available for sale at Fair Value	Total Carrying Value
<b>Financial Assets</b>					
Cash and Cash Equivalents	-	85,239,205	-	-	85,239,205
Loans and Advances to members	-	2,875,689,976	-	-	2,875,689,976
Loans and Advances to others	-	1,685,164	-	-	1,685,164
Financial investments- available- for- sale	-	-	-	234,000	234,000
Financial investments- held - to- maturity	-	-	53,264,537	-	53,264,537
Other Assets	-	39,795,249	-	-	39,795,249
<b>Total Financial Assets</b>	-	<b>3,002,409,594</b>	<b>53,264,537</b>	<b>234,000</b>	<b>3,055,908,131</b>
			<b>Amortized cost Rs.</b>	<b>Held for Trading Rs.</b>	<b>Total Rs.</b>
<b>Financial Liabilities</b>					
Bank Overdraft			10,350,283	-	10,350,283
Due to customers			2,672,064,896	-	2,672,064,896
Debt issued and other borrowed funds			1,079,251,427	-	1,079,251,427
Other Liabilities			98,889,337	-	98,889,337
<b>Total Financial liabilities</b>			<b>3,860,555,943</b>	<b>-</b>	<b>3,860,555,943</b>

	31.03.2014 Rs.	31.03.2013 Rs.
<b>5 INCOME</b>		
Gross Income (Note 5(a))	1,976,092,911	1,381,980,035
<b>5(a) GROSS INCOME</b>		
Interest Income (Note 6(a))	1,689,119,884	1,118,939,655
Net Fee & commission income (Note 7)	85,827,520	57,412,594
Other Income (Note 8)	201,145,507	205,627,786
	1,976,092,911	1,381,980,035
<b>6 NET INTEREST INCOME</b>		
<b>6(a) INTEREST INCOME</b>		
On Loans and Advances given to Members	1,667,396,244	1,112,607,381
On Loans and advances given to non members	4,269,714	1,549,530
On Financial Investments - Held to maturity - Note 6(a)1	14,439,524	3,613,455
On Financial Investments - Available for sale- Note 6(a)2	3,014,403	1,169,289
	1,689,119,884	1,118,939,655
<b>6(b) INTEREST EXPENSES</b>		
On Deposits obtained from Customers	435,034,772	334,041,948
On Debentures	83,901,770	90,607,853
On Other Borrowings	23,411,751	42,609,894
	542,348,293	467,259,695
Net Interest Income	1,146,771,591	651,679,960
<b>6(a)1 INTEREST INCOME FROM FINANCIAL INVESTMENTS - HELD TO MATURITY</b>		
Reverse Repurchase Agreements	9,821,029	3,113,880
Tresury Bills	3,658,330	499,575
Fixed Deposits	960,164	-
	14,439,524	3,613,455
<b>6(a)2 INTEREST INCOME FROM FINANCIAL INVESTMENTS - AVAILABLA FOR SALE</b>		
Saving Deposits	3,014,403	460,293
Debentures	-	708,996
	3,014,403	1,169,289

## Notes to the Financial Statements

	31.03.2014 Rs.	31.03.2013 Rs.
<b>7 NET FEE AND COMMISSION INCOME</b>		
Trade related Documentation charges	191,297,744	114,349,992
Fee and commission expenses	(105,470,224)	(56,937,398)
	85,827,520	57,412,594
<b>8 OTHER OPERATING INCOME</b>		
Profit from Disposal of Property, Plant & Equipment	335,497	339,800
Dividend Income	18,000	20,000
Recovery of amount written off - Agricultural Credit Co.Ltd	-	457,280
Sundry Income	1,415,615	1,179,500
Rent Income	19,823,434	21,858,036
Till Sales	-	45,530
Conference Hall Rent Income	-	25,000
Legal Fee Income	-	500,803
Penalty Income on Fixed Deposit	-	751,836
Other Sales	48,408	-
Fair Value Gain on Investment Property - Note 21	149,513,000	180,450,000
Project Participation Balances written back	13,468,059	-
Excess Collection	4,236,250	-
Member Protection Fund Balance written back	12,287,244	-
	201,145,507	205,627,786
<b>9 IMPAIRMENT GAIN / (LOSS) ON LOANS AND RECEIVABLES</b>		
Loans and Receivable from members (Note 9 (a))	10,956,549	25,000,000
Loans and Receivable from other customers (Note 9(b))	-	862,579
	10,956,549	25,862,579
<b>9 (a) LOANS AND RECEIVABLES FROM MEMBERS</b>		
Individual Impairment	7,520,967	19,304,825
Collective Impairment	3,435,582	5,695,175
	10,956,549	25,000,000
<b>9 (b) LOANS AND RECEIVABLES FROM OTHER CUSTOMERS</b>		
Individual Impairment	-	862,579
Collective Impairment	-	-
	-	862,579
<b>10 PERSONNEL COST</b>		
Salaries and Bonus	307,386,916	218,380,853
Other Personnel Cost	28,464,993	21,876,314
Employer's Contribution to Employees' Provident Fund	31,131,007	23,553,692
Employer's Contribution to Employees' Trust Fund	7,782,534	5,899,973
Retirement Benefit Cost	21,460,125	21,186,543
	396,225,575	290,897,375



	31.03.2014 Rs.	31.03.2013 Rs.
<b>11 OTHER OPERATING EXPENSES</b>		
Other operating expenses, among others include the following:		
Directors Remuneration	6,717,000	4,558,000
Lease Interest	2,265,794	1,012,829
Legal Charges	4,993,820	3,617,361
Auditors' Remuneration - Current year	3,830,000	3,500,000
- under provision during previous years	-	598,748
Depreciation on Property, Plant & Equipment	31,556,405	21,289,413
Amortisation of Intangible Assets	3,070,433	1,722,341
Donation	1,185,520	989,719
Advertising & Publications	70,674,823	40,231,143
Repairs & Maintenance	34,318,695	27,662,919
Gewel Idam Waram Expense	4,090,000	4,000,000
NBT on financial services	3,022,487	-
Crop Insurance Levy	4,086,062	-
Provision for amount payable under Sip Saviya scheme	6,313,797	-
<b>12 PROVISION FOR VAT</b>		
Value Added Tax for the year	73,029,587	27,658,621
	73,029,587	27,658,621

#### Value Added Tax

The Company's total value addition is subjected to Value Added Tax at 12% as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

#### 13 TAXATION

Current tax based on profits for the year	74,873,714	17,021,575
(Over) / under provision in respect of previous years	(1,794,165)	(146,419)
Transferred from / (to) deferred taxation	(1,797,156)	(2,927,008)
	71,282,393	13,948,148

#### Income Tax

Income Tax on profit for the year has been computed at the rate of 28% on the Taxable Income.

#### 14 EARNINGS PER SHARE

The Earnings and Weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

Profit for the year attributable to equity holders	405,464,629	227,009,864
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	1,719,580,624	1,719,580,624
Basic Earnings per share	0.24	0.13

## Notes to the Financial Statements

	31.03.2014 Rs.	31.03.2013 Rs.	
<b>15 CASH AND CASH EQUIVALENTS</b>			
Cash in Hand	9,549,797	4,018,361	
Cash at Bank	132,003,355	81,220,844	
	141,553,151	85,239,205	
Bank Overdraft	(25,616,239)	(10,350,283)	
	115,936,913	74,888,922	
<b>16 LOANS AND ADVANCES TO MEMBERS</b>			
At amortised cost:			
Loans and advances to members (Note 16.1)	4,111,579,037	3,419,187,256	
Less : Allowance for Impairment losses (Note 16.2)	(554,453,829)	(543,497,280)	
	3,557,125,208	2,875,689,976	
<b>16.1 PRODUCT-WISE ANALYSIS OF LOANS AND ADVANCES TO MEMBERS</b>			
Loans	3,954,461,337	3,269,672,774	
Saving Advance (Note 16.1.1)	116,902,486	135,366,853	
Loan against Deposits (Note 16.1.2)	40,215,214	14,147,629	
Balance as at 31st March	4,111,579,037	3,419,187,256	
<b>16.1.1 SAVING ADVANCE</b>			
Saving Advance	121,226,730	144,098,632	
Less : Deferred Interest on Concessional lending	(4,324,244)	(8,731,779)	
	116,902,486	135,366,853	
<b>16.1.2 LOAN AGAINST DEPOSITS</b>			
Loan Against Deposits	39,468,530	13,949,248	
	39,468,530	13,949,248	
Interest Receivable on Loan against Deposits	746,683	198,381	
	40,215,214	14,147,629	
<b>16.2 ALLOWANCE FOR IMPAIRMENT LOSSES</b>			
	Individual Impairment Rs.	Collective Impairment Rs.	Total Rs.
Balance as at 01.04.2012 - Reported Previously	586,235,710	6,125,985	592,361,695
Prior year adjustment - Note 2.4	383,144,631	-	383,144,631
Adjusted Balance as at 01.04.2012	969,380,341	6,125,985	975,506,326
Charge for the year	19,304,825	5,695,175	25,000,000
Loans & Advances Written off	(457,009,046)	-	(457,009,046)
Balance as at 31.03.2013	531,676,120	11,821,160	543,497,280
Transfers during the year	11,821,160	(11,821,160)	-
Charge for the year	7,520,967	3,435,582	10,956,549
Balance as at 31.03.2014	551,018,247	3,435,582	554,453,829

		31.03.2014	31.03.2013
		Rs.	Rs.
<b>17 LOANS AND ADVANCES TO OTHERS</b>			
Loans to Related Entities (Note 17.1)		3,650,671	3,650,671
Loans to Other Entities (Note 17.2)		105,949,420	105,949,420
Staff Loans (Note 17.3)		32,691,983	6,270,760
Mortgage loan		5,234,954	-
Loans given to others		1,012,069	-
		148,539,097	115,870,852
Less: Provision for impairment losses (Note 17.4)		(114,185,688)	(114,185,688)
		34,353,409	1,685,164
<b>17.1 LOANS TO RELATED ENTITIES</b>			
Ceylinco Grameen Automobiles (Pvt) Ltd.		3,650,671	3,650,671
		3,650,671	3,650,671
<b>17.2 LOANS TO OTHER ENTITIES</b>			
Ceylinco Ltd.		21,500,000	21,500,000
Green Agro Lanka (Pvt) Ltd		400,000	400,000
Hire Drive (Pvt) Ltd		500,000	500,000
The Finance & Guarantee Property Developers (Pvt) Ltd.		40,000,000	40,000,000
The Finance & Guarantee Co. Ltd.		12,196,283	12,196,283
The Finance Home (Pvt) Ltd.		31,353,137	31,353,137
		105,949,420	105,949,420
<b>17.3 STAFF LOANS</b>			
At the beginning of the year		6,270,760	6,073,790
Loan given during the year		32,085,815	3,370,875
Recovered during the year		(5,664,592)	(3,173,905)
At the end of the year		32,691,983	6,270,760
<b>17.4 MOVEMENT IN PROVISION FOR IMPAIRMENT LOSSES</b>			
<b>Balance as at March 31, 2013</b>			
	Balance as at	Prior Year	
	01.04.2012	Adjustment	Adjusted Balance
	Reported	(Note 2.4)	as at 01.04.2012
	Previously		
		Provision made	Balance as at
		during the year	31.03.2013
Staff Loan	3,723,018	-	3,723,018
Loan to other entities	-	109,600,091	109,600,091
	3,723,018	109,600,091	113,323,109
		862,579	862,579
			4,585,597
			109,600,091
			114,185,688
<b>Balance as at March 31, 2014</b>			
		Balance as at	Provision made
		01.04.2013	during the year
			Balance as at
			31.03.2014
Staff Loans		4,585,597	-
Loan to other entities		109,600,091	109,600,091
		114,185,688	-
			114,185,688

## Notes to the Financial Statements

	31.03.2014 Rs.	31.03.2013 Rs.
<b>18 FINANCIAL INVESTMENTS - AVAILABLE- FOR- SALE</b>		
Unquoted equity securities (Note 18.1)	234,000	234,000
	234,000	234,000

All unquoted Available for sale Equity Investments are recorded at cost less Impairment, since its fair value cannot be reliably estimated. There is no market for these investments and the Company intends to hold them for long term.

### 18.1 INVESTMENTS IN NON QUOTED SHARES

	31.03.2014		31.03.2013	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Credit Information Bureau of Sri Lanka Standard Credit Lanka Ltd (Formerly Ceylinco Investment & Reality Ltd)	100	234,000	100	234,000
	38,458,474	38,458,474	38,458,474	38,458,474
Less : Provision for Impairment Note 18.1 (a)		38,692,474 (38,458,474)		38,692,474 (38,458,474)
		234,000		234,000

### 18.1(a) PROVISION FOR IMPAIRMENT

	31.03.2014 Rs.	31.03.2013 Rs.
Balance at the beginning of the year	38,458,474	38,458,474
Provision made during the year	-	-
Written off during the year	-	-
Balance at the end of the Year	38,458,474	38,458,474



	31.03.2014 Rs.	31.03.2013 Rs.
<b>19 FINANCIAL INVESTMENTS - HELD- TO- MATURITY</b>		
Fixed Deposits (Note 19.1 )	14,460,164	-
Sri Lanka Government Securities (Note 19.2 )	218,374,839	53,264,537
	232,835,004	53,264,537
<b>19.1 INVESTMENT IN FIXED DEPOSITS</b>		
Fixed Deposit	13,500,000	-
Interest Receivable	960,164	-
	14,460,164	-
Above fixed deposit is under lien for the financial facilities obtained by the Company.		
<b>19.2 SRI LANKA GOVERNMENT SECURITIES</b>		
Treasury Bill	42,999,999	30,046,027
Repurchase Agreement -REPO	167,906,441	20,000,000
	210,906,440	50,046,027
Interest Receivable	7,468,399	3,218,510
	218,374,839	53,264,537
<b>20 OTHER ASSETS</b>		
<b>20.1 OTHER FINANCIAL ASSETS</b>		
Amount Due from Related Companies - (Note 20.1.1)	-	33,000
Other Receivables	70,186,528	39,762,249
	70,186,528	39,795,249
<b>20.2 OTHER NON FINANCIAL ASSETS</b>		
ESC Recoverable (Note 20.2.1)	-	18,570,843
Other Receivables	67,635,462	13,277,457
Provision for impairment (Note 20.2.2)	(760,130)	(760,130)
	66,875,332	31,088,170
	137,061,860	70,883,419
<b>20.1.1 AMOUNT DUE FROM RELATED COMPANIES</b>		
Ceylinco Grameen Automobiles (Pvt) Ltd.	2,523,592	2,556,592
	2,523,592	2,556,592
Provision for Impairment (Note 20.1.1(a))	(2,523,592)	(2,523,592)
	-	33,000

## Notes to the Financial Statements

	31.03.2014 Rs.	31.03.2013 Rs.
<b>20.1.1(a) PROVISION FOR IMPAIRMENT - AMOUNT DUE FROM RELATED COMPANIES</b>		
At the beginning of the year - Reported Previously	2,523,592	-
Prior Year Adjustment - Note 2.4	-	2,523,592
Adjusted Balance	2,523,592	2,523,592
Write off during the year	-	-
At the end of the year	2,523,592	2,523,592
<b>20.2.1 ECONOMIC SERVICE CHARGE RECOVERABLE</b>		
Balance at the beginning of the year	18,570,843	22,307,424
Provision made during the year	-	13,138,575
Written off during the year	-	-
Set off against Income Tax Liability	(18,570,843)	(16,875,156)
Balance at the end of the year (Note 20.2.1(a))	-	18,570,843
<b>20.2.1(a) ANALYSIS OF ESC RECOVERABLE</b>		
2009/10	-	1,637,738
2010/11	-	2,388,148
2011/12	-	1,406,382
2012/13	-	13,138,575
	-	18,570,843
<b>20.2.2 PROVISION FOR IMPAIRMENT - OTHER RECEIVABLES-NON FINANCIAL ASSETS</b>		
At the beginning of the year	760,130	760,130
Provision made during the year	-	-
Write off during the year	-	-
At the end of the year	760,130	760,130

## 21 INVESTMENT PROPERTIES

Cost	Balance as at 01.04.2012 reported previously	Adjustment due to Accounting Policy change	Adjusted Balance as at 01.04.2012	Fair Value Adjustment 2012/2013 for Additions	Balance as at 31.03.2013	Transferred from Property, Plant & Equipment	Adjustment 2013/2014 for Additions	Fair Value Adjustment for 2013/2014	Balance as at 31.03.2014
Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
		(Note 21.1)							
Land	108,122,531	8,114,577	116,237,108	50,212,250	258,838,045	54,100,000	500,000	2,200,179	315,638,224
Building	309,059,451	(42,696,559)	266,362,892	34,787,750	389,211,955	34,137,000	-	147,312,821	570,661,776
	417,181,982	(34,581,982)	382,600,000	85,000,000	648,050,000	88,237,000	500,000	149,513,000	886,300,000
Balance as at 01.04.2012 reported previously		Adjustment due to Accounting Policy change	Adjusted balance as at 01.04.2012						
Rs.		Rs.	Rs.						
Accumulated Depreciation				(Note 21.1)					
Land	-		-						
Building	31,549,818	(31,549,818)	-						
	31,549,818	(31,549,818)	-						
<b>21.1 Adjusted to equity due to Accounting Policy change as at 01.04.2012.</b>									
Decrease in written down value of Investment properties.									
Cost	34,581,982								
Accumulated Depreciation	(31,549,818)								
Net decrease	3,032,164								

## Notes to the Financial Statements

### 21.2 THE COMPOSITION OF THE INVESTMENT PROPERTIES AS AT 31.03.2014 IS AS FOLLOWS.

Description	Address	As at		As at	
		31.03.2014	2013-2014	31.03.2013	2012-2013
		Fair Value	Rental Income earned	Fair Value	Rental Income earned
		Rs.	Rs.	Rs.	Rs.
1. Ceygra Property					
Land	No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	151,063,407		191,450,786	
Building		407,936,593		325,549,214	
		559,000,000	1,008,334	517,000,000	15,125,000
2. Matale Property					
Land	Vihara Road, Rankewatte, Matale.	9,000,000		11,250,000	
3. Puttalam Property					
Land	No. 44/1, Service Road, Puttalam.	12,800,000		12,800,000	
4. Kahathuduwa Property					
Land	No.465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	49,007,555		43,337,260	
Building		71,992,445		63,662,740	
		121,000,000	2,720,000	107,000,000	-
5. Kirulapone Property					
Land	No.67/1, Mahinda Place, Kirulapone, Colombo-05	25,267,262		-	
Building		90,732,738		-	
		116,000,000	5,000,000	-	-
6. Anuradapura Property					
Land	No.06, Abaya Place, 7th Lane, Anuradapura.	20,000,000		-	
7. Moratuwa Property					
Land	No. 10/11, Galle Road, Katubedda, Moratuwa.	34,500,000		-	
8. Trincomalee Property					
Land	Adamподаivayal, Adamподаimalaikadu, Trincomalee	14,000,000		-	
Grand Total		886,300,000	8,728,334	648,050,000	15,125,000

The Company carries investment properties at Fair Value. Valuations of the above investment properties were carried out as at 31st March 2014 by R. S. Wijesuriya, Professional Independent Valuer. Valuations of these investment properties were carried out as at 31st March 2013 by W. A. T. I. P. Jayathilaka, Professional Independent Valuer.

All the properties have been mortgaged except property at Trincomalee to Seylan Bank PLC for the financial facilities obtained by the company.

Facility	Mortgage Value
Debentures	Rs. 665,000,000



## 22 INTANGIBLE ASSETS

Asset -	Computer Software
Cost	Rs.
As at 1 April 2012	10,659,708
Additions	6,740,960
Disposals	-
As at 31 March 2013	17,400,668
As at 1 April 2013	17,400,668
Additions	9,854,731
Disposals	-
As at 31 March 2014	27,255,398
Amortization and Impairment	
As at 1 April 2012	7,215,027
Amortization charged for the year	1,722,341
Disposals	-
As at 31 March 2013	8,937,368
As at 1 April 2013	8,937,368
Amortization charged for the year	3,070,433
Disposals	-
As at 31 March 2014	12,007,801
Net Book Value	
As at 31 March 2013	8,463,300
As at 31 March 2014	15,247,599

## Notes to the Financial Statements

### 22.2 FREE HOLD LAND AND BUILDINGS

The details of the land and buildings owned by the Company are as follows.

Location	Address	31.03.2014		31.03.2013	
		Land	Building	Land	Building
Kirulapone	No.67/1 , Mahinda Place , Kirulapone , Colombo-05	25,267,262	90,732,738	15,000,000	42,016,428
Kurunegala	No.94 96/1 , Kandy Rd , Kurunegala	19,600,266	63,999,734	14,100,000	8,616,109
Ceygra	No.249 , Stanly Thilakarathna Mw , Nugegoda.	151,063,407	407,936,593	191,450,786	325,549,214
Hambanthota	No.46/A , Thangalle Rd , Hambanthota.	6,605,752	11,394,248	7,000,000	4,053,682
Kandy	No.677 , William Gopallawa Mw , Kandy.	18,642,581	54,357,419	13,692,000	33,332,000
Nawala	No.168 , Nawala Rd , Nugegoda.	138,805,759	371,194,241	87,500,000	264,190,065
Kahathuduwa	No.465/1 , Old Police Station Road , Kahathuduwa , Polgasovita.	49,007,555	71,992,445	43,337,260	63,662,740
Anuradapura	No.06 , Abaya Place , 7 th Lane , Anuradapura.	20,000,000	-	5,274,000	-
Mathale	No. 37 , Vihara Mw , Mathale.	9,000,000	-	11,250,000	-
Moratuwa	No. 10/11 , Galle Road , Katubedda , Moratuwa.	34,500,000	-	24,836,786	-
Puttalam	No.56 , Puttlam Sewa Mw , Puttalam .	12,800,000	-	12,800,000	-
Trincomalee Land	Adampodaivayal, Adampodaimalaikadu, Trincomalee	14,000,000	-	-	-
		499,292,583	1,071,607,417	426,240,831	741,420,238
Represented by:-					
	Classified under Property, Plant & Equipment - (Note 23)	183,654,359	500,945,642	167,402,786	352,208,283
	Classified under Investment Properties - (Note 21)	315,638,224	570,661,776	258,838,045	389,211,955
		499,292,583	1,071,607,417	426,240,831	741,420,238

## 23 PROPERTY, PLANT & EQUIPMENT

Cost / Fair Value

	Revaluation Surplus / loss on PPE transferred to IP												Transfer to Revaluation Reserve			As at 31.03.2014								
	As at 01.04.2012		Additions		Transfers		Disposals		As at 31.03.2013		Transfers		Charge for the year		On Disposals		Transfer to revaluation Reserve							
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	Rs.				
Land	167,402,786	-	-	8,989,214	-	-	-	167,402,786	-	-	-	-	-	-	-	-	-	61,362,358	-	183,654,359				
Building	352,208,283	-	-	(523,196)	-	-	-	352,208,283	-	-	-	-	-	-	-	-	-	183,397,555	-	500,945,642				
Furniture & Fittings - (Free hold)	35,630,782	1,433,020	75,290	(1,448,103)	35,690,989	-	-	35,690,989	-	-	-	-	-	-	-	-	-	-	(2,546,450)	39,056,493				
Office Equipment - (Free hold)	14,833,815	7,901,861	(94,965)	(2,123,568)	20,517,143	-	-	20,517,143	-	-	-	-	-	-	-	-	-	-	(961,413)	48,611,272				
Computer - (Free hold)	37,473,352	8,988,190	19,675	(4,923,175)	41,558,042	1,750,883	-	41,558,042	1,750,883	-	-	-	-	-	-	-	-	-	(2,195,475)	55,272,988				
Computer - (Lease hold)	2,320,186	11,025,473	-	-	13,345,659	(3,047,473)	-	13,345,659	(3,047,473)	-	-	-	-	-	-	-	-	-	(3,989)	15,108,197				
Motor Cycles - (Free hold)	1,719,491	-	-	-	1,006,500	-	-	1,006,500	-	-	-	-	-	-	-	-	-	-	(345,500)	661,000				
Motor Vehicles - (Lease)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	12,300,000				
Machinery & Equipment	2,638,601	-	-	-	2,638,601	-	-	2,638,601	-	-	-	-	-	-	-	-	-	-	-	2,638,601				
Fixtures & Fittings	1,380,755	17,105,295	-	(24,780)	18,461,270	-	-	18,461,270	-	-	-	-	-	-	-	-	-	-	-	35,260,086				
Network/Accessories	-	6,503,886	-	-	6,503,886	1,296,590	-	6,503,886	1,296,590	-	-	-	-	-	-	-	-	-	-	19,989,004				
	615,608,051	52,957,725	-	(9,232,617)	659,333,159	-	-	659,333,159	-	-	-	-	-	-	-	-	-	8,466,018	(88,237,000)	95,228,378	(6,052,827)	244,759,913	913,497,641	
<b>Accumulated Depreciation and Impairment</b>																								
Building	22,095,961	8,805,207	-	-	30,901,168	-	-	30,901,168	-	-	-	-	-	-	-	-	-	-	-	(38,743,499)	-	-	-	-
Furniture & Fittings - (Free hold)	30,260,666	3,099,866	75,283	(1,429,822)	32,005,993	-	-	32,005,993	-	-	-	-	-	-	-	-	-	-	-	(2,541,981)	-	31,690,345	-	
Office Equipment - (Free hold)	13,947,455	1,047,223	(92,749)	(2,123,566)	12,778,363	-	-	12,778,363	-	-	-	-	-	-	-	-	-	-	-	(960,490)	-	16,850,496	-	
Computer - (Free hold)	33,142,226	4,201,340	17,466	(4,880,017)	32,481,015	839,123	-	32,481,015	839,123	-	-	-	-	-	-	-	-	-	-	(2,195,446)	-	34,718,059	-	
Computer - (Lease hold)	154,679	1,506,065	-	-	1,660,744	(1,015,824)	-	1,660,744	(1,015,824)	-	-	-	-	-	-	-	-	-	-	(1,795)	-	3,779,417	-	
Motor Cycles - (Free hold)	1,656,915	53,601	-	-	997,525	-	-	997,525	-	-	-	-	-	-	-	-	-	-	-	(345,497)	-	661,000	-	
Motor Vehicles - (Lease)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,333,333	-	1,333,333	-	
Machinery & Equipment	618,983	527,720	-	-	1,146,703	-	-	1,146,703	-	-	-	-	-	-	-	-	-	-	-	527,720	-	1,674,423	-	
Fixtures & Fittings	56,093	1,862,197	-	(6,195)	1,912,095	-	-	1,912,095	-	-	-	-	-	-	-	-	-	-	-	5,418,109	-	7,330,204	-	
Network/Accessories	-	186,194	-	-	186,194	176,701	-	186,194	176,701	-	-	-	-	-	-	-	-	-	-	2,437,325	-	2,800,220	-	
	101,932,978	21,289,413	-	(9,152,591)	114,069,800	-	-	114,069,800	-	-	-	-	-	-	-	-	-	-	-	31,556,405	(6,045,209)	(38,743,499)	100,837,497	

## Notes to the Financial Statements

	31.03.2014 Rs.	31.03.2013 Rs.
<b>24 DEFERRED TAX LIABILITY</b>		
Balance at the beginning of the year	6,344,693	-
Transfer from / (to) Income statement	(1,797,156)	(2,927,008)
Transfer from / (to) other comprehensive income	23,166,650	9,271,702
Balance at the end of the year	27,714,187	6,344,693
Deferred tax assets, liabilities relates to the following		
Deferred tax liabilities		
Accelated depreciation for tax purposes	106,769,269	66,230,363
Revaluation surplus on Buildings	24,486,614	-
Deferred tax assets		
Retirement benefit obligation	(26,497,095)	(20,734,637)
Unutilised tax losses	(77,044,601)	(39,151,033)
Net deferred tax liabilities	27,714,187	6,344,693
<b>25 DUE TO CUSTOMERS</b>		
Fixed Deposits	3,038,120,736	2,347,349,591
Deferred Transaction Cost	(13,701,335)	(20,328,281)
	3,024,419,400	2,327,021,310
Savings Deposits	436,296,957	258,377,864
	3,460,716,357	2,585,399,174
Interest Payable on Fixed Deposits	86,435,377	86,665,722
	3,547,151,734	2,672,064,896



	31.03.2014 Rs.	31.03.2013 Rs.
<b>26 DEBT ISSUED AND OTHER BORROWED FUNDS</b>		
Redeemable Debentures (Note 26.1)	770,158,889	671,308,190
Borrowings (Note 26.2)	200,441,481	399,688,351
Finance leases (Note 26.3)	19,345,447	8,254,885
	<b>989,945,818</b>	<b>1,079,251,427</b>
<b>26.1 REDEEMABLE DEBENTURES</b>		
Balance on 1st April	665,000,000	665,000,000
Debentures Issued during the year	100,000,000	-
Capital Balance on 31st March (Note 26.1(a))	765,000,000	665,000,000
Interest payable to Debenture Holders	5,158,889	6,308,190
Balance as at 31st March	<b>770,158,889</b>	<b>671,308,190</b>

#### 26.1(a) REDEEMABLE DEBENTURES

Year of Issue	Description	Certificate Type of Number Debenture	Outstanding as at 31.03.2014	Outstanding as at 31.03.2013
2010	Seylan Bank PLC	001 Secured	125,000,000	125,000,000
2010	Seylan Bank PLC	002 Secured	200,000,000	200,000,000
2010	Seylan Bank PLC	003 Secured	200,000,000	200,000,000
2010	Seylan Bank PLC	004 Secured	140,000,000	140,000,000
2013	Prime Lands (Private) Limited	001 Unsecured	100,000,000	-
			<b>765,000,000</b>	<b>665,000,000</b>

During the year 2011/2012, the Company has converted Rs.1,060,000,000/- worth of Debentures together with interest due of Rs. 272,000,000/- to non voting ordinary shares as per the direction of the Central Bank of Sri Lanka. The outstanding debentures amounting to Rs. 665,000,000/- issued to Seylan Bank is redeemable from 2020 to 2040 and with interest payments at annual average Treasury bill Rate as per the rescheduling terms agreed with Seylan Bank.

During the year 2013/2014, The loan balance due to Prime Land (Private ) Limited amounting to Rs, 100,000,000/- has been converted to unsecured subordinated Non Convertible Debentures. This Debenture is redeemable on 16.06.2018 with interest payments at the rate of 17% p. a. as per the terms agreed with Prime Land (Private) Limited.

## Notes to the Financial Statements

### 26.2 BORROWINGS

	31.03.2014	31.03.2013		Repayable	Repayable	
	Repayable	Repayable		Within	After	
	Within	After		one Year	one Year	
	one Year	one Year	Total	one Year	one Year	Total
Prime Lands (Pvt) Ltd. -						
Payable on Demand - Note 26.2 (a)	34,390,000	-	34,390,000	308,390,000	-	308,390,000
Prime Lands (Pvt) Ltd - Note 26.2 (b)	1,354,156	-	1,354,156	3,250,000	1,354,156	4,604,156
Prime Lands (Pvt) Ltd. - Note 26.2 (c)	7,748,236	39,902,730	47,650,966	-	-	-
DFCC Bank PLC - Note 26.2 (d)	22,916,658	-	22,916,658	25,000,000	22,916,666	47,916,666
DFCC Bank PLC - Note 26.2 (e)	25,000,008	18,749,990	43,749,998	-	-	-
DFCC Bank PLC - Note 26.2 (f)	25,000,008	24,999,992	50,000,000	-	-	-
	116,409,066	83,652,712	200,061,778	336,640,000	24,270,822	360,910,822
Interest payable on Loans			379,703			38,777,529
			200,441,481			399,688,351

#### 26.2 (a) Terms & Conditions of Prime Lands (Pvt) Ltd Loan (Rescheduled) - 34,390,000

Date of Disbursement	: 17th June 2013
Interest Rate	: 13% p.a.
Total Facility	: Rs. 43,380,000.00
Repayment	: 60 months or after settlement of Foreign Loan
Security	: No Securities

#### 27.2 (b) Terms & Conditions of Prime Lands (Pvt) Ltd Loan - 1,354,156

Date of Disbursement	: 29th August 2012
Interest Rate	: 20% p.a
Total Facility	: Rs. 6,500,000.00
Repayment	: The Company shall repay the loan with interest within 2 years from the first disbursement.
Security	: No Securities

#### 27.2 (c) Terms & Conditions of Prime Lands (Pvt) Ltd 50 Mn Loan - 47,650,966

Date of Disbursement	: 12th November 2013
Interest Rate	: AWPR + 2.75% p. a
Total Facility	: Rs. 50,000,000.00
Repayment	: The Company shall repay the loan with interest within 5 years from the first disbursement.
Security	: No Securities

#### 27.2 (d) Terms & Conditions of DFCC Loan - 22,916,658

Date of Disbursement	: 8th March 2013
Interest Rate	: AWPR + 8% p. a.
Total Facility	: Rs. 50,000,000.00
Repayment	: The Company shall repay the loan with interest within 2 years from the first disbursement.
Security	: The Loan of Rupees fifty million will be secured by a corporate guarantee from Prime Lands (Private) Limited together with joint & several personal Guarantee of directors Mr.Brahammanage Premalal, Mrs.Hene Kankanamge Sandamini Rukmal Perera and Mr.Bamunuarachchi Mangedarage Don Chaminda Prabath

#### 27.2 (e) Terms & Conditions of DFCC Loan - 43,749,998

Date of Disbursement	: 9th December 2013
Interest Rate	: AWPR + 3.5% p. a.
Total Facility	: Rs. 50,000,000.00
Repayment	: The Company shall repay the loan with interest within 2 years from the first disbursement.
Security	: The Loan of Rupees fifty million will be secured by a corporate guarantee from Prime Lands (Private) Limited together with joint & several personal Guarantee of directors Mr.Brahammanage Premalal and Mrs.Hene Kankanamge Sandamini Rukmal Perera.

#### 27.2 (f) Terms & Conditions of DFCC Loan - 50,000,000

Date of Disbursement	: 20th March 2014
Interest Rate	: AWPR + 3.5% p. a.
Total Facility	: Rs. 50,000,000.00
Repayment	: The Company shall repay the loan with interest within 2 years from the first disbursement.
Security	: The Loan of Rupees fifty million will be secured by a corporate guarantee from Prime Lands (Private) Limited together with joint & several personal Guarantee of directors Mr.Brahammanage Premalal and Mrs.Hene Kankanamge Sandamini Rukmal Perera.

## 26.3 FINANCE LEASE LIABILITIES

Lessor:	Hatton National Bank	Hatton National Bank	Hatton National Bank	Hatton National Bank	DFCC	DFCC	DFCC	Total
Asset Purchased:	Computer Equipment	Computer Equipment	Computer Equipment	Computer Equipment	Motor vehicle	Motor vehicle	Computer Equipment	
Date of Commencement:	01st December 2011	11th April 2012	11th April 2012	11th April 2012	18th September 2013	18th September 2013	12th April 2013	
Date of last instalment:	30th November 2014	11th March 2013	11th March 2013	02nd November 2012	19th August 2017	18th August 2017	17th July 2017	
Number of Instalments:	36	12	12	30	48	48	48	
Monthly Instalment Value:	Rs. 73,740	Rs. 185,820.00	Rs. 123,827.00	Rs. 334,520	Rs. 153,488	Rs. 151,009	Rs. 138,143	
<b>Lease Creditors</b>								
Balance on 1st April 2012	2,359,680	-	-	-	-	-	-	2,359,680
Leases obtained during the year	-	2,229,840	1,485,924	10,035,600	-	-	-	13,751,364
Instalments paid during the year	(884,880)	(2,229,840)	(1,485,924)	(1,672,600)	-	-	-	(6,273,244)
Balance on 31st March 2013	1,474,800	-	-	8,363,000	-	-	-	9,837,800
<b>Interest in Suspense</b>								
Balance on 1st April 2012	268,007	-	-	-	-	-	-	268,007
On Leases obtained during the year	-	162,102	108,035	2,057,600	-	-	-	2,327,737
Interest Charged to Income Statement	(157,894)	(162,102)	(108,035)	(584,798)	-	-	-	(1,012,829)
Balance on 31st March 2013	110,113	-	-	1,472,802	-	-	-	1,582,915
Net Balance as at 31st March 2013	1,364,687	-	-	6,890,198	-	-	-	8,254,885
Instalments Payable in the ensuing year	(699,466)	-	-	(2,978,661)	-	-	-	(3,678,127)
Instalments Payable after one year	665,221	-	-	3,911,537	-	-	-	4,576,758
<b>Lease Creditors</b>								
Balance on 1st April 2013	1,474,800	-	-	8,363,000	-	-	-	9,837,800
Leases obtained during the year	-	-	-	-	7,367,424	7,248,432	6,630,864	21,246,720
Instalments paid during the year	(884,880)	-	-	(4,014,240)	(1,227,904)	(1,057,063)	(1,105,144)	(8,289,231)
Balance on 31st March 2014	589,920	-	-	4,348,760	6,139,520	6,191,369	5,525,720	43,424,381

Interest in Suspense									
Balance on 1st April 2013	110,113	-	-	1,472,802	-	-	-	-	1,582,915
On Leases obtained during the year	-	-	-	-	-	1,148,432	1,167,424	1,148,432	4,132,720
Interest Charged to Income Statement	(90,602)	-	-	(1,035,579)	-	(294,047)	(338,362)	(507,203)	(2,265,794)
Balance on 31st March 2014	19,511	-	-	437,223	-	854,385	829,062	1,309,661	3,449,841
Net Balance as at 31st March 2014	570,409	-	-	3,911,537	-	5,336,984	5,310,458	4,216,059	19,345,447
Instalments Payable in the ensuing year-Note 26.3 (a)	(570,409)	-	-	(3,582,121)	-	(1,401,533)	(1,434,853)	(1,030,435)	(8,019,351)
Instalments Payable after one year	-	-	-	329,417	-	3,935,450	3,875,605	3,185,624	11,326,096
<b>26.3 (a) INSTALMENTS PAYABLE IN THE ENSUING YEAR</b>									
Instalments Payable	589,920	-	-	4,014,240	-	1,812,108	1,841,856	1,657,716	9,915,840
Interest chargeable to Income Statement	(19,511)	-	-	(432,119)	-	(410,575)	(407,003)	(627,281)	(1,896,489)
	570,409	-	-	3,582,121	-	1,401,533	1,434,853	1,030,435	8,019,351



## Notes to the Financial Statements

	31.03.2014	31.03.2013
	Rs.	Rs.
<b>27 PROVISION FOR INCOME TAX</b>		
Balance at the beginning of the year	17,896,547	18,172,402
Provision for the year	74,873,714	17,021,575
Under/(Over) Provision during Previous Years	(1,794,165)	(146,419)
	90,976,096	35,047,558
Payment made during the year	(10,500,000)	-
Set off of ESC paid against Income Tax Liability	(18,570,843)	(16,875,156)
WHT Paid	(233,355)	(225,897)
Notional Tax	(912,727)	(49,958)
Balance at the end of the year	60,759,171	17,896,547
<b>28 VALUE ADDED TAX PAYABLE</b>		
Balance at the beginning of the year	177,590,659	155,420,209
Provision made - VAT on Financial Services	73,029,587	27,658,621
- VAT on Non Financial Services	-	2,680,213
	250,620,246	185,759,044
Payment made during the year	(35,808,306)	(8,168,385)
Balance at the end of the year	214,811,940	177,590,659
<b>29 OTHER LIABILITIES</b>		
<b>29.1 OTHER FINANACIAL LIABILITIES</b>		
Amounts due to Prime Land (Pvt) Ltd	-	11,991,735
Member and Loan Protection Fund	-	35,483,158
Mehewara Fund	268,441	-
Other Payables	59,888,420	51,414,445
	60,156,861	98,889,337
<b>29.2 OTHER NON FINANACIAL LIABILITIES</b>		
NBT Payable	3,022,487	-
WHT Payable	1,002,278	967,888
Penalty on EPF Payable	21,167,643	21,390,530
Share Application Money Received	-	1,186,724
Other Payables	39,440,642	66,392,058
	64,633,049	89,937,200
	124,789,910	188,826,537

31.03.2014      31.03.2013  
Rs.                      Rs.

### 30 RETIRING BENEFIT OBLIGATION

Movements in Present Value of the the Retirement Benefit Obligation are as follows.

Balance at the beginning of the year	74,052,274	92,084,251
Add : Provision/(Reversal) made during the year	26,174,283	(11,926,677)
	100,226,557	80,157,574
Less : Benefits Paid during the year	(5,594,075)	(6,105,300)
Balance at the end of the year	94,632,482	74,052,274
Retiring Gratuity Expense		
Current Service Cost	13,314,375	11,057,275
Interest Cost	8,145,750	10,129,268
	21,460,125	21,186,543
Actuarial (Gain) / Loss	4,714,158	(33,113,220)
	26,174,283	(11,926,677)

Gratuity liability is based on the actuarial valuation carried out by Actuarial & Management Consultants (Pvt) Limited, on 31st March 2014 Using "Projected Unit Credit Method" as recommended by LKAS 19 "Employee Benefits"

The principal assumptions used in the actuarial valuations are as follows:

	31.03.2014	31.03.2013
Long term Interest Rate :	11% p.a	11% p.a
Retirement Age :	55 years	55 years
Future Salary Increase Rate :	10%	12%

Assumptions regarding future Mortality is based on 1967-70 Mortality Table issued by the Institute of Actuaries, London.

The define benefit obligation is not externally funded. Actuarial gain/(Loss) on define benefit plan is recognized in other comprehensive income.

In order to illustrate the significance of the salary escalation rate and discount rates assumed in this valuation, a sensitivity analysis for all employees assuming the above is as follows;

<b>Discount Rate</b>	<b>Present Value of Defined Benefit Obligation</b>
1% less	112,810,893
1% More	79,985,472
<b>Salary Escalation Rate</b>	<b>Present Value of Defined Benefit Obligation</b>
1% less	80,192,247
1% More	112,175,509

**31 STATED CAPITAL**

	Issued and Fully Paid Voting Ordinary Shares Number	Issued and Fully Paid Non Voting Ordinary Shares Number	Total Number
Balance on 1st April 2012	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Conversion of Preference Shares in to Ordinary Shares	-	-	-
Balance on 31st March 2013	1,421,380,624	298,200,000	1,719,580,624
Share Issued during the year	-	-	-
Balance on 31st March 2014	1,421,380,624	298,200,000	1,719,580,624
	Rs.	Rs.	Rs.
Balance on 1st April 2012	913,806,240	2,982,000,000	3,895,806,240
Share Issued during the year	-	-	-
Conversion of Preference Shares in to Ordinary Shares	-	-	-
Balance on 31st March 2013	913,806,240	2,982,000,000	3,895,806,240
Share Issued during the year	-	-	-
Balance on 31st March 2014	913,806,240	2,982,000,000	3,895,806,240

**32 GENERAL RESERVE**

	31.03.2014 Rs.	31.03.2013 Rs.
Balance at the beginning of the year	82,897,989	82,897,989
Balance at the end of the year	82,897,989	82,897,989

**33 OTHER STATUTORY RESERVES**

	Statutory Reserve Fund (Note 33.1)	Investment Fund (Note 33.2)	Total
At at 1st April 2012	-	-	-
Transferred During the year	16,731,958	15,962,647	32,694,605
As at 31st March 2013	16,731,958	15,962,647	32,694,605
Transferred During the year	81,092,926	45,432,703	126,525,629
Balance on 31st March 2014	97,824,884	61,395,350	159,220,234

**33.1 STATUTORY RESERVE FUND**

20% of the net profits for the year is transferred to the reserve fund as required by Direction (No 01 of 2003 Capital Fund) issued by the Central Bank of Sri Lanka.

### 33.2 INVESTMENT FUND

In terms of Budget Proposals 2011 and subsequent guideline dated 29 April 2011 issued by the Central Bank of Sri Lanka, the Company has made transfers to the investment fund to build up a permanent fund withing the Company as follows;

( i ) 5% of the profits before tax calculated for the payment of Income Tax purposes on dates specified in Section 113 of the Inland Revenue Act No .10 of 2006 for the Self Assessment payment of taxes

( ii ) 8% of the Profit calculated for the payment of Value Added Tax on Financial Services on dates as specified in the Value Added Tax No.14 of 2002 for the payment of Taxes. However this provision has been removed with effect from 31.12.2013

### 34 CAPITAL COMMITMENTS

There is no capital commitments as at 31st March 2014, except for the following :-

The Company has entered into a contract with Thakral One (Pvt) Ltd., on 13th November 2013 to purchase and implement a total information and communication Technology Solution ("ICT Infrastructure Upgrade Project" (ICTIUP)) at Head Office and Branches for Rs. 52,475,811/- (USD 396,522.68). A sum of Rs. 13,151,666/- (25% of total Project value) has been paid as advance in this regard as at 31st March 2014.

### 35 EVENTS AFTER THE REPORTING DATE

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in these financial statements.

### 36 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2014.

### 37 TAXES PAYABLE TO THE DEPARTMENT OF INLAND REVENUE FOR THE YEAR OF ASSESSMENTS 2005/2006, 2006/2007, 2007/2008 AND 2008/2009

Type of tax	Tax payable amount Rs.
VAT	149,390,088
ESC	16,372,982
PAYE	23,477,615
	189,240,685

The Company has provided for the above taxes which have been agreed with the Department of Inland Revenue to settle as follows

Period		Rs.
August 2011 - July 2012	(Rs. 1.0 Million per month)	12,000,000
August 2012 - July 2013	(Rs. 2.0 Million per month)	24,000,000
August 2013 - July 2014	(Rs. 3.0 Million per month)	36,000,000
August 2014 - July 2015	(Rs. 4.0 Million per month)	48,000,000
August 2015 - July 2016	(Rs. 7.0 Million per month)	63,000,000
August 2016	( Rs. 6,140,685)	6,140,685
		189,140,685

Out of the above amount a sum of Rs. 52,000,000 has been paid by the Company to the Department of Inland Revenue up to 31st March 2014.

**38 ASSETS PLEDGED**

Nature of Assets	Extent	Mortgaged Date	Cost	Mortgaged Amount	Financial Institution	Nature of Liability	Balance Outstanding as at 31.03.2014
Nawala Land	0A-0R-25.9P	27.05.2011	351,690,063	210,000,000	Seylan Bank PLC	Debentures (Note 26)	665,000,000
No. 44/1, Service Road, Puttalam	0A-0R-24.56P	18.08.2010	9,824,000	10,241,000			
Vihara Road, Rankewatte, Matale.	0R-0R-15P	18.08.2010	7,598,531	8,010,000			
No. 67/1, Mahinda Place, Kirulapone, Colombo 06.	0A-0R-8P	15.09.2010	57,016,431	58,094,000			
Elabodakele, Anuradhapura.	0A-0R-13.52P	18.08.2010	5,274,000	11,600,000			
No. 96, Kandy Road, Kurunegala.	0A-0R-07.05P	18.08.2010	22,716,109	37,000,000			
No. 677, William Gopallawa Mawatha, Kandy.	0A-2R-11.41P	18.08.2010	47,024,000	47,024,000			
Indiwinna, Hambantota.	0A-0R-14P	18.08.2010	11,053,681	11,338,000			
No. 340, Galle Road, Moratuwa.	0A-0R-23P	18.08.2010	24,836,785	34,592,000			
No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	0A-01R-29.1P	03.09.2009	399,759,451	397,423,000			
Enderawatte, Kahathuduwa	1-A-OR-22-59P	30.12.2010	85,000,000	90,086,000			
<b>Total</b>			<b>1,021,793,051</b>	<b>915,408,000</b>			



### 39 RELATED PARTY TRANSACTIONS

The Company carries out transactions in the ordinary course of business with parties who are defined as "Related Parties" in LKAS 24- "Related Party Disclosures". The Terms and Conditions of such transactions are disclosed under 39.1 , 39.2 ,39.3 and 39.4

#### 39.1 TRANSACTION WITH PARENT COMPANY AND RELATED COMPANIES

Prime Land (Pvt ) Ltd is the Parent and the Ultimate Controlling Party of the Company.

The Company has given / obtained loans and advances to / from related Companies. The balances outstanding as at the Reporting date are disclosed in Note 20, 26 and 29.

Some of the Directors of the Company are also Directors of the following Related Companies as detailed below.

Name of the Directors	Ceylinco Grameen Automobiles (Pvt) Ltd.	Prime Lands (Pvt) Ltd
Mr.Brahamanage Premalal	-	x
Mrs.Hene Kankanamge Sandamini Rukmal Perera	-	x
Mr.Sanjaya Lakshitha Yathendra Liyanawatta	x	-
Mr.Withanage Susira Priyalal Arangala	x	-

#### 39.2 TRANSACTION WITH THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

The Company has identified and disclosed personnel those having authority and responsibility for Planning, Directing and Controlling the Activities of the Company as 'Key Management Personnel' in accordance with LKAS -24-'Related Party Disclosures'. Accordingly, Board of Directors, Chief Executive Officer and Members of Corporate Management team have been identified as 'Key Management Personnel'

#### 39.3 COMPENSATION PAID TO KEY MANAGEMENT PERSONNEL OF THE COMPANY

The following represents the compensation paid to Key Management Personnel of the company

	2014 Rs	2013 Rs
Short-term Benefits	6,717,000	4,558,000
Retirement Benefits	-	-

#### 39.4 TRANSACTION WITH THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

The Company enters in to transactions ,arrangements and agreements with Key Management Personnel and the close family Members of Key Management Personnel in the ordinary course of business.The Transactions listed below were made in the ordinary course of business and on substantially the same terms, including interest/Commision rates and security,as for comparable transactions with persons of a similar standing or, where applicable ,with other employees.The Transactions didn't involve more than the normal risk of repayment or present other unfavourable features.

	31.03.2014 Rs	31.03.2013 Rs
<b>Assets</b>		
Loans and Advances	-	-
<b>Liabilities</b>		
Deposits and Borrowings	46,563,278	63,975,409

**40 MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

	Less than 3 month	3-6 Months	6-12 Months	12-36 Months	36-60 Months	Over 60 Months	Unclassified	Total
<b>ASSETS</b>								
Cash and Cash Equivalents	141,553,151	-	-	-	-	-	-	141,553,151
Loans and Advances to members	1,428,258,210	1,240,825,455	888,041,543	-	-	-	-	3,557,125,208
Loans and Advances to others	807,880	8,773,245	5,325,870	10,998,068	8,448,346	-	-	34,353,409
Financial investments- available- for- sale	-	-	-	-	-	-	234,000	234,000
Financial investments- held- to- maturity	62,000,000	42,460,000	128,375,004	-	-	-	-	232,835,004
Other Assets	137,061,860	-	-	-	-	-	-	137,061,860
Investment Properties	-	-	-	-	-	-	886,300,000	886,300,000
Intangible Assets	-	-	-	-	-	-	15,247,599	15,247,599
Property, Plant & Equipment	-	-	-	-	-	-	820,863,343	820,863,343
<b>Total Assets</b>	<b>1,769,681,101</b>	<b>1,292,058,700</b>	<b>1,021,742,417</b>	<b>10,998,068</b>	<b>8,448,346</b>	<b>-</b>	<b>1,722,644,942</b>	<b>5,825,573,574</b>
<b>LIABILITIES</b>								
Bank Overdraft	25,616,239	-	-	-	-	-	-	25,616,239
Due to customers	1,017,736,209	598,656,208	1,370,449,686	413,430,490	146,879,141	-	-	3,547,151,734
Debt issued and other borrowed funds	63,299,288	23,235,255	43,432,466	93,103,135	101,875,674	665,000,000	-	989,945,818
Income Tax Payable	60,759,171	-	-	-	-	-	-	60,759,171
Value added tax payable	83,539,070	-	-	131,272,870	-	-	-	214,811,940
Other Liabilities	124,789,909	-	-	-	-	-	-	124,789,909
Retiring Benefit Obligation	-	-	-	-	-	-	94,632,482	94,632,482
Deferred Tax liability	-	-	-	-	-	-	27,714,187	27,714,187
Shareholder's Fund	-	-	-	-	-	-	740,152,094	740,152,094
<b>Total Liabilities</b>	<b>1,375,739,886</b>	<b>621,891,463</b>	<b>1,413,882,152</b>	<b>637,806,495</b>	<b>248,754,815</b>	<b>665,000,000</b>	<b>862,498,763</b>	<b>5,825,573,574</b>

## 41 RISK MANAGEMENT DISCLOSURES

Risk is an inherent factor in day to day life, whether it is business or personal. Therefore nobody can avoid risk but assess and mitigate only. In the financial industry one should give utmost importance to risk factor mainly because finance institutions manage with hard earned money of the general public. The Company is cognizant of this cardinal truth and pay great attention to Risk. The Company has a rich Risk culture and as Guerreera and Larsen (2008) has pointed out "A Board cannot be a Risk Manager". Understanding this fundamental principle the Board of the Company has devolved the subject to a subcommittee headed by a widely experienced lawyer and acting judge who is an Independent Director of the Company. This also complies with clause 8 subsection (4) of Finance Companies (Corporate Governance) Direction 3 of 2008.

Risk management should be the core function of every finance business. Risk management is about managing Risk, Managing People, data, technology, process and projects. It is not mere eloquent technical quantitative analysis of data. It involves managing the affairs of the company and the risks it faces. Managing Risk requires making tactical and strategic decisions to control those Risks that can be controlled and exploit those opportunities that could be exploited.

The ability to effectively manage Risk is the single most important function that separate financial firms that survive and sustain in the long run as oppose to those that are not successful. At successful firms, managing Risk has always been the responsibility of the Managers from the Board through the CEO to the portfolio managers. Over the last 15 years technical knowhow of the managers have gone up consequent to development of more sophisticated tool in measurement of Risk. The Board and the Management is well aware of this fundamental fact and has taken a serious decision to enhance the knowledge of those responsible Managers. They also believe that it is a continuous process and will continue to invest heavily in Risk management

In the whole exercise of managing Risk, managing people take precedence over other. Managing people mean thinking critically and taking careful consideration of having the people with the expertise to understand and manage Risk and adequately compensating them. However, the importance of people in the whole exercise of managing Risk does not in away imply that other factors are not so important. For instance processes and procedures and the whole arena of operational and controls are critically important. Many financial disasters are results of simple operational problems or oversights rather than complex Risk management failures.

Further, Risk Management goes beyond mere sophisticated analysis of data one cannot simply disregard the importance of Data play in managing Risk. It is said that in building or implementing a risk management project, 80% of effort and investment is in Data and IT infrastructure and only 20% goes in to sophisticated quantitative techniques. For Market Risk and Credit Risk good records of positions and counterparties are critical and these Data should be in a form that can be used. The cost and effort required to build, acquire and maintain data and IT infrastructure should not be underestimated nor should be seen as an significant impediment to implementing a Risk management project. The phased-out gigantic IT infrastructure development taking place at the Company is designed taking this in to consideration.

Whilst above mentioned factors are essential for an effective and efficient Risk management, cardinal rule underlining Risk management is that management must understand Risk. Managers must understand the financial products that make up the Risk. This is very relevant to financial business. It is in this context that the core areas of Risk in Financial institutions are looked at.

### Market Risk

Market Risk could define as the possibility for an investor to experience losses due to factors that affect the overall performance of the financial markets. Market Risk is also commonly called “systematic risk,” Market Risk cannot be eliminated through diversification, though it can be prevented or mitigated. We note that Market Risk in the micro finance industry is created by many entrants to the market without the basic understanding of the dynamics of the industry but driven purely on profit motivation. The Company strongly believe that a regulatory authority should be appointed to monitor the industry and note with disappointment that the government has failed to implement the much awaited Micro finance Bill. However it is encouraging to note that the Lanka Micro Finance Practitioners’ Association is taking the initiative to lobby for the bill. The Company keeps a close tab on the developments and take appropriate measures to mitigate any possible loss. Our time tested and rigid yet systematic procedures has ensured that we are well prepared to meet any market risk that may arise in the microfinance Industry in Sri Lanka.

In the arena of Finance Institutions, The Company welcomes the CBSL proposed Consolidation of the Financial Institutions. The Company believes that it is a correct decision taking in the best interest of the market to thwart any major risks in the financial market in the long run. Many regulatory adjustments need to be implemented to make the passage smooth without any hiccups, nonetheless. The Company is well prepared for the consolidation program and have taken many measures to enhance the position of the company. The Company strongly believes that Prime Grameen is one of the potential contenders for the proposed three Micro finance entities in financial industry in the Financial Consolidation Program initiated by the CBSL.

### Credit Risk

Credit Risk arises when promised cash flows from loans and securities held by financial institutions are not paid in full. All types of financial institutions face this Risk. Only difference is that it may come in different forms and degrees. Thus Micro Finance Institutions are no exception to this rule. Depository institutions are more exposed to Credit Risk than money market and mutual fund institutions since they borrow on short term basis and lend on long term basis. If the principals of all financial claims held by Financial institutions is paid in full by maturity and interest payments paid accordingly Financial Institutions will always receive the principal plus the interest return. If a borrower defaults both the principal loaned and the interest payments expected to be received are at Risk.

A typical yard stick to gauge the efficiency of the credit management is the NPL rate. NPL rate is low it is an indication that the credit management of the company is at its best. On the other hand if there is a high NPL rate the message is that there is a high credit Risk exposure. Fundamental theory underlining good credit policy is to disburse quality loans.

It is not unusual to set targets as they drive people towards achieving Goals. This applies to operations as well. However the Company always emphasize on disbursing quality Loans rather than disbursing loans for sake of meeting the targets. The Company also use other tools to measure the creditworthiness of the borrower by referring to CRIB and monitoring multiple borrowings of the borrower. As result of this rigid monitoring policy the Company has been able to manage its Credit efficiently.

### Interest Rate Risks

Interest rate Risk arises due to the mismatch of the maturities of the assets and the liability of financial institutions. It is essential that the management closely monitor the volatility of the interest rates as it effects both lending and borrowing. If the company fails to have a close tab on the interest rates it will not be able to maintain the Gap between the lending and the borrowing rates. Borrowing rates of the Company are determined by the ALCO based on the quarterly rates issued by the CBSL.

Under no circumstance the Company differ from the ceiling given by the CBSL in borrowing rates. The CBSL has followed a rigid interest rate policy during the financial year under reference. This has, however, helped the Company to maintain a healthy Gap between the borrowing and lending rates as the Company lends on flat rate basis. It has to a certain degree effected or borrowing, nonetheless.

### Operational & Technological Risk

Technological Risk occurs when technological investment does not produce the desired cost savings anticipated. It could happen due to excess capacity, redundant technology and/or organizational and bureaucratic inefficiencies. Operation Risk arises when existing technology or support systems may malfunction or breakdown. However, it is not exclusively technological failure. For instance, employee fraud and errors are part of Operational Risk. It could be said this is the most common element in operational Risk.

As stated before the Company has undertaken a gigantic rejuvenation of the entire IT infrastructure development at a massive cost. The company will continue to heavily invest in IT development as the Company observe that the future lies there. The recent introduction of a masterpiece in technology is the use of POS unit. It allow the management to monitor real-time monetary transaction from a central location that thwarts any attempt to mishandle funds.

The entire branch network is divided into two groups and 16 regions headed by two Deputy General Managers. The Company has a well trained staff with over 12 year's hands-on experience in Micro Finance operations. They monitor the operations daily from head office and carry on periodical investigations of all branches in addition to visits by the internal audit team and investigation team both which are independent of the operations department. As a result of rigid follow-up systems by the management if any fraud takes place it is detected on a priority basis.

### Compliance Risk

Compliance Risk is the Risk arising out of deviations from the directions, guidelines and other rules stipulated by the regulator. This is perhaps the Risk factor the Company found hard to manage. This is not because of the lack of interest or negligence of the management but because of the status of the company. It is no secret that this was a failed financial institution that has been transformed to a profit making stable financial institution within a short period of 3 years through dedication and prudent financial management by the new board. Therefore priority was to revive the company. However, the management has always strived to meet the compliance requirement and have sought CBSL help whenever the management found it difficult to comply with. Comply functions are carried out by an AGM- compliance under the direction of a Director-MIS/Compliance



# Notice of Meeting

NOTICE IS HEREBY GIVEN that the **ANNUAL GENERAL MEETING** of PRIME GRAMEEN MICRO FINANCE LIMITED will be convened on Monday, 29th September 2014 at 3.00 pm at No. 168, Nawala Road, Nugegoda for the following purposes;

1. To receive and adopt the Report of the Directors, the Audited Financial Statements for the year ended 31st March 2014 and Report of the Auditors thereon.
2. To re-elect Mr. B. M. D. C. Prabath, a Director of the Company who retires by rotation in terms of Article 95 of the Articles of Association of the Company. The directors unanimously support the re-election of Mr. B. M. D. C. Prabath as a Director of the Company.
3. To re-appoint M/S Kreston MNS and Company, Chartered Accountants, as the Auditors and to authorize the Directors to determine their remuneration.

By order of the Board

Sgd.

**Varners International (Private) Limited**  
Company Secretaries of  
**PRIME GRAMEEN MICRO FINANCE LIMITED**

Colombo.  
03rd September 2014

Notes;

1. A member entitled to attend and vote at the meeting, is entitled to appoint a proxy to attend and vote on behalf of him/her. The Form of Proxy is attached to this Report for this purpose. A Proxy need not to be a member of the Company.
2. The instrument appointing a proxy is required to be deposited at the Registered Office of the Company at No.168, Nawala Road, Nugegoda or at the Office of the Secretaries, Varners International (Private) Limited at Level 14, West Tower, World Trade Centre, Echelon Square, Colombo 01 not less than forty eight hours before the time fixed for the meeting.
3. For reasons of security, it is essential that you bring with you, your National Identity Card.

# Form of Proxy

## Prime Grameen Micro Finance Limited

I/We\* ..... of  
 .....

being a member/members of the above named Company, hereby appoint;

- Mr.B. Premalal ..... of Colombo or failing him
- Mrs. H. K. S. R. Perera..... of Colombo or failing her
- Mr.B. M. D. C. Prabath ..... of Colombo or failing him
- Mr. R. P. K. Gallage..... of Colombo or failing him
- Mr. W. S. P. Arangala ..... of Colombo or failing him
- Mr. S. L. Y. Liyanawatte ..... of Colombo or failing him
- Mrs. L. L. C. C. Thambiah..... of Colombo or failing her

..... of .....  
 ..... (National Identity Card Number .....

as my/our\* proxy to represent me/us\* and to vote as indicated hereunder for me/us\* and on my/our\* behalf at the Annual General Meeting of the Company to be held on 29<sup>th</sup> September 2014 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	FOR	AGAINST
To receive and adopt the Report of the Directors and the Audited Financial Statements for the year ended 31st March 2014 and the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect as a Director Mr. B. M. D. C. Prabhath who retires in terms of Article 95 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Messrs. Kreston MNS and Company, Chartered Accountant, as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this ..... day of ..... 2014

Signature .....

Witness .....

(\*Please delete the inappropriate words)

## Instructions on Completing the form of Proxy

1. Please perfect the Form of Proxy after filling in legibly your name and address and by signing in the space provided and inserting the date of signatures.
2. Please return the completed Form of Proxy to the registered office of the Company at No.168, Nawala Road, Nugegoda or at the office of the Secretaries, Varners International (Private) Limited at Level 14, West Tower, World Trade Center, Echelon Square, Colombo 01 after crossing out one or the other of the alternate words indicated by the asterisks on the body of the Form. The Form of Proxy shall be lodged with the Company or the Secretaries not less than forty-eight hours before the time appointed for holding the meeting.
3. If the Form of Proxy is signed by an Attorney, the relevant Power of Attorney should accompany the completed Form of Proxy for registration, if a Power of Attorney has not been already registered with the Company.
4. If the shareholder is a Company or a body corporate, the Form of Proxy should be under its Common Seal in accordance with its Articles of Association or Constitution.
5. If there is any doubt as to the manner in which the proxy should vote by reason of the manner in which instructions in 2 above have been carried out, the proxy holder will vote as she/he thinks fit.

# Brief Company Outline

## Name

Prime Grameen Micro Finance Ltd.

## Nature of Business

Provision of Micro Finance Facilities primarily focusing on lower income segment of the Sri Lankan community.

## Legal Status

A public limited liability company incorporated in Sri Lanka under the Companies Act No.17 of 1982 and re-registered under the Companies Act No. 7 of 2007.

The company is registered under the Finance Companies Act no 78 of 1988.

The Company re-registered under the Finance Business Act No. 42 of 2011.

## Business Registration No.

PBS 965

## LFC Registration No.

RFC/036 (Conferred by CBSL in 2010 under Finance Act No. 78 Of 1988) Acquired by Prime Lands Group in June 2011.

## Registered Office

Prime Grameen Micro Finance Limited

No.168, Nawala Road, Nugegoda, Sri Lanka.

Tel : +94 11 2176262

Fax: +94 11 2176263

## Company Secretaries

Varnes International (Pvt.) Ltd

Level 14 West Tower

WTC, Echelon Square, Colombo 01

Tel : (+94 11) 2394350-2

Fax: (+94 11) 2394353

## Auditors to the Company

Kreston MNS & Co

Chartered Accountants

50/2 Sir James Peiris Mw, Colombo 10

Tel : +94-11-2323571

Fax: +94-11-2433388

## Credit Rating Agency

RAM Ratings Lanka Ltd

No. 11, Melbourne Avenue, Colombo 04

Tel : +94 11 2553089

Fax: +94 11 2553090

## Bankers

Seylan Bank PLC, Hatton National Bank PLC,DFCC Vardhana Bank PLC, Bank of Ceylon, Sampath Bank PLC & People's Bank



**Prime Grameen Micro Finance Ltd.**

No.168, Nawala Road, Nugegoda, Sri Lanka.

Tel: +94 11 217 6262, +94 11 217 6263

Email: [microfinance@primegrameen.lk](mailto:microfinance@primegrameen.lk)