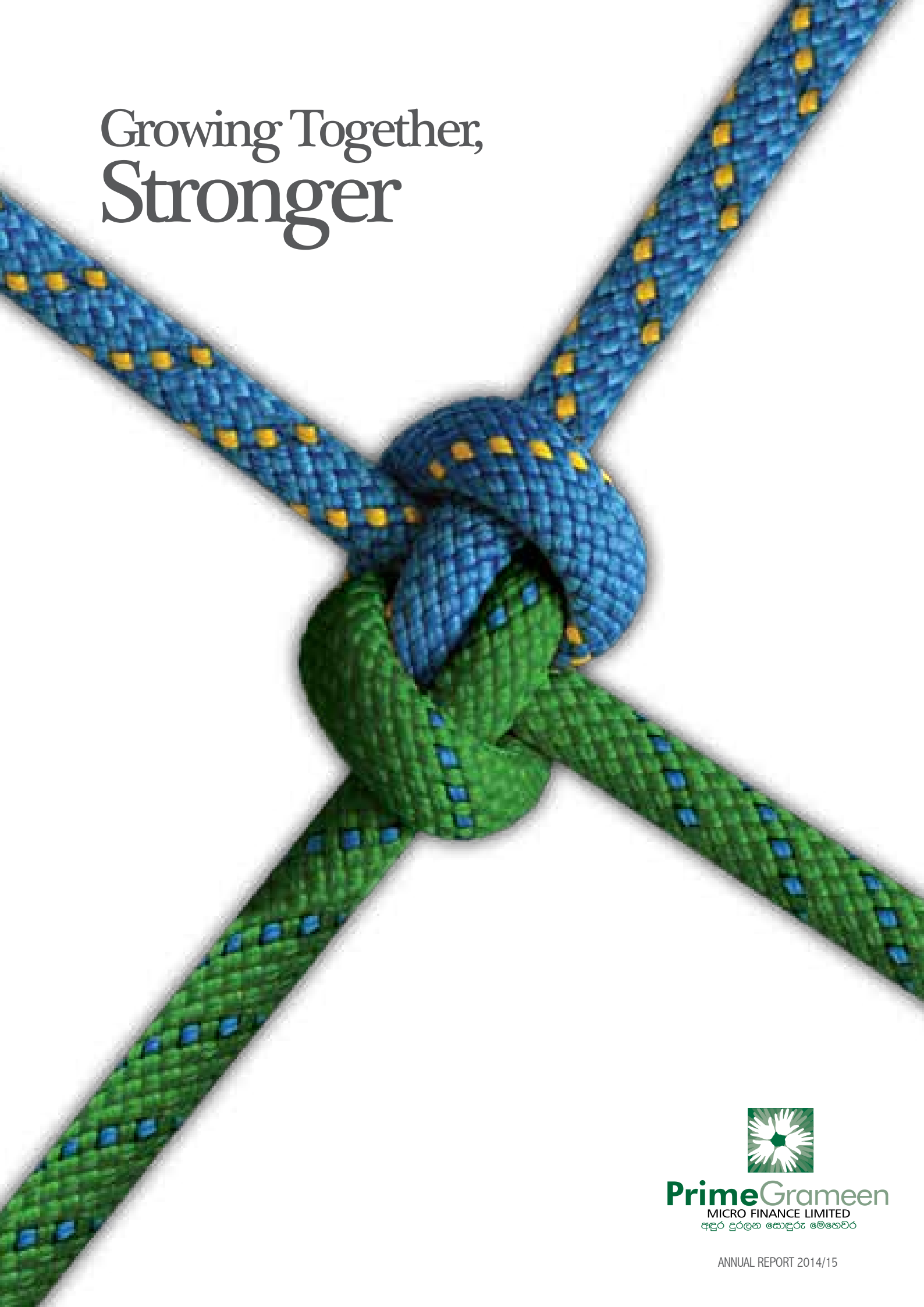


# Growing Together, Stronger



**PrimeGrameen**  
MICRO FINANCE LIMITED  
අපුර දුරලත සොළුරු මෙහෙවර

ANNUAL REPORT 2014/15



# Growing Together, Stronger

Having chartered a new course for small scale Entrepreneurs of Sri Lanka, we have grown together since our humble beginning 15 years ago. Through our mission of developing sustainable enterprises that cross all class, creed and racial barriers; today we are edging closer to realizing our Vision of becoming the #1 Micro Finance Provider. Our stability and consistency have enabled us to grow our customer base, introduce new products and our workforce all the while being impressively profitable. As we embark on a new chapter, we have consolidated our strength further by forming a lasting partnership with Hatton National Bank PLC to take us to new heights.



## **Our Vision**

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

## **Our Mission**

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

## Contents

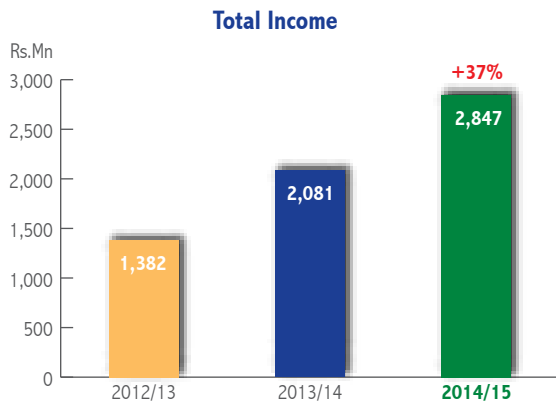
Financial Highlights . . . . .	4
The Story of Prime Grameen. . . . .	6
Accolades In 2014. . . . .	8
Operational Highlights. . . . .	9
Chairman's Review. . . . .	10
Managing Director / Chief Executive Officer's Review. . . . .	12
Board of Directors. . . . .	14
Corporate Management . . . . .	18
Management Discussion & Analysis . . . . .	22
Sustainability Report . . . . .	36
Governance Reports. . . . .	43
Annual Report of the Board of Directors. . . . .	48
The Board Integrated Risk Management Committee Report . . . . .	55
Board Audit Committee Report . . . . .	57
Nomination / Human Resources & Remuneration Committee Report . . . . .	59
Credit Committee Report . . . . .	61
Strategic / Investment Review Committee Report . . . . .	62
Risk Management . . . . .	63
Directors' Statement on Internal Control. . . . .	65
Independent Assurance Report . . . . .	66

## Financial Reports

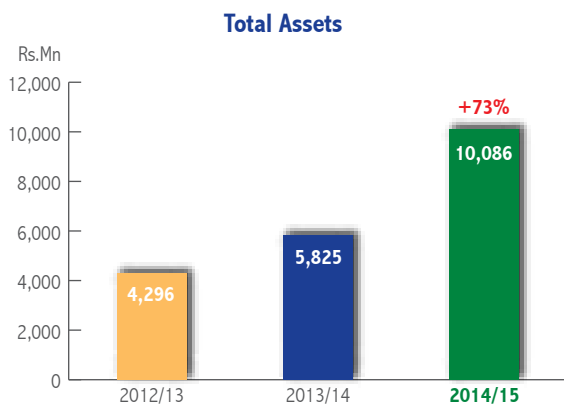
Independent Auditor's Report . . . . .	70
Income Statement . . . . .	72
Statement of Comprehensive Income . . . . .	73
Statement of Financial Position . . . . .	74
Statement of Changes in Equity . . . . .	75
Statement of Cash Flows . . . . .	76
Notes to the Financial Statements . . . . .	78
Share Information . . . . .	122
Note . . . . .	124
Notice of Meeting . . . . .	125
Form of Proxy . . . . .	127
Corporate information . . . . .	Back Cover

# Financial Highlights

Operating Results		2014/15	2013/14	Change	
Income	Rs.Mn.	<b>2,847</b>	2,081	37 %	
Profit before taxation (PBT)	Rs.Mn.	<b>827</b>	553	50 %	
Taxation Expenses	Rs.Mn.	<b>293</b>	148	98 %	
Profit after taxation (PAT)	Rs.Mn.	<b>534</b>	405	32 %	
Financial Position					
Total Assets	Rs.Mn.	<b>10,086</b>	5,825	73 %	
Loan Portfolio	Rs.Mn.	<b>5,728</b>	3,591	60 %	
Deposits	Rs.Mn.	<b>7,557</b>	3,547	113 %	
Compliance Ratios					
	Requirement				
Core capital ratio (Tier I)	> 5%	%	<b>8.92</b>	1.50	495 bpts
Total risk weighted capital ratio (Tier I & II)	> 10%	%	<b>11.45</b>	3.00	282 bpts
Other Indicators					
Cost to Income		%	<b>55.61</b>	65.98	(16) bpts
Return on assets (ROA)		%	<b>6.72</b>	8.01	(16) bpts
Non-Performing loans ratio (NPL)		%	<b>0.88</b>	0.50	76 bpts

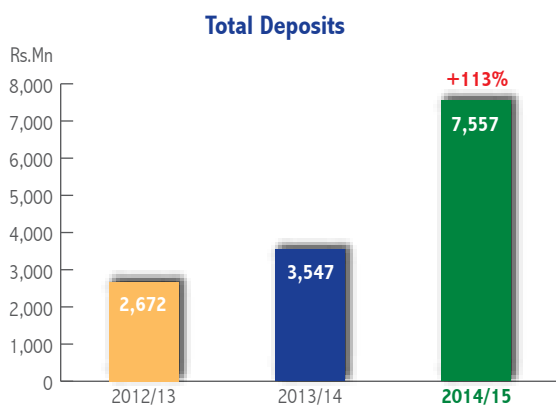


**48**  
Branches  
2013/14 - 48  
2012/13 - 48



**11**  
Service Centres  
2013/14 - 5

**1,126**  
Employees  
2013/14 - 1,035  
2012/13 - 815



**207,000**  
Customers  
2013/14 - 172,000  
2012/13 - 123,000

# The Story of Prime Grameen

**1999**

Formation of the organization as a limited liability company to provide Micro Finance.

**2009**

Re-brand the Name to Grameen Micro Credit Ltd.

**2010**

CBSL grants the LFC License and reduced branches from 78 to 48 as per CBSL Direction by raising Rs.200Mn as core capital.

**2014**

The majority shares of the Company is acquired by HNB PLC under the Financial Sector CBSL Consolidation program.



## 2000

Opening of 1st Branch with 2500 Customers (CITY)

## 2008

Company expands to 78 branches with over 2498 employees.

## 2011

Prime Lands Group acquires ownership and laid foundation for revival of the company by infusing Rs.700Mn in equity and Rs.350Mn as debt and re-branded the company as "Prime Grameen Micro Finance Ltd".

## 2012

For the first time Company achieved an annual profits of Rs. 83Mn which is 362% of growth compared to previous year.

## 2015

### January

The Company is internationally recognized as the "Asia's Most Promising Brand 2014".

### March

"Best achiever" of the year 2014 award in annual ratings of Credit Information Bureau of Sri Lanka (CRIB). The first LFC to achieve this prestigious award.

## Accolades In 2014

### Prime Grameen Micro Finance wins International Award

Prime Grameen Micro Finance Ltd has added yet another milestone to its vibrant journey, by winning the “Asia’s Most Promising Brand 2014” coveted award in the Micro Finance Industry in Asia in recognition of its contribution to the Micro Finance Industry and the achievements it has made during the year 2014.

The event was organized by the World Consulting & Research Corporation (WCRC) India, a renowned research and Consultancy Corporation having its presence in UK, Singapore & Australia. Prime Grameen Micro Finance Ltd was the only Sri Lankan company to win the coveted award in 2014 and also the first and only MIFI in Sri Lanka to receive this award.



### Prime Grameen Micro Finance Limited endowed by the Credit Information Bureau

For the first time the Credit Information Bureau of Sri Lanka (CRIB) undertook the onerous task of assessing 06 selected institutions out of the 91 Banks and other Financial Institutions registered with the CRIB to evaluate accuracy and the maintenance of updated records pertaining to borrowers of the said Member Companies. We are pleased to note that Prime Grameen Micro Finance Company was adjudged first in the category of Companies serving a customer base of 100,000 - 300,000.



# Operational Highlights

March 2014

## Building awareness on Internal Audit Procedures

On 15 March 2014, a special programme was organised at the Prime Grameen Conference hall, to create awareness and educate all of Prime Grameen's Senior Officers based at the Head office and Branches. This was conducted in collaboration with the professionals of KPMG, a renowned Audit firm in Sri Lanka.

June 2014

## Horana Branch relocation

On 26 June 2014, at the auspicious time of 8.53, The Horana Branch was relocated to new premises with added facilities, in order to better serve its customers.

## Introduction of "Prime Grameen Ezy Loan"

Under the broad theme of "not a burden, but a comfort" the Prime Grameen "Ezy Loans" scheme was introduced to the business community of Sri Lanka with a view of facilitating the country's diverse financing requirements

July 2014

## Jaffna Branch Re-location

On 4 July 2014, the Jaffna Branch was relocated to No.56/17, Stanley Road, Jaffna which is situated in the financial hub of Jaffna

August 2014

## Relocation of the Nuwara-Eliya Branch

On 15 August 2014, the 12th Branch of the Prime Grameen branch network, was relocated to No.05, Sir Jayathilake Mawath, Nuwar Eliya.

September 2014

## Re-appointment of Director Position, to the Board of Sri Lanka Micro Finance Practitioners Association (SLMFP)

Mr. Ramesh Fonseka, Assistant General Manager (Compliance & Risk) of Prime Grameen Micro finance Ltd was re-appointed to the Board of the Sri Lanka Micro Finance Practitioners Association for the second consecutive year.

October 2014

## Yalu Educational Tours

On 2 October 2014, in commemoration of the World Children's Day a Conference was held at the Moratuwa Wales Kumara Auditorium, under the theme "Yalu Educational Tours". This is another session of a series of conferences scheduled to educate students sitting for Ordinary Level and Advanced Level Examinations

November 2014

## Introduction of Swashakthi and Abhilasha

On 2 November 2014, two loan schemes were introduced targeting small and medium scale enterprises titled "Swashakthi" and "Abhilasha"

## HNB-Grameen Acquisition

Turning a new chapter in the history of the Company, Prime Grameen affiliated itself with HNB PLC, one of the leading Commercial Banks of the country.

## Relocation of Tricomalee Branch

The Branch in Tricomalee was relocated to a more convenient and spacious location to better service its clientele, at No.124/2, Main Street Trincomalee.

January 2015

## Prime Grameen Micro Finance wins "Asia's Most Promising Brand 2014" at WCRC International Awards

Prime Grameen Micro Finance Ltd, the flagship Micro Finance provider in the Financial Industry and a member of the HNB group, was able to achieve international recognition by winning the "Asia's Most Promising Brand 2014" coveted award for the Micro Finance Industry in Sri Lanka, in recognition of its contribution to the Micro Finance Industry and its achievements during the year 2014.

## Chairman's Review



"The past year has marked a significant milestone for Prime Grameen, having joined forces with Hatton National Bank (HNB) as the primary shareholder."



Dear Shareholders,

It is with great pleasure that I place before you the Annual Report of your Company for the Financial Year 2014/15. The past year has marked a significant milestone for Prime Grameen, having joined forces with Hatton National Bank (HNB) as the primary shareholder. Embracing the shared vision of Growing Together, Stronger, this acquisition will undoubtedly propel your Company to achieve its own vision of becoming 'The Most Successful Micro Finance Provider' in the country. This also further strengthens the values of both Companies as the acquisition complements and unveils synergies relating to micro finance, SME and development banking.

Having celebrated its expertise in the Micro Finance industry for over 14 years, Prime Grameen's flagship micro finance products have served thousands of customers to uplift their standard of living. Our 48 branches spread island wide, 11 service centres and 1,126 dedicated staff have contributed immensely to improve the livelihood of over 207,000 beneficiaries in all spheres of Micro Finance activities. The ever increasing demand for our services is a manifestation of our dedication and commitment to financial inclusion.

HNB's flagship micro finance product, 'Gami Pubuduva' celebrated 25 years in 2014 and has served more than 150,000 micro finance customers through its 150 agricultural offices and 250 strong branch network. HNB has served over 325,000 customers across the spheres of development banking and commands a wealth of knowledge while bringing tremendous industry experience that offer partnership synergies to add value and enable a strong upward shift of the micro entrepreneur client base of your company. It is therefore, our shared passion to see our clientele elevate themselves in the value chain from their poverty levels and thus attain SME status and beyond, with more sustainable business entities bringing in enhanced contributions to the national economy.

The performance of your Company during the current year has lived up to expectations. An impressive Rs 534mn profit after tax was recorded, largely owing to the commitment and dedication of the staff and also the guidance given by the previous and present Board of Directors. Loan growth expanded by 59% against the previous year, while customer deposits increased by 113%. This growth is the best indicator of public faith and confidence in the Company, due to the association with HNB. Although the NPA increased marginally during the year, I am indeed happy to note that it was maintained at less than 1% and all efforts are being directed towards effectively containing the NPA.

I cannot possibly disregard our base of female micro entrepreneurs who have played a formidable role in driving the Company to reach such extraordinary heights. It is their perseverance, motivation and undying zeal that has, and will, continue to stimulate us to grow together, stronger. Furthermore, I am both humbled and honored to be a part of Prime Grameen's rich history that has served the people of this country for one and a half decades and impacted over 207,000 deserving female micro-industrialists. I am also very grateful for the immense contribution made by Prime Lands since 2011, in bringing the Company to its current state and empowering the employee base to thrive amidst challenging circumstances and consolidate the network of 48 branches and 11 service centres.

Future prospects for the Company are extremely encouraging with many opportunities. The recently approved three year Strategic Plan provides the Company with a clear direction for the future. The current macro economic landscape of the country would also contribute positively towards Company growth, as it is conducive to promoting the micro finance business. The national policy of the country supports financial and social inclusivity along with initiatives at enhancing financial literacy. Addressing a long felt need, it is also anticipated that a more systematic regulatory framework which would be conducive to developing a healthy micro finance industry would be enacted early. Such a process would reduce the size of the country's informal sector and enhance financial inclusivity. Meanwhile, riding on the benefits of capped interest rates, the industry would be able to pass on the benefit of low interest rates to our customers. However, it is also important to be cautious and avoid overheating the micro finance industry through a disciplined and controlled frame work mechanism, implemented as mentioned before.

Moving forward with the synergies of the HNB Group, we are confident of continuous growth in loans and other services, facilitated by a further increase in our client base. Embracing the opportunities presented by the ICT industry, the Company's activities will be centralised through the implementation of multi-faceted technological initiatives. We also see opportunities to develop new products through the strategic application of technological solutions. Therefore, the Company's future will take the 'technology route, without losing the human touch'. We are also planning to roll out mobile based channels for our deserving female entrepreneurs, thus eliminating the hassle of travelling to make repayments and for other services.

As we move into the next phase of the Company's growth, it also gives me immense pleasure to bring to your notice the impending Company name change, to HNB Grameen, which is due to come into effect at the AGM in July, 2015. Henceforth, the sales model, service model and IT model of the Company will be aligned with the Group Strategy. This would enable the Company to capitalise on the synergies of shared knowledge, common vision, technology, channels, and even training and development. Such a strategic alignment would expand the Company's geographic borders.

In conclusion, I extend my heartfelt gratitude to my Board of Directors, Management and Staff for their unflinching support during this challenging transition period. I wish to thank my colleagues on the Board and the staff, who performed diligently and worked tirelessly to elevate the financial health of the Company to where it is today. Whilst extending a warm welcome to the new Directors of the Board I also thank the Directors who contributed to the success of the company and resigned. A deep appreciation is also rendered to Prime Lands for their unrelenting efforts that laid a solid foundation for the Company. I also extend my gratitude to the Central Bank for its outstanding regulatory services offered throughout the year and also wish to thank all stakeholders for their support.



**Jonathan Alles**

Chairman / Prime Grameen

10th June, 2015

## Managing Director / Chief Executive Officer's Review



"I am also happy to report that amidst an increasingly competitive and volatile Micro Finance environment, the Company's major achievements have enabled a strong performance, for the year under review."



Dear Shareholders,

As we embark on a significant milestone in the history of the Company, I am both honoured and pleased to place before you the Annual Report for the year 2014/15, during which period your Company continued its strong upward trend with more vigour.

The most noteworthy change that took place in the Prime Grameen Micro Finance Ltd (PGMFL) this year was the acquisition of a major stake of the company by the Hatton National Bank PLC (HNB) in November 2014, in accordance with the consolidation programme of the Central Bank, which resulted in the reconstitution of the Board of Directors bringing in new talent in a number of financial related fields. Following good governance principles several other Board sub committees whose reports are given in this Annual Report, were also established/reconstituted. I view these strategic moves as a signal to a beginning of a new era and as a major contributor in further strengthening the Company's position as a leader in a competitive Micro Finance Industry. Through the synergies that are now available, your company is poised to reach greater heights in pursuing its foremost goal of financially impacting and uplifting the rural population of our country.

During the year under review the Company launched a three pronged product development initiatives, by introducing new financial products to the Micro Finance & SME Sectors. The introduction of 'Abhilasha' Loan scheme aimed at both male and female individual entrepreneurs, away from the group lending practice, providing enhanced financial services with greater flexibility, and prolonged repayment periods, meets the standards of the Global Micro Finance industry. In parallel, the 'Swashakthi' Loan scheme launched during the year offers financial assistance to our savings customer base which exceed 250,000 striving entrepreneurs. Loans are granted under this scheme against their savings accounts with less paper work and ease. With considerable potential for growth for savings as depicted this year, I am confident that this scheme will provide an impetus for further strengthening the Company's rapport with its client base and its forward march in growing. After a successful implementation of a pilot project the previous year, the company has given a new lease of life to the EZY Loan scheme with minor changes by introducing the scheme to be implemented by our 48 branch network spread across the Country.

The financial year 2014/15 saw your Company strengthening its Human Resource and ICT Infrastructure by way of significant investments. Several initiatives including recognition and rewarding of 145 long standing employees for their service excellence over the past decade for the first time in the history of the Company. Tying up with a renowned Indian Micro Finance IT Vendor who would provide the core banking system for the Company, which is due to go live in the first Quarter of the new Financial Year are noteworthy milestones in these areas. In addition, with a view to taking the operations of the company to the next level, maximizing the comparative advantages now available, several other steps are being taken to enhance our services through developing synergies with HNB PLC utilizing their automated Banking facilities ,

I am also happy to report that amidst an increasingly competitive and volatile Micro Finance environment, the Company's major achievements have enabled a strong performance, for the year under review. In an Industry where the

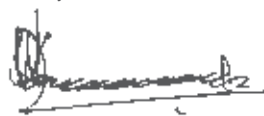
gross NPL averages over 6%, PGMFL has maintained the net NPL at less than 1% during the year under review, which is yet another achievement attained through meticulous monitoring and supervision of its business processes. The growth of profits after tax was recorded at 32%, while the cost-to-income ratio was reduced by 16% to an average of 55% through conscious efforts taken in this area in comparison with last year. This compares with 60%, recorded on average in the micro finance industry. The Company's income growth recorded at 37% while growth of loans and advances stood at 60%, during this financial year. The fixed deposit portfolio grew by 113% during the current year over last year.

The performance of your company during the financial year under review, was recognized internationally and the Company won the International accolade for 'The Most Promising Brand in Asia' in the Micro Financial sector awarded by the World Consulting and Research Corporation at the Asia's Most Promising Brands Award ceremony 2014, held in New Delhi, India. In addition, at the 25th Anniversary celebrations of the CRIB held in Colombo 2015, PGMFL was the only Licensed Financial Institution to be feted with the first ever CRIB Rating award for 'Best Achiever of the year 2014'.

Your company reached the above heights not only against a background of an existing stiff competitive environment but also with a few new institutions joining to share the business. Over the coming years the Company's direction of operations will be based on the 03 year strategic plan in place to expand the business substantially on a sustainable path with new strategies. A driving force in rolling out these strategic changes will be the technological enhancements and upgrades that will be done to the core business. In the year ahead PGMFL also will expand its customer reach by adding new service centres with a target of increasing the customer base by 36%.

In closing I wish to extend my sincere appreciation and gratitude to the previous Chairman and the Board of PGMFL along with Prime Lands for their invaluable contribution in laying the solid foundation for Prime Grameen. I also extend my heart felt appreciation to the new Chairman and the Board of Directors for their unstinted support extended to me in elevating the company to greater heights. A special note of appreciation is rendered to my Senior Management Team and all staff for their contributions and efforts, during what was a challenging transitional period. I am extremely grateful to our devout Micro Finance Customers, Fixed Deposit Holders and Savings Customers for their continued trust and patronage of our services. I sincerely thank for all the regulatory guidance and support given to me by the Central Bank, the Governor and Assistant Governors along with the Directors of the Department of Supervision of Non-Bank Financial Institutions whose support has been invaluable in upholding and maintaining the ethical standpoint of the Company.

Sincerely



**B.M.D.C. Prabhath**  
Managing Director / Chief Executive Officer

31st March, 2015

## Board of Directors

*Left to Right*

**B.M.D.C. Prabhath** Managing Director / Chief Executive Officer

**L.L.C.C. Thambiah** Senior Director

**A.J. Alles** Chairman

**B. Premalal** Deputy Chairman





*Left to Right*

**N.H.T.I. Perera** Director

**H.K.S.R. Perera** Director

**M.A.R.C. Cooray** Director

**A.L. Somaratne** Director

**Shiromi Halloluwa** Company Secretary



## Board of Directors

### **Mr. Jonathan Alles** Chairman

Mr. Jonathan Alles is the Managing Director/Chief Executive Officer of the Hatton National Bank PLC.

Mr. Alles is the Chairman of Sri Lanka Bankers Association (Guarantee) Ltd, Financial Ombudsman Sri Lanka (Guarantee) Limited, Lanka Financial Services Bureau Ltd, Lanka Ventures PLC and Prime Grameen Microfinance Ltd. He also serves as a Director of Sithma Development (Pvt) Ltd, Acuity Partners (Pvt) Ltd, Acuity Stockbrokers (Pvt) Ltd, HNB Assurance PLC and HNB General Insurance Ltd.

Mr. Alles holds a MBA in Finance from the University of Stirling, UK and is an Associate Member of the Institute of Bankers of Sri Lanka. He is a Member of the Sri Lanka Institute of Directors and also serves as a member of the Advisory Committee of Sri Lanka Business & Biodiversity Platform.

Mr. A.J. Alles serves as Chairman of the Strategic Investment and as a member of Remuneration-Nomination board subcommittees.

### **Mr. B. Premalal** Deputy Chairman

Mr. Premalal is the Founder of Prime Lands (Pvt.) Ltd. He is Professionally qualified and has experience over 25 years in various industries. He is a fellow member of the Institute of chartered Management Accountants (UK), chartered Business Administrator (Canada), Member of Sri Lanka Institute of Marketing and holds a Postgraduate Diploma in Marketing from University of Sri Jayawardenepura. He is a Director of Marchant Bank of Sri Lanka (Subsidiary of Bank of Ceylon) and has vast experience in real estate industry and exposure on many other industries as an entrepreneur. Mr. Premalal is a winner of the UCD Entrepreneur of the year of 2011 and has participated in the Microfinance winter Academy 2012 workshop Cambodia

Mr. B. Premalal serves as a member of the Remuneration-Nomination and Strategic-Investment board subcommittees.

### **Mr. B.M.D.C. Prabhath** Managing Director / Chief Executive Officer

Mr. Prabhath holds a Master's Degree in Business Administration (Specialized in Finance) from the University of Southern Queensland in Australia. He also holds a Postgraduate Diploma in Business and Financial Administration from Institute of Chartered Accountants of Sri Lanka and Certified Management Accountant of Institute of Certified Accountants of Australia. He has over 15 years of experience in the Finance industry of the private sector. He is an Internationally Certified Microfinance expert from Frankfurt School of Finance and Management, Germany and participated in the Microfinance Winter Academy 2012 in Cambodia.

He is a member of Institute of Directors'. He has also won the prestigious international award "Game Changer of the year 2014" from WCRC in India.

### **Mrs. L.L.C.C. Thambiah** Independent Nonexecutive Director

Mrs. Thambiah is a professional banker with over 38 years experience in the private banking sector. Prior to her appointment Mrs. Thambiah served as the Deputy General Manager Network Management at Hatton National Bank PLC and held other coveted positions as Manager Pettah branch, Senior Manager Emirates branch and Assistant General Manager FCBU and AGM Commercial Credit Unit of HNB PLC. Mrs. Thambiah is an active social service activist and she currently serves as the treasurer of National Stroke Association of Sri Lanka.

Mrs. L.L.C.C. Thambiah serves as Chairperson of Credit Committee and is a member of Audit and Risk Management Board subcommittees.

### **Mrs. M.A.R.C. Cooray** Director

Mrs. M.A.R.C. Cooray is a senior Director in Hatton National Bank PLC and is a retired Deputy Governor of the Central Bank of Sri Lanka where she served for over 35 years. She is a Director of Ceylon Guardian Investment Trust PLC, Ceylon Investment PLC and Prime Grameen Micro Finance Limited.

On release from the Central Bank, she had served at the Ministry of Finance in the capacity of Director General Fiscal Policy and Economic Affairs Department for nearly 6 years, represented the Government on the Boards of DFCC Bank, Sri Lanka Institute of Information Technology,

Sri Lanka Telecom, Ceylon Electricity Board, De La Rue Currency and Security Print (Pvt) Ltd, Export Development Board, National Housing and Development Authority and represented the Monetary Board on West Coast Power (Pvt) Ltd.

She has functioned as the Vice Chairperson of the Institute of Bankers of Sri Lanka for 5 years and has served on a number of Committees at national level covering a variety of subjects representing the Ministry of Finance and the Central Bank. She has also represented the Central Bank and the Ministry of Finance at various international meetings/seminars.

Mrs. Cooray has been involved extensively in policy making and implementing projects and programmes especially in the area of regional development and microfinance. She has wide experience in negotiating loans with multilateral and other donors as well as bilateral trade agreements on behalf of the Government. Her articles/papers have been published in professional journals.

Mrs. M.A.R.C. Cooray serves as Chairperson of the Risk Management, Remuneration-Nomination committees and as a member of Audit and Strategic Investment Board subcommittees.

**Mrs. H.K.S.R. Perera**  
Director

She is a Founder Member of the Prime Lands Group. Mrs Perera is a practicing marketer Sri Lanka, a member of the Sri Lanka institution of marketing and holds a MSc in Marketing Malaysia. She has wide experience over 17 years in real estate management and finance. Her business acumen and entrepreneurship skills shown as Deputy Chairperson of Prime Lands Group are remarkable and splendid. She is a winner of SUNFO ECONOMIC DEVELOPMENT INTERNATIONAL in 2005 for the recognition of the remarkable services towards economic development of Sri Lanka. Mrs. Perera is holder of (LKCM) The programme on Corporate Management for Sri Lanka in the Association for Overseas Technical Scholarships (ATOS).

She is a winner of the prestigious international award Excellency in Women Empowerment 2014 by WCRC India.

Mrs. H.K.S.R. Perera serves as a member of the Strategic Investment Board sub committee.

**Mr. N.H.T.I. Perera**  
Director

Mr. N.H.T.I. Perera was appointed to Board of Prime Grameen Micro Finance Ltd on 18th November 2014 by the Central Bank of Sri Lanka. He also holds the position of DGM Retail and SME Banking of HNB PLC. Mr. Perera counts over 20 years of banking experience with foreign exposure in the Middle Eastern and the Northern African regions. He is a Chartered Accountant and Finalist CIMA (UK).

Mr. N.H.T.I. Perera serves as the Chairman of the Audit and is a member of Strategic-Investment Board subcommittees.

**Mr. A.L. Somaratne**  
Director

Mr. Somaratne is a banker with more than 35 years experience Specializing in SME and Microfinance. 25 years of his banking career has been spent with the National Development Bank and left the Bank in 2005 as its Vice President in charge of SME and Microfinance. After leaving NDB he joined the International Finance Corporation (IFC) of the World Bank Group as its Head of Advisory Services for Maldives and Sri Lanka. He has also served as the Chief Executive Officer(CEO) of Nationwide Micro Bank of Papua New Guinea and General Manager of SPBD Microfinance in Fiji. He has work experience in countries like East Timor, Lesotho and Maldives

Mr A.L. Somaratne serves as a member of Board appointed Audit and Credit sub committees.

**Ms. Shiromi Halloluwa**  
(Attorney-at-Law & Notary Public)-Company Secretary

Appointed Company Secretary in November 2014. Presently works as the Manager - Legal (Operations) of the Hatton National Bank PLC and Company Secretary of HNB Assurance PLC, a subsidiary of Hatton National Bank PLC. Counts over 19 years experience in the Legal Profession and 15 years as a member of the Legal Team of Hatton National Bank PLC.

## Corporate Management



**W.S.P. Arangala**  
General Manager - Finance



**W.B.A. Fernando**  
Deputy General Manager - Operations



**S.A.R. Fernando**  
Deputy General Manager - HR & Administration



**B.S. Seneviratne**  
Deputy General Manager - Fixed Deposits & Savings



**R.K.M. Priyanga**  
Assistant General Manager -  
Operations



**R.M. Mahindathissa**  
Assistant General Manager -  
Operations



**M.P.S. Cooray**  
Assistant General Manager -  
Operations



**K.D.D. Prabath**  
Assistant General Manager -  
Operations



**J.M.R. Fonseka**  
Assistant General Manager - Compliance /  
Risk



**H.D.S.C. Gunasekara**  
Chief Accountant



**W. Punchihewa**  
Head of Legal



**D.M.K. Munasinghe**  
Head of Business Systems & Development



**Pradeepa Dias**  
Head of ICT



**Anura Udawatte**  
Head of Training



## Management Reports



# Management Discussion & Analysis

## Micro Finance Industry Overview

### Finance Sector Overview (Non-Bank Financial Institutions)

Detailed herewith are the financial highlights of the Licensed Finance Companies (LFC) and Specialized Leasing Companies (SLC) of Sri Lanka for the financial year under review. As set forth by the Department of Supervision of Non-Bank Financial Institutions; the LFC/SLC sector Asset Base experienced a Year-on-Year (YoY) growth of 20.3% in December 2013, this growth trajectory continued throughout the year, ending with a 18.9% growth as at December 2014. Borrowings stood at 12.9% at the end of the same period, while the most significant sector highlight was seen in Deposits which stood at Rs. 414 Bn, recording a 22.7% growth as at December 2014.

On the other hand, the sector underwent a period of low credit growth despite the prevalence of lowering interest rates since 2013. Nevertheless, by the 3rd quarter of 2014, the LFC/SLC sector growth accelerated and thus recorded a 16% YoY growth, stabilizing the Industry. Furthermore, due to the attractive interest rates (in comparison to the Banking Sector), the LFC sector continued to mobilize deposits steadily. Savings deposits too have grown to Rs. 1.7Bn, despite a dwindling base. The borrowings remain to be predominantly from banks and financial institutions, which account for approximately 45% of total sector borrowings, while the foreign borrowings share decreased from 8.6% to 6.3% YoY.

Out of the sector's Lending Portfolio, finance leases and hire purchase accounted for 62% of the LFC/SLC sector, while the share of secured loans picked up from 24% to 29% YoY, the pawning sector recorded a negative coming down from 5% to 4% YoY.

Non Performing Accommodations (NPA) of the LFC/SLC sector increased in total by 19%, having picked up from Rs. 37Bn to Rs. 44Bn YoY, while the hire purchase and finance leases represented 53% of the sector's NPAs.

### Micro Finance Sector - Overview

The current macro-economic landscape of the country is conducive to promoting the micro finance business which is further supplemented by the national policy of the country, which supports financial and social inclusivity along with initiatives that propagate financial literacy.

The 'Grameen Model' is a widely used Micro Finance (MF) Model adopted and practiced globally. This concept was introduced by Nobel Prize winning economic laureate Prof. Mohammed Yunus of Bangladesh. This model recognizes that formal access to credit is a fundamental right of all citizens of a country. Under this model loans are given to an individual of a group, whereby the rest of the group members cross guarantee to settle the loan(s) of the group member(s), in case of default.

### Micro Finance Industry Review- 2014

Micro Finance in Sri Lanka has a history of over 75 years with existence of thrift societies. 'Gemi Pubuduwa' of HNB PLC and 'Samurdhi' has also been in operation for over 25 years. However, commercialization of the group lending mode of Micro Finance industry could be traced back to the year 2000 with the adaptation of the 'Grameen' model by Prime Grameen Micro Finance Ltd. It is estimated that there are more than 10,000 micro finance players in Sri Lanka that include corporative societies, NGOs and small regional players.

The positive macro-economic conditions of the country saw the Sri Lankan economy stand firm amidst challenging forces, during the year under review. A growth in real GDP of 7.4% in 2014, along with GDP per capita increase of US\$ 3,625 in 2014, coupled with the decrease in unemployment and single digit inflation provided a favourable macro-economic environment for the country. Despite which, the micro finance sector performance was not constructive primarily due to the lack of a proper regulatory framework for non-regulated micro finance players, to succeed in their business activities. Hence the delay in establishing the legislation relating to the MFI's has hampered the process of carrying out activities within the Industry, smoothly.

As per the findings of the Lanka Microfinance Practitioners' Association; from a random sample of data gathered in 2014, it indicates that the worst affected group among the industry was the Non-Government Institutions. As such the data revealed the declining trend of equity, loan portfolio and even a drop in customer base by 41%, 6% and 1% respectively, in comparison to the year before. Hence concerns over the lack of regulation within the microfinance industry, continues to be a topic of discussion in the 100 day programme schedule of the newly elected government as well. As such the matter requires immediate remedial action to rectify and bring back order and an appropriate legal framework to the Industry.



## Positioning of Prime Grameen

The Company made its entry into the Micro Finance Industry in the year 2000, as Ceylinco Grameen Credit Co. Ltd, having thereafter been acquired by the Prime Lands Group in 2011. Thereafter, the Company was renamed to Prime Grameen Micro Finance Ltd and became a fully-fledged finance company, registered and licensed to obtain public deposits by the Central Bank of Sri Lanka.

Having spearheaded the Industry as a leading micro finance operator of Sri Lanka, Prime Grameen flourished as the only licensed finance company in the country to engage in micro finance services as its core business. The later part of 2014 saw the Company embark on its next visionary journey, having been acquired by the Hatton National Bank as its primary shareholder.

Upon entering in to a new phase of growth subsequent to the HNB PLC acquisition, the Company continues to pursue its mission of providing micro finance support to striving entrepreneurial females to develop a sustainable enterprise at grassroots levels. Further supplemented and strengthened through shared knowledge and synergies of the strategic acquisition, the Company is confident of capitalizing on the banking knowledge of HNB PLC to leverage the Micro Finance experiences of Prime Grameen. With the synergies of these two joint forces, the Company is on a steady footing to grow its core business and reinforce its position within the market as the premier micro finance company.



With 15 years of Industry experience, Prime Grameen's flagship micro finance products have served thousands of customers to uplift their standard of living, holding fort as an entity that propagates social inclusivity that is devoid of class, creed and racial barriers. Over the past decade and half, Prime Grameen enabled over 207,000 female entrepreneurs to overcome poverty whilst enhancing the economic stability of the country.

## Core Business & Product Portfolio

Despite challenging micro economic conditions dominated by a high and unprecedented level of industry competition, Prime Grameen thrived in a volatile environment in growing its core business and product portfolio. Notwithstanding natural adversities like unpredictable weather patterns that affected the grassroots segment of the community, coupled with external forces that further challenged the industry, the Company continued to expand its product offering. Despite unregulated industry environments that led to multiple borrowings and unrest within the industry, new entrants steadily entered the market, further growing this informal segment.

### Loans

Having started its micro lending in the year 2000 following the well-known 'Micro Grameen' concept, Prime Grameen has been serving the low income segment of the country for 15 years with a variety of loans catering to multipurpose needs. The year under review saw a 20% increase in the loan customer base along with a 60% value base increase, through the versatile loan offering of the Company. From a development perspective, during the year under review the Company introduced three new financial products to the Micro Finance and SME sectors through the 'Abhilasha' 'Swashakthi' and EZY Loan Schemes.

### Diriya Micro Loan

A loan facility provided to low income self-employed females who wish to commence an enterprise through self-employment and is valid for active and capable individuals within the 18-60 age group, with a keen interest of improving their livelihoods. The instalments are collected on a weekly basis through 'meeting centres', which has also created a platform for imparting knowledge to loan holders on best business practices and overcoming day-to-day challenges. In a highly competitive arena, this has played a pivotal role in retaining existing customers.

### Sahana Loan

An interim loan facility granted to active members of Diriya Loans to financially meet their urgent consumption requirements, including the financing of social functions, such as weddings and funerals as well as unanticipated statutory payments, a female borrower might be burdened with. As is implied by the name of the product, this scheme looks to bring peace of mind to its borrower. Female borrowers can obtain a loan up to a maximum limit of Rs.10,000. Retention of customers is an additional advantage gained through the provision of this loan facility.

## Management Discussion & Analysis

### Swashkakthi Loan

The Swashkakthi Loan scheme launched during the year offers financial assistance to the savings customer base, which exceeds 250,000 striving entrepreneurs. Loans are granted under this scheme against their savings accounts with less paper work and ease. Accordingly, Prime Grameen has succeeded in catering to and supporting small entrepreneurs financially, while encouraging them to improve their savings at Prime Grameen.

### Abhilasha Loan

Abhilasha Loan scheme is aimed at both male and female individual entrepreneurs, away from the group lending practice and provides enhanced financial services with greater flexibility and prolonged repayment periods to meet the standards of the Global Micro Finance industry. Individuals who wish to borrow less than Rs. 500,000 are considered as micro individual borrowers and those who wish to borrow more than Rs. 500,000 are considered as SME borrowers. This was specially designed to overcome limitations in the group lending model.

### EZY Loan

Subsequent to the successful implementation of a pilot project in the previous year, Prime Grameen gave a new lease of life to the EZY Loan scheme by re-launching it with minor changes among their 48 branch network spread across the country. This facility is granted for those in the SME sector who hold current accounts at commercial banks in Sri Lanka. Enabling 'easy' access to fund working capital requirements, this loan scheme is aimed at discouraging entrepreneurs from seeking financing from unregulated sources such as money launders.

### Deposits

#### Fixed Deposits

Whilst guaranteeing the highest returns on fixed deposit investments, the deposit holders are granted an advance against their deposits. In the year under review the FD customer base increased by 27% whilst value base increase of 113% was seen during the same period. This increase was largely owing to the fact that the Company has, over the years, built strong confidence in the general public. Complementing the core business of the Company, the liquid assets thus collected through deposit mobilization were re-channeled into the economy in the form of micro loans.

### Savings Deposits

In meeting one of the Company's primary objectives of encouraging the saving habit of its customers including borrowers, Prime Grameen offers three savings products to its customer base, namely 'Miyulasi', 'Yalu' and 'Prime'. The combined Savings Customer Base exceeds 250,000 who stand testament to the growing potential of this segment. As such, during the year under review the savings base increased by 50% while the value base increase also stood at 128%.

'Miyulasi', was introduced as a savings scheme to female borrowers, with the view to inculcate the savings habit in the loans customer base. The additional collateral in the form of Savings Deposits, has also paved the way to reduce the credit risk of the Company's loans portfolio.

One of the most attractive children's savings schemes in Sri Lanka, 'Yalu', was launched to instill the habit of saving in children, ensuring our future generation of better financial security in the years to come.

'Prime', the general savings account catering to the masses has also gained a considerable share of the market. This account avails its customers to a personalized service.

### Outreach / Geographic Scope

Since its inception 15 years ago, Prime Grameen has steadily expanded its geographic reach within Sri Lanka by covering its bases from North to the South of the country, comprising a fully-fledged integrated branch network of 48 Branches, 11 Service Centres, including six centres for which approval was granted during the year-end review. (Morawaka, Kuliypitiya, Pothuvil, Kekirawa, Galenbindunawewa & Nedunkerni). Furthermore, with the aim of enhancing experience and exposure of the customer base, the Company increased the meeting centres to 5,973 during the year under review.

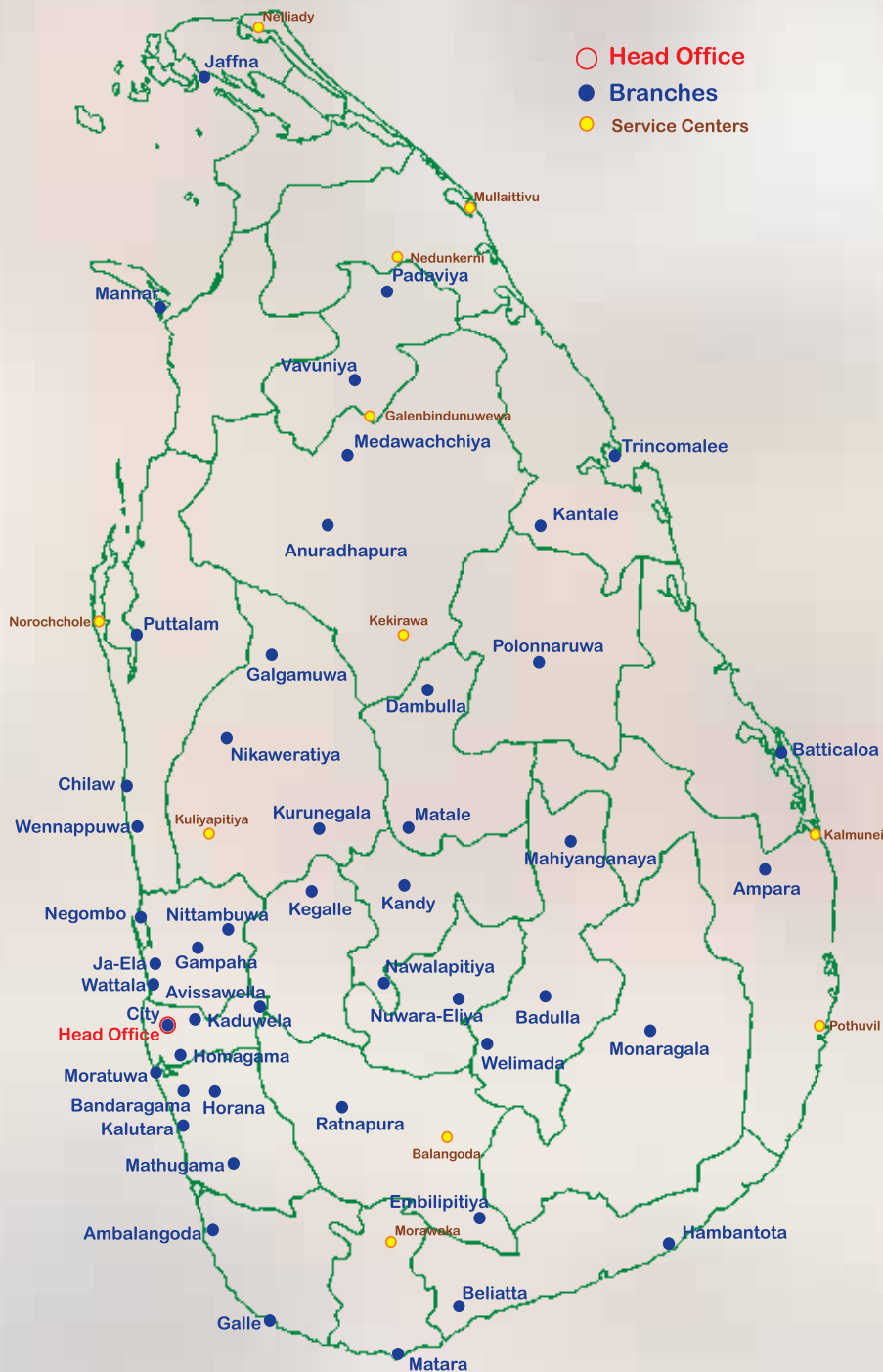
Prime Grameen serves its client base with over 1,100 employees and with 5,973 meeting centres, reflecting a 24.8% growth from the previous year.

48  
Branches

5,973  
Meeting Centres

11  
Service Centres

1,126  
Employees



# Management Discussion & Analysis

## Marketing Overview

To further strengthen and enhance the service offering to its deserving client base, Prime Grameen showed a keen commitment in proposing product improvements and implementing new strategic initiatives making its product portfolio more saleable, within a competitive Industry.

## The Focus

The marketing focus of the company was to promote its core micro finance loan scheme and increase the public borrowing whilst promoting new products to meet the strategic demand and overcome challenges. Being the pioneer and leading micro finance provider of the Grameen model, the Company's main strategy was to use the strength of its female borrowers to increase the micro loan portfolio. It was through our borrowers that we increased our micro loan portfolio.

On the other hand, in the case of mobilizing fixed deposits and savings, Prime Grameen pursued a strategy of personal selling through its dedicated and dynamic sales force. Displaying a sense of team spirit, the entire work force of the company contributed in mobilizing fixed deposits and savings. The motivation of the entire work force was kept alive through internal competitions and programmes with foreign trips on offer, as an incentive.

## A New Approach

During the year under review, the Company deployed a somewhat innovative and different strategy in encouraging the savings habit of the 'Micro Borrowers' membership. As such, through the 'Miyulasi' savings scheme, the Company carried out Island wide draws under the theme 'Miyulasi Ran Wasana' for the benefit of the 'Miyulasi' savings customers. Accordingly over 150 prizes were offered including the awarding of gold pendants.

Furthermore, pursuing the Company's objective of both encouraging savings habits of the customer base, while marketing its savings portfolio on a broader scale, the Prime savings customers were offered the facility of obtaining a guarantor-free loan against their savings.

## Bridging Gaps through ICT Enhancements

Having made substantial investments to introduce new technology to the Company, Prime Grameen is currently in a transition period. While the investment impacts are yet to be experienced in their entirety by the customer base, the Company is pursuing the strategic direction of

progressing along a technology drive. Hence the HNB PLC acquisition further propels the Company in the right direction by enabling Prime Grameen to bridge the service gaps through ICT enhancements.

## Internal Efficiencies

Having taken extensive efforts to reinvent the entire ICT Infrastructure of the Company, Prime Grameen has primarily invested in a fully centralized core banking system that would network its 48 branches and 11 Service Centres, thus automating the holistic Grameen operation. The system will unveil contemporary and increased efficiencies of the organization, slashing the manual workload which in return would reduce redundancies and duplications in the spheres of financing, accounting and operations. The automated system would thus present further updated information that will enable the management to take prompt decisions.

Overall, the said developments in the ICT infrastructure and systems have enabled the Company to meet strict regulatory requirements enforced by the regulatory bodies of the country. Further, these measures have enabled the Company to secure customers' sensitive data, thus increasing the level of security at many operational levels resulting in elevating the customers' confidence to carry out business with the company.

## Customer Driven Service Enhancements

In terms of taking technology to the customer, the Company is in the process of introducing several service delivery channels in the near future to increase convenience of transacting with the company. Using technology to increase efficiencies by adding value to the customer base, the Company is geared to cater to a market segment that is considered un-bankable, thus contributing to the country's drive to increase financial inclusion. As such the Company would see its 'door step banking' facilities carried out through Point of Sales (PoS) Machines, upgraded to the next level, with the introduction of the fully integrated Core Banking System. With extensive efforts being made to explore different aspects of this operation, Prime Grameen is scheduled to implement the said system in the first quarter of the new financial Year.

## Growing the Human Resource Capital

The Company's strength lies in the renowned Prime Grameen and its longstanding reputation, a highly qualified management team, an experienced workforce, a strong branch reach, solid internal resource

capacity, an innovative culture, a modern IT infrastructure coupled with the recognition of the entire industry and its regulators. This is further reinforced by the recent acquisition by HNB PLC that places Prime Grameen on an even firmer footing in the aspect of Human Resource Management, Development and Investment.

It is also the Board's endeavor to exploit the shared knowledge and synergies acquired through the HNB PLC's acquisition. Accordingly it is the Company vision to introduce the required technology geared towards developing the Human Resource Capital so that concurrent to career development, Prime Grameen would also be able to create opportunities for its staff, on a more holistic level.

During the year under review, the Company carried out various activities that would strengthen its most significant asset: its human resources. As such Prime Grameen set forth on centralizing its performance evaluation system while enhancing customer and service orientation through an intense training and development agenda. Investments were also made in making available a solid HRM system to better implement comprehensive HR Solutions. Accordingly the Company invested in developing the managerial staff with the aim of harnessing the skills of the general staff lower down the order as well. The Company also focused on educating its employees on the re-aligned strategic and business plans of the Company and strives to engage in relationship-building with the family of our employees, thus forming a Prime Family Culture.

Despite the challenges posed by the negative practices of the competitive labour market and the informal market, the Company continued to recruit qualified and experienced personnel required by Prime Grameen.

### Rewards and Recognition



As per the previous year, the Company rewarded 145 of its long standing employees (at all hierarchical levels) - who've served the Company for a decade, the opportunity of overseas travel as a memento of their service rendered. Further both financial and non-financial benefits were offered to members of staff as reward and recognition.

In its quest to make Prime Grameen Micro Finance Ltd. an employee friendly work place, the company has introduced interesting aspects that reinforces its objective of adding fun to work. Some of the exciting activities carried out by the company in the financial year under review are given below.



## Management Discussion & Analysis

### Training & Development Portfolio

The Company fervently believes that its Human Resources Capital is the most defining element of the organization, in ensuring its success and longevity within the competitive Micro Finance industry. Accordingly Prime Grameen has consistently invested in creating opportunities for its work force to grow holistically.



Prime Grameen carried out 61 Training Programmes for 1,816 participants, spanning over 25,324 hours, to strengthen its Human Resource Capital. Many school leavers were given the opportunity of

joining this elite workforce. These new recruits received training under the KSA (Knowledge, Skill, and Attitude) training model, enhancing their professional, linguistic and social skills.



Training, at whichever level of employment is a vital component of service delivery, quality assurance and customer satisfaction. Hence the Company invested in carrying out the following training programmes during the year under review.

### Training by Category

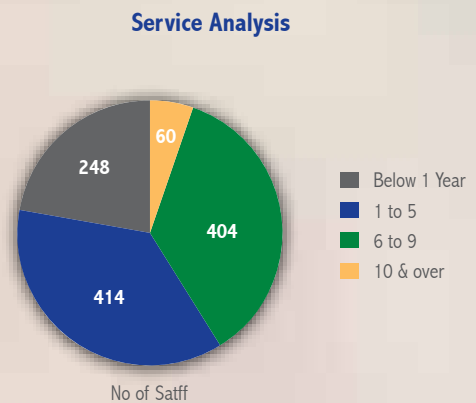
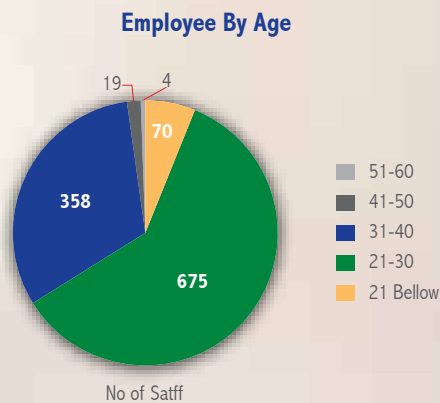
Category	Number of Programmes	Number of Participant In-house	Number of Participant External	Total
Senior Corporate Management & Senior Managers	15	119	49	168
Manager/accountant/Field Manager Programs	13	407	29	436
Executives	19		859	859
Training New Staff	14	353		353
<b>TOTAL</b>	<b>61</b>	<b>879</b>	<b>937</b>	<b>1,816</b>

## Training by Type

Category	No of Programmes	No of Participant	Total hours
Diploma micro finance (IBSL)	1	14	1,344
Certificate in Micro Credit Management (AIA )	2	15	1,440
CBSL Programs	7	27	344
Leadership & Management Development	3	119	952
Sales & Customer Service Excellence	10	407	3,166
Delinquency Management	16	774	6,192
Induction Programs	14	353	10,371
Other Institute Work Shop	8	107	1,515
<b>TOTAL</b>	<b>61</b>	<b>1,816</b>	<b>25,324</b>

## Employee Review

The average age of the Prime Grameen employee is 28.

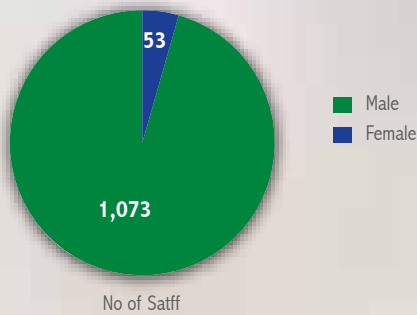


The Company also recruits school leavers with the purpose of empowering the young and educated workforce who would otherwise not get the opportunity to harness their skills at a young age. Hence this is a practice carried out at policy level, which makes Prime Grameen stand apart from its competitors.

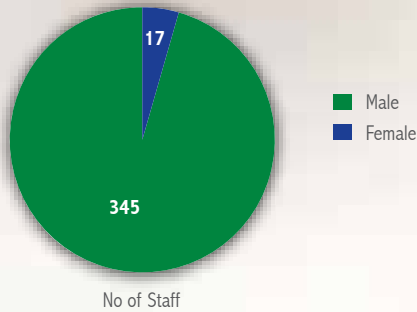
## Management Discussion & Analysis

### Gender Breakdown:

**Employee By Gender**



**Recruitment By Gender**



### Employee By Grade

Grade	No of Staff
Senior Corporate Management	5
A.G.M. / Head of Department	10
Senior Managerial	31
Managerial	83
Assistant Managerial	91
Executive	17
Supervisor	126
Officer	759
Assistant	4
<b>Grand Total</b>	<b>1,126</b>

### Region Breakdown:

#### Employee By Region

Region	No of Staff
Ampara Region	65
Anuradhapura Region	60
Badulla Region	63
Colombo Region	55
Dambulla Region	59
Galle Region	65
Gampaha Region	54
Hambantota Region	54
Jaffna Region	90
Kalutara Region	56
Kandy Region	67
Kurunegala Region	52
Puttalam Region	70
Ratnapura Region	60
Trinco Region	70
Wattala Region	56
Head Office	130
<b>Grand Total</b>	<b>1,126</b>



## Recruitment By Region

Region	No of Staff
Ampara Region	29
Anuradhapura Region	30
Badulla Region	11
Colombo Region	19
Dambulla Region	16
Galle Region	12
Gampaha Region	39
Hambantota Region	23
Jaffna Region	47
Kalutara Region	18
Kandy Region	13
Kurunegala Region	8
Puttalam Region	27
Ratnapura Region	14
Trinco Region	14
Wattala Region	34
Head Office	8
<b>Grand Total</b>	<b>362</b>

## Financial Review

### Non-bank Financial Sector Review

The financial year under review had the Company facing challengers of two different types; on one hand we were faced with transition trials subsequent to coming under the HNB PLC umbrella, while on the other hand it proved to be a challenging year for the non-bank financial services industry as a whole.

The Micro Finance industry continued to operate amidst volatile and highly competitive environments, despite which Prime Grameen's major achievements have enabled a strong performance during the year under review.

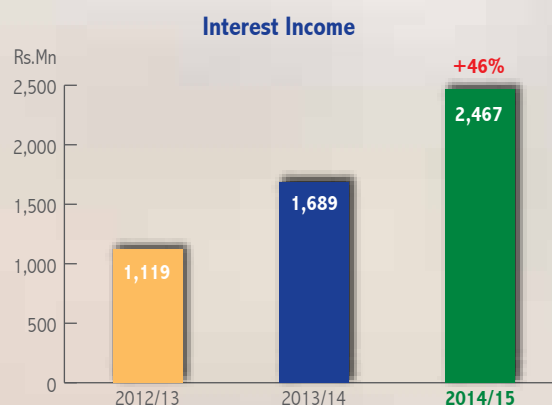
The Company's income recorded a 37% increase from the previous year standing at Rs. 2,847 Mn, while the net Profit after tax rose to Rs. 534 Mn during the year under review, thus signifying a 32% increase. The Company's Asset Base spiked by a mammoth 73% in comparison to the Rs. 5,825 Mn recorded in 2013, thus bringing the Asset Portfolio to Rs. 10,086 Mn, by the end of 2014. One of the primary strengths of the Company continued to be its Non-Performing Loans (NPL) Ratio that was maintained at less than 1%, thus keeping it well below the industry

average that hovered around 6.9%, for the Non-Banking Financial Institutional sector. The main contributing factors for maintaining this low NPL was accounted to be the business model adopted by Prime Grameen coupled with its systems and people.

## Company Performance

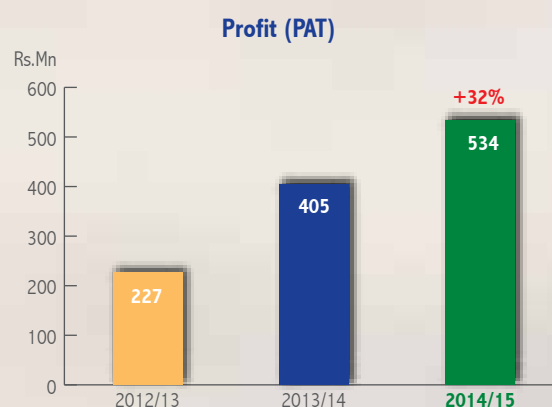
### Interest Income

The company's interest income grew by 46% as opposed to the previous year, marking a notable performance that was mainly attributed to the expansion of the company's outreach at grassroots levels.



### Profit After Taxation (PAT)

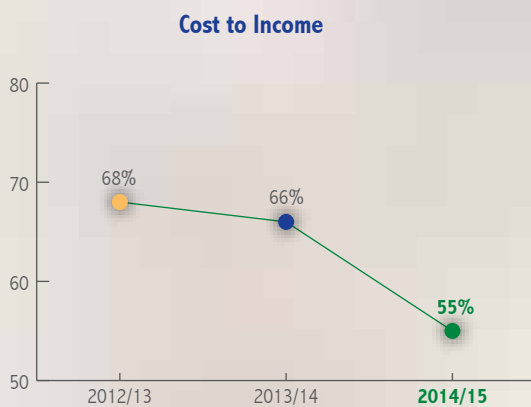
The Company Profit After Taxation (PAT) grew by 32% during the year under review, which is deemed to be a significant improvement considering that there has been a revolutionary gain of Rs. 149Mn in the PAT of 2013/14. As such the PAT stood at Rs. 534 Mn at the end of the financial year.



## Management Discussion & Analysis

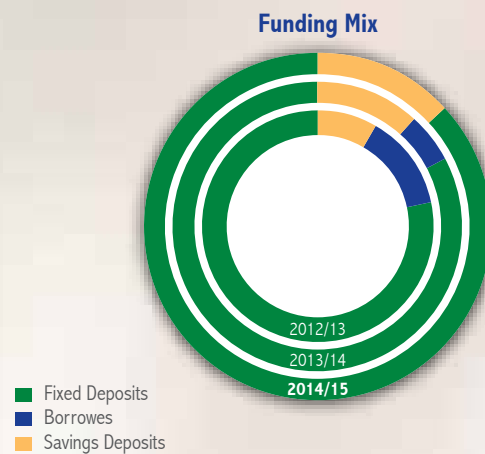
### Cost to income ratio

The Cost to Income Ratio came down from 66% in 2014 to 55% in 2015, thus reflecting a 16% reduction YoY. The significant contribution made in reducing the Cost to Income was attributed to prudent management of funds and reduction in operational expenses.



### Funding Mix

Capitalising on the low interest rate environment, Prime Grameen recorded a 103% increase in funds inflow, with a significant increase recorded for its fixed deposits. Fixed deposits remained the highest contributor in the funding mix representing a mammoth 87% while savings accounted for 13% of the mix along with 0% contributions made by other borrowings.

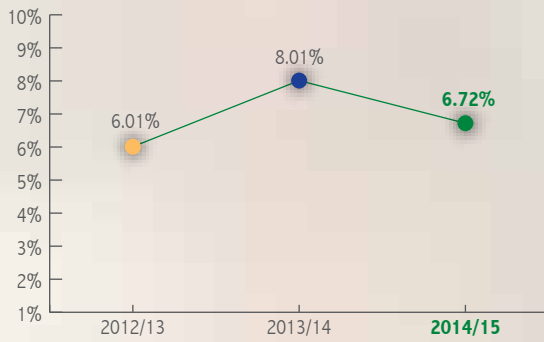


	2012/13	2013/14	2014/15
Fixed Deposits	78%	83%	<b>87%</b>
Savings Deposits	9%	12%	<b>13%</b>
Borrowers	13%	5%	-

### Return on Assets (ROA)

Return on Assets (ROA) has marginally dropped as against the previous year due to the impact of the revaluation gain recorded last year. Dipping from 8.01% in 2013 to 6.72% in 2014, the Company nevertheless still recorded an ROA that is above the industry average.

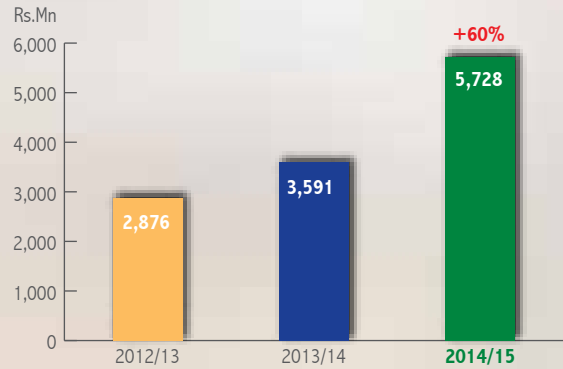
Return on Assets (ROA)



### Loan Portfolio

The Company recorded a 56% growth in the Loan Portfolio, in comparison to the previous year. This substantial spike was largely attributed to the geographic expansion and reach of the Company operations at the grassroots level. Accordingly the addition of 6 service centres and 1,186 meeting centres were perceived to be the primary contributors for this upward trajectory.

Loan Portfolio



# Sustainability Report





# Sustainability Report

## Sustainability Review

As one of the leading Micro Finance companies spearheading the Micro Finance Industry in Sri Lanka, Social Sustainability is a notion that goes beyond mere financial strength and security. Prime Grameen has adopted a concept that goes beyond the standard norms of the Industry, whereby it believes in rendering mutual benefits to the Lender, Borrower and also the Environment by practicing the Triple Bottom Line (People, Planet and Profit) model.

Furthermore the wider social sustainability of rural community development is also considered an integral component of the Company's Social Sustainability Strategy, which is further reinforced

by their unwavering vision of uplifting the livelihoods of the grassroots communities, through deployment of good governance practices and adoption of sturdy risk management procedures.

Having carved a name for itself as an ethical business player, whose vested interests reach a wider spectrum of stakeholders, as opposed to mere shareholders, Prime Grameen advocates the 3P's concept, where focus is not limited to increasing the traditional bottom line of profits alone, but emphasis is also placed on enhancing positive social and environmental impact through its operations.

Prime Grameen is committed to fulfilling its obligatory responsibilities towards all stakeholders as addressed below.

Stakeholder	Requirements by the company	Company response
<b>Borrowers</b>	Financial and other forms of support for self - employment.	We provide secure financial services for people who do not have access to them. We also offer business development support services.
<b>Regulators</b>	The Central Bank, The Department of Inland Revenue Department and The Registrar of Companies are the main regulatory stakeholders of the company.	We comply to all regulations and directions set by the regulators.
<b>Bankers</b>	Timely and accurate business operational information.	We comply with all contractual obligations and reporting requirements as per the norm.
<b>Employees</b>	Job security and growth opportunities.	We provide a structured and stable work environment with several welfare facilities. We invest in training and career development. In addition, our employees have the satisfaction of reaching out and serving those who need advice and support, thus inculcating job and service satisfaction.
<b>Suppliers</b>	Business stability and timely payments.	We ensure prompt and accurate payments.
<b>Community</b>	Ethical business practices.	We 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.
<b>Environment</b>	Conservation.	As a service provider our direct impact on the environment is minimal, however we are futuristic in our plans to mitigate/eliminate the impact caused by transportation.

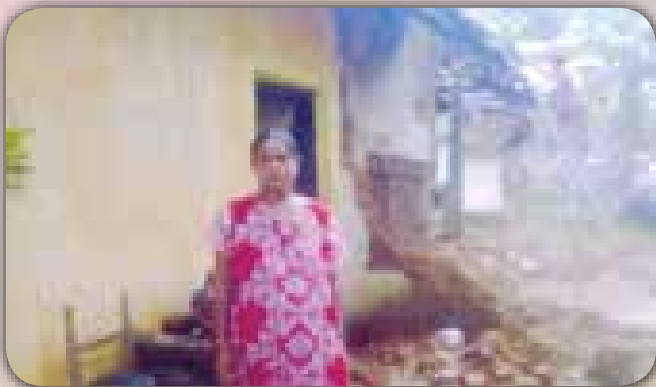
## Corporate Social Responsibility

### Mehevara Fund

'Mehevara' is a unique fund moulded to cater to financial emergencies of children and immediate family members of our female borrowers. The fund is supported by voluntary contributions made by employees as well as the Company. No contribution from borrowers are sought to build this fund. The fund was initiated in 2014 and this during short span we have disbursed funds to meet medical and other urgent requirements. The company expects to increase its contribution and enhance this fund, availing many more benefactors.



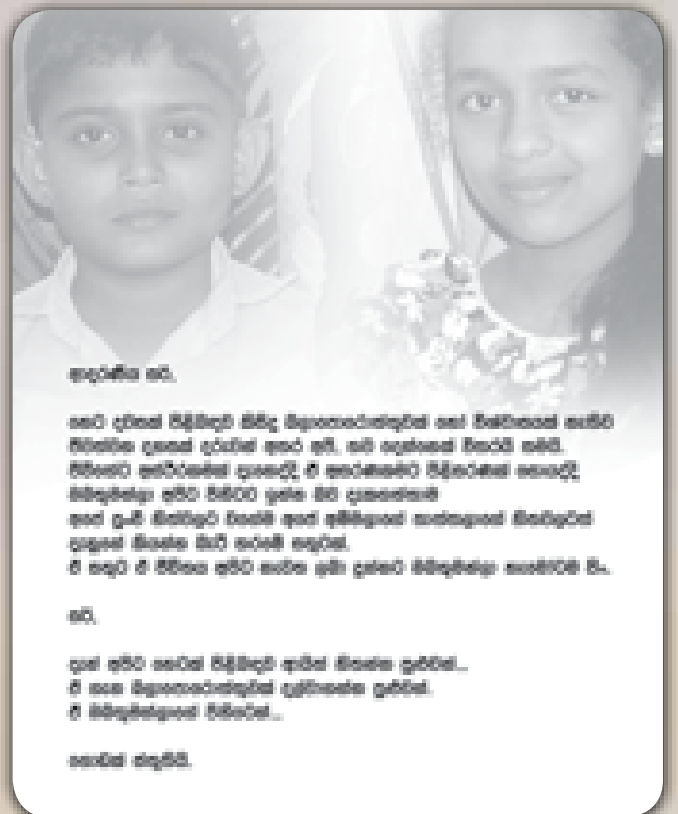
Donation for Cancer Surgery



Donation for Rebuilding House



Donations for Heart Surgery & Purchase Hearing Aid



The Thanking Letter from the Beneficiaries

### Community Welfare Services

In dedicating investments towards a sound Corporate Social Responsibility Strategy, Prime Grameen carried out various Community Welfare Service Initiatives during the year under review. The Company is committed to engage in such community development activities from a humanitarian perspective, with the contribution of staff members.

## Sustainability Report

### Drought Season Assistance - Padaviya Branch

Our Padaviya Branch extended their fullest support to around 700 of our drought-affected female borrowers, both in the Padaviya and Nedunkerni areas. The drought which prevailed mostly in the Northern part of the country, during the month of September 2014, left many families with no source of income nor food and drinking water.



### Computer Donation - Puttalam

As a CSR initiative a donation of two computers was made by the staff at the Puttalam Branch to the Sirambiadiya Manaweriya Primary School. They also provided lunch to the inmates at the Kalaoya Elders' home, and spent the afternoon making pleasant memories with the elders.





### Electrical goods donation to an Elders' Home - Wennapuwa Branch

The branch donated a refrigerator to an Elders' Home in Wennappuwa, keeping in line with the CSR work of the company.



### Seminars for O/L Students

A series of free seminars were conducted by professionally qualified staff members of the Company, to the O/L students of Piliyandala -, Palanoruwa Central College, Prince of Wales College Moratuwa and four others schools in Kotte. The seminars covered subjects of Sinhala, Mathematics, Science and Accounts and was sponsored through the 'Yalu' account of the Savings Unit.



### 3rd Anniversary of Prime Grameen Micro Finance Ltd

The company completed its 3rd successful year under new management on 30th June 2014. In celebrating this event, a series of programmes were organised by the company which included a blood donation campaign in collaboration with the National Blood Transfusion Service. Many enthusiastic employees participated in this worthy cause.

A religious ceremony to invoke blessings on the Company, staff and all other stakeholders was also organised in commemoration of the anniversary.



## Sustainability Report

### Name Board Donation

The company, under its social responsibility drive, donated a name board to the Uduhawara Sri Medananda Vidyalaya, which is 15Km away from Welimada Town. This project was shepherded in March 2015.



### Female Entrepreneur Motivational Programmes

The following programmes were carried out by Prime Grameen Micro Finance Ltd, during the year under review with the objective of further motivating their striving female entrepreneur customer base.

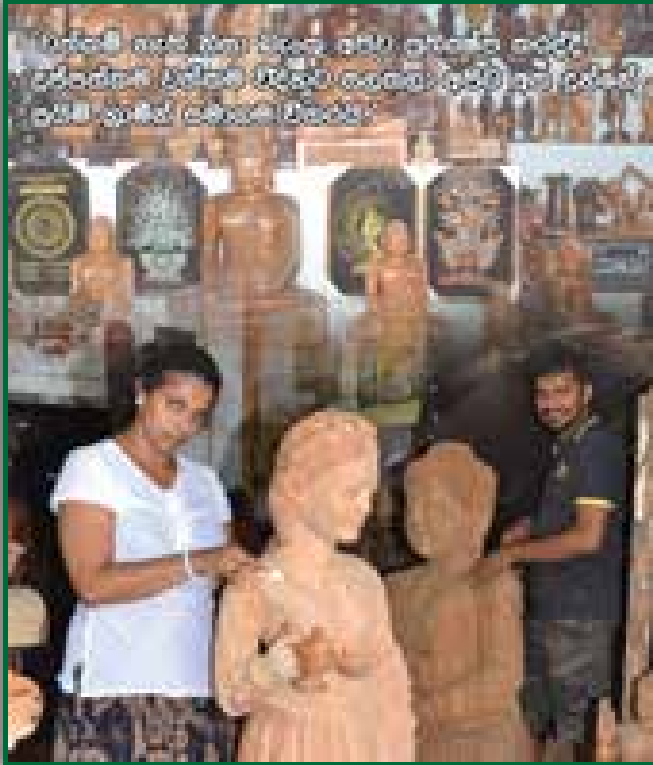
The programmes were conducted under the broad topics of business knowledge improvement, leadership training and managing finances - a practical programme to gain knowledge in investments, income generation, savings, management of expenses, work-life balance and positive thinking for wellbeing in life. Over 1300 participants from the Embilipitiya, Hambantota, Welimada, Badulla, Kaduwela, Wattala, Vavuniya, Mulative, Ampara, Mahiyangana, Pothuvil, Monaragala, Puttalam and Ja-ela areas benefited from these programmes.



### Success Stories: Changing Lives, One Story at a time

Prime Grameen gives credit to the fact that its success stems from the success stories of thousands of striving entrepreneurs, whose lives were forever changed owing to the able helping hand extended by the Company.

Here are a few of those success stories - where we changed lives, one story at a time:



“... Prime Grameen was the only companion who was willing to partner my courageous spirit.. ”

And that is why I'm forever grateful to the Company for considering my poverty stricken state as a qualification, when all other banks treated it as the disqualification and therefore rejected my requests for financial aid. Today my business is flourishing thanks to the trust they placed in my courageous spirit.

*Rasika Niroshani - Micro Loan Borrower*



“... This is a unique loan system, where without even realising it our entire living standards and lifestyle have improved..”

It is only the help of Prime Grameen that helped us get to where we are today. Gradually, step-by-step we were able to increase our loans to use for the business. Which meant we had gradually increased our income also, as we were able to pay back all loans in due time, while making a substantial livelihood for ourselves.

*A. Sugandhika - Micro Loan Borrower*

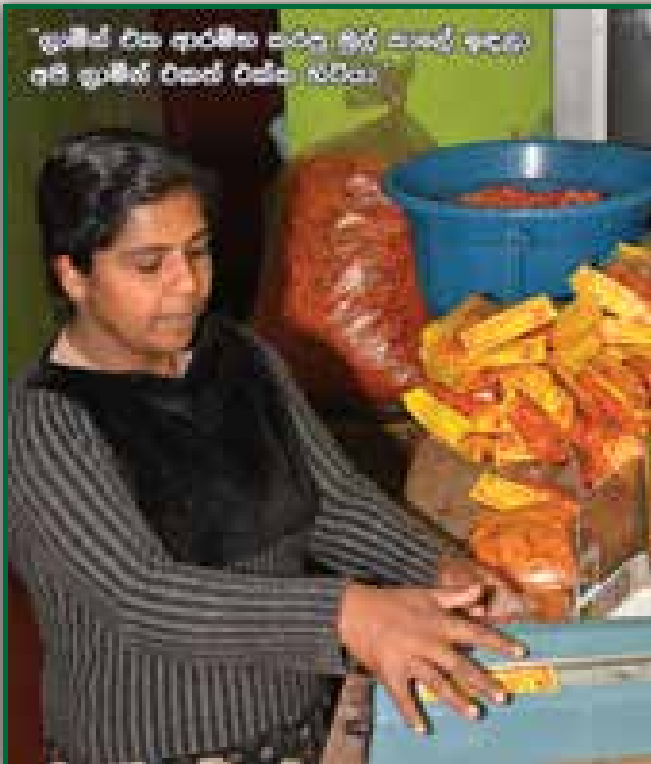
## Sustainability Report



“... Prime Grameen supports us not only to grow our business, but also provides much needed guidance on how to save..”

It is with sincerity that I am able to say that Prime Grameen provides striving entrepreneurs like me, a service that we would not get from any other financial institution. Through the 'Miyulasi' Women's Savings Account we are truly learning what it means to save for our own future.

*S. Ranjani Devi - Savings Account Holder*



“... We have been with Prime Grameen since its inception..”

For over five years Prime Grameen has extended a helping hand in growing my small food business to one that provides employment to 5 other workers. From the Rs. 5,000 starter loan I was able to move up to a Rs. 75,000 loan, using which I was able to grow the business steadily. I won't be where I'm today without Prime Grameen

*D. M. Magdalin - A one of the oldest Borrower*

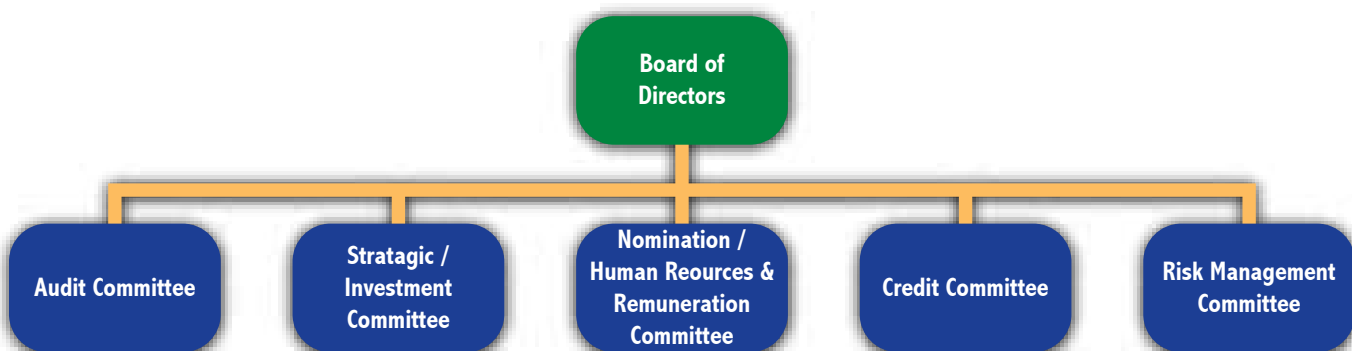
# Governance Reports

## Corporate Governance

PGMFL believes in the process of effective governance as an essential component of its long-term success. Towards achieving this goal the system of internal controls and procedures have been well formulated and function within an integral governance structure in line with the corporate governance regulations issued by the regulators. With a view to guiding the company in fulfilling its corporate mission in a transparent and an accountable manner while protecting the assets of the institution over time, the role of the Board has been clearly articulated. The Board provides leadership to PGMFL to achieve its vision within a framework of prudent and efficient controls which enables the company, inter alia, to identify risks and manage them. For this purpose the company, for

the first time, has put in place a 03 year strategic plan ensuring that the necessary resources including human and financial are available in a timely manner, to enable the company to move forward in a systematic manner. The Board also played an important role to ensure that the company maintains effective systems and adequate controls facilitating efficient operations whilst meeting the regulatory prudential requirements. Strengthening the capabilities of the Board of Directors in discharging these responsibilities the Board was reconstituted in November 2014 with a few new appointments with relevant experience in micro finance and related subjects. In addition the Board appointed a number of Board sub committees as given below to advice and make relevant recommendations to the Board.

## Board appointed Sub Committees



Each subcommittee has its own terms of reference and matters discussed at each meeting are reported to the main Board. A senior independent non-executive director was appointed on 27th November 2014 as recommended under clause 7 (2) of the Finance Companies (Corporate Governance) Direction No 03 of 2008 to the Board.

The disclosure below reflects the level of corporate governance compliance of the company.

Corporate Governance Principle Re: Finance Companies ( Corporate Governance) direction 3 of 2008 of the CBSL	Level of Compliance
<b>Composition of the Board</b>	
<b>1. Number of Directors</b>	<p><b>Requirement :</b> Clause 4(1) provides that the number of directors on the Board shall not be less than 5 and not more than 13.</p> <p><b>Company's Response :</b> The Board of Directors consists of nine(09) Directors, consisting of one(01) executive Director, six(06) Non Executive/ Non - Independent directors and two(02) Non - Executive / Independent Directors.</p>

## Governance Reports

Corporate Governance Principle Re: Finance Companies ( Corporate Governance) direction 3 of 2008 of the CBSL	Level of Compliance
<p><b>2. Period of Service of Directors</b></p>	<p><b>Requirement :</b> Clause 4(2) provides that subject to paragraph 5(1) the total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this direction.</p> <p><b>Company's Response :</b> None of the non- executive directors exceed nine years.</p>
<p><b>3. Appointment of an Employee as a Director</b></p>	<p><b>Requirement :</b> Clause 4(3) provides that an employee of a finance company may be appointed, elected, nominated as a director of the finance company (i.e “executive director”) provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.</p> <p><b>Company's Response :</b> Mr. B.M.D. Chaminda Prabhath an employee of the Company has been appointed as the Chief Executive Officer.</p>
<p><b>4. Independent Non-Executive Director</b></p>	<p><b>Requirement :</b> Clause 4(4) provides that the number of independent non-executive directors of the Board shall be at least one fourth of the total number of directors.</p> <p>The Chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non - executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.</p> <p><b>Company's Response :</b> Mrs. L. L. C. C. Thambiahindependent / non- executive Director has been appointed as the Senior Director.</p>
<p><b>5. Eligibility of Non-Executive Director</b></p>	<p><b>Requirement :</b> Clause 4(4) provides that A non-executive director shall not be considered independent if such director:</p> <p>(a) Does not have shares exceeding 2% of the paid up capital of the finance company or 10% of the paid-up capital of another finance company.</p> <p><b>Company's Response :</b> None of the Non-executive directors have shares exceeding 2% of the paid up capital of the finance company or 10% of the paid-up capital of another finance company.</p> <p>(c) has been employed by the finance Company during the two year period immediately preceding the appointment as director.</p> <p><b>Company's Response :</b> None of the directors have been employed by the finance Company during the two year period immediately preceding the appointment as director.</p>

Corporate Governance Principle  
 Re: Finance Companies ( Corporate  
 Governance) direction 3 of 2008 of the CBSL

Level of Compliance

**Meetings of the Board**

<p><b>1. Board Meetings.</b></p>	<p><b>Requirement :</b> Clause 3(1) provides that the board shall meet at least twelve(12)times a financial year at approximately monthly intervals.</p> <p><b>Company's Response :</b> The Board usually meets on monthly intervals. The Board met 12 during the year. The attendance at Board meetings held is set out in the table given below.</p>
<p><b>2. Notice of Meetings</b></p>	<p><b>Requirement :</b> Clause 3(3) provides that a notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.</p> <p><b>Company's Response :</b> Notice of at least 7 days or more is given for regular board meetings.</p>
<p><b>3. Non - attendance of Directors</b></p>	<p><b>Requirement :</b> Clause 3(4) provides that a director who has not attended at least two thirds of the meetings in the period of twelve months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation through directors' meeting through an alternate director shall, however, be acceptable as attendance.</p> <p><b>Company's Response :</b> The attendance of Directors is given in page No. 52.</p>
<p><b>4. Company Secretary</b></p>	<p><b>Requirement :</b> Under Clause 3(5) provides that the Board shall appoint a Company Secretary to handle the secretarial services to the Board and shareholder meetings and 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 a Board meeting and that all applicable laws, directions, rules and regulations are complied with.</p> <p><b>Company's Response :</b> the Board has appointed a Company Secretary who is an Attorney at - Law by profession is qualified to act as Company Secretary in terms of the Companies Act No. 07 of 2007. The Company Secretary advises the Board and ensures that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed. She also serves as the Secretary to the Audit Committee and Nomination / Human Resources &amp; Remuneration Committee.</p>

## Governance Reports

Corporate Governance Principle Re: Finance Companies ( Corporate Governance) direction 3 of 2008 of the CBSL	Level of Compliance
<p><b>5. Maintaining of minutes</b></p>	<p><b>Requirement :</b> Clause 3(8) provides that the company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.</p> <p><b>Company’s Response :</b> The Minutes of the Board Meetings are maintained insufficient detail by the Company Secretary and is open for inspection by any Director.</p> <p><b>Requirement :</b> Clause 3(9) provides that Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following:</p> <ul style="list-style-type: none"> <li>(a) a summary of data and information used by the Board in its deliberations;</li> <li>(b) the matters considered by the Board;</li> <li>(c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence;</li> <li>(d) the explanations and confirmations of relevant executives which indicate compliance with the Board’s strategies and policies and adherence to relevant laws and regulations;</li> <li>(e) the Board’s knowledge and understanding of the risks to which the finance company is exposed an overview of the risk management measure adopted and</li> <li>(f) The decisions and Board resolutions.</li> </ul> <p><b>Company’s Response :</b> This requirement is complied with.</p>
<p><b>Related Party Transactions</b></p>	
<p><b>Avoiding conflicts of interest in related party transaction and favourable treatment.</b></p>	<p><b>Requirement :</b> Clause 9(2) the Board shall take the necessary steps to avoid conflict of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purpose of this Direction given under Clause 9(2)(a) to Clause 9(2)(g).</p> <p><b>Company’s Response :</b> Related party transactions are given in page No.117 of the annual report.</p>
<p><b>The Chairman and Chief Executive Officer.</b></p>	
<p><b>Chairman &amp; CEO</b></p>	<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 roles of Chairman and Chief Executive Officer are Separated to ensure a balance of power and authority. In addition the Chairman is a Non-Executive Director.</p>



Corporate Governance Principle  
 Re: Finance Companies ( Corporate  
 Governance) direction 3 of 2008 of the CBSL

Level of Compliance

**Board appointed Committees**

<p><b>1. Board Appointed two committees</b></p>	<p><b>Requirement :</b> Clause 8(1) provides that every finance company shall have at least two Board committees set out in paragraph 8(2) and 8(3). Each committee shall report directly to the Board.</p> <p><b>Company's Response :</b> In addition to the two (2) committees stated above i.e Audit Committee, integrated Risk Committee there are three (3) additional sub- committees namely the Nomination / HR&amp; Remuneration Committee, Strategic/Investment Committee and Credit Committee appointed by the Board.</p>
<p><b>2. Audit Committee</b></p>	<p><b>Requirement :</b> Clause 8(2) provides that The Chairman of the Audit Committee should be a Non-executive Director who possesses qualifications and experience in accountancy and / or audit and board members appointed to the committee shall be non-executives.</p> <p><b>Company's Response :</b> MR. N H T I Perera (Non- Independent / Non - Executive Director) is the Chairman of the Audit Committee. The profile of Mr. N H T I Perera is given in page 17.</p>
<p><b>3. Integrated Risk Management Committee</b></p>	<p><b>Requirement :</b> Clause 8(3) provides that the Integrated Risk Management Committee shall consist of at least of one Non-executive Director, CEO and Key Management Personnel supervising broad risk categories.</p> <p><b>Company's Response :</b> The following personnel serves on the Board Integrated Risk Management Committee.</p> <p>Mrs. M A R C Cooray - Non - Executive Director</p> <p>Mrs. L L C C Thambiah - Independent Non - Executive Director</p> <p>Mr. W M Karunaratne - Independent Non - Executive Director ( tendered resignation)</p>

# Annual Report of the Board of Directors

## 1. General

The Board of Directors of Prime Grameen Micro Finance Limited has pleasure in presenting their Annual Report to the members for the year ended March 31, 2015 together with the audited financial statements of the Company. The financial statements were considered and approved by the Board of Directors on 26th May 2015.

Prime Grameen Micro Finance Limited incorporated in 1999 is a finance company with a Finance licence granted by the Monetary Board of the Central Bank of Sri Lanka under the Finance Company Act No. 78 of 1988, which is now governed under Finance Business Act No. 42 of 2011.

## 2. Primary Activities of the Company

The primary activities of the company during the year continued to be in the fields of Micro Finance and SMEs. The company continued its focus on female entrepreneurs of the country, to improve their standards of living and develop the Sri Lankan economy.

### 2.1 Review of business

The review of the company's business operations for the year under scrutiny, form an integral part of the Directors' report along with commentaries on financial results and a comprehensive plan for development, is depicted under the Review of CEO, in pages 12 and 13 of the Annual Report.

## 3. Financial Statements

Pages from 72 to 121 of the Annual Report records the Financial Statements for the year under review.

### 3.1 Directors' Responsibility for Financial Reporting

In presenting the affairs of the company in a transparent and an impartial manner, the Directors are responsible for the preparation of such financial statements. The Board of Directors affirm that the financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007 and the Finance Business Act No. 42 of 2011, and the provisions of the Inland Revenue Act No. 10 of 2006.

## 4. Auditors' Report

The Report from the Auditor, on the financial statements is given on from page 70 and 71 of the Annual Report.

## 5. Significant Accounting Policies

The Company formulates its financial statements adhering to Sri Lanka Accounting Standards(LKAS/SLFRS). The policies adopted in the preparation of the financial statements are given on from pages 78 to 90 of the Annual Report.

## 6. Going concern

Having affirmed the availability of adequate resources to continue its business operations in the foreseeable future, the Board of Directors is pleased to present the financial statements based on the going concern concept.

## 7. Income

The Company Income for the year under review was Rs. 2,846,953,658/= (2013/14 – Rs. 2,081,563,135/=). The analysis is found in Note No. 05.

## 8. Reserves

As at 31st March 2015 the company reserves are as given below;

	31.3.15	31.3.14
General Reserve	82,897,989	82,897,989
Statutory Reserves	204,734,159	97,824,884
Investment Fund	-	61,395,350
Revaluation Reserve	262,313,846	267,482,817

## 9. Statutory Payments

The Board of Directors ,to the best of their knowledge, affirm that all statutory payments that are due to the government and due to employees have been made on time.

## 10. Dividends

Not declared during the year.

## 11. Property, plant and equipment

Details of Property, Plant & Equipment are given in Note 25 in the Financial Statement.

## 12. Market value of freehold properties & Investment Properties

Details of Freehold properties & Investment properties are given in Notes 23 & 25 in the Financial Statement.

## 13. Stated Capital

The Stated capital of the company as at 31st March 2015 consist of 1,719,580,624 ordinary shares that amounts to Rs. 3,895Mn.

## 14. Shareholding

The shareholding distribution is reflected on page 122 and 123. 100,376 voting registered shareholders and 3 non-voting registered shareholders were recorded as at 31st March 2015.

## 15. Major shareholders

Page 122 indicates the shareholding analysis of the top ten voting (volume wise) and 03 non-voting (volume wise) shareholders of the Company, as at 31st March 2015.

## 16. The Board of Directors

The Board of Directors of Prime Grameen consists of nine (9) Directors who possess extensive financial experience and industry knowledge. The following Directors held office at the end of the financial year and their brief profiles are given on pages 16 and 17.

Name of the Director	Executive/Non-Executive	Independent/ Non-Independent
A J Alles - Chairman	Non Executive Director	Non Independent
B Premalal - Deputy Chairman	Non Executive Director	Non Independent
B M D C Prabhath - Managing Director/CEO	Executive Director	Non Independent
H K S R Perera	Non Executive Director	Non Independent
L L C C Thambiah	Non Executive Director	Independent
M A R C Cooray	Non Executive Director	Non Independent
N H T I Perera	Non Executive Director	Non Independent
A L Somaratne	Non Executive Director	Non Independent
W M Karunaratne - (Tendered Resignation)	Non Executive Director	Independent

## Resignation of Directors

The following Directors resigned during the period under review

Mr W S P Arangala (MIS/Compliance)	Executive Director (w.e.f 18.11.2014)
Mr R P K Gallage	Non-Executive Director (w.e.f 18.11.2014)
Mr S L Y Liyanawatte	Executive Director (Director - Operations) (w.e.f 31.10.2014)
Mr R de S Munasinghe	Independent Non-Executive Director (w.e.f 07.07.2014)

## Annual Report of the Board of Directors

### New appointments of Directors

The following directors were appointed with the concurrence of CBSL in terms of Article 87(a) of the Articles of Association of the company:

Antonio Jonathan Alles

Mirihana Arachchige Rose Chandralatha Cooray

Neelakanni Hettiarachchige Thimal Ishan Perera

Akurange Lionel Somaratne

W M Karunaratne

### Retirement and Re- Election of Directors Recommended

The following Directors retire at the Annual General Meeting under Article 87(a) of the Articles of Association of the Company and offer themselves for re- election under the said Article.

Antonio Jonathan Alles

Mirihana Arachchige Rose Chandralatha Cooray

Neelakanni Hettiarachchige Thimalshan Perera

Akurange Lionel Somaratne

The undernoted Directors retire by rotation at the Annual General Meeting under Article 95 &96 of the Articles of Association of the Company and offer themselves for re- election under the said Article.

Hene Kankanamge Sandamini Rukmal Perera

Brahamanage Premalal

### The re-election of the aforesaid Directors has the unanimous support of the Board.

In compliance with the Finance Business Act No. 42 of 2011 and clause 3.4 of the Finance Companies (assessment of Fitness and propriety of Directors and Officers Performing Executive Functions) Direction 3 of 2011 issued by the Department of Non- Bank Financial Institutions of Central Bank of Sri Lanka, the Company has obtained the Monetary Board of the Central Bank of Sri Lanka's approval, for the re-appointment of the above mentioned Directors.

## 17. Board sub-committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure control over certain affairs of the Company, conforming to Corporate Governance Direction No. 3 of 2008 issued by the Department of Non- Bank Financial Institutions of Central Bank of Sri Lanka, and adopting best practices. Accordingly, the following Committees have been constituted by the Board.

- Audit Committee
- Integrated Risk Management Committee

In addition the Board has appointed the following Committees comprising the members of the Board, conforming to the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka.

- Nomination/ Human Resources & Remuneration Committee
- Credit Committee
- Strategic and Investment Review Committee

Code of Best Practice on Corporate Governance The Board of Directors of the Company formed the following sub committees:

### 17.1 Audit Committee

Composition of the Committee

#### Members

Mr N H T I Perera	- Chairman
Mrs M A R C Cooray	- Director
Mr A L Somaratne	- Director
Mrs L L C C Thambiah	- Director

The Board Secretary functions as the Secretary to the Audit Committee.

The detailed report of the Audit Committee is given on pages 57 and 58 of the Annual Report.

## 17.2 Integrated Risk Management Committee

Composition of the Committee

### Members

Mrs M A R C Cooray	- Chairperson
Mrs L L C CThambiah	- Director
Mr. W M Karunatatne	- Director*
Mr J M R Fonseka AGM	- Compliance & Risk functions as the Secretary to the Committee

The detailed report of the Risk Management Committee is given on pages 55 and 56 of the Annual Report.

## 17.3 Credit Committee

Composition of the Committee

### Members

Mrs L L C CThambiah	- Chairperson
Mr A L Somaratne	- Director
Mr. W M Karunatatne	- Director*
Mr B M D C Prabhath	- MD/CEO functions as the Secretary to the Committee

The detailed report of the Credit Committee is given on page 61 of the Annual Report.

## 17.4 Nomination/ Human Resources & Remuneration Committee

Composition of the Committee

### Members

Mrs M A R C Cooray	- Chairperson
Mr A J Alles	- Director
Mr B Premalal	- Director
Mr. W M Karunatatne	- Director*

The Board Secretary functions as the Secretary to the Audit Committee.

The detailed report of the Nomination/Human Resources & Remuneration Committee is given on pages 59 and 60 of the Annual Report.

\*Mr. W M Karunaratne – Non Executive / Independent Director has tendered Resignation which is pending approval with the Central Bank of Sri Lanka.

## 17.5 Strategic/Investment Committee

Composition of the Committee

### Members

Mr A J Alles	- Chairman
Mr B Premalal	- Director
Mrs M A R C Cooray	- Director
Mr N H T I Perera	-Director
Mrs H K S R Perera	- Director
Mr W S P Arangala	- GM Financefunctions as the Secretary to the Strategic and Investment Review Committee

The detailed report of the Strategic/Investment Committee is given on page 62 of the Annual Report.

## 18. Directors' Meetings

The number of Directors' meetings, which comprise Board meetings, Audit Committee meetings, Nomination/ Human Resources & Remuneration Committee meetings, Strategic and Investment Review Committee meetings, Risk Management Committee meetings and Credit Committee meetings, together with the attendance of each Director at these meetings during the year are tabulated below.

## Annual Report of the Board of Directors

Name of the Director	Board Meetings		Audit Committee Meetings		Nomination/ Human Resources & Remuneration Committee Meetings		Strategic and Investment Review Committee Meetings		Risk Management Committee Meetings		Credit Committee meetings	
	A	B	A	B	A	B	A	B	A	B	A	B
	A J Alles (Chairman)	5	5			2	2	1	1			
B M D C Prabhath MD/CEO*	12	12	4	4			1	1	4	4	4	4
B Premalal -	12	11			2	2	1	1				
H K S R Perera	12	10	1	-			1	1				
L L C CThambiah	12	12	3	3					4	4	4	4
M A R C Cooray	5	5	3	3	2	2	1	1	2	2		
N H T I Perera	5	5	3	3								
A L Somaratne	5	4	3	1							2	2
W M Karunaratne	2	2			2	-					1	1
W S P Arangala resigned w.e.f 18/11/2014	7	7							2	2		
R P K Gallage resigned w.e.f 18/11/2014	7	7	1	1								
S L Y Liyanawttate resigned w.e.f 31/10/2014	7	6							1	1		

A = Number of meetings held in the period during the year when the Director held office

B = Number of meetings attended

\*B M D C Prabhath MD/CEO attended all the Board Sub Committees by invitation.

### 19. Directors' interest in shares

In compliance with Section 200 of the Companies Act, the Board of Directors of Prime Grameen, who hold applicable interest in the shares of the respective companies; have thus disclosed details of their shareholdings and acquisitions/ disposals to the respective Boards.

At the commencement and closing of the year under review, the shareholdings of the Board of Directors were listed as follows:

Mr B M D C Prabhath – MD/CEO holds 0.07% voting shares of the Company.

## 20. Related party transactions

Details of related party transactions are set out in Note 41 of the financial statement.

## 21. Directors' remuneration

In relation to the Company, the Directors' remuneration for the financial year ended March 31, 2015 is given in Note No. 11 of the financial statements.

## 22. Directors' interest in transactions

The Directors have no direct or indirect interest in any contract or proposed contracts with the company.

## 23. Corporate Governance

The significance of maintaining an effective corporate governance practice in relation to the management and operations of the company was reiterated by the Directors. As such with the purpose of enhancing risk management measures while improving accountability and transparency of the Company, systems and structures were implemented for continuous improvement of all such practices. The corporate governance report is given on from pages 43 to 47 of the Annual Report.

## 24. Internal Controls

The Board of Directors has instituted an effective and comprehensive system of implementing internal controls measures. As such the Internal Control system covers financial operations, compliance, control and risk management while safeguarding assets and ensuring the security of the records, as much as possible.

## 25. Directors' statement of internal controls

As per Section 10 of the Direction No. 03 of 2008 on Corporate Governance, the Board of Directors issued a report in relation to the internal control mechanism of the company. As such the Board authenticates that the financial reporting system is designed to assure the reliability of financial reporting in relation to the preparation of financial statements. When preparing such financial statements, the Board has complied with relevant accounting principles and regulatory requirements

The said report is given on page 65 of the Annual Report .The Board has also obtained an assurance report from the external auditor on Directors' Statement of Internal Control which is given on pages 66 and 67 of the Annual Report.

## 26. Environment

There have been no activities carried out by the Company that were detrimental to the environment. As such the Board of Directors affirms that to the best of their knowledge, the company has complied with the applicable environmental laws and regulations.

## 27. Human Resources

The employment strategies of the company are framed to recruit, train, develop and retain the best talent available within the industry. In order to facilitate the process of matching people to jobs, the Company's employment policy is structured to include recruitment from external sources as well as through internal promotions. The Company always respects the merits of the individual and provides equal career opportunities irrespective of gender, race or religion. The Company has not experienced any employee related issues during the year under review.

## 28. Compliance with laws and regulations

The Board of Directors along with all personnel responsible for legal compliance warrants that the company has not carried out any activities that breach the applicable laws and regulations. As such, the relevant officers confirm their compliance to the Board on a monthly basis.

## 29. Auditors

The Audit of the company has been carried out by M/s. Kreston MNS & Co., Chartered Accountants for over 5 years. In light of the long standing service provided by M/s Kreston MNS & Co and in keeping with the Group Policy of rotating Auditors periodically, during the year the Company adopted Auditor Rotation Policy, to become effective from financial year ending 31st March 2016. According to this Policy, the Company's External Auditor shall be rotated every five years, subject to approval of the shareholders, and the existing auditor is not eligible to be selected immediately after the completion

## Annual Report of the Board of Directors

of its five years tenure. Thus, Messrs. Kreston MNS & Co., the existing auditor is not eligible to be reappointed as the Company's auditor for the next year.

Accordingly, in order to select the External Auditor for the financial year ending 31st March 2016, Requests for Proposals were dispatched to three audit firms from the approved list of the Central Bank of Sri Lanka. After due evaluation based on specified criteria mentioned in the Request for Proposals, the Committee has recommended to the Board of Directors to propose Messrs. Ernst & Young ( EY) – Chartered Accountants be appointed as the External Auditors of the Company for the Financial year ending 31st March 2016. The Board having accepted such recommendation proposes that M/s Ernst & Young, Chartered Accountants be appointed as the External Auditors of the Company as the Annual General Meeting to be held on the 17th of July 2015.

In accordance with the Companies Act No. 7 of 2007, a resolution relating to the appointment of External Auditors and authorising the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting to be held on the 17th of July 2015.

Based on the declaration provided by M/s. Kreston MNS & Co., and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor) or interest in the Company which, in our judgement, may reasonably be thought to have a bearing on their Independence.

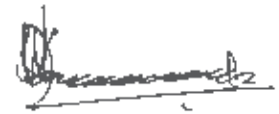
### 30. Annual General Meeting

The 05th Annual General Meeting of the company will be held at the Auditorium on Level 6 of "Prime Grameen Building" at No. 168, Nawala Road, Nugegoda, on 17th July 2015 at 10.00 in the forenoon. The notice of the 6th Annual General Meeting is given on pages 125 and 126.

For and on behalf of the Board



**A.J. Alles**  
Chairman



**B.M.D.C. Prabhath**  
Managing Director/  
Chief Executive Officer



**Shiromi Halloluwa**  
Board Secretary

Colombo, Sri Lanka  
10th June, 2015



# The Board Integrated Risk Management Committee Report

## Introduction

Risk is an integral part of the functions of any institution extending financial services. Accordingly, with a view to discharging its functions in a more responsible manner especially to its clientele and to the society at large, whilst building a sustainable institution, the Prime Grameen Pvt Ltd (the company) has focussed its priority on the importance of identifying and managing the risks effectively and efficiently. With this proactive approach, towards its long term sustenance a Board Integrated Risk Management Committee has been established on 27th November 2014.

## Objective

The Board Integrated Risk management Committee (the Committee) of the Company is a sub Committee of the Board of Directors (Board). The main objective of the Committee is to assist the Board in fulfilling its responsibility with regard to ensuring the adequacy of the Company's risk management framework, including policies, processes and practices adopted in managing risks.

## Membership

At the end of the financial year of 2015, the Board Integrated Risk Management Committee (BIRMC) comprised of 02 members, of which both members were Non-Executive Directors, including the Chairperson of the Committee.

## Members

Ms M A R C Cooray, Chairperson Non IND / NED) Mrs. L. L .C. C. Thambiah IND

(IND- Independent Director, NED- Non Executive Director)

## In Attendance

Mr. B.M.D.C. Prabath- Managing Director/CEO

Mr. W.S.P Arangala – GM-Finance

Mr. J. M. R .Fonseka-AGM Compliance/RISK

Ms Shanti Gnanapragasam Chief Risk Officer of HNB PLC was invited to participate at the meetings as an observer

The AGM/Compliance /Risk functions as the Secretary to the Committee

Members who resigned during 2014/2015

Mr. Roland De. S. Munasinghe

Mrs. H.K.S.R. Perera

Mr. S.L.Y. Liyanawatta

Mr. W.M. Karunaratne

Brief profiles of the Directors representing the Committee are given on pages 16 to 17 of the Annual Report.

## Authority

In order to discharge its duties and responsibilities effectively and efficiently, the Committee is empowered to have direct access to, and receive regular reports from the Management. The Committee also has the authority to engage independent professional advisers on subjects within its purview.

## Terms of Reference

The primary responsibilities of the Committee as set out in the Terms of Reference include the following:

- To assess and review all risks, i.e. Credit, Market, Liquidity, Operational, Financial and Strategic of the company on a quarterly basis through appropriate risk indicators and management information.
- To put in place appropriate reporting procedures and formats to enable timely and effective management information to be produced for risk monitoring and decision making purposes.
- To review the adequacy and effectiveness of the technology infrastructure supporting the business and consequently the risk management framework.
- To take prompt corrective action to mitigate the effect of specific risk where such risks are at levels beyond the prudent levels decided by the Committee on the basis of the company's policies and regulatory and supervisory requirements.
- To take appropriate action against the officers responsible for failure to identify specific risks and take prompt corrective action as recommended by the Committee, and/ or as directed by the Director of the Dept. of SNBFI of CBSL.

## The Board Integrated Risk Management Committee Report

- To submit a risk assessment report to the Board seeking the Board's views, concurrence and /or specific direction, at the Board meeting immediately followed by the IRMC meeting.
- To review the risk identification and management process developed by management to confirm it is consistent with the Group's strategy and business plan.
- To review the following with management, with the objective of obtaining reasonable assurance that financial risk is being effectively managed and controlled.
  - Management's tolerance for financial risks.
  - Management's assessment of significant financial risks facing the Company.
  - The Company's policies, plans, processes and any proposed changes to those Policies for controlling significant financial risks.
- Reported to the Board on its findings and made recommendations for more robust risk management practices.

### Appreciation

The Committee wishes to thank the past and the current committee members for their valuable input and support

### Compliance

Under section 3 of FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 3 OF 2008 the committee shall

AGM Compliance & Risk has been included in the committee and reports to the committee periodically on compliance related matters.



**Ms. M.A.R.C. Cooray**

Chairperson

Integrated Risk Management Committee

Colombo, Sri Lanka

10th June, 2015

### Meetings

04 meetings were held and at least one in each quarter as per the terms of reference of the Committee. Attendances at the meetings are given in table on page 52 of the Annual Report. The discussions, conclusions and recommendations reached at the meeting are recorded in minutes and circulated to the Board of Directors for information and advice. The Chairman of the Committee also briefs the Board of Directors on the main findings of the Committee at each Board meeting.

### Activities of the Committee

In order to discharge the above duties and responsibilities, the Committee carried out the following activities during the year:

- Re-constituted the Committee and formalised the Terms of Reference of the Committee.
- Reviewed the development, implementation and maintenance of the risk management framework, principles and policies to ensure that they are in line with regulatory' governance and industry best practices norms.
- Defined key risk indicators (KRI) of the Company and provided reporting guidelines to the Management to ensure comprehensive and adequate risk coverage of reports submitted to the Committee.

# Board Audit Committee Report

## Composition of the Committee

The Audit Committee ("the Committee"), re-constituted on 27th November 2014 by the Board of Directors, comprises of four (04) Non-Executive Directors and is responsible to the Board of Directors.

The following members serve on the Audit Committee:

Mr. N.H.T.I. Perera (NED/NID) - Chairman

Mrs. M.A.R.C. Cooray (NED/NID)

Mrs. L.L.C.C. Thambiah (NED/IND)

Mr. A.L. Somaratne (NED/NID)

(NID-Non-Independent Director, IND- Independent Director, NED- Non Executive Director)

Each of the members of the Committee has a depth of financial expertise and collectively the Committee has considerable financial experience on which to draw. More information on experience of and brief profiles of the members are given on pages 16 and 17 of the Annual Report.

The Board Secretary functions as the Secretary to the Audit Committee.

## Audit Committee Responsibilities

The Committee is entrusted with the following responsibilities by the Board of Directors.

To ensure that:

- The Company would portray good governance and focuses on audit, internal control and procedure.
- All Financial Statements would adhere to the levels of reliability and integrity required by the Company.
- External and Internal Auditors would act independently to ensure transparency.
- Central Bank Directions and instructions would be adhered to at all times, in relation to reporting requirements.

## Meetings

For the purpose of discharging the above duties the Audit Committee met four (04) times during the financial year.

## Financial Reporting

- (i) The Committee make recommendations on matters in connection with:
  - The appointment of the external auditor for audit services.
  - The implementation of the Central Bank Guidelines.
  - The application of the relevant accounting standards.
  - The service period, audit fee and any resignation or dismissal of the auditor.
- (ii) Review the financial information of the Company, in order to monitor the integrity of the financial statements of the Company, its annual reports.
- (iii) Review with management and external auditors the results of the audit, including any difficulties encountered.
- (iv) Review the external auditor's report on the financial statement and any supplementary report outlining the findings, observations and recommendations and management's responses, and the status of any action plans.
- (v) Review the Annual and Interim Financial Statements with the management, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting and disclose policies, in particular the Sri Lanka Accounting Standards (SLFRS/LKAS) and other accounting and financial reporting guidelines.
- (vi) Recommend the adoption of the Annual and Interim Financial Statements to the Board.

## Risk and Internal Control

- Additionally, the Committee also assesses the effectiveness of the Company's internal controls in order to meet the requirements of the Sri Lanka Auditing Standards.
- Understand the scope of internal and external auditor's review of risk management and internal control systems.

## Board Audit Committee Report

- Liaise with the Risk Management Committee and the Management and ensure that the risk management framework of the Company is implemented effectively.

### External Audit

During the year, the Committee continued to review the external audit plan and methodology, with the objective of understanding the quality control/ processes adopted by the External Auditors. Moreover, the Committee conducted meetings with the External Auditors to discuss the audit scope and plan.

The Committee also perused the Report of the Auditors and the Management Letters issued in consultation with both the External Auditors and the Management, and continuously monitored the actions taken by the Management to implement the recommendations made.

The Committee met the External Auditors without the presence of the Management on one occasion during the year. Additionally, the External Auditors were given adequate access to the Committee as well as to all relevant information required.

The Committee also reviewed and recommended for approval of the Board the fees payable to the statutory auditors for the interim and final audits for the financial year ending 31st March 2015.

The Committee reviewed and monitored the independence of the External Auditors by obtaining written statements from Messrs. Kreston MNS & Co on relationship between the auditors and the Company, including non-audit services, discussing the relationships and the firm's own internal procedures for maintaining the independence of its staff.

### External Auditor Rotation

In keeping with the Group Policy of rotating Auditors periodically, during the year the Company adopted Auditor Rotation Policy, to become effective from financial year ending 31st March 2016. According to this Policy, the Company's External Auditor shall be rotated every five years, subject to approval of the shareholders, and the existing auditor is not eligible to be selected immediately after the completion of its five years tenure. Thus, Messrs. Kreston MNS & Co., the existing auditor is not eligible to be reappointed as the Company's auditor for the next year.

Beginning from 2015, the Committee will make recommendations to the Board regarding the appointment of the company's External Auditors. Accordingly, in order to select the External Auditor for the financial year ending 31st March 2016, Requests for Proposals were dispatched to three audit firms from the approved list of the Central Bank of Sri Lanka. After due evaluation based on specified criteria mentioned in the Request for Proposals, the Committee has recommended to the Board of Directors to propose Messrs. Ernst & Young ( EY ) – Chartered Accountants be appointed as the External Auditors of the Company for the Financial year ending 31st March 2016. Such appointment is subject to the approval of the shareholders at the Annual General Meeting to be held on 17th July 2015.

### Internal Audit

To fulfil its responsibility to monitor the internal audit function of Messrs. KPMG the Committee reviewed:

- The adequacy of the scope, functions and resources of the internal audit functions.
- The internal audit programme and results of the internal audit process and where necessary, ensure that appropriate actions are taken on the recommendations.
- Any appraisal or assessment of the performance of staff members involved in the internal audit function.
- The appointment or termination of senior staff members and outsourced service providers to the internal audit function.

During the year the Committee reviewed the independence objectivity and performance of the internal audit function, the findings of the internal audits completed and their evaluation of the Company's internal control systems.



**N.H.T.I. Perera**  
Chairman  
Audit Committee

Colombo, Sri Lanka  
10th June, 2015

# Nomination / Human Resources & Remuneration Committee Report

## Composition of the Committee

The Nomination/Human Resources & Remuneration Committee ("the Committee"), appointed on 27th November 2014 by the Board of Directors, comprises four Non-Executive Directors and is responsible to the Board of Directors. The following Directors serve on the Nomination/Human Resources & Remuneration Committee;

Mrs M.A.R.C. Cooray (NED/NID) - Chairperson

Mr Jonathan Alles (NED/NID)

Mr Brahmanage Premalal (NED/NID)

Mr W.M. Karunaratne (NED/IND) (Tendered resignation)

(NID- Non Independent Director, IND - Independent Director and NED - Non Executive Director)

Brief profile of the Directors are given on page 16 of the Annual Report.

The Board Secretary functions as the secretary to the Committee.

## Policy

The Company's Remuneration policy aims to attract, motivate and retain management in a competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company.

It is the focus of the Committee to ensure that the total remuneration package is sufficiently competitive to attract the best available talent to the Company.

## Committee Responsibilities

### Nomination Related:

The Committee is responsible for reviewing the composition of the Board and Board Sub-Committees to ensure that they are properly constituted and balanced in terms of skills, experience and diversity. In addition to these, the Committee is entrusted with the responsibility of;

- Implementing a procedure to select/appoint new Directors/Managing Director/CEO and the Key Management Personnel.
- Considering and recommending the re-election of the current Directors, taking in to account the performance and contribution made by the Director/s concerned towards the overall discharge of the Board's responsibilities.

- Ensuring Directors/Managing Director/CEO and the Key Management Personnel are fit and proper persons to hold office as required by the Finance Business Act and such other applicable statutes, regulations and directions.
- Considering and recommending from time to time the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel with a view to provide advice and recommendations to the Board or the Chairman (as the case may be) on any such appointment.
- Reviewing the structure, size, composition and competencies (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any changes.

### Human Resources & Remuneration Related:

The Committee is vested with power to;

- Determine and agree with the Board on the broad policy for the remuneration of the Board Non – Executive Directors, the Chairman, the Managing Director/CEO and other members of the executive management.
- Set individual remuneration packages for the Chairman, the Managing Director/CEO and Non-Executive Directors.
- Recommend and monitor the level and structure of remuneration for all executive management officers.
- Determine increments and bonuses payable based on recommendations submitted by the Managing Director/CEO. In determining remuneration policy and packages, the Committee shall have due regard to the Code on Corporate Governance, the SEC and CSE listing rules and all other relevant codes, laws and regulations.
- Decide on appointments, extensions and termination of executive management officers taking in to account the recommendation of the Managing Director/CEO and to interview applicants for senior management posts who have been short-listed by management and shall decide on their appointment and designation.

## Nomination / Human Resources & Remuneration Committee Report

- Agree on policy for authorizing claims for expenses of the Chairman and Managing Director/CEO.

The Terms of Reference (TOR) of the Nomination/Human Resources & Remuneration Committee was adopted by the Board of Directors on the 27th of January 2015.

### Meeting

The Committee met two (02) times during 2014/2015. Other Members may attend meetings on invitation.

Attendance at the meetings is given in table on page 52 of the Annual Report.

### Fees

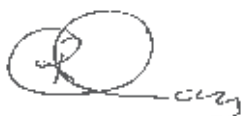
All Non-Executive Directors receive a monthly fee for participation in the deliberations of the Board including attendance at meetings as per the Director's Remuneration Policy. They may also receive fees for attending sub - committee meetings. They do not receive any performance or incentive payment.

### Professional Advice

The Committee has the authority to seek external professional advice on matters within its purview.

### Succession Planning

Continuously assessed the adequacy of the expertise available at the Senior Management level; specifically discussed succession planning for the positions of Key Management Personnel of the Company and reviewed potential candidates for these roles.



**Mrs. M.A.R.C. Cooray**

Chairperson

Nomination/Human Resources & Remuneration Committee

Colombo, Sri Lanka  
10th June, 2015

# Credit Committee Report

## Composition of the Committee

The Board Credit Committee (“Committee”) appointed on 27th November 2014 by the Board of Directors, comprises of Three Non-Executive Directors and is responsible to the Board of Directors. The following members serve/served on Credit Committee:

Mrs L L C C Thambiah (IND/NED) – Chairperson

Mr A L Somaratne (NIND/NED)

Mr W M Karunaratne IND /NED) (Tendered resignation)

(IND- Independent Director, NIND – Non Independent Director and NED – Non Executive Director)

Mr B M D C Prabhath – Managing Director / Chief Executive Officer functions as the secretary to the Committee.

## Credit Committee Duties / Responsibilities

- Review the methodologies in assessing Company's credit risks whilst recommending appropriate exposure limits.
- Ensure concentration of credit risks are within the risk tolerance of the Company
- Monitor new areas of lending which are to be tested on a pilot basis.
- Monitor adherence and ensure compliance with the limits set out in the lending policy
- Approve and monitor the risk elements of the Company and review the Credit Risk report on a quarterly basis
- Recommend actions to the Board to mitigate credit risk where applicable.
- submit a credit assessment report to the Board seeking the Board's views, concurrence and/or specific directions, at the Board meeting immediately followed by the Credit Committee meeting.

## Meetings

The Committee met four (4) times during 2014/2015. Other Members may attend meetings on invitation.

## Authority

- The Committee is authorized to seek any information it requires from any employee of the Company in order to perform its duties.
- The Committee with the authorization of the Board obtain at the Company's expenses, outside legal and other professional advice on any matters within its terms of reference.
- The Committee is authorized to monitor the Company's policies, plans, processes and any proposed changes to those polices for controlling significant Credit risk.



**Mrs. L.L.C.C. Thambiah**

Chairperson  
Credit Committee

Colombo, Sri Lanka  
10th June, 2015

# Strategic / Investment Review Committee Report

## Composition of the Committee

The Board Strategic/Investment Review Committee (“Committee”) appointed on 27th November 2014 by the Board of Directors, comprises of Five Non-Executive Directors and is responsible to the Board of Directors.

The following members serve on Strategic / Investment Review Committee:

Mr A J Alles (NIND/NED) - Chairman

Mr B Premalal (NIND/NED)

Mrs M A R C Cooray (NIND/ NED)

Mr N H T I Perera (NIND/NED)

Mrs H K S R Perera (NIND/NED)

(NIND – Non-Independent Director and NED – Non Executive Director)

Mr W S P Arangala - General Manager Finance functions as the secretary to the Committee.

## Strategic / Investment Review Committee Responsibilities

In monitoring the Company's progress in achieving its predetermined goals, the Strategic Committee acts as a fundamental instrument that lays the foundation that would thus enable the formulation of an effective strategic plan and its implementation.

The primary objective of the Committee lies in reviewing and recommending the three year Strategic Plan to the Board of Directors.

The Committee is entrusted with the following responsibilities by the Board of Directors:

- To monitor the achievement against the key targets of the Company on a quarterly basis.
- To evaluate and recommend to the Board strategic equity investments, divestments and disposals including investments in equity, corporate debt and treasury investments.
- To review all current and future strategic investments, disinvestments and disposals and to recommend necessary action.
- To monitor the performance of equity portfolio
- To review the fulfilment of conditions in the Investment Policy Statements and to approve exceptions.
- Execute tasks assigned to the Committee through the Company's investment policy as required by the Board.

## Meetings

The Committee met one (1) time during 2014/2015. Other Members may attend meetings on invitation.



**A.J. Alles**

Chairman

Strategic/ Investment Review Committee

Colombo, Sri Lanka

10th June, 2015



# Risk Management

“Managing risk is at the core of managing any financial organization; it is too important a responsibility for a firm’s managers to delegate”

Thomas.S.Coleman (2012)

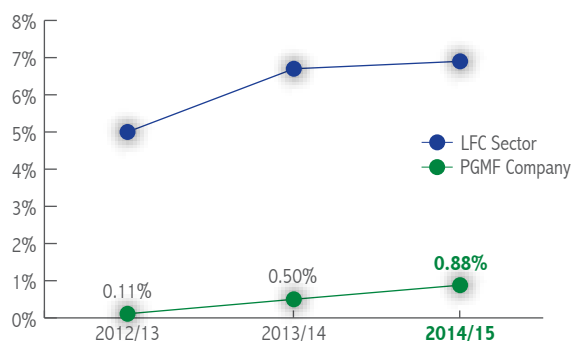
The importance of risk management of a financial organization is well described by the aforementioned statement of Thomas.S.Coleman. Managing risk is about making tactical and strategic decisions to control those risks that should be controlled and to exploit those opportunities that can be exploited. It is an art of managing people and process that recognizes risk factors and put in place a well-defined mechanism to mitigate them.

The Board of Directors of PGMF has recognized that, in the financial industry, more than any other industry, managing risk must be a central responsibility from Managing Director/CEO down through individual portfolio managers. In pursuance of this objective the board has established an integrated risk management committee as set out in clause 8 subsection 3 of Finance Companies (Corporate Governance) Direction 03 of 2008 of the CBSL Directions, Rules, Determinations, Notices and Guidelines.

## Credit Risk

Credit risk arises when the company makes losses due to the inability of the company to honor its obligations to repay their dues on time or permanent default by them. PGMF credit risk is managed through weekly follow – up by a dedicated carder of field officers. One yard stick to measure the effectiveness of the credit management process is the NPL rate of an organization. A well-defined credit evaluation process enables an organization to disburse quality loans that results in having a relatively low NPL rate. In a sector where loans are given free of collateral, a NPL rate less than 1% speaks volumes of PGMFs credit risk management process.

Non-performing Loans (NPL)



## Market Risk

Market risk arises due to fluctuations in the interest rates, foreign currency, credit spread equity prices, commodity prices and risk related matters. Interest rate volatility can impact on the company's net interest margin which is the interest spread between the borrowing and lending rates. During the year under review, the borrowing rate cap (through mobilization of fixed deposits and savings which is the main source of funding for PGMF) imposed by the CBSL did not change. However, on the other hand the company reduced the fixed deposit and savings rates gradually whilst the lending rate remained static. This to a greater extent enabled us to reduce our cost to income ratio. Moving forward, the company has planned to reduce the lending rate with effect from the first quarter of the financial year 2015/16.

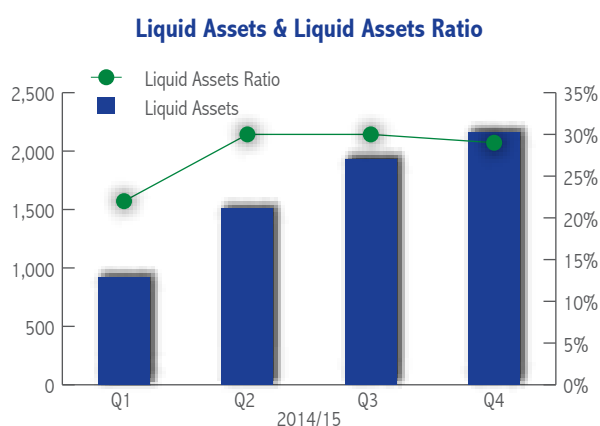
## Operational Risk

Operational risk arises due to inadequate or failed process, systems, people or external events. The Board appointed IRMC and Audit committee oversee the management operational risks across the entire branch network on a regular basis. Periodical visits by the internal audit team and surprise inspections by the investigation team have helped the company to identify potential operational risk factors and address them at early stages. Implementation of the new ICT development with the renowned Indian software developer will further enhance the operational risk management in the coming year.

## Risk Management

### Liquidity Risk

Liquidity risk arises when the company is unable to meet its financial obligation by not being able to pay its deposit holders their dues at maturity or on demand. PGMF policy is to maintain an adequate liquidity buffer to meet its short term and long-term obligations as defined in its corporate liquidity policy. Our liquidity position has remained very strong at comfortable levels and has surpassed the regulatory requirement. The company is not only geared to meet its maturity liabilities but also premature withdrawals over the counter at any given time.



### Strategic Risk

The company constantly monitor the developments taking place in the industry and takes proactive strategic decisions to mitigate the potential risks. The company has stringent policies and procedures in place to implement the 3 year strategic plan approved by the Board. The Board Strategic and Investment Committee which meets periodically monitors the achievements and recommends changes, if deemed necessary.

### Reputation Risk

Reputation risk could arise due to many factors such as non compliance of regulatory requirements, non-adhering to social and environment factors and failure to mitigate risks in its business, including Credit, Liquidity and market risks. The company has a well-defined process to monitor and mitigate potential reputation risks.

# Directors' Statement on Internal Control

## Responsibility

The Board of Directors presents this Statement of Internal Control in compliance with paragraph 10 (2) (b) of Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Prime Grameen Micro Finance Ltd ("the company") System of Internal Controls. Such a system is designed to manage the company's key areas of risk within an acceptable risk profile in achieving the policies and business objectives of the company. Accordingly, the system of Internal Controls can only provide a reasonable, but not absolute, assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the company and this process includes enhancing the system of Internal Controls as and when there are changes to the business environment or regulatory guidelines. The process is regularly reviewed by the Board.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by the company and in the design, operation and monitoring of suitable Internal Controls to mitigate and control these risks. The Board is of the view that the System of Internal Controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

## Key features of the process adopted in reviewing the design and effectiveness of the internal control system.

The key processes that have been established in reviewing the adequacy and integrity of the System of Internal Controls in regard to financial reporting include the following:

- Sub-committees are established to assist the Board in ensuring the effectiveness of the company's daily operations in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved by the Board.
- The Audit Committee of the company reviews Internal Control issues identified by the Internal Audit functions regulatory authorities and management, and evaluates the adequacy and effectiveness of the Internal Control System. They also review the Internal Audit functions with particular emphasis on

the quality of audits performed and the minutes of the Audit Committee meetings are tabled for the information of the Board on a periodic basis in assessing the Internal Control System. The Internal Audit function checks for suitability of design and effectiveness of these procedures and controls on an ongoing basis during their audit process.

- Risk Management Committee is essential in making Prime Grameen Micro Finance Ltd a safe and sustainable financial institution. A strong appetite for risk management and control provides the foundation for this. The Risk management focus on setting clear risk parameters and embedding a strong culture of risk management and control designed to ensure the proactive identification of risks which in turn will enable the company to be resilient and respond effectively to any unforeseen events.

## Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

## Review of the statement by the external auditors

The External Auditor has reviewed the above Directors' statement on internal controls included in the Annual Report of the company for the financial year ended 31st March 2015 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal control System over the financial reporting of the company.

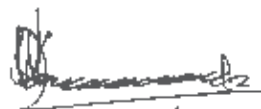
For and on behalf of the Board.



**N.H.T.I. Perera**  
Chairman Audit Committee



**Jonathan Alles**  
Chairman



**B.M.D.C. Prabhath**  
Managing Director / Chief Executive Officer

Colombo, Sri Lanka  
10th June, 2015

# Kreston MNS & Co

Chartered Accountants  
PO Box 210  
No. 30, James Peiris Mawatha  
Colombo 02, Sri Lanka  
T +94 (0) 11 232071  
F +94 (0) 11 242088  
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[www.mns.co.lk](http://www.mns.co.lk)

## Independent Assurance Report

To the Board of Directors of Prime Gramen Micro Finance Limited.

### Introduction

We were engaged by the Board of Directors of Prime Gramen Micro Finance Limited ("Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting ("Statement") included in the Annual Report for the year ended 31<sup>st</sup> March 2015.

### Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka.

### Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the Board on the statement based on the work performed. We conducted our engagement based on the Sri Lanka Standard on Assurance Engagements 3050 – Assurance Report for Banks on Directors' Statement on Internal Control (SLSAE 3050), issued by the Institute of Chartered Accountants of Sri Lanka.

### Summary of work performed

Our engagement has been conducted to assess whether the statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the company's risk and control procedures. It also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the Annual Report will, in fact, remedy the problems.



Partner  
No. 1, De Silva Mawatha, POA, PO248,  
No. 100/101, Southwestern, POA, PO248,  
3, Rajapathra, POA, PO248(08)  
No. 10, Arjuna, POA, AC244  
No. 11, D. S. D. A. Telecentre, POA, AC244  
No. 1, Saldanhan, (B2), Mahavel, POA, AC244  
No. 1, P. Samarasinghe, POA, AC244

#### Kreston MNS & Co

City Office at 15, 15A, First Floor, State Bank of India Building, Colombo 01. T +94 (0) 11 2221444  
Branches in Akurapattuwa, Baddegama, Baddegama, Hattotuwa, Jaffna, Kandy, Kurumbapala, Mahara, Negombo, Nugegoda, Pinnacoli,  
Colombo 01 and other Client Through International LPO (Local Through International).  
State Through International and its member and correspondent firms are not a certified partnership.

### Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the Annual Report is inconsistent with our understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the company.



Chartered Accountants  
Colombo  
10th June 2015  
Printed Orders / Amendment 01/14





## Financial Reports



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

### Report on the Financial Statements

We have audited the accompanying Financial Statements of PRIME GRAMEEN MICRO FINANCE LIMITED ("the Company"), which comprise the statement of Financial Position as at 31<sup>st</sup> March 2015, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, exhibited on pages 3 to 53.

### Board's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the - Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the Financial Statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Financial Statements give a true and fair view of the Financial Position of the Company as at 31<sup>st</sup> March 2015, and of its Financial Performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



Contd.



**Report on Other Legal and Regulatory Requirements**

As required by section 153 (2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
  - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company
  - The Financial Statements of the Company, comply with the requirements of section 151 of the Companies Act No. 07 of 2007.

*Kevaly Anand L.*

CHARTERED ACCOUNTANTS

COLOMBO

26<sup>TH</sup> MAY 2015

SR/RB/rl

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# Income Statement

For the year ended		31.03.2015	31.03.2014
	Note	Rs.	Rs.
<b>Income</b>	5	<b>2,846,953,658</b>	2,081,563,135
Interest Income		<b>2,467,538,240</b>	1,689,119,884
Interest Expenses		<b>(713,714,381)</b>	(542,348,293)
<b>Net Interest Income</b>	6	<b>1,753,823,859</b>	1,146,771,591
Fee and commission Income		<b>336,146,746</b>	203,584,988
Fee and commission expenses		<b>(109,782,746)</b>	(105,470,224)
<b>Net fee and commission income</b>	7	<b>226,364,000</b>	98,114,764
Net interest, fee and commission income		<b>1,980,187,859</b>	1,244,886,355
Other operating Income	8	<b>43,268,672</b>	188,858,263
Net gain / (loss) From Trading	8	<b>(768,443)</b>	-
<b>Total operating Income</b>		<b>2,022,688,088</b>	1,433,744,618
Impairment charge for loans and other assets	9	<b>(70,407,512)</b>	(10,956,549)
<b>Net operating Income</b>		<b>1,952,280,576</b>	1,422,788,069
<b>Operating Expenses</b>			
Personnel Cost	10	<b>(540,590,861)</b>	(396,225,575)
Other operating expenses	11	<b>(584,574,371)</b>	(473,763,398)
<b>Total operating Expenses</b>		<b>(1,125,165,232)</b>	(869,988,973)
<b>Operating Profit before Value Added Tax (VAT) and Nation Building Tax (NBT)</b>		<b>827,115,344</b>	552,799,096
Provision for Value Added Tax (VAT)	12	<b>(146,261,101)</b>	(73,029,587)
Provision for Nation Building Tax (NBT)	13	<b>(23,514,572)</b>	(3,022,487)
<b>Operating Profit after Value Added Tax (VAT) and Nation Building Tax (NBT)</b>		<b>657,339,671</b>	476,747,022
Income Tax Expense	14	<b>(122,793,299)</b>	(71,282,393)
<b>Profit for the Year</b>		<b>534,546,372</b>	405,464,629
Basic Earnings per ordinary share	15	<b>0.31</b>	0.24

Accounting Policies and Notes from Pages 78 to 121 form an integral Part of these Financial Statements.

# Statement of Comprehensive Income

For the year ended	Note	31.03.2015 Rs.	31.03.2014 Rs.
<b>Profit for the year</b>		<b>534,546,372</b>	405,464,629
<b>Other comprehensive Income / (Expense) for the year not to be reclassified to profit or loss in subsequent periods</b>			
Actuarial Gains / (Losses) on defined benefit plans	32	<b>(3,412,787)</b>	(4,714,158)
Deferred Tax effect on Actuarial Gains / (Losses) on defined benefit plan	26	<b>955,580</b>	1,319,964
Revaluation Reserve on Land and Buildings	25	-	291,969,431
Deferred tax effect on revaluation of Property, Plant & Equipment	26	<b>384,555</b>	(24,486,614)
		<b>(2,072,652)</b>	264,088,623
<b>Other Comprehensive Income / (Expenses) for the year to be reclassified to profit or loss in subsequent of periods</b>		-	-
<b>Other comprehensive income for the year</b>		<b>(2,072,652)</b>	264,088,623
<b>Total comprehensive income for the year</b>		<b>532,473,720</b>	669,553,252


Accounting Policies and Notes from Pages 78 to 121 form an integral Part of these Financial Statements.

# Statement of Financial Position

As at		31.03.2015	31.03.2014
	Note	Rs.	Rs.
<b>ASSETS</b>			
Cash and Cash Equivalents	16	<b>404,340,780</b>	141,553,151
Loans and Advances to members	17	<b>5,538,291,446</b>	3,557,125,208
Loans and Advances to others	18	<b>186,387,075</b>	34,353,409
Financial Investments - Available- for- sale	19	<b>234,000</b>	234,000
Financial Investments - Held - to- maturity	20	<b>1,822,097,147</b>	232,835,004
Financial Investments Held for Trading	21	<b>194,914,296</b>	-
Other Assets	22	<b>156,134,024</b>	137,061,860
Investment Properties	23	<b>886,300,000</b>	886,300,000
Intangible Assets	24	<b>10,715,177</b>	15,247,599
Property, Plant & Equipment	25	<b>880,474,985</b>	820,863,343
Deferred Tax Asset	26	<b>5,978,982</b>	-
<b>Total Assets</b>		<b>10,085,867,911</b>	5,825,573,574
<b>LIABILITIES</b>			
Bank Overdraft	16	-	25,616,239
Due to customers	27	<b>7,557,913,371</b>	3,547,151,734
Debt issued and other borrowed funds	28	<b>780,301,120</b>	989,945,818
Income Tax Payable	29	<b>109,483,565</b>	60,759,171
Value Added Tax payable	30	<b>114,718,215</b>	214,811,940
Other Liabilities	31	<b>131,629,227</b>	124,789,910
Retiring Benefit Obligation	32	<b>119,196,601</b>	94,632,482
Deferred Tax Liability	26	-	27,714,187
		<b>8,813,242,099</b>	5,085,421,480
<b>SHAREHOLDERS' FUND</b>			
Stated Capital	33	<b>3,895,806,240</b>	3,895,806,240
General Reserve	34	<b>82,897,989</b>	82,897,989
Statutory Reserve Fund	35	<b>204,734,159</b>	97,824,884
Investment Fund	35	-	61,395,350
Revaluation Reserve		<b>262,313,846</b>	267,482,817
Accumulated Losses		<b>(3,173,126,422)</b>	(3,665,255,187)
		<b>1,272,625,812</b>	740,152,094
<b>Total Liabilities and Shareholders' Fund</b>		<b>10,085,867,911</b>	5,825,573,574

Accounting Policies and Notes from Pages 78 to 121 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.



General Manager - Finance

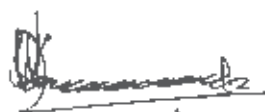
The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Signed on behalf of the Board of Directors.



Chairman

26th May, 2015



Managing Director / Chief Executive Officer

## 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 01.04.2013	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)	-
Balance as at 31.03.2014	3,895,806,240	82,897,989	97,824,884	61,395,350	267,482,817	(3,665,255,187)	740,152,094
Profit for the Year	-	-	-	-	-	534,546,372	534,546,372
Other Comprehensive Income net of tax	-	-	-	-	384,555	(2,457,207)	(2,072,652)
Total Comprehensive Income	-	-	-	-	384,555	532,089,165	532,473,720
Realisation on Account of Depreciation on Revalued Assets	-	-	-	-	(5,553,526)	5,553,526	-
Transfers to Retained Earnings from Investment fund	-	-	-	(61,395,350)	-	61,395,350	-
Transfers to Statutory Reserve Fund	-	-	106,909,274	-	-	(106,909,275)	-
Balance as at 31.03.2015	3,895,806,240	82,897,989	204,734,159	-	262,313,846	(3,173,126,422)	1,272,625,812

Accounting Policies and Notes from Pages 78 to 121 form an integral Part of these Financial Statements.

# Statement of Cash Flows

For the year ended		31.03.2015	31.03.2014
	Note	Rs.	Rs.
<b>Cash Flow from Operating Activities</b>			
Profit before Tax		<b>657,339,671</b>	476,747,022
<b>Adjustments :</b>			
Interest Expenses on Borrowings	6	<b>16,596,356</b>	23,411,751
Interest Expenses on Debentures	6	<b>64,823,338</b>	83,901,770
Lease Interest	11	<b>1,896,489</b>	2,265,794
Dividend Income	8	<b>(40,000)</b>	(18,000)
Interest Income from Financial Investments Held to Maturity	6	<b>(85,018,439)</b>	(14,439,524)
Interest Income on Treasury Bond	6	<b>(2,546,667)</b>	-
Profit on Disposal of Property, Plant & Equipment	8	-	(335,497)
Project Participants written back	8	-	(13,468,059)
Sundry Income	8	-	(500,000)
Impairment Charge / (Reversal) for Loans and Other Assets	9	<b>70,407,512</b>	10,956,549
Provision for Value Added Tax	30	<b>146,578,644</b>	73,029,587
Reversal of VAT on Non Financial Services	8	<b>(8,345,032)</b>	-
Crop Insurance Levy	11	<b>3,872,913</b>	4,086,062
Provision for Nation Building Tax	13	<b>23,514,572</b>	3,022,487
Fair value gain on Investment Property	8	-	(149,513,000)
Amortization on Intangible Assests	24	<b>4,532,422</b>	3,070,433
Depreciation - on Property, Plant & Equipment	25	<b>52,352,181</b>	31,556,405
Loss on Disposal of Property Plant and Equipment	11	<b>233,430</b>	-
Gratuity Provision	10	<b>29,250,107</b>	21,460,125
Gain/ (Loss) on Mark to Market Valuation of Treasury Bond	8	<b>4,390,293</b>	-
Disposal Gain / Loss from Treasury Bond	8	<b>(3,621,850)</b>	-
Provision for Amount payable under Sip Saviya Scheme	31	<b>1,021,433</b>	-
<b>Operating Profit (Loss) before Changes in Operating Assets and Liabilities</b>		<b>977,237,373</b>	555,233,905
<b>(Increase) / Decrease in Operating Assets</b>			
Loans & Advances to members	17	<b>(2,030,588,526)</b>	(692,391,781)
Loans & Advances to others	18	<b>(155,596,331)</b>	(32,668,246)
Other Assets	22	<b>(28,291,526)</b>	(84,749,284)
<b>Increase / (Decrease) in Operating Liabilities</b>			
Due to Customers	27	<b>4,010,761,637</b>	888,554,898
Other Liabilities	31	<b>8,095,232</b>	(67,704,083)

For the year ended		31.03.2015	31.03.2014
	Note	Rs.	Rs.
<b>Cash Flow from Operating Activities</b>		<b>2,781,617,859</b>	566,275,409
Gratuity Paid	32	<b>(8,098,775)</b>	(5,594,075)
ESC Paid		-	(3,441,094)
VAT Paid	30	<b>(238,327,337)</b>	(35,808,306)
Income Tax Paid	29	<b>(96,916,342)</b>	(10,500,000)
WHT Paid	29	<b>(218,945)</b>	(233,355)
Notional Tax	29	<b>(9,286,652)</b>	(912,727)
NBT Paid		<b>(23,735,112)</b>	-
Crop Insurance Levy Paid		<b>(5,929,722)</b>	-
<b>Net Cash Flow from Operating Activities</b>		<b>2,399,104,974</b>	509,785,852
<b>Cash flow from investing activities</b>			
Purchase of Property, Plant & Equipment	25	<b>(120,683,719)</b>	(78,114,378)
Purchase of Intangible Asset	24	-	(9,854,731)
Proceeds from Sale of Property, Plant & Equipment		<b>283,269</b>	343,115
Net of Investment in Government Security	20	<b>(1,559,732,320)</b>	(160,860,413)
Net of Investment in Fixed Deposits	20	<b>(1,336,500)</b>	(13,500,000)
Investment in Treasury Bond	21	<b>(198,357,922)</b>	-
Fixed Deposit Interest Received	20	<b>1,484,977</b>	-
Treasury Bill Interest Received	20	<b>6,169,740</b>	4,167,187
Reverse Repurchase Interest Received	20	<b>49,170,398</b>	5,062,284
Treasury Bond Interest Received	21	<b>1,600,000</b>	-
Disposal Gain on Treasury Bond	8	<b>3,621,850</b>	-
Dividend Income	8	<b>40,000</b>	18,000
<b>Net Cash Flow from Investing Activities</b>		<b>(1,817,740,227)</b>	(252,738,937)
<b>Cash Flow from Financing Activities</b>			
Lease Instalments Paid	28	<b>(9,915,840)</b>	(8,289,231)
Interest payments on Debentures	6	<b>(66,007,203)</b>	(85,051,071)
Interest payments on Borrowings	28	<b>(16,976,059)</b>	(61,809,579)
Borrowings during the year	28	-	150,000,000
Loans repayments during the year	28	<b>(200,061,778)</b>	(210,849,043)
<b>Net Cash Flow from Financing Activities</b>		<b>(292,960,880)</b>	(215,998,924)
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>288,403,867</b>	41,047,991
<b>Cash and Cash Equivalents at the beginning of the year</b>		<b>115,936,913</b>	74,888,922
<b>Cash and Cash Equivalents at the end of the year</b>	16	<b>404,340,780</b>	115,936,913

Accounting Policies and Notes from Pages 78 to 121 form an integral Part of these Financial Statements.

# Notes to the 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 (Investments) Direction No. 7 of 2006
- (d) Finance Companies (Provision for Bad and Doubtful Debts) Direction No. 3 of 2006
- (e) Finance Companies (Capital Funds) Direction No. 1 of 2003.

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.

### 1.3 Parent enterprise & ultimate parent enterprise

The Company's parent undertaking & ultimate parent enterprise is Hatton National Bank PLC which acquired a shareholding of 51% of the Company's voting ordinary shares on 7th November 2014.

## 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.

#### 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 42.

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.

## Notes to the Financial Statements

### 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 32 for the assumptions used.

## 2.3 Summary of significant accounting policies

### 2.3.1 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.

### 2.3.2 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 Effective Interest Rate (EIR), less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the 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.

### 2.3.3 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

## Notes to the Financial Statements

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.

### 2.3.4 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.

### 2.3.5 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.

**2.3.6 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.

**2.3.7 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.

## Notes to the Financial Statements

### (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.

### (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.

### 2.3.8 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.

### 2.3.9 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.

ASSETS	Estimated useful life
Building	40 years
Others	5 years

### 2.3.10 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.

#### 2.3.11 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 profit or loss.

#### 2.3.12 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.

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.

#### 2.3.13 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,

## Notes to the Financial Statements

net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

### 2.3.14 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.

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.

#### (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.

### 2.3.15 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.

### 2.3.16 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 assets are reassessed at each reporting date and are recognized to the extent that it 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.

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

Company's total value addition is subjected to a 12% Value Added Tax up to 31.12.2014 and 11% from 01.01.2015 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 of 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 any person engaged in business and finance will be the value addition as computed for the purpose of VAT on financial services.

**3.1 New Accounting Standard Became Effective During the Year**

The following Sri Lanka Accounting Standard was issued by the Institute of Chartered Accountants of Sri Lanka and is effective for the periods commencing on or after of 1st January 2014.

**3.1.1. SLFRS 13 - Fair Value Measurement**

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted.

The company did not have any material impact from the implementation of SLFRS 13.

Necessary disclosures required by the new Standard have been included in the Notes to the Financial Statements.

**3.2 Standards Issued but not yet Effective as at 31st March 2015**

The following Sri Lanka Accounting Standards have been issued by the Institute of Chartered Accountants of Sri Lanka which are not yet effective as at 31st March 2015. The Company intends to adopt this standard when they become effective.

**3.2.1. SLFRS 15 – Revenue from Contracts with Customers**

The objective of this Standard is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.

SLFRS 15 will become effective on 01st January 2017. The impact on the implementation of the above Standard has not been quantified yet.

**3.2.2. SLFRS 09 – Financial Instruments**

This standard will replace LKAS 39, Financial Instruments, Recognition and Measurement. The improvements introduced by SLFRS 9 includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting which are detailed below.

## Notes to the Financial Statements

<p><b>Phase 1: Classification and measurement</b></p>	<p>Classification determines how financial assets and financial liabilities are accounted for in the financial statements and, in particular, how they are measured on an ongoing basis. SLFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are complex and difficult to apply.</p>
<p><b>Phase 2: Impairment</b></p>	<p>SLFRS 09 introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognized and it lowers the threshold for recognition of full lifetime expected losses.</p>
<p><b>Phase 3: Hedge accounting</b></p>	<p>SLFRS 9 introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements. In addition, as a result of these changes, users of the financial statements will be provided with better information about risk management and the effect of hedge accounting on the financial statements.</p>

SLFRS 09 was originally effective on or after 01st January 2018. However the effective date has been deferred subsequently.

#### 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 31.03.2015

	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	-	404,340,780	-	-	404,340,780
Loans and Advances to members	-	5,538,291,446	-	-	5,538,291,446
Loans and Advances to others	-	186,387,075	-	-	186,387,075
Financial investments- available- for- sale	-	-	-	234,000	234,000
Financial investments- held - to- maturity	-	-	1,822,097,147	-	1,822,097,147
Financial Assets- Held for Trading	194,914,296	-	-	-	194,914,296
Other Assets	-	93,035,304	-	-	93,035,304
<b>Total Financial Assets</b>	<b>194,914,296</b>	<b>6,222,054,605</b>	<b>1,822,097,147</b>	<b>234,000</b>	<b>8,239,300,048</b>

	Amortized cost Rs.	Held for Trading Rs.	Total Rs.
<b>Financial Liabilities</b>			
Bank Overdraft	-	-	-
Due to customers	7,557,913,371	-	7,557,913,371
Debt issued and other borrowed funds	780,301,120	-	780,301,120
Other Liabilities	77,496,844	-	77,496,844
<b>Total Financial liabilities</b>	<b>8,415,711,335</b>	<b>-</b>	<b>8,415,711,335</b>

## Notes to the Financial Statements

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
Financial Assets- Held for Trading	-	-	-	-	-
Other Assets	-	70,186,528	-	-	70,186,528
<b>Total Financial Assets</b>	<b>-</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>4,622,870,651</b>	<b>-</b>	<b>4,622,870,651</b>

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>5 INCOME</b>		
Gross Income (Note 5(a))	<b>2,846,953,658</b>	2,081,563,135
<b>5(a) Gross Income</b>		
Interest Income (Note 6(a))	<b>2,467,538,240</b>	1,689,119,884
Fee and commission income (Note 7)	<b>336,146,746</b>	203,584,988
Other Income (Note 8)	<b>43,268,672</b>	188,858,263
	<b>2,846,953,658</b>	2,081,563,135
<b>6 NET INTEREST INCOME</b>		
<b>6(a) Interest Income</b>		
On Loans and Advances given to Members	<b>2,362,357,163</b>	1,667,396,244
On Loans and advances given to non members	<b>9,314,025</b>	4,269,714
On Financial Investments - Held to maturity - Note 6(a)1	<b>85,018,439</b>	14,439,524
On Financial Investments Held for Trading- Note 6(a)2	<b>3,311,672</b>	-
On Savings Deposits	<b>7,536,941</b>	3,014,403
	<b>2,467,538,240</b>	1,689,119,884
<b>6(b) Interest Expenses</b>		
On Deposits obtained from Customers	<b>632,294,687</b>	435,034,772
On Debentures	<b>64,823,338</b>	83,901,770
On Other Borrowings	<b>16,596,356</b>	23,411,751
	<b>713,714,381</b>	542,348,293
Net Interest Income	<b>1,753,823,859</b>	1,146,771,591
<b>6(a)1 Interest Income from Financial Investments - Held to Maturity</b>		
Reverse Repurchase Agreements	<b>77,419,707</b>	9,821,029
Treasury Bills	<b>6,378,410</b>	3,658,330
Fixed Deposits	<b>1,220,322</b>	960,164
	<b>85,018,439</b>	14,439,524
<b>6(a)2 Interest Income from Financial Investments Held for Trading</b>		
Treasury Bonds	<b>2,546,667</b>	-
Unit Trusts	<b>765,005</b>	-
	<b>3,311,672</b>	-

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>7 NET FEE AND COMMISSION INCOME</b>		
Trade related Documentation charges	<b>336,146,746</b>	203,584,988
Fee and commission expenses	<b>(109,782,746)</b>	(105,470,224)
	<b>226,364,000</b>	98,114,764
<b>8(a) Other Operating Income</b>		
Profit from Disposal of Property, Plant & Equipment	-	335,497
Dividend Income	<b>40,000</b>	18,000
Sundry Income	<b>205,657</b>	1,464,023
Rent Income	<b>29,688,730</b>	19,823,434
Fair Value Gain on Investment Property	-	149,513,000
Project Participation Balances written back	-	13,468,059
Excess Collection	-	4,236,250
Recovery of Loan Balance written off	<b>4,989,253</b>	-
Reversal of VAT on Non Financial Services	<b>8,345,032</b>	-
	<b>43,268,672</b>	188,858,263
<b>8(b) Net Gain / (Loss) from Trading</b>		
Gain/ (Loss) on Mark to Market Valuation of Treasury Bond	<b>(4,390,293)</b>	-
Disposal Gain / (Loss) on Treasury Bond	<b>3,621,850</b>	-
	<b>(768,443)</b>	-
<b>9 IMPAIRMENT CHARGE / (REVERSAL) FOR LOANS AND OTHER ASSETS</b>		
Loans and Receivable from members (Note 9 (a))	<b>49,476,301</b>	10,956,549
Loans and Receivable from Other Customers (Note 9 (b))	<b>3,508,652</b>	-
Other Assets	<b>17,422,559</b>	-
	<b>70,407,512</b>	10,956,549
<b>9 (a) Loans and Receivables from Members</b>		
Individual Impairment - Charge for the year	<b>44,964,411</b>	7,520,967
- Reversal of Impairment /Recovered during the year	<b>(15,525,031)</b>	-
Collective Impairment - Charge for the year	<b>20,036,921</b>	3,435,582
	<b>49,476,301</b>	10,956,549

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>9 (b) Loans and Receivables from other Customers</b>		
Individual Impairment	<b>3,562,666</b>	-
Collective Impairment	-	-
Recovered during the year	<b>(54,014)</b>	-
	<b>3,508,652</b>	-
<b>9 (c) Other Assets</b>		
Impairment on Advance for Software	<b>9,219,360</b>	-
Impairment on Work In Progress- Building	<b>8,203,199</b>	-
	<b>17,422,559</b>	-
<b>10 PERSONNEL COST</b>		
Salaries and Bonus	<b>429,502,069</b>	307,386,916
Other Personnel Cost	<b>28,472,188</b>	28,464,993
Employer's Contribution to Employees' Provident Fund	<b>42,693,197</b>	31,131,007
Employer's Contribution to Employees' Trust Fund	<b>10,673,300</b>	7,782,534
Retirement Benefit Cost	<b>29,250,107</b>	21,460,125
	<b>540,590,861</b>	396,225,575
<b>11 OTHER OPERATING EXPENSES</b>		
Other operating expenses, among others include the following:		
Directors Remuneration	<b>7,359,000</b>	6,717,000
Lease Interest	<b>1,896,489</b>	2,265,794
Legal Charges	<b>4,489,731</b>	4,993,820
Auditors' Remuneration - Interim Audit	<b>2,600,000</b>	-
- Final Audit	<b>4,400,000</b>	3,830,000
- Under provision for the previous year	<b>170,000</b>	-
Depreciation on Property, Plant & Equipment	<b>52,352,181</b>	31,556,405
Amortisation of Intangible Assets	<b>4,532,422</b>	3,070,433
Donation	<b>6,601,623</b>	1,185,520
Advertising & Publications	<b>44,537,703</b>	70,674,823
Repairs & Maintenance	<b>44,502,080</b>	34,318,695
Gewel Idam Waram Expense	-	4,090,000
Crop Insurance Levy - Current Year	<b>5,399,458</b>	4,086,062
- Over provision during previous years	<b>(1,526,545)</b>	-
Provision for amount payable under Sip Saviya scheme	<b>1,021,433</b>	6,313,797
Loss on Disposal of Property ,Plant & Equipment	<b>233,430</b>	-

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>12 PROVISION FOR VALUE ADDED TAX</b>		
Value Added Tax for the year - Financial Services	<b>134,226,240</b>	73,029,587
- Non Financial Services	<b>637,646</b>	-
(Over) / under provision in respect of previous years	<b>11,397,215</b>	-
	<b>146,261,101</b>	73,029,587

### Value Added Tax

The Company's total value addition is subjected to Value Added Tax at 12% up to 31.12.2014 and at 11% from 01.01.2015 as per Section 25A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

<b>13 PROVISION FOR NATION BUILDING TAX</b>		
Nation Building Tax for the year - Financial Services	<b>22,967,874</b>	3,022,487
- Non Financial Services	<b>222,982</b>	-
(Over) / under provision in respect of previous years	<b>323,716</b>	-
	<b>23,514,572</b>	3,022,487

<b>14 INCOME TAX EXPENSE</b>		
Current tax based on profits for the year	<b>152,862,960</b>	74,873,714
(Over) / under provision in respect of previous years	<b>2,283,373</b>	(1,794,165)
Transferred from / (to) deferred taxation	<b>(32,353,034)</b>	(1,797,156)
	<b>122,793,299</b>	71,282,393

<b>14.1 Reconciliation Between the Accounting Profit and Tax Expense</b>		
Accounting Profit / (Loss)	<b>657,339,671</b>	476,747,022
Less - Income not liable to Income Tax	<b>(40,000)</b>	(18,000)
Aggregate Disallowed Items	<b>339,650,640</b>	198,421,971
Aggregate Allowed Items	<b>(157,043,938)</b>	(260,730,051)
Adjusted Business Profit/(Loss)	<b>839,906,373</b>	414,420,942
Adjusted Business Profit	<b>839,906,373</b>	414,420,942
Tax Loss claimed	<b>(293,967,231)</b>	(145,047,329)
Taxable Income	<b>545,939,142</b>	269,373,613
On Taxable Income @ 28%	<b>152,862,960</b>	75,424,612
Tax provision	<b>152,862,960</b>	74,873,714

### Income Tax

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



	<b>31.03.2015</b>	31.03.2014
	<b>Rs.</b>	Rs.
<b>15 EARNINGS PER ORDINARY SHARE</b>		
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	<b>534,546,372</b>	405,464,629
Weighted average number of ordinary shares in issue for the purpose of basic earnings per share	<b>1,719,580,624</b>	1,719,580,624
Basic Earnings per share	<b>0.31</b>	0.24
<b>16 CASH AND CASH EQUIVALENTS</b>		
Cash in Hand	<b>14,309,695</b>	9,549,797
Cash at Bank	<b>390,031,085</b>	132,003,355
	<b>404,340,780</b>	141,553,151
Bank Overdraft	-	(25,616,239)
	<b>404,340,780</b>	115,936,913
<b>17 LOANS AND ADVANCES TO MEMBERS</b>		
At amortised cost:		
Loans and advances to members (Note 17.1)	<b>5,614,656,846</b>	4,111,579,037
Less : Allowance for Impairment losses (Note 17.2)	<b>(76,365,400)</b>	(554,453,829)
	<b>5,538,291,446</b>	3,557,125,208
<b>17.1 Product-Wise Analysis of Loans and Advances to Members</b>		
Loans	<b>5,443,137,358</b>	3,954,461,337
Saving Advance (Note 17.1.1)	<b>142,033,293</b>	116,902,486
Loan against Deposits (Note 17.1.2)	<b>29,486,196</b>	40,215,214
Balance as at 31st March	<b>5,614,656,846</b>	4,111,579,037
<b>17.1.1 Saving Advance</b>		
Saving Advance	<b>146,805,598</b>	121,226,730
Less : Deferred Interest on Concessional lending	<b>(4,772,305)</b>	(4,324,244)
	<b>142,033,293</b>	116,902,486
<b>17.1.2 Loan Against Deposits</b>		
Loan Against Deposits	<b>28,732,281</b>	39,468,530
	<b>28,732,281</b>	39,468,530
Interest Receivable on Loan against Deposits	<b>753,915</b>	746,683
	<b>29,486,196</b>	40,215,214

## Notes to the Financial Statements

	Individual Impairment Rs.	Collective Impairment Rs.	Total Rs.
<b>17.2 Allowance for Impairment Losses</b>			
Adjusted Balance as at 01.04.2013	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
Charge for the year	44,964,411	20,036,921	65,001,332
Reversal of Impairment/ Recovered during the year	(15,525,031)	-	(15,525,031)
Written off during the year	(527,564,731)	-	(527,564,731)
<b>Balance as at 31.03.2015</b>	<b>52,892,896</b>	<b>23,472,503</b>	<b>76,365,400</b>
		<b>31.03.2015</b>	<b>31.03.2014</b>
		Rs.	Rs.
<b>18 LOANS AND ADVANCES TO OTHERS</b>			
Loans to Ceylinco Grameen Automobiles (Pvt) Ltd.		-	3,650,671
Loans to Other Entities (Note 18.1)		<b>105,949,420</b>	105,949,420
Staff Loans (Note 18.2)		<b>174,465,981</b>	32,691,983
Mortgage loan		<b>18,057,565</b>	5,234,954
Loans given to others		<b>2,011,791</b>	1,012,069
		<b>300,484,758</b>	148,539,097
Less: Provision for impairment losses (Note 18.3)		<b>(114,097,683)</b>	(114,185,688)
		<b>186,387,075</b>	34,353,409
<b>18.1 Loans to Other Entities</b>			
Ceylinco Ltd.		<b>21,500,000</b>	21,500,000
Green Agro Lanka (Pvt) Ltd		<b>400,000</b>	400,000
Hire Drive (Pvt) Ltd		<b>500,000</b>	500,000
The Finance & Guarantee Property Developers (Pvt) Ltd.		<b>40,000,000</b>	40,000,000
The Finance & Guarantee Co. Ltd.		<b>12,196,283</b>	12,196,283
The Finance Home (Pvt) Ltd.		<b>31,353,137</b>	31,353,137
		<b>105,949,420</b>	105,949,420
<b>18.2 Staff Loans</b>			
At the beginning of the year		<b>32,691,983</b>	6,270,760
Loan given during the year		<b>183,703,970</b>	32,085,815
Recovered during the year		<b>(41,929,972)</b>	(5,664,592)
At the end of the year		<b>174,465,981</b>	32,691,983

### 18.3 Movement in Provision for Impairment Losses

#### Balance as at 31st March 2014

	Balance as at 01.04.2013	Provision made during the year	Written Off during the year	Balance as at 31.03.2014
Staff Loan	4,585,597	-	-	4,585,597
Loan to other entities	109,600,091	-	-	109,600,091
	114,185,688	-	-	114,185,688

#### Balance as at 31st March 2015

	Balance as at 01.04.2014	Provision made during the year	Written Off during the year	Balance as at 31.03.2015
Staff Loans	4,585,597	-	-	<b>4,585,597</b>
Loan to other entities	109,600,091	-	(3,650,671)	<b>105,949,420</b>
Loan Mortgage	-	3,562,666	-	<b>3,562,666</b>
	114,185,688	3,562,666	(3,650,671)	<b>114,097,683</b>

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>19 Financial Investments - Available- for- Sale</b>		
Unquoted equity securities (Note 19.1)	<b>234,000</b>	234,000
	<b>234,000</b>	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.

### 19.1 Investments in Non Quoted Shares

	31.03.2015		31.03.2014	
	Number of Shares	Cost Rs.	Number of Shares	Cost Rs.
Credit Information Bureau of Sri Lanka	100	234,000	100	234,000
Standard Credit Lanka Ltd (Formerly Ceylinco Investment & Reality Ltd)	<b>38,458,474</b>	<b>38,458,474</b>	38,458,474	38,458,474
		<b>38,692,474</b>		38,692,474
Less : Provision for Impairment Note 19.1 (a)		<b>(38,458,474)</b>		(38,458,474)
		<b>234,000</b>		234,000

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>19.1(a) Provision For Impairment</b>		
Balance at the beginning of the year	<b>38,458,474</b>	38,458,474
Provision made during the year	-	-
Written off during the year	-	-
Balance at the end of the year	<b>38,458,474</b>	38,458,474

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>20 FINANCIAL INVESTMENTS - HELD- TO- MATURITY</b>		
Fixed Deposits (Note 20.1 )	<b>15,532,009</b>	14,460,164
Sri Lanka Government Securities (Note 20.2 )	<b>1,806,565,138</b>	218,374,839
	<b>1,822,097,147</b>	232,835,004
<b>20.1 Investment in Fixed Deposits</b>		
Fixed Deposit	<b>14,836,500</b>	13,500,000
Interest Receivable	<b>695,509</b>	960,164
	<b>15,532,009</b>	14,460,164
<b>20.2 Sri Lanka Government Securities</b>		
Treasury Bills	<b>142,804,936</b>	42,999,999
Repurchase Agreement -REPO	<b>1,627,833,824</b>	167,906,441
	<b>1,770,638,760</b>	210,906,440
Interest Receivable	<b>35,926,378</b>	7,468,399
	<b>1,806,565,138</b>	218,374,839
<b>21 FINANCIAL INVESTMENTS HELD FOR TRADING</b>		
Cost of Treasury Bond Investment	<b>198,357,922</b>	-
Interest Receivable	<b>946,667</b>	-
	<b>199,304,589</b>	-
Gain / (Loss) From Market to Market Valuation	<b>(4,390,293)</b>	-
Net Investment	<b>194,914,296</b>	-

**Represented by :**

As at 31st March	Year of Maturity	Cost of Investment Rs.	Face Value Rs.	Carrying Value Rs.
Treasury Bond	01.05.2021	16,250,272	16,000,000	16,057,187
Treasury Bond	01.07.2022	59,717,150	50,000,000	59,127,722
Treasury Bond	01.07.2022	61,148,850	50,000,000	59,818,384
Treasury Bond	01.07.2022	61,241,650	50,000,000	59,911,002
		198,357,922	166,000,000	194,914,296

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>22 OTHER ASSETS</b>		
<b>22.1 Other Financial Assets</b>		
Amount Due from Ceylinco Grameen Automobiles (Pvt) Ltd - (Note 22.1.1)	-	-
Other Receivables	<b>93,035,304</b>	70,186,528
	<b>93,035,304</b>	70,186,528
<b>22.2 Other Non Financial Assets</b>		
ESC Recoverable (Note 22.2.1)	-	-
Other Receivables	<b>73,078,210</b>	67,635,462
Provision for Impairment (Note 22.2.2)	<b>(9,979,490)</b>	(760,130)
	<b>63,098,720</b>	66,875,332
	<b>156,134,024</b>	137,061,860
<b>22.1.1 Amount Due from Ceylinco Grameen Automobiles (Pvt) Ltd</b>		
Ceylinco Grameen Automobiles (Pvt) Ltd.	-	2,523,592
	-	2,523,592
Provision for Impairment (Note 22.1.1(a))	-	(2,523,592)
	-	-
<b>22.1.1(a) Provision for Impairment - Amount Due From Ceylinco Grameen Automobiles (Pvt) Ltd</b>		
Balance at the Beginning of the year	<b>2,523,592</b>	2,523,592
Recovered during the year	<b>(54,014)</b>	-
Written off During the year	<b>(2,469,578)</b>	-
Balance at the end of the year	-	2,523,592
<b>22.2.1 Economic Service Charge Recoverable</b>		
Balance at the beginning of the year	-	18,570,843
Provision made During the year	-	-
Written off During the year	-	-
Set off against Income Tax Liability	-	(18,570,843)
Balance at the end of the year	-	-
<b>22.2.2 Provision For Impairment - Other Receivables-Non Financial Assests</b>		
At the beginning of the year	<b>760,130</b>	760,130
Provision made During the year	<b>9,219,360</b>	-
Written off During the year	-	-
At the end of the year	<b>9,979,490</b>	760,130

23 INVESTMENT PROPERTIES

Cost	Transferred		Additions	Fair Value Adjustment for 2013/2014	Balance as at 31.03.2014	Additions	Fair Value Adjustment for 2014/2015	Balance as at 31.03.2015
	Balance as at 01.04.2013	from Property, Plant & Equipment						
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	258,838,045	54,100,000	500,000	2,200,179	315,638,224	-	-	315,638,224
Building	389,211,955	34,137,000	-	147,312,821	570,661,776	-	-	570,661,776
	648,050,000	88,237,000	500,000	149,513,000	886,300,000	-	-	886,300,000

## Notes to the Financial Statements

### 23.2 The Composition of the Investment Properties as at 31.03.2015 Is as Follows

Description	Address	As at	2014-2015	As at	2013-2014
		31.03.2015	Rental Income	31.03.2015	Rental Income
		Fair Value	earned	Fair Value	earned
		Rs	Rs	Rs	Rs
1. Ceygra Property Land	No. 249, Stanley Thilekaratne Mawatha, Pagoda, Nugegoda.	151,063,407		<b>151,063,407</b>	
Building		407,936,593		<b>407,936,593</b>	
		559,000,000	7,678,560	<b>559,000,000</b>	1,008,334
2. Matale Property Land	Vihara Road, Rankewatte, Matale.	9,000,000		<b>9,000,000</b>	
3. Puttalam Property Land	No. 44/1, Service Road, Puttalam.	12,800,000		<b>12,800,000</b>	
4. Kahathuduwa Property Land	No.465/1, Old Police Station Road, Kahathuduwa, Polgasowita.	49,007,555		<b>49,007,555</b>	
Building		71,992,445		<b>71,992,445</b>	
		121,000,000	4,292,000	<b>121,000,000</b>	2,720,000
5. Kirulapone Property Land	No.67/1, Mahinda Place, Kirulapone, Colombo-05	25,267,262		<b>25,267,262</b>	
Building		90,732,738		<b>90,732,738</b>	
		116,000,000	5,400,000	<b>116,000,000</b>	5,000,000
6. Anuradapura Property Land	No.06, Abaya Place, 7 th Lane, Anuradapura.	20,000,000		<b>20,000,000</b>	
7. Moratuwa Property Land	No. 10/11, Galle Road, Katubedda, Moratuwa.	34,500,000		<b>34,500,000</b>	
8. Trincomalee Property Land	Adampodaivayal, Adampodaimalaikadu, Trincomalee	14,000,000		<b>14,000,000</b>	
<b>Grand Total</b>		886,300,000	17,370,560	<b>886,300,000</b>	8,728,334

The Company carries investment properties at Fair Value. Valuations of the above investment properties were carried out as at 31st March 2015 and 31st March 2014 by R. S. Wijesuriya, Professional Independent Valuer.

The fair values remain the same during the year 2014/2015.

All the properties other than the property at Trincomalee have been mortgaged to Seylan Bank PLC for the financial facilities obtained by the company in the form of debentures. The aggregate mortgage value amounts to Rs. 665Mn.



## 24 INTANGIBLE ASSETS

Asset -	Computer Software
Cost	Rs
As at 1 April 2013	17,400,668
Additions	9,854,731
Disposals	-
As at 31 March 2014	27,255,398
As at 1 April 2014	27,255,398
Additions	-
Disposals	-
<b>As at 31 March 2015</b>	<b>27,255,398</b>
<b>Amortization and Impairment</b>	
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
As at 1 April 2014	12,007,801
Amortization charged for the year	4,532,421
Disposals	-
<b>As at 31 March 2015</b>	<b>16,540,222</b>
<b>Net Book Value</b>	
As at 31 March 2014	15,247,599
<b>As at 31 March 2015</b>	<b>10,715,177</b>

### 24.1 Intangible Assets as at 31.03.2015

	Cost	Accumulated Amortization	Net Book Value
Accounting Package	17,400,167	14,569,176	2,830,992
HCM-HR Package	1,500,000	300,000	1,200,000
GPRS Mobile units	8,355,231	1,671,046	6,684,185
	<b>27,255,398</b>	<b>16,540,222</b>	<b>10,715,177</b>

## Notes to the Financial Statements

### 25 PROPERTY, PLANT & EQUIPMENT

Cost / Fair Value	Revaluation Surplus/(loss) on PPE transferred to IP											
	As at 01.04.2013	Transfers	Revaluation Surplus/(loss) transferred to IP	Transferred to Investment Property	Additions	Disposals	Transfer to Revaluation Reserve	As at 31.03.2014	Transfers	Additions	Disposals	As at 31.03.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Land	167,402,786	-	8,989,214	(54,100,000)	-	-	61,362,358	183,654,359	-	-	-	183,654,359
Building	352,208,283	-	(523,196)	(34,137,000)	-	-	183,397,555	500,945,642	-	-	-	500,945,642
Furniture & Fittings - (Free hold)	35,690,989	-	-	-	5,911,954	(2,546,450)	-	39,056,493	-	7,669,924	(2,525,074)	44,201,344
Office Equipment - (Free hold)	20,517,143	-	-	-	29,055,542	(961,413)	-	48,611,272	-	22,595,683	(2,877,905)	68,329,049
Computer - (Free hold)	41,558,042	1,750,883	-	-	14,159,538	(2,195,475)	-	55,272,988	2,312,208	7,671,574	(1,478,200)	63,778,570
Computer - (Lease hold)	13,345,659	(3,047,473)	-	-	4,814,000	(3,989)	-	15,108,197	(2,312,208)	-	(3,989)	12,792,000
Motor Cycles - (Free hold)	1,006,500	-	-	-	-	(345,500)	-	661,000	-	-	(211,000)	450,000
Motor Vehicles - (Free hold )	-	-	-	-	12,300,000	-	-	12,300,000	-	7,000,000	-	7,000,000
Motor Vehicles - (Lease)	-	-	-	-	-	-	-	-	-	-	-	12,300,000
Machinery & Equipment	2,638,601	-	-	-	-	-	-	2,638,601	-	-	-	2,638,601
Fixtures & Fittings	18,461,270	-	-	-	16,798,816	-	-	35,260,086	-	12,526,976	(751,000)	47,036,062
Network Accessories	6,503,886	1,296,590	-	-	12,188,528	-	-	19,989,004	-	63,219,562	-	83,208,565
	659,333,159	-	8,466,018	(88,237,000)	95,228,378	(6,052,827)	244,759,913	913,497,641	-	120,683,719	(7,847,168)	1,026,334,192
Accumulated Depreciation	As at 01.04.2013	Transfers	Charge for the year	On Disposals	Transfer to revaluation Reserve	As at 31.03.2014	Transfers	Charge for the year	On Disposals	Additions	Disposals	As at 31.03.2015
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Building	30,901,168	-	7,842,331	-	(38,743,499)	-	-	12,523,641	-	-	-	12,523,641
Furniture & Fittings - (Free hold)	32,005,993	-	2,226,333	(2,541,981)	-	31,690,345	-	3,072,503	(2,511,693)	-	-	32,251,157
Office Equipment - (Free hold)	12,778,363	-	5,032,623	(960,490)	-	16,850,496	-	9,619,096	(2,877,875)	-	-	23,591,717
Computer - (Free hold)	32,481,015	839,123	3,593,367	(2,195,446)	-	34,718,059	1,425,862	6,137,451	(1,395,758)	-	-	40,885,614
Computer - (Lease hold)	1,660,744	(1,015,824)	3,136,292	(1,795)	-	3,779,417	(1,425,862)	2,895,862	(2,194)	-	-	5,247,223
Motor Cycles - (Free hold)	997,525	-	8,972	(345,497)	-	661,000	-	-	(211,000)	-	-	450,000
Motor Vehicles- (Free hold)	-	-	1,333,333	-	-	1,333,333	-	233,333	-	-	-	233,333
Motor Vehicles - (Lease)	-	-	527,720	-	-	1,674,423	-	2,460,000	-	-	-	3,793,333
Machinery & Equipment	1,146,703	-	527,720	-	-	1,674,423	-	527,720	-	-	-	2,202,144
Fixtures & Fittings	1,912,095	-	5,418,109	-	-	7,330,204	-	8,260,052	(331,953)	-	-	15,258,303
Network Accessories	186,194	176,701	2,437,325	-	-	2,800,220	-	6,622,521	-	-	-	9,422,741
	114,069,800	-	31,556,405	(6,045,209)	(38,743,499)	100,837,497	-	52,352,181	(7,330,473)	145,859,207	-	145,859,207

Written Down Value	As at	As at
	31.03.2015	31.03.2014
	Rs.	Rs.
Land	183,654,359	183,654,359
Building	488,422,001	500,945,642
Furniture & Fittings - (Free hold)	11,950,186	7,366,148
Office Equipment - (Free hold)	44,737,333	31,760,776
Computer - (Free hold)	22,892,956	20,554,929
Computer - (Lease hold)	7,544,777	11,328,780
Motor Cycles - (Free hold)	-	-
Motor Vehicles- (Free hold)	6,766,667	-
Motor Vehicles - (Lease)	8,506,667	10,966,667
Machinery & Equipment	436,457	964,178
Fixtures & Fittings	31,777,760	27,929,882
Network Accessories	73,785,824	17,188,784
	<b>880,474,985</b>	812,660,144
<b>Building Work in Progress - Moratuwa Building-(Note 25.1)</b>	-	8,203,199
	<b>880,474,985</b>	820,863,343

### 25.1 Building Work in Progress

Balance at the Beginning of the year	8,203,199	8,203,199
Addition During the year	-	-
Impairment Provision made during the year	(8,203,199)	-
Balance at the end of the year	-	8,203,199

Freehold land and buildings owned by the Company were revalued as at 31 March 2014 by R. S. Wijesuriya. Professional Independent Valuer. The revalued amount was accordingly incorporated in the financial statements.

These revaluations have been carried out in conformity with the requirements of LKAS 16 - "Property, Plant and Equipment". The surplus on revaluation was credited to the Revaluation Reserve Account.

Work in Progress of the Moratuwa Building is fully impaired as such the recoverable amount is nil.

## Notes to the Financial Statements

### 25.2 FREE HOLD LAND AND BUILDINGS

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

Location	Address	31.03.2015		31.03.2014	
		Land	Building	Land	Building
Kirulapone	No.67/1 , Mahinda Place , Kirulapone , Colombo-05	<b>25,267,262</b>	<b>90,732,738</b>	25,267,262	90,732,738
Kurunegala	No.96 , Kandy Rd , Kurunegala	<b>19,600,266</b>	<b>62,399,741</b>	19,600,266	63,999,734
Ceygra	No.249 , Stanly Thilakarathna Mw , Nugegogda.	<b>151,063,407</b>	<b>407,936,593</b>	151,063,407	407,936,593
Hambanthota	No.46/A , Thangalle Rd , Hambanthota.	<b>6,605,752</b>	<b>11,109,392</b>	6,605,752	11,394,248
Kandy	No.677 , William Gopallawa Mw , Kandy.	<b>18,642,581</b>	<b>52,998,483</b>	18,642,581	54,357,419
Nawala	No.168 , Nawala Rd , Nugegoda.	<b>138,805,759</b>	<b>361,914,385</b>	138,805,759	371,194,241
Kahathuduwa	No.465/1 , Old Police Station Road , Kahathuduwa , Polgasovita.	<b>49,007,555</b>	<b>71,992,445</b>	49,007,555	71,992,445
Anuradapura	No.64 , Abaya Place , Anuradapura.	<b>20,000,000</b>	-	20,000,000	-
Mathale	No. 37 , Vihara Mw , Mathale.	<b>9,000,000</b>	-	9,000,000	-
Moratuwa	No. 340 , Galle Road , Katubedda , Moratuwa.	<b>34,500,000</b>	-	34,500,000	-
Puttalam	No.56 ,Sewa Mw , Puttalam .	<b>12,800,000</b>	-	12,800,000	-
Trincomalee Land	Adampodaivayal, Adampodaimalaikadu, Trincomalee	<b>14,000,000</b>	-	14,000,000	-
		<b>499,292,583</b>	<b>1,059,083,777</b>	499,292,583	1,071,607,417
<b>Represented by:-</b>					
	Classified under Property, Plant & Equipment - (Note 25)	<b>183,654,359</b>	<b>488,422,001</b>	183,654,359	500,945,642
	Classified under Investment Properties - (Note 23)	<b>315,638,224</b>	<b>570,661,776</b>	315,638,224	570,661,776
		<b>499,292,583</b>	<b>1,059,083,777</b>	499,292,583	1,071,607,417

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>26 DEFERRED TAX LIABILITY/(ASSET)</b>		
Balance at the beginning of the year	<b>27,714,187</b>	6,344,693
Transfer from / (to) Income statement	<b>(32,353,034)</b>	(1,797,156)
Transfer from / (to) other comprehensive income	<b>(1,340,135)</b>	23,166,650
Balance at the end of the year	<b>(5,978,982)</b>	27,714,187

Deferred tax assets, liabilities relates to the following

**Deferred tax liabilities**

Accelerated depreciation for tax purposes	<b>123,586,404</b>	106,769,269
Revaluation surplus on Buildings	<b>24,102,059</b>	24,486,614

**Deferred tax assets**

Retirement benefit obligation	<b>(33,375,048)</b>	(26,497,095)
Unutilized tax losses	<b>(120,292,397)</b>	(77,044,601)
Net deferred tax liabilities	<b>(5,978,982)</b>	27,714,187

The accumulated tax Losses as at 31.03.2015 is Rs.429,615,704 .Based on the profit for the year ended 31.03.2015 and the profits predicted for the future as per the budgets of the Company, this loss will be claimable fully within the next 2 years as such the Deferred Tax Asset has been recognised.

<b>27 DUE TO CUSTOMERS</b>		
Fixed Deposits	<b>6,475,543,526</b>	3,038,120,736
Deferred Transaction Cost	<b>(45,619,095)</b>	(13,701,335)
	<b>6,429,924,431</b>	3,024,419,400
Savings Deposits	<b>995,741,693</b>	436,296,957
	<b>7,425,666,124</b>	3,460,716,357
Interest Payable on Fixed Deposits	<b>132,247,247</b>	86,435,377
	<b>7,557,913,371</b>	3,547,151,734

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>28 DEBT ISSUED AND OTHER BORROWED FUNDS</b>		
Redeemable Debentures (Note 28.1)	<b>768,975,024</b>	770,158,889
Borrowings (Note 28.2)	-	200,441,481
Finance leases (Note 28.3)	<b>11,326,097</b>	19,345,447
	<b>780,301,120</b>	989,945,818
<b>28.1 Redeemable Debentures</b>		
Balance at the beginning of the year	<b>765,000,000</b>	665,000,000
Debentures Issued During the year	-	100,000,000
Capital Balance at the end of the year (Note 28.1(a))	<b>765,000,000</b>	765,000,000
Interest payable to Debenture Holders	<b>3,975,024</b>	5,158,889
	<b>768,975,024</b>	770,158,889

### 28.1(a) Redeemable Debentures

Year of Issue	Description	Certificate Number	Type of Debenture	Outstanding as at 31.03.2015	Outstanding as at 31.03.2014
2010	Seylan Bank PLC	001	Secured	<b>125,000,000</b>	125,000,000
2010	Seylan Bank PLC	002	Secured	<b>200,000,000</b>	200,000,000
2010	Seylan Bank PLC	003	Secured	<b>200,000,000</b>	200,000,000
2010	Seylan Bank PLC	004	Secured	<b>140,000,000</b>	140,000,000
2013	Prime Lands (Private) Limited	001	Unsecured	<b>100,000,000</b>	100,000,000
				<b>765,000,000</b>	765,000,000

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.

## 28.2 Borrowings

	31.03.2015			31.03.2014		
	Repayable Within one Year	Repayable After one Year	Total	Repayable Within one Year	Repayable After one Year	Total
Prime Lands (Pvt) Ltd. - Payable on Demand	-	-	-	34,390,000	-	34,390,000
Prime Lands (Pvt) Ltd	-	-	-	1,354,156	-	1,354,156
Prime Lands (Pvt) Ltd.	-	-	-	7,748,236	39,902,730	47,650,966
DFCC Bank PLC	-	-	-	22,916,658	-	22,916,658
DFCC Bank PLC	-	-	-	25,000,008	18,749,990	43,749,998
DFCC Bank PLC	-	-	-	25,000,008	24,999,992	50,000,000
	-	-	-	116,409,066	83,652,712	200,061,778
Interest payable on Loans			-			379,703
			-			200,441,481

## Notes to the Financial Statements

### 28.3 FINANCE LEASE LIABILITIES

Lessor	Hattori National Bank Computer Equipment 01st December 2011 30th November 2014	DFCC Computer Equipment 02nd November 2012 02nd April 2015	DFCC Motor vehicle 19th August 2013 19th July 2017	DFCC Motor vehicle 18th September 2013 18th August 2017	DFCC Computer Equipment 12th April 2013 17th July 2017	Total
Asset Purchased						
Date of Commencement						
Date of last instalment						
Number of Instalments	36	30	48	48	48	
Monthly Instalment Value	Rs. 73,740	Rs. 334,520	Rs. 153,488	Rs. 151,009	Rs. 138,143	
<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	22,795,289
<b>Interest in Suspense</b>						
Balance on 1st April 2013	110,113	1,472,802	-	-	-	1,582,915
On Leases obtained during the year	-	-	1,167,424	1,148,432	1,816,864	4,132,720
Interest Charged to Income Statement	(90,602)	(1,035,579)	(338,362)	(294,047)	(507,203)	(2,265,794)
Balance on 31st March 2014	19,511	437,223	829,062	854,385	1,309,661	3,449,842
<b>Net Balance as at 31st March 2014</b>	570,409	3,911,537	5,310,458	5,336,984	4,216,059	19,345,447
Instalments Payable in the ensuing year	(570,409)	(3,582,121)	(1,434,853)	(1,401,533)	(1,030,435)	(8,019,351)
Instalments Payable after one year	-	329,417	3,875,605	3,935,450	3,185,624	11,326,096
<b>Lease Creditors</b>						
Balance on 1st April 2014	589,920	4,348,760	6,139,520	6,191,369	5,525,720	22,795,289
Leases obtained during the year	-	-	-	-	-	-
Instalments paid during the year	(589,920)	(4,014,240)	(1,841,856)	(1,812,108)	(1,657,716)	(9,915,840)
<b>Balance on 31st March 2015</b>	-	334,520	4,297,664	4,379,261	3,868,004	12,879,449
<b>Interest in Suspense</b>						
Balance on 1st April 2014	19,511	437,223	829,062	854,385	1,309,661	3,449,842
On Leases obtained during the year	-	-	-	-	-	-
Interest Charged to Income Statement	(19,511)	(432,119)	(407,003)	(410,575)	(627,281)	(1,896,489)
<b>Balance on 31st March 2015</b>	-	5,104	422,059	443,810	682,380	1,553,352
<b>Net Balance as at 31st March 2015</b>	-	329,416	3,875,605	3,935,451	3,185,624	11,326,097
<b>Instalments Payable in the ensuing year-Note 28.3 (a)</b>	-	(329,416)	(1,565,222)	(1,528,865)	(1,216,231)	(4,639,734)
<b>Instalments Payable after one year</b>	-	-	2,310,383	2,406,586	1,969,393	6,686,363
<b>Note 28.3 (a) - INSTALMENTS PAYABLE IN THE ENSUING YEAR</b>						
Instalments Payable	-	334,520	1,841,856	1,812,108	1,657,716	5,646,200
Interest chargeable to Income Statement	-	(5,104)	(276,634)	(283,243)	(441,485)	(1,006,466)
	-	329,416	1,565,222	1,528,865	1,216,231	4,639,734



	31.03.2015	31.03.2014
	Rs.	Rs.
<b>29 PROVISION FOR INCOME TAX</b>		
Balance at the beginning of the year	<b>60,759,171</b>	17,896,547
Provision for the year	<b>152,862,960</b>	74,873,714
Under/(Over) Provision during Previous year	<b>2,283,373</b>	(1,794,165)
	<b>215,905,504</b>	90,976,096
Payments made During the year	<b>(96,916,342)</b>	(10,500,000)
Set off of ESC paid against Income Tax Liability	-	(18,570,843)
WHT Paid	<b>(218,945)</b>	(233,355)
Notional Tax	<b>(9,286,652)</b>	(912,727)
Balance at the end of the year	<b>109,483,565</b>	60,759,171
<b>30 VALUE ADDED TAX PAYABLE</b>		
Balance at the beginning of the year	<b>214,811,940</b>	177,590,659
Provision made - VAT on Financial Services	<b>134,226,240</b>	73,029,587
- VAT on Non Financial Services	<b>955,190</b>	-
Under/(Over) Provision during Previous Years	<b>11,397,215</b>	-
	<b>361,390,584</b>	250,620,246
Payments made During the year	<b>(238,327,337)</b>	(35,808,306)
Reversal of VAT on Non Financial Services	<b>(8,345,032)</b>	-
Balance at the end of the year	<b>114,718,215</b>	214,811,940
<b>31 OTHER LIABILITIES</b>		
<b>31.1 Other Financial Liabilities</b>		
Mehewara Fund	<b>1,323,990</b>	268,441
Other Payables	<b>76,172,854</b>	59,888,420
	<b>77,496,844</b>	60,156,861
<b>31.2 Other Non Financial Liabilities</b>		
NBT Payable	<b>2,801,947</b>	3,022,487
WHT Payable	<b>1,511,095</b>	1,002,278
Other Payables	<b>49,819,341</b>	60,608,285
	<b>54,132,383</b>	64,633,049
	<b>131,629,227</b>	124,789,910

## Notes to the Financial Statements

	31.03.2015	31.03.2014
	Rs.	Rs.
<b>32 RETIRING BENEFIT OBLIGATION</b>		
Movements in Present Value of the Retirement Benefit Obligation are as follows.		
Balance at the beginning of the year	<b>94,632,482</b>	74,052,274
Add : Provision made during the year	<b>32,662,894</b>	26,174,283
	<b>127,295,376</b>	100,226,557
Less : Benefits paid during the year	<b>(8,098,775)</b>	(5,594,075)
Balance at the end of the year	<b>119,196,601</b>	94,632,482
<b>Retiring Gratuity Expense</b>		
Current Service Cost	<b>18,830,290</b>	13,314,375
Interest Cost	<b>10,419,817</b>	8,145,750
	<b>29,250,107</b>	21,460,125
Actuarial (Gain) / Loss	<b>3,412,787</b>	4,714,158
	<b>32,662,894</b>	26,174,283

Gratuity liability is based on the actuarial valuation carried out by Actuarial & Management Consultants (Pvt) Limited, on 31st March 2015 using "Projected Unit Credit Method" as recommended by LKAS 19 "Employee Benefits".

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

	31.03.2015	31.03.2014
Long term Interest Rate:	<b>9.5% p.a</b>	11% p.a
Retirement Age:	<b>55 years</b>	55 years
Future Salary Increase Rate:	<b>10%</b>	10%

Assumptions regarding future Mortality is based on A67-70 Mortality Table issued by the Institute of Actuaries, London. The actuarial gain/ (loss) on defined 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	141,739,763
1% More	100,834,372
<b>Salary Escalation Rate</b>	<b>Present Value of Defined Benefit Obligation</b>
1% less	100,319,278
1% More	142,018,887

33 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 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
Share Issued During the year	-	-	-
<b>Balance on 31st March 2015</b>	<b>1,421,380,624</b>	<b>298,200,000</b>	<b>1,719,580,624</b>
	Rs.	Rs.	Rs.
Balance on 1st April 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
Share Issued During the year	-	-	-
<b>Balance on 31st March 2015</b>	<b>913,806,240</b>	<b>2,982,000,000</b>	<b>3,895,806,240</b>
		<b>31.03.2015</b>	<b>31.03.2014</b>
		<b>Rs.</b>	<b>Rs.</b>

34 GENERAL RESERVE

Balance at the beginning of the year	<b>82,897,989</b>	82,897,989
Balance at the end of the year	<b>82,897,989</b>	82,897,989

35 OTHER STATUTORY RESERVES

	Statutory Reserve Fund (Note 35.1)	Investment Fund (Note 35.2)	Total
As at 1st April 2013	16,731,958	15,962,647	32,694,605
Transferred during the year	81,092,926	45,432,703	126,525,629
As at 31st March 2014	97,824,884	61,395,350	159,220,234
Transferred during the year	106,909,275	(61,395,350)	45,513,925
<b>Balance on 31st March 2015</b>	<b>204,734,159</b>	<b>-</b>	<b>204,734,159</b>

## Notes to the Financial Statements

### 35.1 Statutory Reserve Fund

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

### 35.2 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 within 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 Assesment 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.

As per the Central Bank's Letter dated 31st July 2014 , operations of the Investment Fund has ceased with effect from 1st October 2014. Accordingly remaining balance in the Investment Fund Account (IFA) has been transferred to Retained Earnings through the Statement of Changes in Equity.

## 36 CAPITAL COMMITMENTS

There are no capital commitments as at 31st March 2015, except for the following :-

The company has entered into a contract with Infracsoft Technologies Limited SEZ unit on 21st August 2014 to purchase and implement OMINI Enterprise Microfinance Solution for USD 325,000 . A sum of USD 162,500 (SL Rs. 21,461,862 paid as advance during the year is shown under other Assets in Note 22).

## 37 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.

## 38 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31st March 2015.

**39(a) 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.82,000,000 has been paid by the Company to the Department of Inland Revenue up to 31st March 2015.

**39(b) EPF and EPF Surcharge Payable to the Employees' Provident Fund for the Years 2009/2010 And 2010/2011 Rs. 79,619,082**

The Company has provided for the above amount payable which has been agreed with the Employees' Provident Fund on to settle in 48 monthly instalments commencing March 2012.

Out of the above amount, a sum of Rs. 60,010,513/- has been paid by the Company to the Employees' Provident Fund up to 31st March 2015.

The remaining amount payable is scheduled to be settled in full by February 2016.

## Notes to the Financial Statements

40 ASSETS PLEDGED							Balance			
	Nature of Assets	Extent	Mortgaged Date	Cost	Mortgaged Amount	Financial Institution	Nature of Liability	Outstanding as at 31.03.2015		
Nawala Land	0A-OR-25.9P	27.05.2011	351,690,063	210,000,000	Seylan Bank PLC	Debitures (Note 28)	665,000,000			
No.56 ,Sewa Mawatha , Puttalam .	0A-OR-24.56P	18.08.2010	9,824,000	10,241,000						
No. 37 , Vihara Mawatha , Mathale.	0R-OR-15P	18.08.2010	7,598,531	8,010,000						
No. 67/1 , Mahinda Place, Kirulapone, Colombo 06.	0A-OR-8P	15.09.2010	57,016,431	58,094,000						
No.64 , Abaya Place , Anuradapura.	0A-OR-13.52P	18.08.2010	5,274,000	11,600,000						
No. 96, Kandy Road, Kurunegala.	0A-OR-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						
No.46/A , Thangalle Rd , Hambanthota.	0A-OR-14P	18.08.2010	11,053,681	11,338,000						
No. 340, Galle Road,Katubedda, Moratuwa.	0A-OR-23P	18.08.2010	24,836,785	34,592,000						
No. 249, Stanley Thilekaratne Mawatha, Nugegoda.	0A-01R-29.1P	03.09.2009	399,759,451	397,423,000						
No.465/1 , Old Police Station Road , Kahathuduwa , Polgasovita.	1-A-OR-22-59P	30.12.2010	85,000,000	90,086,000						
Total			1,021,793,051	915,408,000						

## 41 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 41.1 , 41.2 ,41.3 and 41.4

### 41.1 Transactions with Parent Company and Related Companies

Hattan National Bank PLC is the Parent and the Ultimate Controlling Party of the Company with effect from 7th November 2014.

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

Name of the Directors	Hattan National Bank PLC	HNB Assurance	Sithma Development Ltd	Acuity Partners (Pvt)Ltd	Prime Lands (Pvt) Ltd
Mr. A Jonathan Alles	x	x	x	x	-
Mr. B Premalal	-	-	-	-	x
Mrs. H K S R Perera	-	-	-	-	x
Ms. M A R C Cooray	x	-	-	-	-

### 41.2 Transactions 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 ‘

### 41.3 Compensation Paid to Key Management Personnel of the Company

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

	01.04.2014 to 31.03.2015 Rs	01.04.2013 to 31.03.2014 Rs
Short-term Benefits	7,359,000	6,717,000
Retirement Benefits	1,592,000	-

### 41.4 Transactions with the Key Management Personnel of the Company

The Company enters into 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/Commission 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.

	31.03.2015 Rs	31.03.2014 Rs
<b>Assets</b>		
Loans and Advances	-	-
<b>Liabilities</b>		
Deposits and Borrowings	32,602,476	45,563,278

## Notes to the Financial Statements

### 42 MATURITY ANALYSIS OF ASSETS AND LIABILITIES AS AT 31ST MARCH 2015

	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	404,340,780	-	-	-	-	-	-	404,340,780
Loans and Advances to members	2,261,774,226	1,869,869,280	1,378,295,952	27,151,019	1,200,969	-	-	5,538,291,446
Loans and Advances to others	965,146	7,680,746	11,785,163	65,516,776	93,843,317	6,595,927	-	186,387,075
Financial investments- available- for- sale	-	-	-	-	-	-	234,000	234,000
Financial investments- held - to- maturity	1,478,344,952	32,687,131	311,065,064	-	-	-	-	1,822,097,147
Financial Assets Held for Trading	194,914,296	-	-	-	-	-	-	194,914,296
Other Assets	12,398,405	63,744,220	6,976,773	22,981,637	2,710,413	590,130	46,732,446	156,134,024
Investment Properties	-	-	-	-	-	-	886,300,000	886,300,000
Intangible Assets	-	-	-	-	-	-	10,715,177	10,715,177
Property, Plant & Equipment	-	-	-	-	-	-	880,474,985	880,474,985
Deferred Tax Asset	-	-	-	-	-	-	5,978,982	5,978,982
<b>Total Assets</b>	<b>4,352,737,805</b>	<b>1,973,981,377</b>	<b>1,708,122,952</b>	<b>115,649,432</b>	<b>97,754,699</b>	<b>7,186,057</b>	<b>1,830,435,590</b>	<b>10,085,867,911</b>
<b>LIABILITIES</b>								
Bank Overdraft	-	-	-	-	-	-	-	-
Due to customers	1,715,380,118	745,641,609	1,995,388,816	2,592,884,385	508,618,443	-	-	7,557,913,371
Debt issued and other borrowed funds	5,338,346	1,062,433	2,213,967	6,686,375	100,000,000	665,000,000	-	780,301,121
Income Tax Payable	-	109,483,565	-	-	-	-	-	109,483,565
Value added tax payable	27,445,343	21,000,000	42,000,000	24,272,872	-	-	-	114,718,215
Other Liabilities	67,391,549	10,236,399	13,228,081	27,944,994	1,043,720	7,335,229	4,449,254	131,629,226
Retiring Benefit Obligation	-	-	-	-	-	-	119,196,601	119,196,601
Shareholder's Fund	-	-	-	-	-	-	1,272,625,812	1,272,625,812
<b>Total Liabilities</b>	<b>1,815,555,356</b>	<b>887,424,006</b>	<b>2,052,830,864</b>	<b>2,651,788,626</b>	<b>609,662,163</b>	<b>672,335,229</b>	<b>1,396,271,667</b>	<b>10,085,867,911</b>



## 43 RISK MANAGEMENT DISCLOSURES

The Company recognizes the fundamental element underlying risk that: it never can be avoided but mitigated. The Management of the Company believes that managing risk is at the core of managing any financial institution and risk management must be a central responsibility for line managers from the board and Managing Director/CEO down through individual department heads. Whilst many use the terms "Risk management & Risk Measurement" to meant same, the Company identifies risk management as a function that involves making tactical and strategic decisions to control those risks that should be controlled and to exploit those opportunities that can be exploited, whereas risk measurement is measuring and quantifying risk.

Although the Company is a Licensed Finance Company, it remains in essence a Micro Finance Institution (MFI) providing Micro Finance facilities for financially excluded entrepreneurs to commence, sustain and expand their businesses. Thus the focus of the Company has been more on Risk management and not on Risk measurement as is the case in MFI. However, subsequent to the Company becoming a member of the HNB group and with more products that will be introduced beyond the traditional Micro Finance business, it will be using risk measurement techniques more frequently.

The management of the Company recognizes that risk falls in to two major categories. They are:-

1. Systematic Risk- Systematic risk refers to risks a particular organization have no control such as natural disasters, changes in the monetary / interest rate policy etc. As a financial institution it is important that these risks are also addressed adequately.
2. Unsystematic Risk- Unsystematic risks refers to those which are institutional specific and within the control of the organization. Thus more emphasis is given to this category of risk.

The Board having recognized the importance of Risk management has appointed the following sub committees to adequately deal with the risk factors:-

1. Audit Committee in compliance with Rule 8(2) of the Finance Companies ( Corporate Governance) Direction No 3 of 2008
2. Integrated Risk Management Committee in compliance with Rule 8(3) of the Finance Companies (Corporate Governance) Direction No 3 of 2008.
3. Credit Committee
4. Strategic and Investment Committee

## Notes to the Financial Statements

### Risk Grid of a Micro Finance Institution

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	

**Credit Risk** - The Company has recognized that high concentration of Group lending based on Grameen module as high portfolio risk. Accordingly new products have been introduced to mitigate this risk. They are 'Abhilasha' & 'Swashakthi' targeting the SME sector. Whilst these products are in the infancy stage the prospect of growth is very encouraging. Whilst the Board appointed a Sub Committee to deal with review and monitor the effectiveness and application of credit risk management policies, related standards and procedures and control environment with respect to credit decisions, a separate committee headed by the Managing Director/CEO monitor and review credit risks of above products as well as the traditional group lending. More non traditional products such as Micro housing products are in the pipeline. The best yard stick to gauge the effectiveness is the Non Performing Loan (NPL) rate

**Liquidity Risk** - Section 2, 3 and 4 of the Finance Companies (Liquid assets) Direction No 4 of 2013 issued by the CBSL defines that a minimum level of Liquid assets requirement is necessary for time deposits, saving deposits and non-transferable certificates of deposits, borrowings and Sri Lanka Government Treasury Bills, Sri Lanka Government securities etc. The Company does not hold non-transferable certificates of deposits. Thus no holding on this is maintained by the Company. With respect to Fixed Deposits and Savings too, the Company has met the CBSL requirement.

**Market Risk** - Interest rate cap on deposits has been static throughout the year. Thus this has had no significant effect on our margins. The Company also does not encounter a foreign exchange risk since it does not deal with forex. As stated above the Company's investment portfolio lies in micro Group lending. Whilst this carries a high risk factor in terms of investment in portfolio, the Company has managed it efficiently as proven by our high recovery rate which is more than 99%. Introduction of new products is expected to ease this risk factor.

**Human Resource Risk** - Human resource is the most valuable asset in our organization. Much emphasis is given for retention of experienced employees. High turnover is seen in the "Trainee" category but this is not a concerning factor which is common in the MFI sector. The major threat is from the competitors who lure experienced employees by offering benefits above the industrial standards. This has been adequately dealt with by introducing many staff retention schemes.

**ICT Risk** - The Company has recognized that future of the industry depends on how best the Company adapt to the rapidly evolving technology. Similarly it is also cognizant that it is prone to severe risk factors. The Company has taken initiatives to invest substantially on high tech ICT infrastructure development. The Company has entered to an agreement with a reputed Indian ICT developer to upgrade the software system and hardware upgrading is underway to meet the standards. With the obtaining of the Microsoft licensing in mid 2015 the Company will have a secured ICT system.

**Fraud (Integrity) Risk** - The rigid monitoring and follow-up systems of the Company has deterred fraudulent activities by the employees. Introduction of the POS machines has dented the possibility of fraud taking place at the point of collection.

**Strategic Risks** - Strategic and Investment Committee is a new committee headed by the Chairman appointed by the Board to have oversight on all current and future strategic investments, divestments and disposals of the Company. This will include, investments in equity, corporate debt and treasury investments. The scope of the Strategic & Investment committee covers the monitoring of performance of these portfolios including that of portfolios outsourced and recommending necessary remedial action.

# Share Information

## TEN LARGEST SHAREHOLDERS - VOTING

No	Shareholders Name	31st March 2015		31st March 2014	
		No of Shares	%	No of Shares	%
1	Hatton National Bank PLC	724,904,118	51.00	-	0.00
2	Prime Lands (Private) Limited	675,091,533	47.50	1,399,995,651	98.50
3	B M D Chaminda Prabhath	1,000,000	0.07	1,000,000	0.07
4	H M U Senevirathna	150,000	0.01	150,000	0.01
5	W S P Arangala	110,000	0.01	110,000	0.01
6	S L Y Liyanawatte	102,500	0.01	102,500	0.01
7	S T D Peris	101,000	0.01	101,000	0.01
8	J S B Galagoda	101,000	0.01	101,000	0.01
9	W B A Fernando	100,500	0.01	100,500	0.01
10	S A R Fernando	100,500	0.01	100,500	0.01
<b>Sub Total</b>		<b>1,401,761,151</b>	<b>98.62</b>	1,401,761,151	98.62
Others		19,619,473	1.38	19,619,473	1.38
<b>Total</b>		<b>1,421,380,624</b>	<b>100.00</b>	1,421,380,624	100.00

## LARGEST SHAREHOLDERS - NON VOTING

No	Shareholders Name	31st March 2015		31st March 2014	
		No of Shares	%	No of Shares	%
1	Seylan Bank PLC	233,200,000	78.20	233,200,000	78.20
2	Prime Lands (Private) Limited	37,772,148	12.67	-	0.00
3	Prime Grameen Class A Non-Voting Share Trust - Trustee (Varners International (Lanka) (Private) Limited)	27,227,852	9.13	65,000,000	21.80
<b>Total</b>		<b>298,200,000</b>	<b>100.00</b>	298,200,000	100.00

## DISTRIBUTION OF SHAREHOLDERS - VOTING

Shareholding Range	As at 31st March 2015				As at 31st March 2014			
	No. of shareholders	%	No. of Shares	%	No. of shareholders	%	No. of Shares	%
1 - 1,000	99,530	99.157	16,997,804	1.20	99,530	99.158	16,997,804	1.20
1,001 - 10,000	810	0.807	1,573,143	0.11	810	0.807	1,573,143	0.11
10,001 - 100,000	25	0.025	948,426	0.07	25	0.025	948,426	0.07
100,001 - 1,000,000	9	0.009	1,865,600	0.13	9	0.009	1,865,600	0.13
Over 1,000,000	2	0.002	1,399,995,651	98.50	1	0.001	1,399,995,651	98.50
<b>Total</b>	<b>100,376</b>	<b>100.00</b>	<b>1,421,380,624</b>	<b>100.00</b>	100,375	100.00	1,421,380,624	100.00

#### ANALYSIS OF SHAREHOLDING - VOTING

Shareholding	As at 31st March 2015			As at 31st March 2014		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	2	1,399,995,651	98.50	1	1,399,995,651	98.50
Individual	100,374	21,384,973	1.50	100,374	21,384,973	1.50
<b>Total</b>	<b>100,376</b>	<b>1,421,380,624</b>	<b>100.00</b>	<b>100,375</b>	<b>1,421,380,624</b>	<b>100.00</b>

#### ANALYSIS OF SHAREHOLDING - NON VOTING

Shareholding	As at 31st March 2015			As at 31st March 2014		
	No. of shareholders	Total Holding	%	No. of shareholders	Total Holding	%
Institution	2	270,972,148	90.87	1	233,200,000	78.20
Prime Grameen Class A Non-Voting Share Trust - Trustee (Varners International (Lanka) (Private) Limited)	1	27,227,852	9.13	1	65,000,000	21.80
<b>Total</b>	<b>3</b>	<b>298,200,000</b>	<b>100.00</b>	<b>2</b>	<b>298,200,000</b>	<b>100.00</b>



# Notice of Meeting

Notice is hereby given that the Fifth (5th) Annual General Meeting of Prime Grameen Micro Finance Limited is convened on Friday the Seventeenth (17th) day of July 2015, at the Auditorium on Level 6 of "Prime Grameen Building" at No. 168, Nawala Road, Nugegoda at 10.00 in the forenoon to transact the following business.

- i. To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the Company for the year ended 31st March 2015 and the Auditors' Report thereon.
- ii. To re-elect **Antonio Jonathan Alles**, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- iii. To re-elect **Mirihana Arachchige Rose Chandralatha Cooray**, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- iv. To re-elect **Neelakanni Hettiarachchige Thimal Ishan Perera**, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- v. To re-elect **Akurange Lionel Somaratne**, who retires at the Annual General Meeting, as a Director of the Company in terms of Article 87(a) of the Articles of Association of the Company.
- vi. To re-elect **Hene Kankanamge Sandamini Rukmal Perera** who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 96 of the Articles of Association of the Company
- vii. To re-elect **Brahmanage Premalal** who retires by rotation at the Annual General Meeting, as a Director of the Company in terms of Article 96 of the Articles of Association of the Company
- viii. To consider and if thought fit to change of name of the Company to HNB GRAMEEN FINANCE LIMITED (as per the Circular to shareholders dated 10th June 2015 which is forwarded herewith) by the adoption of the following resolution as a special resolution as given below:-

**Special Resolution I** IT IS HEREBY RESOLVED that the name of the Company be changed from "PRIME GRAMEEN MICRO FINANCE LIMITED" to "HNB GRAMEEN

FINANCE LIMITED" and that the Board of Directors of the Company be and is hereby authorized to do all such acts as may be required to give effect to the aforesaid change of name.

- ix. To consider and if thought fit to reduce the Stated Capital of the Company from Rupees Three Billion Eight Hundred and Ninety Five Million Eight Hundred and Six Thousand Two Hundred and Forty (Rs. 3,895,806,240/-) to Rupees Two Hundred and Twenty Three Million Five Hundred and Forty Five Thousand Four Hundred and Eighty One (Rs. 223,545,481/-) in terms of Section 59 of the Companies Act No. 7 of 2007 (as per the Circular to shareholders dated 10th June 2015 which is forwarded herewith) by the adoption of the following resolution as a special resolution as given below:-

**Special Resolution II** IT IS HEREBY RESOLVED THAT the stated capital of the Company be and is hereby reduced from Rupees Three Billion Eight Hundred and Ninety Five Million Eight Hundred and Six Thousand Two Hundred and Forty (Rs. 3,895,806,240/-) constituting monies received by the Company from the issue of One Billion Four Hundred and Twenty One Million Three Hundred and Eighty Thousand Six Hundred and Twenty Four (1,421,380,624) ordinary voting shares and Two Hundred and Ninety Eight Million Two Hundred Thousand (298,200,000) non-voting ordinary shares to Rupees Two Hundred and Twenty Three Million Five Hundred and Forty Five Thousand Four Hundred and Eighty One (Rs. 223,545,481/-) in accordance with the provisions of section 59 of the Companies Act No. 7 of 2007 and THAT the board of directors of the Company be and is hereby authorised to do all such acts as may be required to give effect to the aforesaid reduction of stated capital.

## Notice of Meeting

- x. To appoint Messers. Ernst & Young (EY) - Chartered Accountants, as the Auditors for the ensuing year and to authorise the Directors to fix their remuneration. the time appointed for holding the meeting.
- xi. To authorise the Directors to determine payments for the year 2015 for charitable and other purposes.

By Order of the Board

**PRIME GRAMEEN MICRO FINANCE LIMITED**



**Shiromi Halloluwa**  
Board Secretary

Colombo, Sri Lanka.  
10th June, 2015.

### Notes:

1. A member entitled to attend or attend and vote at the meeting is entitled to appoint a proxy to attend or attend and vote as the case may be, in his/her stead.
2. A proxy need not be a member of the Company. The Form of Proxy is enclosed.
3. The completed Form of Proxy should be deposited with the Board Secretary at the Registered Office of the Company at No: 168, Nawala Road Nugegoda, not less than 48 hours before



## Form of Proxy

# Prime Grameen Micro Finance Limited

I/We ..... of

being \*a shareholder/shareholders of the Prime Grameen Micro Finance Limited, hereby appoint .....

..... of ..... or

failing him/her Antonio Jonathan Alles or failing him Bamunuachchi Mangedarage Don Chaminda Prabhath or failing him Hene Kankanamge Sandamini Rukmal Perera or failing her Brahmanage Premalal or failing him Lydia Laura Crysanthi Crossette Thambiah or failing her Mirihana Arachchige Rose Chandralatha Cooray or failing her Neelakanni Hettiarachchige Thimal Ishan Perera or failing him Akurange Lionel Somaratne as \*my/our proxy, to represent \*me/us, to speak and to vote for \*me/us on \*my/our behalf on the resolutions (including the under mentioned) at the Fifth (5th) Annual General Meeting of the Company to be convened on Friday the 17th day of July 2015 at 10.00 in the forenoon at the Auditorium on Level 6 of "Prime Grameen Building" at No. 168, Nawala Road, Nugegoda and at any adjournment thereof and at every poll which may be taken in consequence thereof :

To re-elect Antonio Jonathan Alles, as a Director of the Company	In favour	
	Against	
To re-elect Mirihana Arachchige Rose Chandralatha Cooray, as a Director of the Company	In favour	
	Against	
To re-elect Neelakanni Hettiarachchige Thimal Ishan Perera, as a Director of the Company	In favour	
	Against	
To re-elect Akurange Lionel Somaratne, as a Director of the Company	In favour	
	Against	
To re-elect Hene Kankanamge Sandamini Rukmal Perera as a Director of the Company	In favour	
	Against	
To re-elect Brahmanage Premalal, as a Director of the Company	In favour	
	Against	
To change the name of the Company to HNB GRAMEEN FINANCE LIMITED	In favour	
	Against	
To reduce the Stated Capital of the Company from Rupees Three Billion Eight Hundred and Ninety Five Million Eight Hundred and Six Thousand Two Hundred and Forty ( Rs. 3,895,806,240/-) to Rupees Two Hundred and Twenty Three Million Five Hundred and Forty Five Thousand Four Hundred and Eighty One ( Rs . 223,545,481/-) in terms of Section 59 of the Companies Act No. 7 of 2007	In favour	
	Against	
To appoint the Auditors for the ensuing year/authorise the Directors to fix their remuneration	In favour	
	Against	
To authorise the Directors to determine payments for charitable and other purposes	In favour	
	Against	

Mark your preference with "✓"

Signed this ..... day ..... 2015.

Signature/s .....

.....

# Form of Proxy

**Please provide the details :**

Shareholder's NIC No./Company Registration No. ....

Folio No./Number of Shares held .....

Proxy holder's NIC No. (if not a Director) .....

Note – See reverse hereof for instructions to complete the Proxy \*Delete inappropriate words

**Instructions to complete Proxy**

1. The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the Form of Proxy, duly signed and dated.
2. The completed Proxy should be deposited with the Board Secretary, at the Registered Office of the Company at No: 168, Nawala Road Nugegoda, not less than 48 hours before the time appointed for holding the Meeting.
3. The Proxy shall -
  - (a) in the case of an individual be signed by the shareholder or by his attorney, and if signed by an attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
  - (b) in the case of a company or corporate body, either be under its Common Seal or signed by its attorney or by an officer on behalf of the Company or corporate body in accordance with the Articles of Association or the Constitution of that Company or corporate body.  
  
The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer.
  - (c) in the case of joint-holders, the first joint-holder has the power to sign the proxy without the concurrence of the other joint-holder/s.
4. Every alteration or addition to the Proxy must be duly authenticated by the full signature of the shareholder, signing the Proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

# Corporate Information

## 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).

## Registered Office

Prime Grameen Micro Finance Limited  
No.168, Nawala Road, Nugegoda, Sri Lanka.  
Tel : +94 11 2176262  
Fax: +94 11 2176263

## Company Secretaries

Shiromi Halloluwa  
Hatton National Bank PLC  
Company Secretarial Division,  
Legal Department, Level 18,  
“HNB Towers”  
No. 479, T. B. Jayah Mawatha,  
Colombo 10.  
Tel : +94 11 2661856

## Auditors to the Company

Ernst & Young  
Chartered Accountants  
201, De Saram Place,  
Colombo 10.  
Tel : +94 112 463500

## Credit Rating Agency

Lanka Ratings Agency 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



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