An insider look at GROWTH

Abans FINANCE

ABANS FINANCE PLC

Annual Report 2016/17

CONTENTS

Development can be measured in many ways and for us at Abans Finance, the year proved to be a success story.

In the year under review we pushed ourselves to make progress in our growth and we achieved our goal. Making our presence felt in the industry, we grew our brand in every direction and prepared ourselves for bigger prospects ahead as we reaming closely allied to our parent company in providing quality and professional financial services to all.

ABOUT US

OUR VISION
Be the soundest and most trusted financial solutions provider in the industry.

OUR MISSION
Power the consumer through innovative products, personalised service and a wide range of financial solutions by maximising the synergies of the Abans Group, thereby creating wealth, fuelling growth and adding to Stakeholder Value.

ORGANISATIONAL PROFILE

Abans Finance PLC was incorporated on 8th April 2005 under the Companies act No. 17 of 1982 and was re-registered under the new Companies Act No.7 of 2007, on 15th June 2009. The Company's journey of just over 12 years has been an eventful one, where the Company has endured challenges and emerged a strong, resilient force in the sector. Over the 12 years in operation, the Company has grown to be a large subsidiary of the prestigious Abans Group and contributed favourably towards the overall strategic goals of the Group. The Abans Group of companies, is one of the most respected diversified business conglomerates in Sri Lanka having a history of more than four decades and multiple companies in sectors that cover travel, hospitality, tourism, logistics and fashion.

The Company commenced business initially as a registered Finance Leasing establishment under the Finance Leasing Act No. 56 of 2000 on 19th April 2006 and thereafter obtained a finance company license in terms of the Finance Companies Act No. 78 of 1988 with an initial stated capital of Rs. 382 million on 27th August 2007. The Company was listed on the Colombo Stock Exchange in the year 2011.

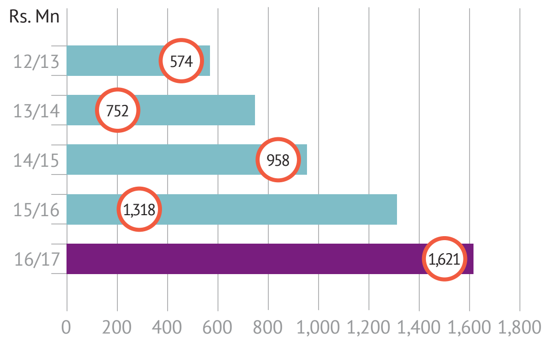
The Company currently operates with ten branches, nine customer centres and four KIOSKs. A comprehensive range of financial services encompassing acceptance of Fixed Deposits, maintenance of Saving Deposits and provision of Finance Leases, Mortgage Loans, Business Loans, Personal Loans and Other Credit facilities have been designed to cater to varied needs of our customers .

Group Structure

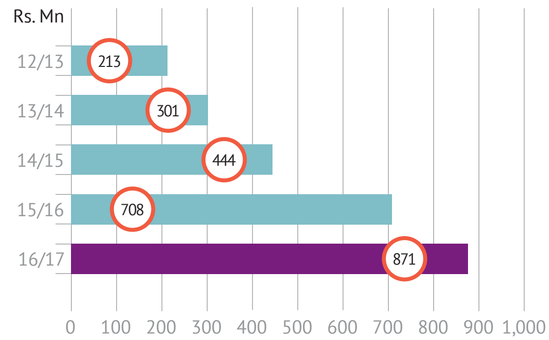
Abans PLC holds 71.60% of Abans Finance PLC as at 31st March 2017. Further, during the year under review, Ironwood Investment Holding (Pvt) Ltd invested in the Company and held 19.95% of the total shareholding in the Company as at 31st March 2017. Subsequent to 31st March 2017, the Company further issued 11,093,595 shares by way of rights, whereby shareholding of Abans PLC and Ironwood Investment Holding (Pvt) Ltd in Abans Finance PLC has changed to 59.67% and 31.89% respectively.

FINANCIAL HIGHLIGHTS

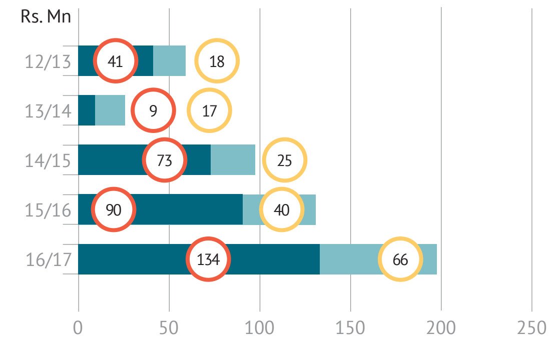
	2016/17	2015/16	Change
Financial Performance (Rs.'000)			
Income	1,620,506	1,317,233	23.02%
Net Interest Income	871,034	708,057	23.02%
Net Fee and Commission Income	19,367	34,698	-44.18%
Total Operating Income	912,119	759,123	20.15%
Profit Before Taxation	197,406	130,481	51.29%
Taxation	63,842	40,356	58.20%
Profit After Taxation	133,564	90,125	48.20%
Financial Position at the Year End (Rs.'000)			
Total Assets	7,486,207	6,148,709	21.75%
Loans and Advances to Customers	5,825,642	4,784,799	21.75%
Public Deposits	5,550,553	4,539,362	22.28%
Borrowings	213,739	78,115	173.62%
Shareholders' Funds	1,210,266	614,525	96.94%
Profitability			
Return On Assets (%)	1.96%	1.65%	31 bps
Return On Equity (%)	14.64%	15.82%	(118) bps
Net Interest Margin (%)	12.78%	12.96%	(19) bps
Cost to Income Ratio (%)	51.53%	49.08%	245 bps
Investor Information			
Earnings Per Share (Rs.)	2.75	2.29	20.09%
Price to Earnings Ratio (Times)	8.76	16.68	-47.46%
Net Asset Value Per Share (Rs.)	21.82	16.61	31.37%
Market Value Per Share (Rs.)	24.10	38.20	-36.91%
Market Capitalisation (Rs. Mn)	1,337	1,413	-5.42%
Regulatory Ratios			
Capital Adequacy - Core Capital Ratio (%) (Minimum - 5%)	19.41%	11.59%	782 bps
- Total Risk Weighted Capital Ratio (%) (Minimum - 10%)	19.37%	11.59%	778 bps
Statutory Liquid Asset Ratio (%)	21.80%	19.21%	259 bps
Capital Funds to Total Deposit Liabilities (%) (Minimum - 10%)	21.81%	13.54%	827 bps



Gross Income

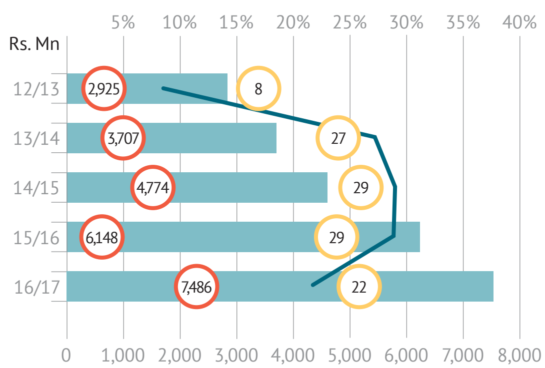


Net Interest Income



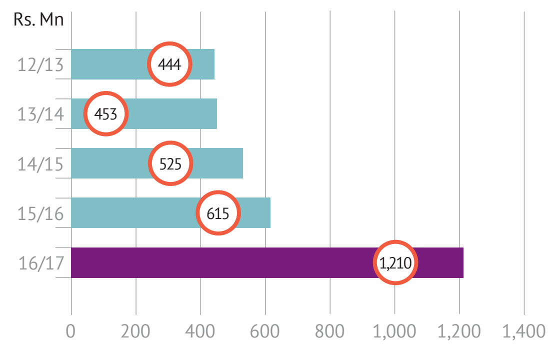
Profits

Profit After Tax
Income tax

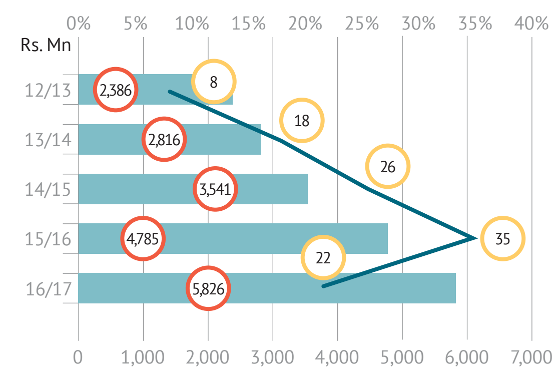


Total Assets

Total Assets
Growth



Shareholders' Funds



Loans and Advances

Value of Loans and Advances
Growth

CHAIRMAN'S MESSAGE

THE PERFORMANCE OF THE COMPANY IN THE YEAR UNDER REVIEW HAS BEEN SUBSTANTIAL. TOTAL INCOME AND NET INTEREST INCOME RECORDED AN IMPRESSIVE GROWTH OF 23%, WHICH ENABLED THE COMPANY TO ACHIEVE AN IMPRESSIVE PRE-TAX PROFIT OF RS. 197.41 MILLION, UP BY 51.29 % OVER THE PREVIOUS FINANCIAL YEAR

OUR COMPANY HAS BEEN WELL FOCUSED AND HAS REMAINED TRUE TO THE CORE VALUES OF ABANS FINANCE PLC. THE DEDICATION OF OUR STAFF HAS BEEN KEY TO OUR SUCCESS. I AM CONFIDENT WE CAN OVERCOME ALL CHALLENGES, TO REALISE THE VISION OF OUR COMPANY

Dear Stakeholder,
It is my pleasure to welcome you to the 11th Annual General Meeting of Abans Finance PLC and to present the Annual Report and Audited Financial Statements for the year ended 31st March 2017.

Abans Finance PLC, in its journey towards sustainable growth in all spheres of business, decided to be better capitalised to lay the foundation for a profound transformation in the years ahead. As the Chairman of Abans Finance, I welcome this opportunity to share my views on the Company's performance against the backdrop of global economic conditions that prevailed during the year, the compliance environment of non bank financial institutions and our business model.

THE ECONOMY

The global economy showed growth in the second half of 2016 with developed economies registering a stronger than expected acceleration, while slow economic activity continued in emerging markets and developing economies. While many advanced countries with flourishing economies continued to generate demand, emerging markets and developing economies showed varied growth and exchange rate repercussions, depending on BOP positions, fiscal situations and investment climates in the respective countries, in spite of being influenced in general by more stringent conditions in global financial markets.

In Sri Lanka, inclement weather conditions and slow global economic recovery brought about a slower economic growth of 4.4 % in 2016 in real terms, compared to 4.8 % in the previous year. Enhanced investment expenditure, especially in the construction sector, propelled economic growth during the year, while consumption expenditure diminished in consequence to the Government policy environment.

The high inflation levels experienced in some months of 2016 and in the first quarter of 2017 were mainly caused by the negative impact of weather havoc, tax adjustments and rising international commodity prices, but the pressures of growing demand on the economy were clearly seen in core inflation remaining at high levels.

Changes in external sector balances indicated the continued domestic demand for imports from certain sectors of the economy, weak external demand for the few domestic products, the continuing failure of the country to attract increased direct investment flows, as well as the consequence of rising global interest rates, particularly on the Government securities market. These developments led to the balance of payments recording a deficit for the second year in succession, in spite of improvements in inflows from tourism and other service exports, as well as workers' remittances from overseas. The rupee, on the other hand which remained generally stable due to heavy intervention by the Central Bank in the first four months of the year, was allowed to float free and reflect market demand and supply conditions to a great extent in the second half of the year, resulting in an overall depreciation of the rupee against the US dollar by 3.83% in 2016.

The Non Bank Financial Institutions sector demonstrated a strong performance in relation to asset growth and branch network expansion during 2016, despite a challenging business environment, while emphasising on gradually moving out from its core business of vehicle financing to other loan products. The insistence on the application of the loan-to-value (LTV) ratio in the case of loans and advances granted for motor vehicle purchases by banks and Non Bank Financial Institutions, also had a profound impact.

YOUR COMPANY

The Company has been resilient in the dynamic environment in which it operates, and has promptly dealt with all challenges that it faced, by adjusting its business model. Our Company has been well focused and has remained true to the core values of Abans Finance PLC. The dedication of our staff has been key to our success. I am confident we can overcome all challenges, to realise the vision of our Company.

OUR BUSINESS MODEL

As I informed you in my last year's review, despite the complexities within the industry, the Company continued its experiment on the business model. The strategy of operating within a well defined profitable niche market continued to work well and the Company was able to reap a good harvest during the year under review, thus achieving better results than the previous year. The Company has its focus on a broader market with a varied range of products to muscle the pace for sustainability in operations and profits with the support of the Group and also to maintain a competitive edge over other players in the industry.

The Central Bank of Sri Lanka persisted with the LTV Ratio policy during the year. Maintaining a high LTV therefore, became the norm of the Company's business model, thus continuing to strengthen the asset base. Another feature that further strengthened the business model was the addition of a new lending team, which boasted of an immense experience in the sector. In this back drop the Company was able to achieve a healthier growth with a commendable bottom line and a strong financial position.

The Board which constitutes members from diverse professional backgrounds, who bring a wealth of varied experience, has established independent committees to ensure the highest standards in transparency, compliance, governance and risk management strategies, together with best practices in corporate governance as mandated by the Central Bank of Sri Lanka.

The Board sets the tone by example at the top, by promoting professional standards and corporate values that cascade down to senior managers and all other employees of the Company.

PERFORMANCE

The performance of the Company in the year under review has been substantial. Total Income and Net Interest Income recorded an impressive growth of 23%, which enabled the Company to achieve an impressive pre-tax profit of Rs. 197.41 million, up by 51.29 % over the previous financial year. The Earning Per Share grew to Rs. 2.75 in the year under review, from Rs. 2.29 in the previous year and I am happy to announce that your Board has proposed a final dividend of Rs 0.20 per share.

Total Assets recorded a significant growth of 22% reaching the mark of Rs. 7.49 billion as at 31 March 2017. The Shareholders' Funds recorded a significant growth of 97% reaching Rs. 1.21 billion in the year under review, from Rs. 614.52 million in the previous year resulting from an issue of shares by way of Rights and a Private Placement, thus increasing the Stated Capital to Rs. 844.01 million in the year under review, from Rs. 382.37 million in the previous financial year, ending up with a healthy and sound financial position as at the year-end.

Given the sound financial position of the Company, I am confident of sustained strong growth in the future.

COMPLIANCE FOR BETTER GOVERNANCE

The Company has been adhering to the highest standards of compliance in relation to Corporate Governance. The Board sets the tone at the top, by promoting professional standards and corporate values that seep down to all levels of staff. The Company has ensured that this is a continuous process in the Company.

OUTLOOK

In an environment of rising interest rates, the market anticipates interest rates to further rise marginally. This in turn, necessitates that we factor in the likely implications of domestic interest rates and capital flows, on our strategies. Our Company is equipped in this regard with a range of products, an experienced and energetic team of professionals, and group synergies. The strength of Abans Finance and the parent Company, its subsidiary, island wide branch network of Abans Finance and the showroom and dealer network of the Abans Group, are functioning as a facilitator to present ourselves in the market. Achievement of Abans Finance objectives will be guaranteed by the resources, financial capability, and the strength of the Abans brand, thus enabling us to widen the scope and focus on a range of products that will in turn lead to strategic growth of your Company. I am confident that my Board along with our management are well equipped and committed in this regard.

APPRECIATIONS

I would like to convey my sincere appreciations to my colleagues on the Board of Abans Finance PLC for their valuable support and guidance extended at all times and their valued expertise shared for the betterment of the Company.

My heartfelt thanks to my senior management who provide leadership and boundless energy to drive our strategies for growth and business excellence, and each and every member of staff who are ambassadors of Abans Finance and whose unconditional efforts and commitments push Abans Finance to keep expanding its horizons. I would like to extend my gratitude to the officials of the Central Bank of Sri Lanka for their valued good counsel and directions in building a foundation for strong ethics and good governance. I also wish to extend my sincere gratitude to the shareholders and all other stakeholders for the support and confidence placed in us.

Rusi Pestonjee
Chairman

Colombo, Sri Lanka
8th August 2017

IT IS OF PARAMOUNT IMPORTANCE THAT WE MITIGATE CREDIT CONCENTRATION RISK AND IMPROVE ASSET QUALITY WITH A FULLY DIVERSIFIED PORTFOLIO OF LOANS & ADVANCES

IT IS VITAL THAT WE CONTINUE TO MAINTAIN AND STRENGTHEN OUR SHARE IN THE MARKET FOR THE PRODUCT WITHOUT COMPROMISING REQUISITE INTEREST MARGINS. THE MARKET FOR FINANCE LEASES ON FOUR WHEELERS HAS CONTRACTED AS A RESULT OF FISCAL AND REGULATORY ACTION AND HAS BECOME COMPETITIVE

NBFI SECTOR

The NBFI Sector accounted for Rs. 1,239.1 billion in total Assets as at 31st March 2017 that grew by 15.0%. The slowdown in sector growth was mainly due to regulatory action that included the policy measures taken to curtail importation of vehicles with the introduction of the Loan to Value Ratio and imposition of caps on deposits and borrowings on companies that had weak capital positions. In addition, increased interest rates also had a significant impact on growth. Total Loans and Advances registered a growth of 18.2% and reached Rs. 990 billion as at 31 March 2017. Deposits held by LFCs as at end of March 2017 increased by 13.9% and amounted to Rs. 558 billion Borrowings by NBFIs grew by 16% to reach Rs. 435 billion as at 31st March 2017. The sector operated with 1321 branches as at end of March 2017. Total Capital Adequacy ratio of the industry declined during 2016/2017 and recorded 12.05 % as at end of March 2017 (31.03.2015 – 13.5%). Gross NPL ratio of the sector improved to 4.9% from 5.1%. Net Interest Margin (NIM) decreased during 2016/2017 and registered 7.8% mainly attributable to the upward trend in interest rates. Return on Assets (ROA) was 3.5% in 2016/17.

REGULATORY ENVIRONMENT

The CBSL strengthened the regulatory process during the year with the issuance of three key directions. The Finance Companies (Minimum Core Capital) Direction No 02. of 2017 requires all LFCs to maintain a minimum Core Capital of Rs. 1 billion by 1st Jan 2018 with an increase of Rs. 500 million each year to reach a minimum of Rs. 2.5 billion by 1st January 2021. This was done with a view to encouraging consolidation and to ensure safety and soundness of LFCs. The new directions on Loan to Value Ratios on Finance Leases and vehicle related loans had a negative impact on the growth of leasing portfolio of the sector. However, a shift from vehicle related facilities to loans by LFCs resulted in a growth in Loans & Advances during the year.

INFUSION OF CAPITAL

The Company infused Core Capital of Rs.739 million by way of two right issues of shares and a private placement that increased the Core Capital and Capital Adequacy status of the Company significantly. The major contribution came from the new strategic investor, Ironwood Investment Holding (Pvt.) Ltd. The Company now maintains Stated Capital that is far above the statutory requirements and is in a healthy status to meet the threshold imposed by the regulator for the next two years. The Company is now geared to accelerate the growth momentum to deliver a sound financial performance.

FINANCIAL PERFORMANCE & FINANCIAL POSITION

The Company registered interest income of Rs. 1,494.6 million during the year under review. This is a growth of 26%. Interest Expense increased by 30% and amounted to Rs. 623.6 million for the year. Net Interest Income increased by 23% to Rs. 871.0 million (2015/2016– Rs.708.1 million).

Total Operating Income of the Company for the period was Rs. 912.1 million, a growth of 20%. Pre- tax Earnings improved by 51% and amounted to Rs. 197.4 million. Net Earnings for the year was Rs. 133.5 million, a growth of 48% over 2015/2016. Total Assets grew by 22% and stood at Rs. 7,486.2 million as at 31st March 2017 (31.03.2016 – Rs. 6,148.7 million). Loans and Advances accounted for Rs. 5,825.6 million and was up from Rs. 4,784.7 million in the previous year.

OUTLOOK

The imposition of limitations on four wheeler and Three Wheeler lending has seen a shift in demand towards Two Wheelers for Finance Leases by major players in the market. Finance Leases on two wheelers continue to remain an attractive market in terms of returns & profitability. The optimum use of the Abans Group network is essential to tap this promising business with potential to which other NBFIs have already made in roads to. It is vital that we continue to maintain and strengthen our share in the market for the product without compromising requisite interest margins. The market for Finance Leases on four wheelers has contracted as a result of fiscal and regulatory action and has become competitive. A significant improvement in funding costs is inevitable, if the Company is to penetrate the market for the product. It is of paramount importance that we mitigate credit concentration risk and improve asset quality with a fully diversified portfolio of Loans & Advances. An effective monitoring of operating costs is also an essential prerequisite in the prevailing business environment. We will have to manage Interest Rate Risk for the delivery of appropriate interest margins that will guarantee a growth in earnings. The escalation of the interest expense owing to an upward trend in interest rates on deposits & borrowings is the major challenge encountered by the Company.

APPRECIATION

It is with a deep sense of gratitude, I place on record my thanks to the Chairman, Mr. Rusi Pestonjee for the role played in leading the Board of Directors and for his counsel. I offer my grateful thanks to the Directors for their advice & guidance during the year. I also thank the Chief Executive Officer, Chief Operating Officer, Management and Staff for the delivery of encouraging financial results. All these were made possible by our stakeholders who deserve my thanks and appreciation.

Kithsiri Wanigasekara
Managing Director

Colombo, Sri Lanka
14th August 2017

CHIEF EXECUTIVE OFFICER'S MESSAGE

NEW LENDING IN RESPECT OF FINANCE LEASES AND LOANS RECORDED RS. 3.61 BILLION IN THE YEAR UNDER REVIEW WHICH IS AN INCREASE OF 3.09% FROM THE PREVIOUS YEAR. TOTAL ASSETS GREW BY RS. 1.34 BILLION TO RECORD RS. 7.49 BILLION AS AT THE END OF THE CURRENT FINANCIAL YEAR REPRESENTING AN INCREASE OF 22%

DURING 2016 AMIDST A CHALLENGING BUSINESS ENVIRONMENT, THE NBFI SECTOR RECORDED AN EXCEPTIONAL PERFORMANCE IN TERMS OF ASSET GROWTH AND BRANCH NETWORK EXPANSION. IT IS SEEN THAT THE NBFI SECTOR CURRENTLY DISPLAYS A GRADUAL SHIFT FROM ITS CORE BUSINESS OF VEHICLE FINANCING TO OTHER LOAN PRODUCTS

ACHIEVEMENTS OF THE COMPANY

It gives me great pleasure to share with you the exceptional performance by Abans Finance PLC, which is the Company's best performance in its 12 years of operation, with many of the key performance indicators surpassing previous highs. While the top line grew by 23.02% from Rs. 1,317 million in the previous year to Rs. 1,620 million in the year under review, the bottom line (Total Comprehensive Income) grew by 51.81% from Rs. 89 million in the previous year to 136 million in the year under review. The Profit Before Tax too, grew from Rs. 130 million in the previous year to Rs. 197 million in the year under review representing a growth of 51.29%. The Company was also able to bring down the impairment charges from Rs. 225 million in the previous year to Rs. 190 million in the year under review representing a reduction of 16.15%.

The Company feels the loan-to-value ratio imposed by the Central Bank of Sri Lanka is a beneficial move that has contributed towards strengthening the quality of the asset base. New lending in respect of finance leases and loans recorded Rs. 3.61 billion in the year under review which is an increase of 3.09% from the previous year. Total assets grew by Rs. 1.34 billion to record Rs. 7.49 billion as at the end of the current financial year representing an increase of 22%.

The shareholders' funds grew significantly by 95% reaching Rs. 1.21 billion in the year under review from Rs. 614.52 million in the previous year as a result of an issue of shares by way of rights and a private placement.

Formulation of the overall strategy with an intention of increasing the touch points in the market has been one of the key objectives of the Company. In this respect, the Company began to strengthen its network that includes Ten branches, nine Customer Centres and four KIOSKs. Further presence throughout the country is achieved from the island wide showroom and dealer network of the Abans Group . The Company was equipped with a range of products, an experienced and energetic team of professionals and a total staff numbering 373 at the end of the current year.

EXPECTATIONS OF NON BANK FINANCIAL INSTITUTIONS (NBFI) AND ITS PERFORMANCE

NBFIs typically provide advances in the form of leases and loans and are more collateral centric in their lending. NBFIs are expected to align themselves with the economic policies of the country and across the world to be resilient and to maintain sustainable results. In the face of increasing competition from the banking sector, NBFIs have emphasised on Information Technology based processes, where most financial transactions will be electronically transmitted with minimal face-to-face interventions. Further, the future outlook indicates that policy makers would also expect NBFIs to bring about a wider financial inclusion to cover households as well as entrepreneurs.

During 2016 amidst a challenging business environment, the NBFI sector recorded an exceptional performance in terms of asset growth and branch network expansion. It is seen that the NBFI sector currently displays a gradual shift from its core business of vehicle financing to other loan products. While maintaining a steady growth, risks within the sector remained under control, as reflected in the healthy level of NPLs and comfortable liquidity and capital levels of most NBFIs. This growth in the sector was mainly funded through domestic borrowings and deposit mobilisation.

APPRECIATIONS

I would like to express my appreciation to the Chairman and the Board of Directors for their guidance given to me, to face the challenges during the year. Our performance would not have been possible without the diligent oversight and wise guidance provided by them. I would also like to extend my gratitude to the staff of CBSL for their regulatory guidance, and to say a word of thanks to our external auditors and fund arrangers.

Finally, I offer my thanks to all the staff of the Company as each and every employee is a proud contributor towards the Company's performance.

Roshan Nanayakkara
Chief Executive Officer

Colombo, Sri Lanka
14th August 2017

MANAGEMENT DISCUSSION AND ANALYSIS

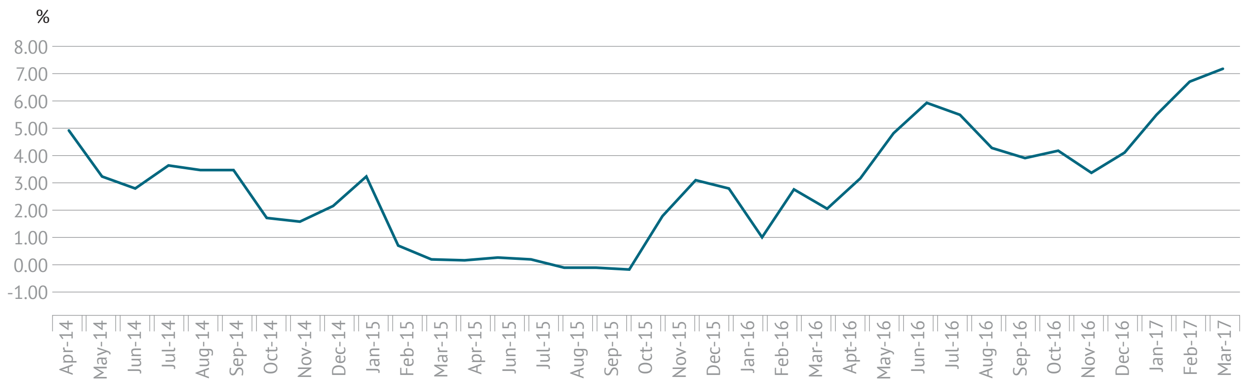
ECONOMIC OVERVIEW

Unfavourable weather conditions and sluggish global economic recovery caused the economy to grow at a slower rate of 4.4 % in 2016 in real terms, in comparison to 4.8 % in the previous year, although a steady acceleration in quarterly growth was observed from the second quarter of the year amidst tightened fiscal and monetary policies.

Increased investment expenditure, especially in the construction sector, drove economic growth during the year, while consumption expenditure slowed in response to the policy environment in place.

Inflation, which remained low in the first four months of the year, increased thereafter to record an annual average of 4.0 % in 2016 (both National Consumer Price Index (NCPI, 2013=100) and Colombo Consumer Price Index (CCPI, 2013=100) based).

The high levels of inflation observed during some months in 2016 as well as in the first quarter of 2017 were mainly due to the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices, but the increasing demand pressures of the economy were evident in core inflation remaining at elevated levels.



Inflation Trend Chart

Source: Central Bank of Sri Lanka-Annual Reports

Movements in external sector balances reflected the continued domestic demand for imports from certain sectors of the economy, weak external demand for the limited basket of domestic products, persistent failure of the country to attract increased direct investment flows as well as the impact of rising global interest rates particularly on the government securities market.

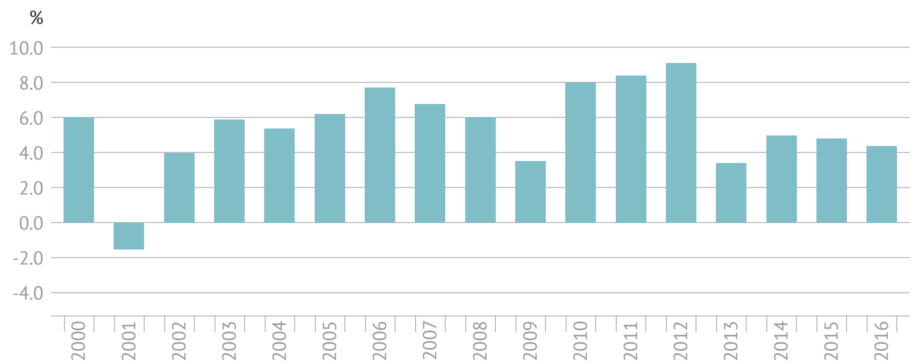
The Central Bank's heavy intervention in the foreign exchange market continued in the first four months of the year resulting in a broadly stable exchange rate during this period.

Considering the possible rise in demand driven inflationary pressures, the Central Bank continued to tighten monetary policy and monetary conditions throughout the year. Accordingly, in addition to increasing the Statutory Reserve Ratio (SRR) applicable on rupee deposit liabilities of licensed commercial banks (LCBs) in December 2015 to be effective from January 2016 and the continued application of the loan-to-value (LTV) ratio as a selective macro prudential demand management tool, the Central Bank raised its key policy interest rates by a total of 100 basis points in two steps during 2016, the first in February 2016 and the second in July 2016.

Open market operations of the Central Bank also guided the short term market interest rates to move to the upper bound of the policy interest rate corridor, resulting in a considerable increase in the market interest rate structure.

In response to tightened monetary conditions, the acceleration of broad money growth subsided while the growth of credit extended to the private sector by LCBs that peaked at 28.5 % in July 2016, on a year on-year basis, also decelerated to 21.9 % by end 2016. However, the deceleration of monetary and credit expansion was below expectations, and the Central Bank again adjusted its policy interest rates upwards by 25 basis points in March 2017 with the view of signalling to the market the intent of the Central Bank in maintaining inflation in mid single digits in the medium term, within its increasingly forward looking monetary policy framework in which the management of inflation expectations plays a vital role.

The financial sector, in the meantime, continued to expand during the year whilst exhibiting resilience amidst challenging market conditions both globally and domestically. Meanwhile, fiscal operations registered a notable improvement in both revenue and expenditure fronts, resulting in the containment of the overall budget deficit at the envisaged level of 5.4 % of Gross Domestic Product (GDP).



GDP Growth Rate

Source :Central Bank of Sri Lanka-Annual Reports

Comparison of GDP Analysis Graph 2015/2016

Agriculture	18.6%
Industry	61.1%
Services	23.9%

GDP Analysis 2016

Agriculture	16.9%
Industry	60.4%
Services	23.8%

GDP Analysis 2015

Source: Central Bank of Sri Lanka-Annual Reports

The performance of the Sri Lankan economy in 2016 reconfirmed the necessity of addressing the deep rooted structural issues if the country is to progress steadily towards a higher growth trajectory, as envisaged.

NBFI Sector

The financial sector continued to expand during the year whilst exhibiting resilience amidst challenging market conditions both globally and domestically. Along with the expansion, the stability of the financial system was maintained without causing any major macro prudential concerns in an environment of supportive regulatory measures for stability.

The growth of the financial sector was buoyed by the expansion in banking, other deposit taking financial institutions and contractual savings institutions.

The increase in banking assets was mainly driven by the expansion in loans and advances in line with the growth in deposits. Meanwhile, asset quality measured by the Non-Performing Loan (NPL) ratio recorded its lowest level for the last two decades.

The licensed finance companies (LFCs) and specialised leasing companies (SLCs) sector showed an expansion in the asset base. The growth in assets during the year was funded by domestic borrowings and deposits.

Total Assest of the Major Financial Institutions

	2016(b)		2015(a)	
	Rs.Bn	Share in Total (%)	Rs.Bn	Share in Total (%)
Banking Sector	10,575.80	68.7	9,503.70	68.8
Central Bank	1,529.20	9.9	1,426.20	10.3
Licensed Commercial Banks(LCBs)	7,843.30	51.0	6,974.30	50.5
Licensed Specialised Banks(LSBs)	1,203.20	7.8	1,103.20	8.0
Other Deposit Taking Financial Institutions	1,246.70	8.1	1,044.20	7.6
Licensed Finance Companies(LFCs)	1,112.10	7.2	915.30	6.6
Co-operative Rural Banks	122.20	0.8	117.60	0.9
Thrift and Credit Co-operative Societies	12.40	0.1	11.30	0.1
Specialised Financial Institutions	522.80	3.4	557.80	4.0
Specialised Leasing Companies(SLCs)	99.80	0.6	80.80	0.6
Primary Dealers	264.50	1.7	282.60	2.0
Stock Brokers	10.10	0.1	9.80	0.1
Unit Trusts/Unit Trust Management Companies	106.70	0.7	134.00	1.0
Market Intermediaries(c)	30.80	0.2	42.20	0.3
Venture Capital Companies	11.00	0.1	8.30	0.1
Contractual Savings Institutions	3,040.30	19.8	2,711.10	19.6
Insurance Companies	503.10	3.3	453.60	3.3
Employees Provident Fund	1,841.50	12.0	1,664.90	12.0
Employees Trust Fund	249.40	1.6	223.50	1.6
Approved Pension and Provident Funds	398.60	2.6	323.00	2.3
Public Service Provident Fund	47.70	0.3	46.10	0.3
Total	15,385.70	100.0	13,816.70	100.0

Source: Central Bank of Sri Lanka - Annual Report 2016
(a) Revised
(b) Provisional
(c) Include Investment Managers, Margin Providers, Underwriters and Credit Rating Agencies

Although credit growth decelerated in the first quarter of 2016 as a result of macro prudential measures with respect to the lending on motor vehicles, the improvement in other lending activities in the second half of the year caused a rebound in the expansion of credit. Despite weak financial position of few LFCs, liquidity, capital and NPL levels of the sector remained healthy while profitability as reflected in the ROA and ROE increased during the year.

Strengthening of the supervisory and regulatory framework governing the financial sector continued during the year to ensure that potential risks to financial system stability are addressed in a timely manner. Several prudential measures taken by the Central Bank targeting banking and LFC and SLC sector stability mainly focused on cyber security, enhancing transparency and capital requirements under the Basel III framework. In addition, the Microfinance Act, No. 6 of 2016 was enacted with the objective of regulating microfinance institutions and the Central Bank issued prudential directions with respect to licensed microfinance companies (LMFCs) and guidelines to the Registrar of Voluntary Social Services Organisations for the regulation and supervision of microfinance non-governmental organisations during the year.

Performance of Non-Banking Financial Institutions Licensed Finance Companies and Specialised Leasing Companies (LFCs/SLCs) Sector

The LFCs/SLCs sector recorded a strong performance in terms of asset growth and branch network expansion during 2016 amidst a challenging business environment, while placing emphasis on gradually moving out from its core business of vehicle financing to other loan products. The growth in the sector was mainly funded through domestic borrowings. While maintaining the growth, risk remained under control, as reflected in healthy level of NPLs and comfortable liquidity and capital levels. However, as risks emanating from few LFCs with weak financial positions could cause macro prudential concerns on financial system stability of the country, the Central Bank continued to adopt prudential measures with a specific focus on reviving the aforementioned weak companies to maintain stability of the sector.

Composition of Assets and Liabilities of NBIF Sector

	2015(a)		2016(b)		Change(%)	
		Share		Share	2015	2016
Item	Rs.Bn	(%)	Rs.Bn	(%)	(c)	(b)
Assets						
Loans and Advances(net)	795.8	79.9	962.7	79.4	31.8	21.0
Investments	99.6	10.0	111.7	9.2	-9.2	12.1
Other	100.7	10.1	137.5	11.3	-0.4	36.6
Liabilities						
Total Deposits	480.6	48.3	531	43.8	16.1	10.5
Total Borrowings	314.3	31.6	438.7	36.2	44.6	39.6
Capital Elements	123.1	12.4	146.1	12.1	5.4	18.7
Total Funds	918	92.2	1115.7	92.1	22.7	21.5
Other	78.1	7.8	96.2	7.9	17.9	23.2
Total Assets/Liabilities(net)	996.1	100.0	1211.9	100.0	22.3	21.7

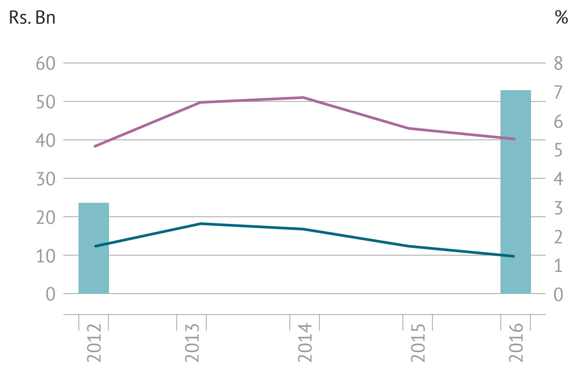
Source:Central Bank of Sri Lanka
(a) Revised
(b) Provisional

The total asset base of the sector grew by 21.7 % (Rs. 215.8 billion) in 2016 to Rs. 1,211.9 billion compared to a growth of 22.3 % (Rs. 181.6 billion) in 2015. The 77.3 % growth of assets was mainly led by lending activities. The increased assets were funded mainly through borrowings by 57.6 % and the balance by deposits, equity capital and other liabilities which represented 23.3, 10.6 and 8.4 %, respectively. Credit growth of the LFCs/SLCs sector moderated during the first quarter of 2016 as a result of macro prudential measures implemented with respect to the lending on motor vehicles mainly in the form of a loan to value ratio (LTV). However, with the increased exposure to other lending products, the credit growth accelerated during the second half of 2016 resulting in an overall expansion of credit of 21.0 % (Rs. 166.8 billion) to Rs. 962.7 billion as at end 2016, compared to a high growth rate of 31.8 % (Rs. 192.1 billion) during 2015. Around 73.1 % of this credit growth was mainly through other loan products such as term loans, revolving loans, microfinance, factoring and draft loans, while 23.7 % was through finance leases and hire purchases.

The investment portfolio comprises of investments in equities, corporate debt instruments, government securities and investment properties and recorded a growth of 12.1 % in 2016 compared to a negative growth of 9.2 % in 2015. This was mainly on account of increased investments in short-term government securities. Other assets comprised of cash, balances with banks and financial institutions, trading stocks and fixed assets, showed an increase of 36.6 % in 2016 largely due to increased placements in banks and financial institutions.

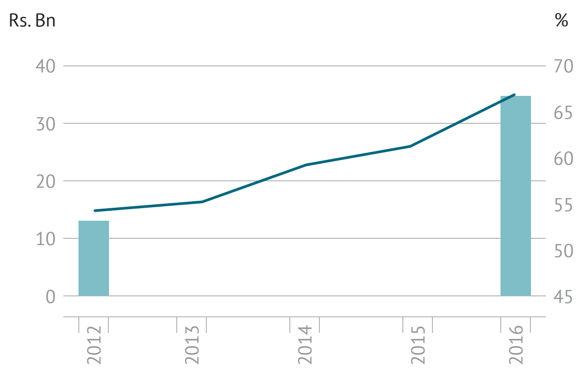
The sector's reliance on retail deposits has gradually shifted towards bank borrowings over the past two years considering the flexibility and cost factor. This has changed the overall funding structure of the sector by increasing the share of borrowings to 36.2 % in 2016 from 31.6 % in 2015, while the share of deposits decreased to 43.8 % in 2016 from 48.3 % in 2015. During 2016, the borrowings increased by 39.6 % or Rs. 124.4 billion to Rs. 438.7 in absolute terms compared to a growth of 44.6 % recorded in 2015. The deposits recorded a moderate growth of 10.5 % or Rs. 50.3 billion to Rs. 531.0 billion in 2016, compared to a 16.1 % growth in 2015.

Overview
Management Discussion and Analysis
Corporate Stewardship
Financial Information
Supplementary Information



Non Performing Advances of the NBFIs Sector

Gross NPL(Left Axis)
Gross NPL Ratio(Right Axis)
Net NPL Ratio(Right Axis)



Provision Coverage of the NBFIs Sector

Total Provisions(Left Axis)
Total Provision Ratio(Right Axis)

Source: Central Bank of Sri Lanka

Major Economic Policy Changes and Measures in 2016 Affecting the Leasing Industry

Financial Sector	
18-Jan-16	Directions were issued to strengthen and streamline the existing policies and practices in respect of the opening of new branches and automated teller machines, closure and relocation of branches and other outlets of LFCs and SLCs.
28-Oct-16	The Direction on maximum interest rates on deposits and debt instruments that could be offered by LFCs was revised.
13-Jan-17	The Directions issued to LFCs and SLCs on LTV for credit facilities in respect of motor vehicles were revised in line with the Budget proposal for 2017.
23-Feb-17	The Direction to increase the minimum core capital for LFCs on a staggered basis were issued.

Monetary Sector	
19-Feb-16	The Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) were increased by 50 basis points to 6.50 % and 8.00 %, respectively.
28-Jul-16	The SDFR and SLFR were increased by 50 basis points to 7.00 % and 8.50 %, respectively.
24-Mar-17	The SDFR and SLFR were increased by 25 basis points to 7.25 % and 8.75 %, respectively.

Source: Central Bank of Sri Lanka

The NPL ratio showed a decline from 5.7 % in 2015 to 5.3 % in 2016. The increase of Rs. 5.6 billion in NPLs in 2016 was not significant compared to higher growth of the loan portfolio. The total loan loss provisions increased by Rs. 5.9 billion to Rs. 34.8 billion mainly due to an increase in the specific provisions made for NPLs with a delinquency period of more than 12 to 24 months. As a result, the net NPL ratio decreased to 1.2 % as at end of 2016 compared to 1.6 % in 2015 and the provision coverage increased to 65.7 % in 2016 compared to 61.0 % enabling a minimisation of potential default risk of the sector.

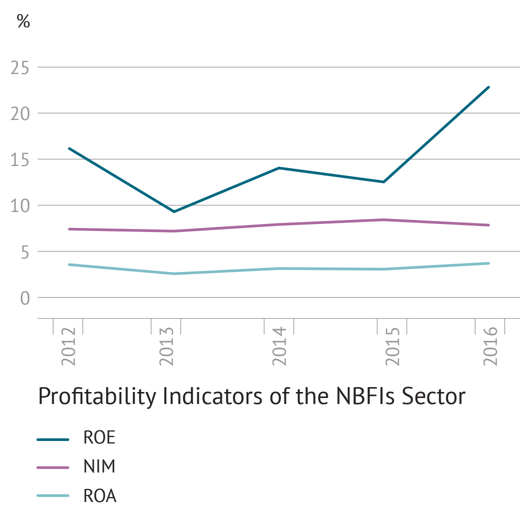
The excess liquidity in the LFCs/SLCs sector witnessed in the previous year continued to remain high during the year under review amidst increased lending activities of the sector. The overall statutory liquid assets available in the LFCs/SLCs sector were at a surplus of Rs. 15.4 billion by end 2016 compared to the stipulated minimum requirement of Rs. 74.7 billion. About 74.9 % liquid assets of the sector were in the form of government securities. The liquid assets to total assets ratio decreased marginally to 7.1 % from 7.6 % in 2015. Further, the liquid asset to deposits ratio was well above the statutory minimum of 10.0 % of time deposits and unsecured borrowings and 15.0 % of savings deposits.

Composition of Income and Expenses of NBFIs Sector

Item	2015 (a) Amount (Rs.Bn)	% *	2016 (b) Amount (Rs.Bn)	% *
Net Interest Income	82.2	8.7	92.1	7.9
Interest Income	150.4	15.9	188.9	16.1
Interest Expenses	68.2	7.2	96.8	8.3
Non Interest Income	22.8	2.4	28.3	2.4
Non-Interest Expense	67	7.1	65.6	5.6
Loan Loss Provisions (Net)	9.5	1	7.6	0.6
Profit before Tax	28.5	3	47.2	4
Profit after Tax	15.2	1.6	31.5	2.7

Source : Central Bank of Sri lanka - Annual Report 2016
(a) Revised
(b) Provisional

**as a percentage of average assets*



Profitability Indicators of the NBFIs Sector

Greater business expansion of the LFCs/SLCs sector in to new areas of lending during the year enabled the sector to post increased level of profits. Accordingly, the sector posted a profit after tax of Rs. 31.5 billion compared to that of Rs. 15.2 billion in 2015 reporting a more than two fold increase. Increased business volumes, improved other income and improved operational efficiency were the main contributory factors for increased profits. The net interest income of the sector increased at a slower rate of 12.0 % to Rs. 92.1 billion compared to 32.0 % increase in the previous year, mainly due to increased funding cost, while this affected the net interest margin of the sector negatively as it declined to 7.9 % from 8.7 % in 2015. The non-interest income recorded an increase in comparison to 2015 mainly on account of default and service charges, while the non-interest expenses decreased marginally leading to an improved efficiency ratio. The loan loss provisions made against NPLs was lower by Rs. 1.9 billion during 2016 when compared to Rs. 9.5 billion reported for 2015. The profitability indicators of the sector, ROA and ROE, increased to 4.0 % and 23.1 %, respectively, in 2016 compared to 3.0 % and 12.4 %, respectively, in 2015.

Composition of Regulatory Capital of the LFCs/SLCs Sector

	Amount(Rs.bn)		Composition(%)	
Item	**2015(a)**	**2016(b)**	**2015(a)**	**2016(b)**
Tier I: Core Capital	88.0	113.0	100.0	100.0
Issued and Paid - Up Ordinary Shares/Common Stock(Cash)	62.4	63.4	70.9	56.1
Non-cumilative, Non-redeemable preference Shares	0.1	0.1	0.1	0.1
Share Premium	0.2	0.6	0.2	0.5
Statutory Reserve Fund	12.3	15.6	14.0	13.8
General and Other Free Reserves	22.5	24.0	25.6	21.2
Other	-9.4	9.4	-10.7	8.3
Tier II: Supplementary Capital	14.7	14.1	100.0	100.0
Eligible Revaluation Reserves	2.1	2.3	14.4	16
General Provisions	0.1	0.4	0.8	2.5
Eligible Approved Unsecured Subordinated Term Debt	12.5	11.7	85.0	82.8
Other	0.0	-0.2	-0.3	-1.4
Regulatory Adjustments	-9.8	-10.9		
Total Regulatory Capital Base	92.9	116.2		

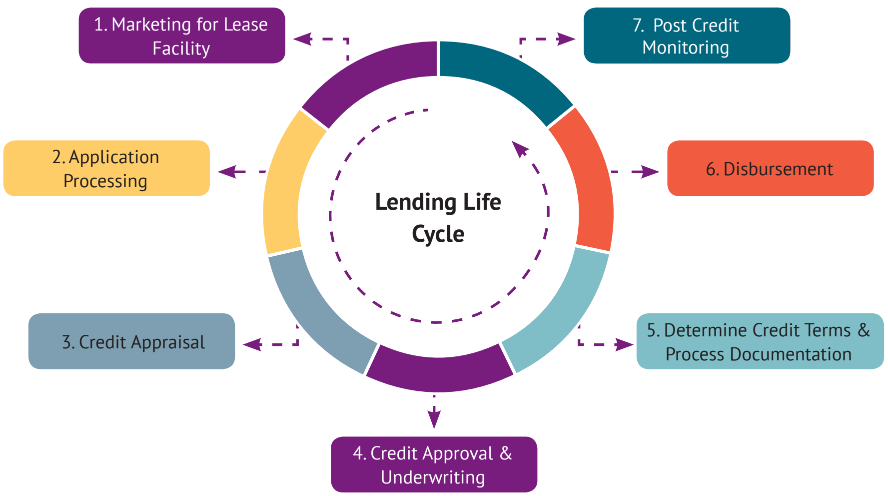
Source: Central Bank of Sri Lanka
(a) Revised
(b) Provisional

The total regulatory capital of the sector improved by 25.1 % to Rs. 116.2 billion mainly due to retained profits. The regulatory capital was composed of Tier I and Tier II capital of which, the Tier I capital contributed to 97.2 % of the total regulatory capital. The core capital and total risk weighted capital ratios of the sector increased to 11.4 and 11.7 %, respectively, as at end 2016 from 10.5 and 11.2 %, respectively, as at end of 2015. However, there were few companies operating below the minimum required capital levels due to weak financial position, requiring the Central Bank to adopt certain

OPERATING PERFORMANCE IN YEAR 2016/17

Credit Distribution and Centralised Approvals

The Credit approval cycle consists of a seven stage approach and Credit approvals and under-writings are centralised with a view to avoiding any critical assessment risks. The approval cycle would have to be reviewed and adjusted as the size and scope of operations expand in the near future. Specific risk factors are assessed from the point of view of client risk, asset risk, sector risk etc. The total review mechanism though takes a limited period of time as the Company has sufficient learning curve experience that helps it to assess individual credit applications quickly.



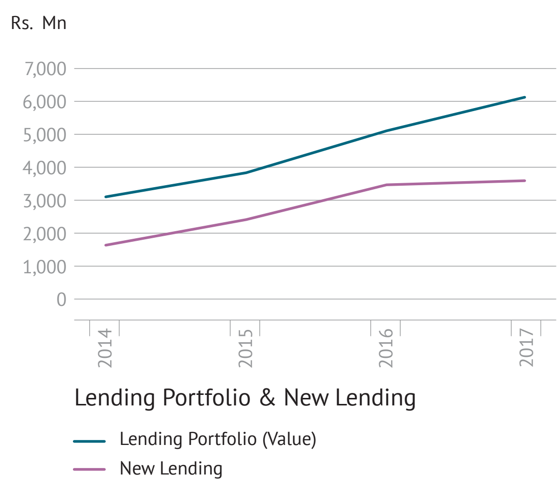
AFPLC performance during the year 2016/17

Product: Finance Lease, Other Loans and Advances

Finance Leases, and Other Loans and Advances were the main lending product lines distributed by the Company during the Financial Year 2016/17. In terms of new accommodations, the Company extended a total of Rs.3.6 Billion during the year 2016/17, an increase of 3% from the previous year's disbursements.

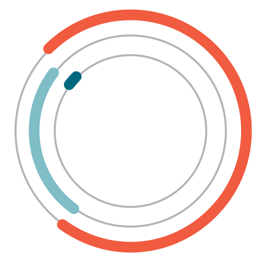
In comparison to the growth in new lending's disbursed during the previous year under review, credit disbursements for the current year was curbed mainly due to the regulation of the LTV values by the Central Bank of Sri Lanka.

The value of the Total Lending portfolio increased from Rs.5.1 Billion in 2015/16 to Rs.6.2 Billion in 2016/17, an increase of 21%.



Lending Portfolio & New Lending

From a risk management perspective the Company sought to have a wider distribution of advances both by the type of asset being financed as well as in achieving a sectoral distribution of advances that was not skewed to any particular sector or asset. A closer analysis of the lending portfolio outstanding as at end March 2017 reveals that from an 'asset type' classification (for Finance Leases, Other Loans and Advances) the Company advances portfolio is predominantly exposed towards 'motorbikes' and 'dual purpose vehicles' which as at end March 2017 accounted for 81.26% and 13.17% of the lending portfolio value respectively. From a sector wise classification the portfolio concentrations are predominant in the service sector (72.7% of total portfolio value)



Portfolio Outstanding as at 2017-03-31 Sector Analysis

Marketing Strategies for product Portfolio

Lease and Hire purchase

The Company reviewed its products against the Competitor offerings and considered the following as being vital when strategising its market offerings in relation to the competition.

1. Number of units leased / hired per month in terms of gaining supplier favouration
2. Service efficiencies
3. Number of Direct Branches / Customer Centres and KIOSKs
4. Nature of vendor relationships

5. Required down payment
6. Upfront charges collected
7. Effective Rate
8. Specialisation and knowledge of staff

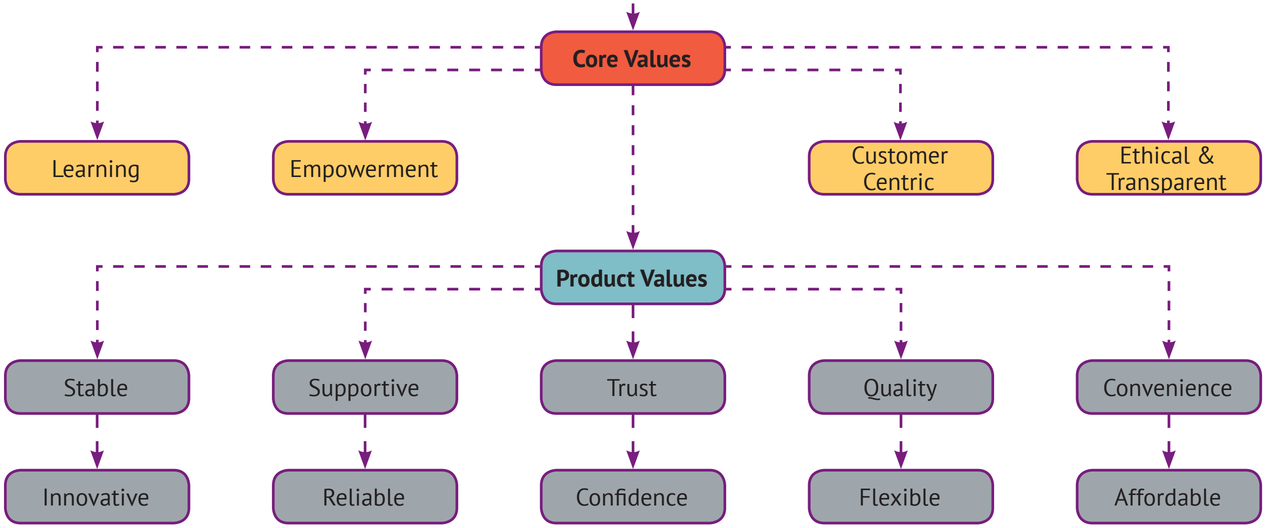
Brand Identification and Market Positioning Strategy

In terms of market presence, the Company has identified three broader categories of competition

- Specialised Leasing Companies
- Registered Finance Companies
- Licensed Commercial Banks involved in leasing

Each of these competitors have their own positioning values and frameworks which have been developed based on their relative strengths and inherited market competencies over a period of time. Among the different types of competitors, the Company brand image needs to be established by creating a unique presence in terms of the positioning strategy which will derive a competitive advantage to the Company. The principal brand values on which Company market image is to be communicated to the general market and to be positioned in the mind sets of the target audience to gain long term brand equity, have also been identified.

"Newly introduced Company Logo"



Competitive Landscape

Commercial banks have shown an increasing interest over the market segments which were hither to be served by Finance companies. This creates a competitive landscape for a more generic / common competition amongst market players of both banking and non-banking financial institutions.

The narrowing of interest spreads caused by competitive rivalry would lead to lower profitability amongst Licensed Finance Companies (LFCs). However, access to low cost financing, constant innovation in leasing products and effective promotions may provide a competitive advantage to capable LFCs who would be able to not only sustain but experience growth in their profitability. In addition, due to the narrow product line in the leasing portfolios, diversification may enable LFCs to increase their profitability.

Core competitive value propositions are shifting from the factor of interest rate in to certain other considerations such as service efficiency, reachability, convenience and brand recall extents amongst the competition. On the other hand, emerging changes in socio-economic factors tend to enhance the level of market demand for motor bikes , registered vehicles, permit vehicles and hybrid vehicles.

Channel Expansion & Branch Performance

In comparing the products offered by AFPLC with peers in the NBFI sector, it is worth noting that the breadth of AFPLC products is not that wide. Nevertheless AFPLC aims to increase its product breadth to include a wider range of asset/liability products. The following table provides a comparative of AFPLC products with some of the larger peers in the NBFI sector.

	Abans Finance	Other Large Peers
Leasing and Hire Purchase	■	■
Fixed Deposits/Savings	■	■
Loans/Advances/ Others	■	■
Currency Related Services		■
Micro Finance/ Development Financing		■
Real Estate	■	■
Islamic Finance		■
Pawning/Gold Loans		■
Factoring/Working Capital		■
Trade Finance		■
Margin Trading		■
Payment Card		■
Wealth Management		■
Debt Instruments		■

Delivery Channels

Delivery channels used by AFPLC are currently limited to Branches, Customer Centres & KIOSKs. Tabulated below are the delivery channel platforms used by AFPLC and its larger peers.

Company	Branches & Customer Centres	Mini/Micro Branches / KIOSKs	Mobile / Propaganda Vehicles	Tele Based	Electronic / Web Based	ATM
Abans Finance	■	■				
Other Large Peers	■	■	■	■	■	■

Place / Channel positioning is a critical success factor in the industry which will determine the success or the failure of the geographical expansion strategy of the Company. Therefore channel placement would be done on a solid rationale which can justify the channel choice made by the Company. Channel positioning generates a definite competitive edge for a financial institute since this affects the overall business model of the entity in terms of market penetration and customer convenience. Choice of channels will have to be made by considering both organisational aspects as well as customer aspects. Current distribution of the channel network of AFPLC can be summarised as follows

Channel Performance Analysis

Branch Analysis

Channel Location		Channel Category	Province	District	No of Staff	Age of Branch in Months
1	Colombo	Head Office	Western	Colombo	176*	145.83
2	Kurunegala	Branch	North Western	Kurunegala	10	109.53
3	Dambulla	Branch	Central	Matale	17	105.37
4	Badulla	Branch	Uva	Badulla	16	104.90
5	Anuradhapura	Branch	North Central	Anuradhapura	16	104.43
6	Galle	Branch	Southern	Galle	12	102.33
7	Gampaha	Branch	Western	Gampaha	12	92.53
8	Jaffna	Branch	Northern	Jaffna	10	80.77
9	Rathnapura	Branch	Sabaragamuwa	Rathnapura	10	79.00
10	Kandy	Branch	Central	Kandy	34	67.23
11	Kaduruwela	Customer Centre	North Central	Polonnaruwa	6	21.93
12	Embilipitiya	Customer Centre	Sabaragamuwa	Rathnapura	5	21.93
13	Ampara	Customer Centre	Eastern	Ampara	8	20.67
14	Batticaloa	Customer Centre	Eastern	Batticaloa	4	20.67
15	Puttalam	Customer Centre	North Western	Puttalam	5	20.67
16	Matara	Customer Centre	Southern	Matara	6	18.73
17	Thissamaharama	Customer Centre	Southern	Matara	4	18.73
18	Trincomalee	Customer Centre	Eastern	Trincomalee	6	17.17
19	Vavuniya	Customer Centre	Northern	Vavuniya	5	17.17
21	Kadawatha	KIOSK	Western	Gampaha	3	63.30
20	Ja-ela	KIOSK	Western	Gampaha	2	63.20
22	Moratuwa	KIOSK	Western	Colombo	3	62.30
23	Piliyandala	KIOSK	Western	Colombo	4	62.30

**Include Corporate and Back Office support functions*

The customer preference for a specific channel will primarily depend on factors favoured by the customer in terms of convenience and confidence. The Company has taken consideration of these factors in the future branch roll out plan. Currently, AFPLC has introduced KIOSKs in strategic locations across the country in order to serve a wider range of customers. AFPLC has also received beneficial synergy spillovers from the brand recognition strength of the parent Company (Abans PLC).

System Model of Abans Finance PLC

Information and Communication Technology

As the industry gets competitive day by day, the role of Information and Communication Technology plays a vital role in equipping operations and the staff in the Company to meet challenges. In recognition of this strategic role played by the Information Technology, the Company has extensively enhanced the Server Infrastructure. Improvements in the functionality and new features were brought into to the Management Information System in order to increase the performance and service levels. Branch infrastructure has been upgraded to improve the customer reach and service quality to cover all parts of the Island. We have also focused on improving the Security Policies in order to strengthen the Security and Controls on vital information assets. Enhancements have been carried out in the areas of Risk Management and Compliance as well. Few large projects are in the pipe-line at present in revamping the Core Information System and introducing Mobile Apps to further improve the service levels.

Hardware, Network Communication infrastructure

All information and business applications have been implemented in a centralised secured Data Centre and shared according to access levels of the users. During the last financial year the PABX system was upgraded to the latest solution and VPN has been upgraded to minimise interruptions at branch level.

FUTURE STRATEGIC OUTLOOK

SWOT analysis of Abans Finance PLC

Abans Finance PLC has identified its relative Strengths / Weaknesses / Opportunities and Threats against key competitors in the market and these identified factors will be used to position itself in the marketplace by focusing on the highest levels of operational efficiencies and synergies.

- Inherited strengths of the Company such as corporate brand, cross selling opportunities, service efficiency and flexibility need to be matched with the available market opportunities to generate the maximum output out of these strengths.

- Prevailing weaknesses of the Company such as high lending rates, limited approach to market segments and limited branch network needs to be mitigated and converted to strengths.

- Existing market opportunities such as opening of North & East provinces, general economic growth, expansion of certain economic sectors and influx of new vehicles, will have to be concentrated on and initiatives taken to capitalise on these aspects.

- Prevailing market threats / challenges such as high NPLs due to credit growth, competition leading to narrow margins, availability and growth of substitute products such as vehicle loans must be converted into opportunities since they are beyond the direct control of the business in practice.

Key Strategic Objectives

a) To gain a top of the mind recall in relevant target markets, such as the Hero motorbike market, by being amongst the most preferred brands in such categories.

b) To expand channel distribution in both physical and virtual forms with the purpose of enhancing customer convenience.

c) To become a diversified financial entity through fund based asset lending products in both short and medium term markets.

d) To achieve a higher Return on Assets, Return on Equity and Operational Efficiency levels above industry norms.

e) To maintain a quality lending book which will help to achieve a lower NPL ratio.

f) To deliver augmented returns to shareholders and to be a preferred entity to investors.

g) To deliver extra ordinary customer service through flexibility and service efficiencies over other leading competitors in the industry which will lead towards a market differentiation.

h) To generate maximum value additions to internal customers on both financial and non-financial terms by being a preferred employer in the labour market.

i) To deliver positive externalities to the business and social environment by being a socially responsible brand in the Market.

Entry into New Lines of Business (New Product Launches)

The diversification of services is not only expected to help the Company to reduce its reliance on one sector, but is also expected to help leverage on the significant opportunities of other sectors.

The strategy is to increase cross-selling opportunities and ensure client retention via increasing the diversity of the product range offered, by utilising synergies with Abans PLC and by becoming more assiduous in the deposit mobilisation process.

Expansion of Distribution Footprint

The Company intends to expand its operations by growing its branch network and expanding partnership with dealers and agents. It plans to establish additional branches to cover all potential areas in the country. The Company also intends to increase its operations in the northern and eastern provinces.

This initiative will help the firm to tap potential geographies and also contribute towards partly mitigating the risks emerging from increased competition.

Focus on Brand Building

AFPLC's focus on strengthening its own brand and image in the market is unquestionable. It recently completed twelve years in operation and is planning to launch a creative campaign, with the objective of emphasising and highlighting the attributes of reliability and trust.

Attracting Human Skills

Hiring talented individuals is critical to the Company's success. The Company aims to be more forward looking. We need to understand our future direction as well as the changes happening in the market. In this context, the Company would adopt more rigorous systems of identifying the talent that we would need in the future.

Leveraging Technology to Extend Reach and Control Costs

Since its inception, the Company has successfully used technology to gain a competitive advantage in view of intense competition in the sector. Over the next three years, the Company plans to concentrate its technological initiatives in key areas and make more use of business intelligence tools.

SWOT Analysis

Strengths

- Corporate Brand Equity
- Cross Selling Opportunities
- Service Efficiency
- Flexibility in Service
- Knowledgeable Staff

Weaknesses

- High Rates
- Limited Segments
- Limited Branches
- Limited Promotional Activities
- Limited Medium Term Funding
- NPL's

Opportunities

- North and East Provinces
- Economic Growth
- Expansion in Tourism
- Influx of New Vehicles
- Increasing awareness levels of the products in the market
- Abans Hero Network
- Penetration of Market via Existing Branches

Threats

- Competition from the existing market players (Commercial banks/ Finance companies)
- Substitute products
- Lower cost of funds enjoyed by Commercial banks

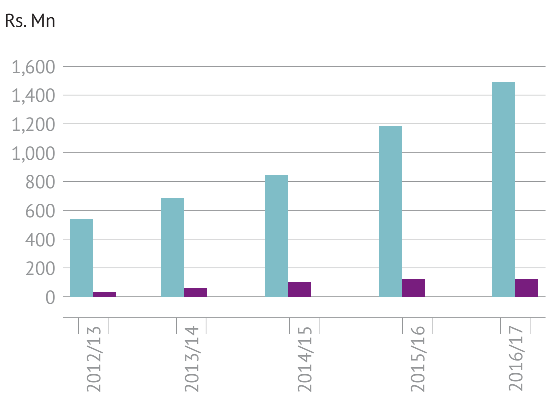
Focus on Maintaining Superior Asset Quality and High Profitability

The Company's strategy has revolved around maintaining superior asset quality and sustainable profitability through disciplined credit risk management.

FINANCIAL REVIEW

Total Gross Revenue

Total aggregate Gross Revenue increased from Rs. 1, 317million in 2015/16 to reach Rs. 1,620 million in 2016/17, an increase of 23.02 %. The components of gross revenue consist of items of income that are 'Interest Based' and 'Non Interest Based'.



Aggregate Gross Revenue

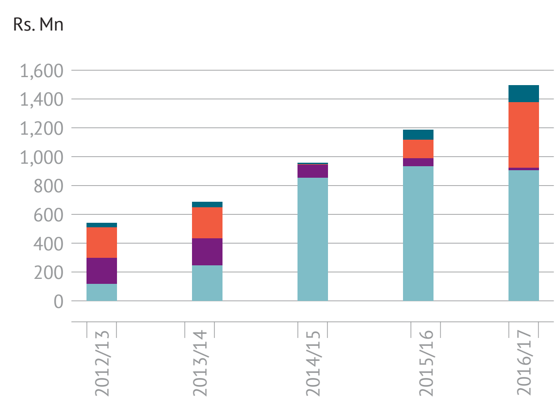
- Interest Based Income
- Non Interest Based Income

Interest Based items of revenue consists of Interest Income earned from Finance Leases, Hire Purchase, Loans and Advances and Interest earned from Investments in Government Securities and Term Deposit placed with Banks. Non Interest Based sources of Income consists of Fee and Commission Income, Net gain/ (loss) from Trading and Other Operating income. The growth in total revenue is mainly due to the growth in Interest based income streams.

Abans Finance PLC being a Licensed Finance Company derives most of its income from interest earned on its Finance Lease and Loan Portfolio. The year 2016/17 witnessed a significant growth in New Lending's and this translated itself to a significant portfolio growth. The proportion of Interest Income to Total Income was 92.23% in 2016/17 as against 90.29% in 2015/16.

Interest Income

Interest Income increased from Rs.1, 189 million in 2015/16 to reach Rs.1, 494 million in 2016/17, an increase of 25.68%. A closer look at Interest based income indicates that Interest earned on Loans and Advances increased by 246.72% during 2016/17. Interest Income on Other Financial asset increased by 69.03% which includes interest income from Investments on Held to Maturity Financial Assets and Placements with Banks.

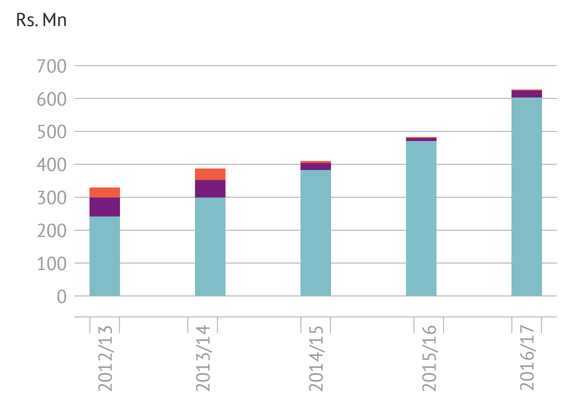


Interest Income Components

- Finance Leases
- Hire Purchases
- Loans and Advances
- Other Financial Assets

Interest Expenses

Interest Expenses increased from Rs. 481.2million in 2015/16 to reach Rs. 623.6 million in 2016/17, an increase of 29.6%. The increase in interest costs is attributed to an increase in borrowings required to fund the demand for loanable funds. The components of Interest costs indicate that Interest Expense Due to Deposit Customers accounted for 97.1 % of Total Interest Cost for 2016/17 (98.0 % in 2015/16).

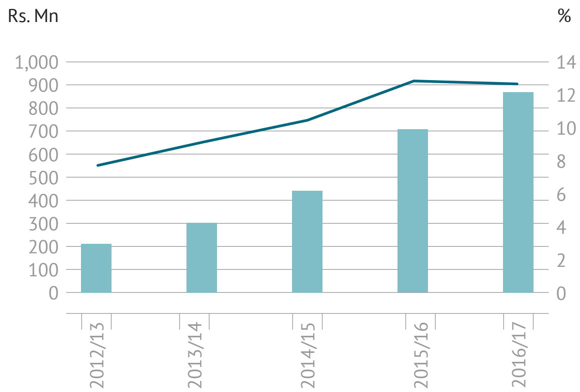


Interest Expenses

- Due to customers
- Due to banks
- Debt Instrument and others

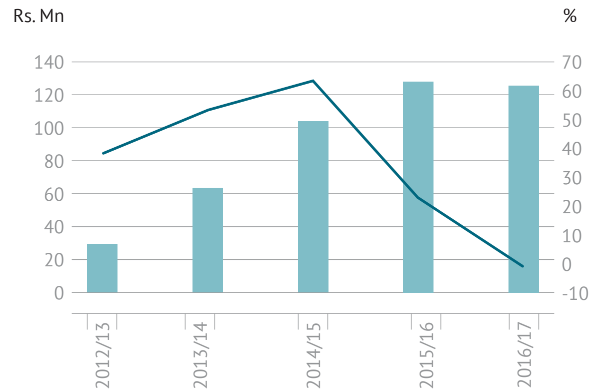
Net Interest Income / Net Interest Margin

Net Interest Income increased from Rs. 708.05 million in 2015/16 to reach Rs. 871.03 million in 2016/17, an increase of 23.02 %. It is interesting to note that the increase in Interest Cost outpaced the increase in Interest Income, resulting in a marginal decline in Net Interest Margins (NIM). The NIM settled at 12.78% as at end March 2017, a decline from the achieved NIM of 12.96% in 2015/16.



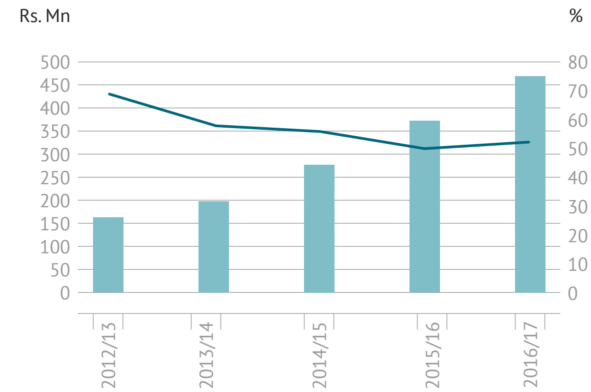
Net Interest Income (Rs. Mn) &
Net Interest Margin (%)

Net Interest Income
Net Interest Margin



Fee Based Income (Rs. Mn) &
Growth Rate (%)

Non Interest Based Income
Growth



Operational Expenses (Rs. Mn) &
Cost to income Ratio (%)

Total Operating Cost
Cost to Income Ratio

Fee Based Income

Fee Based or Non Interest Based Income declined from Rs. 127.9 million as at end 2015/16 to Rs. 125.8 million as at March 2017, a decrease of 1.66%.

Cost to Income Ratio

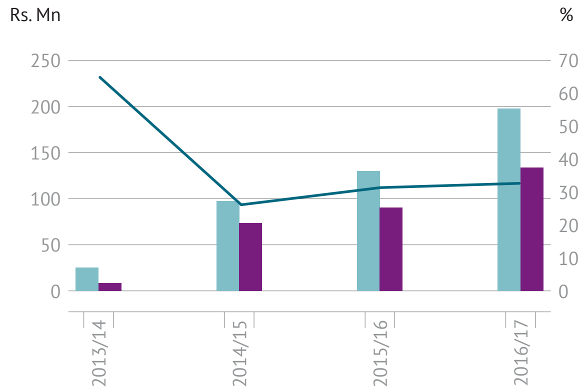
The Cost to Income ratio increased marginally to 51.53% during the year under review in comparison to a ratio of 49.08% in the year 2015/16. Increases in operational costs was 26.14%. (2015/16=33.72%).

Personnel Cost increased from Rs.166.92 million in 2015/16 to Rs. 217.08 million in 2016/17, an increase of 20.06% and Other Operating Expenses increased from Rs.192.79 million in 2015/16 to Rs.234.28 million in 2016/17, an increase of 21.52%.

Pre Tax Profits (PBT), Effective Tax Rate (ETR) and Post Tax Profits (PAT)

The Company attained a Net Profit before taxation of Rs.197.4 million as against a figure of Rs. 130.4 million achieved in 2015/16. The increase in pre tax profits was 51.29 % when compared with the previous year. The provision for taxation was Rs.63.8 million for the year under review thereby reducing the Profits After Taxation to Rs.133.6 million for the financial year 2016/17. The Profits After Taxation reported for the previous year was Rs. 90.1 million. The increase in Post tax profits was 48.2% for 2016/17. Based on the taxation charge made in the accounts the Effective Tax Rate of the Company was 32% for 2016/17 as against 31% for financial year 2015/16.

Management Discussion and Analysis *Contd.*

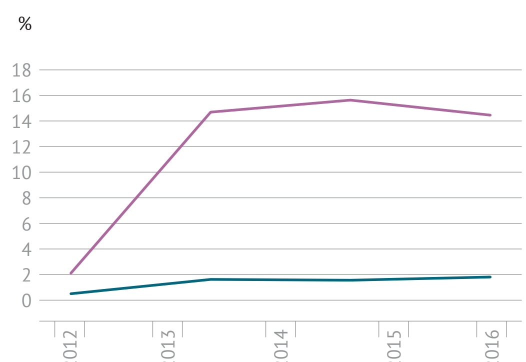


PBT, PAT & Effective Tax Rate

PBT
PAT
Effective Tax Rate

Return on Average Total Assets (ROTA), and Return on Average Equity (ROAE)

The key financial metrics of ROTA and ROAE achieved for 2016/17 were 1.96% (2015/16 =1.65%) and 14.64% (2015/16 = 15.82%) respectively.



ROTA & ROAE

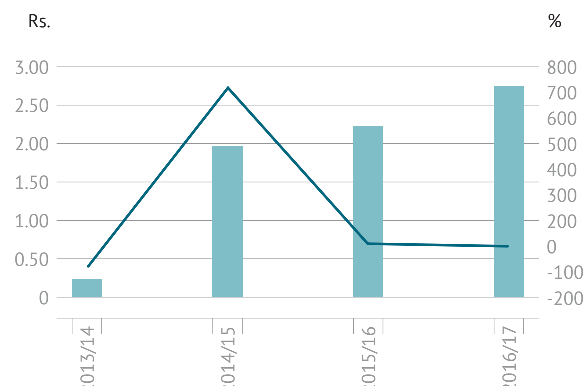
ROTA
ROAE

Earnings Per Share (EPS) and Distribution of Dividends

The EPS for 2016/17 was Rs.2.75 per ordinary share in issue, an increase from the EPS of Rs.2.29 reported in 2015/16.

The Board of Directors has recommended a final dividend of Rs. 0.20 per share on 66,561,573 shares currently in issue. The dividend pay out ratio for 2016/17 would thus amount to 7.27% and the dividend cover is at 10.03 times.

As required by section 56(2) of the Companies Act No. 7 of 2007, the Directors have made an assessment of the Solvency of the Company, immediately after the proposed dividends and confirm that the Company satisfies the Solvency Test required by the Section 57 of Companies Act No. 07 of 2007. The Company has obtained a Certificate of Solvency from External Auditors M/S Ernst & Young.

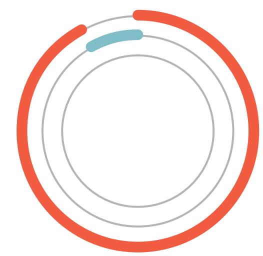


Earnings Per Share

EPS
Growth

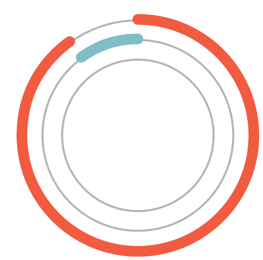
Sources and Distribution of Income

Interest Income represented 92.23% of Total Income for the year 2016/17 as against 90.29% for the year ended 31 March 2016. In terms of distribution of income, interest costs absorbed 38.48% of Total Income (2015/16= 36.53%) and 32.53% of aggregate income was distributed among other suppliers. (2015/16= 38.6%)



Interest Income 92.2%
Other Income 7.8%

Sources of Income-2016/2017

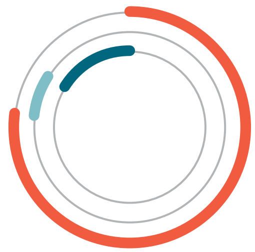


Interest Income 90.3%
Other Income 9.7%

Sources of Income-2015/2016

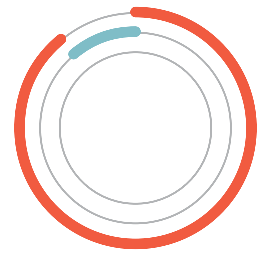
To Employees as Emoluments	12.6%
To Lenders as Interest	36.5%
To Suppliers	38.6%
To Government as Taxes	5.4%
Retained with in the Business	6.8%

Distribution of Income- 2015/2016



Interest Paying Liabilities	77.0%
Non Interest Paying Liabilities	6.8%
Shareholders Fund	16.2%

Sources of Funds-2016/2017

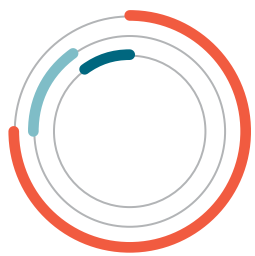


Interest Earning Assets	89.5%
Non Interest Earning Assets	10.5%

Uses of Funds-2016/2017

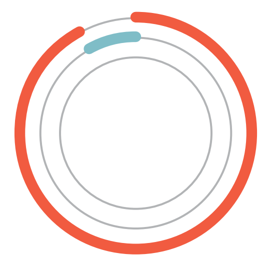
To Employees as Emoluments	13.4%
To Lenders as Interest	38.5%
To Suppliers	32.5%
To Government as Taxes	7.4%
Retained with in the Business	8.2%

Distribution of Income- 2016/2017



Interest Paying Liabilities	75.1%
Non Interest Paying Liabilities	14.9%
Shareholders Fund	10.0%

Sources of Funds-2015/2016



Interest Earning Assets	92.1%
Non Interest Earning Assets	7.9%

Uses of Funds-2015/2016

Sources and Uses of Funds

Interest paying liabilities accounted for 77.00% of funding sources for the year 2016/17, (2015/16=75.10%). Earning assets on the other hand accounted for 89.49% of funding uses as at 31st March 2017 (31st March 2016=92.06%).

STAKEHOLDER ANALYSIS

Stakeholders are defined as entities who can influence the implementation of strategies of the Company in order to achieve Company's objectives. Identification and timely engagement of stakeholders is most important to the Company since key stakeholders contribute significantly towards the value creation of the organisation.

Stakeholder and rationale for selection	Sustainable Business Objective	Engagement Mechanism	Frequency of Engagement	Our Responses / Achievements
Investors Contributors of capital and entrepreneurship	Balancing profitability and sustainable growth	Annual General Meeting	Annually	Return on Investment
	To deliver returns on investment by strengthening governance to support future growth momentum	Extra Ordinary General Meeting	Whenever necessary	Development of Shareholder communication
		Official Website	Regularly	
	To establish strong internal processes and policies	Annual Reports	Annually	Continuity
Customers Continuous Engagement	Customer complaint handling	Official Website	Regularly	Promotional Campaign
	Quality customer service	Customer complain handling mechanism	Regularly	Customer care service
	Handling customer complaints	Feedback from customers	Regularly	Customer care service
Employees Development of the Employee	Career Development	Annual Get together	Annually	Organised periodically
	Work Life Balance	Training Procedures	Monthly	Continuous Training
	Promotions and Job Opportunities	Department Head involvement with the employees	Monthly	
Regulators Managing the Business Environment	Ensure compliance on relevance rules and regulations	Discussion with the regulators to ensure compliance	Periodically	Achieving relevant regulatory deadlines on reporting date
Suppliers Being a direct and indirect source of environmental and social value creation	Balance cost considerations with sustainable procurement practices	Interaction supported by the purchasing policy	Regularly	Obtaining feedback from Suppliers
	Business Practices	Supplier visits	Regularly	Meeting with suppliers on a regular basis

EXTERNAL CAPITAL FORMATION

External sources of capital comprise of Investor Capital, Customer Capital, Employee Capital, Social Capital and Environmental Capital that are generated through external relationships with stakeholders and commercial partnering with our customers. These are the sources of the capital that the Company are used to deliver value to its key stakeholders.

Investor Capital

The return generated by the Company by using its Investors' Funds with a view to maximising and delivering value.

Market Capitalisation

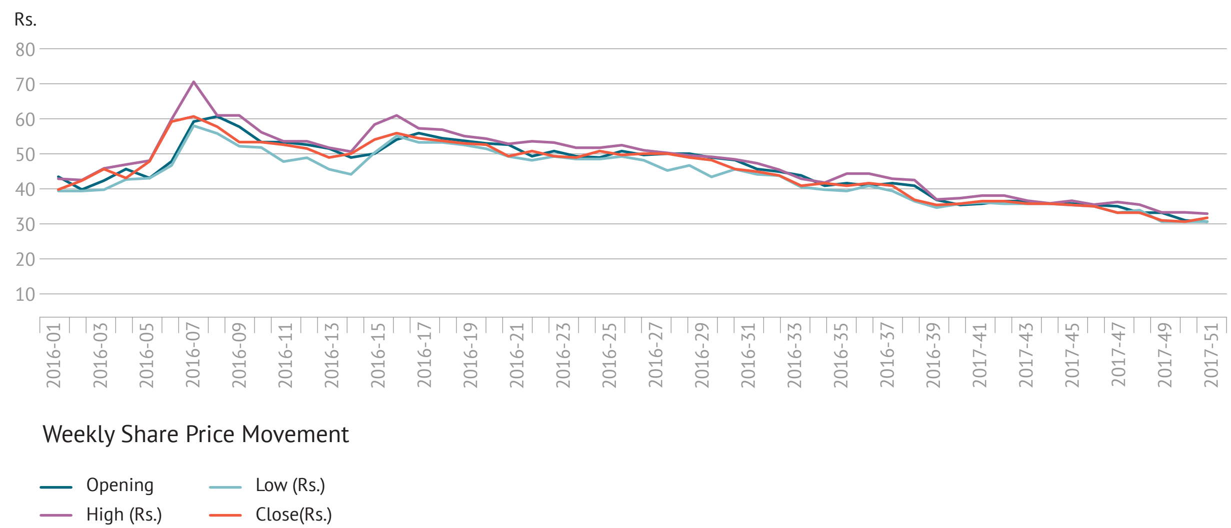
The Stated Capital of the Company as at the end of the year under review was Rs.844.07 million. This capital was accumulated and increased by way of a right issue of Rs.185 million (7.4 million No. of shares) and a Private Placement of Rs.276.6 million (11.06 million No. of shares) made during the year. The market capitalisation and share price of the Company as at 31st March 2017 was Rs.1, 336 million and Rs.24.10 respectively. Further the Company continued to be listed on the Diri Savi Board of the Colombo Stock Exchange from the year 2011 onwards.

Market Price of the Shares

According to the Colombo Stock Exchange, the Company recorded a highest market price of Rs.69.90 and a lowest of Rs.23.00 during the financial year of 2016/2017. The changes of market price in comparison to the previous year are given below.

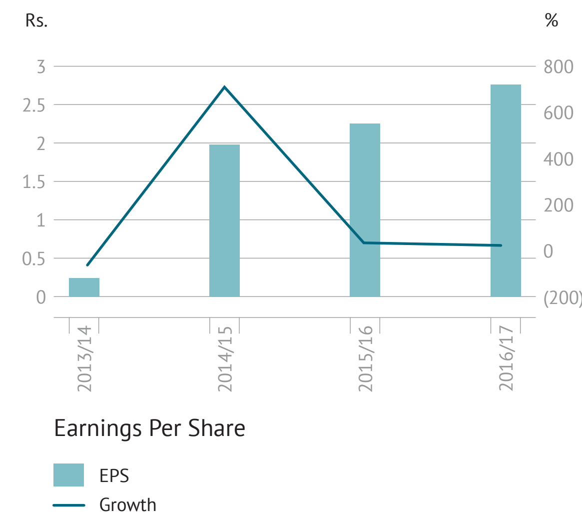
Market Price	2016/17 Rs.	2015/16 Rs.
Highest	69.90	47.80
Lowest	23.00	25.00
Price as at 31 March (Rs.)	24.10	38.20

Weekly movement of Abans Finance PLC share price during the year.



Earnings

The Basic Earnings per Share (EPS) of Rs.2.75 has been achieved by the Company during the year and is 20.1% higher than the previous year Basic Earnings per Share of Rs.2.29.



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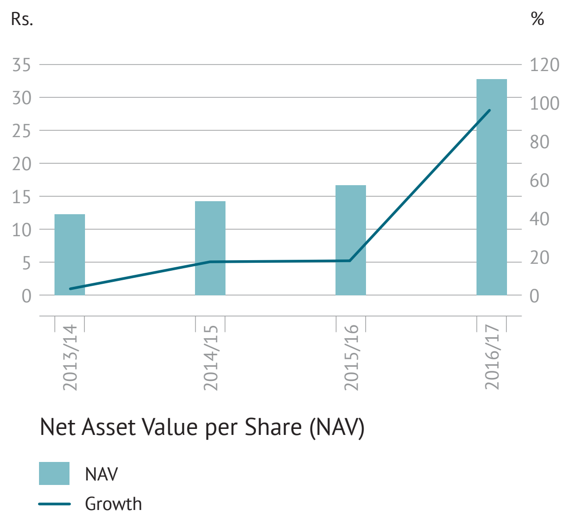
Net Assets Value per Share (NAV)

The Company has achieved a 97% growth in Net Assets during the year from Rs. 614.5 million in 2015/16 to Rs. 1,210.3 million 2016/17. The Net Assets Per Share reached the mark of Rs.32.70 as at 31 March 2017.



Public Shareholding

The Percentage of share held by the public as at 31st March 2017 was 8.1%. The number of public shareholders stood at 801 as at 31st March 2017.

Distribution of Shareholding

No. of shares held	As at 31 March 2017				As at 31 March 2016			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No.	%	No.	%	No.	%	No.	%
1-1000	631	78.39	114,633	0.21	556	81.76	95,121	0.26
1001-5000	116	14.41	288,309	0.52	75	11.03	200,833	0.54
5001-10000	20	2.48	152,845	0.28	15	2.21	121,338	0.33
10,001-50,000	22	2.73	427,014	0.77	19	2.79	386,581	1.04
50,001-100,000	3	0.37	201,583	0.36	6	0.88	527,779	1.43
100,000-500,000	9	1.12	2,066,051	3.72	7	1.03	2,010,342	5.43
500,001-1,000,000	2	0.25	1,432,031	2.58	1	0.15	633,000	1.71
over 1,000,000	2	0.25	50,785,512	91.56	1	0.15	33,025,006	89.26
Total	**805**	**100.00**	**55,467,978**	**100.00**	**680**	**100.00**	**37,000,000**	**100.00**

Individual/Institutional Shareholding

No. of Shares Held	As at 31 March 2017				As at 31 March 2016			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No.	%	No.	%	No.	%	No.	%
Individual	776	96.40	3,540,015	6.38	649	95.44	3,440,327	9.30
Institutional	29	3.60	51,927,963	93.62	31	4.56	33,559,673	90.70
Total	**805**	**100.00**	**55,467,978**	**100.00**	**680**	**100**	**37,000,000**	**100.00**

Resident and Non Resident Shareholding

No. of Shares Held	As at 31 March 2017				As at 31 March 2016			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No.	%	No.	%	No.	%	No.	%
Resident	802	99.63	55,457,642	99.98	678	99.71	36,989,800	99.97
Non Resident	3	0.37	10,336	0.02	2	0.29	10,200	0.03
Total	**805**	**100.00**	**55,467,978**	**100.00**	**680**	**100.00**	**37,000,000**	**100.00**

Director's and Chief Executive Officer's Shareholding

Name of the Director	31 March 2017		Name of the Director	31 March 2016	
	No. of Shares	%		No. of Shares	%
Mr. R Pestonjee	183,884*	0.33	Mr. R Pestonjee	153,237***	0.41
Mr. K B Wanigasekara	NIL	NIL	Mr. C D Pathirana	NIL	NIL
Mr. V K Choksy	NIL	NIL	Mr. K B Wanigasekara	NIL	NIL
Mr. A S Ratnayake	NIL	NIL	Mr. V K Choksy	NIL	NIL
Mr. Mayank Pravin Parekh	NIL	NIL	Mr. A S Ratnayake	NIL	NIL
Mr. C H A W Wickramasuriya**	NIL	NIL			
Mr. R A Nanayakkara	NIL	NIL			

* This includes 24,000 shares held jointly with Miss J E S Fernando
** Alternate Director to Mr. Mayank Pravin Parekh
*** This includes 20,000 shares held jointly

Twenty Major Shareholders of the Company

Name of the Shareholder	31 March 2017		Name of the Shareholder	31 March 2016	
	No. of Shares	(%)		No. of Shares	(%)
Abans PLC	39,717,534	71.60	Abans PLC	33,025,006	89.26
Ironwood Investment Holding (Pvt) Limited	11,067,978	19.95	Mr. P N Pestonjee	633,000	1.71
Mr. P N Pestonjee	759,600	1.37	Mr. K Kunenthiran	419,671	1.13
Able Investments (Pvt) Limited	672,431	1.21	Mr. P K Pestonjee	370,100	1.00
Mr. K Kunenthiran	389,014	0.70	Mrs. H G S Chandrakanthi	370,000	1.00
Mrs. C V Sumanadasa	370,000	0.67	Mrs. C V Sumanadasa	370,000	1.00
Mrs. S C Henagama Gamage	370,000	0.67	Mr. B Pestonjee	214,000	0.58
Mr. B Pestonjee	256,800	0.46	Mr. R Pestonjee**	153,237	0.41
Mr. R Pestonjee*	183,884	0.33	Mrs. S Dubash	133,334	0.36
Mrs. S Dubash	160,353	0.29	A B Cold Storage (Pvt) Ltd	100,000	0.27
A B Cold Storage (Pvt) Ltd	120,000	0.22	AB Securitas (Pvt) Ltd	100,000	0.27
Cleantech (Pvt) Ltd	120,000	0.22	Cleantech (Pvt) Ltd	100000	0.27
AB Securitas (Pvt) Ltd	120,000	0.22	TKS Finance Ltd/ K Jayakodi	94,512	0.26
Mr. J S A Perera & Mrs. R N Perera	68,316	0.12	Mrs. A Pestonjee	66,667	0.18

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Name of the Shareholder	31 March 2017		Name of the Shareholder	31 March 2016	
	No. of Shares	(%)		No. of Shares	(%)
Mrs. A Pestonjee	66,667	0.12	Mrs. H I Salgado	66,600	0.18
Mrs. H I Salgado	66,600	0.12	TKS Finance Ltd/S T Selvi	40,640	0.11
Mr. G C Goonetilleke	48,105	0.09	Mr. G C Goonetilleke	40,000	0.11
Nation Lanka Capital Ltd/K L G Uday	32,300	0.06	TKS Finance Ltd/L S Vithya	28,951	0.08
Miss. M F F Safina	30,624	0.06	Mr. K Poologasundram	25,000	0.07
Mr. R E Rambukwella	30,517	0.06	Mrs. W G S D Chandrathilaka	21,710	0.06
	54,650,723	98.53		36,372,428	98.30
OTHERS	817,255	1.47	**OTHERS**	627,572	1.70
TOTAL	55,467,978	100.00	**TOTAL**	37,000,000	100.00

* This includes 24,000 shares held jointly with Miss J E S Fernando.
** This includes 20,000 shares held jointly.

Communication with Shareholders

Annual General Meeting (AGM) and Extra Ordinary General Meeting (EGM) are used as the forum to communicate with the shareholders. All shareholders have access to the Annual Report that contains Financial Statements and to other information about the Company, through the Company website, www.abansfinance.lk . Further the Company informs the Colombo Stock Exchange to update the corporate disclosures and other price sensitive information of the Company in their website.

Compliance report in terms of section 7.6 – Contents of the Annual Report in terms of the Listing Rules of the Colombo Stock Exchange.

The table below summarises the Company's degree of compliance with section 7.6 of the Listing Rules issued by the Colombo Stock Exchange.

Rule No.	Disclosure Requirements	Section Reference	Page No.
7.6 (i)	Names of persons who during the financial year were Directors of the Entity.	Report of the Board of Directors.	89
7.6 (ii)	Principal activities of the entity and its subsidiaries during the year and any changes therein.	The Company does not have any subsidiary. Refer Notes to the Financial Statements (Note 1.2)	103
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non- voting share and the percentage of such shares held.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	29 - 30
7.6 (iv)	The Public Holding percentage.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	28
7.6 (v)	A Statement of each Director's holding and Chief Executive Officer's holding in shares of the Entity at the beginning and end of the financial year.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	29
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Risk Management Report.	74
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	Management Discussion and Analysis – External Capital Formation – Employee Capital, Social and Environmental Capital.	34 - 36
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity's land holdings and investment properties.	Management Discussion and Analysis – External Capital Formation- Investor Capital	31
7.6 (ix)	Number of shares representing the Entity's Stated Capital.	Notes to the Financial Statements -Note 35	135
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	28 - 29

Rule No.	Disclosure Requirements	Section Reference	Page No.
7.6 (xi)	Ratios and Market Price Information		
	- Dividend per Share	Company has declared Rs.0.20 per share as final dividend for the year under review subject to approval of the shareholders- Report of the Board of the Directors -Events Occurring after the Reporting Date.	92
	- Dividend Pay Out	Management Discussion and Analysis - Financial Review - Earnings Per Share (EPS) and Distribution of Dividends	24
	- Net Asset Value per Share	Management Discussion and Analysis – External Capital Formation – Investor Capital.	27 - 28
	- Market Value Per Share		
7.6 (xii)	Significant changes in the Entity's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Not Applicable	N/A
7.6 (xiii)	Details of funds raised through Public Issues, Right Issues and Private Placement during the year.	Report of the Board of Directors - Equity and Reserve & Issue of Ordinary Shares during the Financial Year.	87 - 88
7.6 (xiv)	Information in respect of Employee Share Ownership or Stock Option Scheme	The Company does not have an Employee Share Option / Purchase Scheme.	N/A
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6.c of section 7 of the Rules.	Corporate Governance Report (Section – Two and Three) and this report satisfies the requirements .	30 - 31 & 56 - 67
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the Total Assets whichever is lower.	Note No. 46 to the Financial Statements and "Directors' interests in contracts and Related Party Transactions" under Report of the Board of the Directors discloses the transactions with related parties.	90 - 91 & 157 - 158

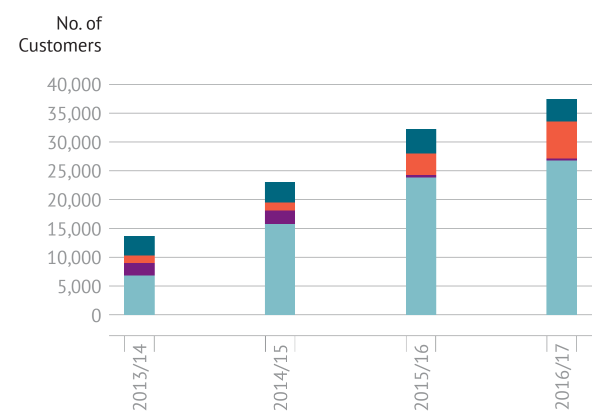
Details of Free Hold Land as at 31st March 2017

Location	Avissawella Road, Galwana- Mulleriyawa
Land Extent	81p
Cost (Rs.)	28,094,075
Valuation (Rs.)	35,000,000

Valuation of freehold land of the Company was carried out as at 31st March 2017 by R T K Sirisena, AIV (Sri Lanka) using Market Comparable Method.

Customer Capital

The Company's Principal Activities of business includes Lending and acceptance of Deposits. Lending includes Finance Leases, Hire Purchase, Mortgage Loans, Revolving Loans, Business Loans and Personal Loans. In this regard the Company also offers tailor - made financial solutions which are of high quality that satisfy the needs of our customers. Further Deposits from customers includes Fixed and Savings Deposits.



Composition of Customer Base

Product Portfolio

Finance Leasing and Hire Purchase

The Company also provides special packages with flexible payment schemes to suit the customer requirements which include, Finance Leases for brand-new and reconditioned Motor Vehicles and Plant and Machinery.

4WHEELER LEASING
Set your dreams in motion

MOTORBIKE LEASING
Experience Freedom

Hero Leasing

Abans Finance has been able to penetrate the market for two wheelers from the time of the introduction of the Hero motorcycle credit product. The Company is confident that with the additional features designed for the leasing product and the utilisation of Hero Two Wheeler Network of the Abans Group, it can further strengthen the product performance significantly in the future.

Finance Leasing

A Finance Lease is a contractual agreement where the owner (Lessor) of the equipment / asset, transfers the right to use the equipment/ asset to the user (Lessee) for an agreed period of time in return for a periodic rental. The entire Risks incidental to the usage of the asset is transferred to the Lessee, who has to bear the cost of insurance, maintenance and repairs. The Lessor agrees to transfer the title of the equipment/asset to the Lessee at the end of the lease Period, once all rentals are paid.

Deposits

The Company promotes Fixed and Saving Deposits as its major funding source. Upward movement in interest rates in line with increased policy rates have made a significant impact in the deposit base. The Company had re-priced interest rates on its deposits on several occasions during the year under review, to remain competitive in the market.

FixedDeposits
Let your money work for you

Savings
Maximum savings, minimum effort

Loans

Loans

The Company has a wide range of loan products to cater to various customer needs. The loan portfolio consists of,

- Personal Loans
- Mortgage Loans
- Real Estate Loans
- Revolving Loans
- Business Loans

Personal Loans

Personal Loans are focused on Individuals who are in need of financial support for their personal needs. This is a specific predetermined market segment that the Company caters.

Personal Loans
There for you, when you need it

Revolving Loans

A flexible loan scheme provided on the security of property where the borrower has the option to make capital repayments on a staggered basis where as the interest is paid on a regular basis. The borrower also has the option to obtain additional funds as and when capital repayments are made on the facility.

Business Loans

Business Loans are granted to Individuals with Business Registration or Business Entities within a specific per-determined market segment to meet the financial requirements with particular attention to operational cash flow needs.

Employee Capital

Our employees are our most valuable asset and we have cultivated an open door culture in the organisation. We strive to develop and nurture a healthy inclusive culture that can inspire our people to learn and grow. Today's challenging business environment and increased complexity require us to take a proactive approach in order to derive a dynamic, people-driven organisation and we believe that by respecting, caring for and nurturing each and every one of our employees, we are helping them to become ambassadors of progress for the future of Abans Finance PLC.

We focus on recruiting the right people for the right job and our talent management strategies are geared to ensure that people with right skills and capabilities play the right roles. We are passionate about our employees and we continue to follow policies and practices that are in strict conformity with all relevant labour statutes.

We believe a sound HR framework will keep pace with the growing sophistication of Sri Lanka's financial system and address the challenges arising from the business evolution.

Rewards & Recognition

Employees are the most valued asset of our Company, and we are determined to retain a strong and committed team at all times. We have made sure that our benefit structure provides market competitive pay and rewards in order to motivate and retain the best people in our team.

Performance evaluations are carried out annually and all incentives and rewards are determined on performance merits ascertained during the evaluation.

The Company contributes to the Employees' Provident Fund (EPF) and Employees Trust Fund (ETF) as per the Act No 15 of 1958 and Act No 16 of 1980 along with the subsequent amendments respectively. Abans Finance contributes 3% to ETF and 12% to EPF whilst employees' contribute 8% to EPF.

Permanent employees who have completed five years of service are eligible for the gratuity payment as per the Gratuity Act No 12 of 1983. They are entitled to a half month basic salary for each completed year of service.

Furthermore, a comprehensive review of the benefit structure is also carried out by the HR division to assess the need for improvements, if any, in line with current market expectations.

We have made efforts to refine the benefit structure and the following benefits are enjoyed by our employees.

Benefits	Permanent Employees
Salary Increments	√
Staff Loans at concessionary rates	√
Medical Insurance	√
Study Leave	√

Training & Development

Training and development is a vital part of the Human Resource development process. We deploy targeted people strategies aimed at motivating and retaining people by providing compelling opportunities for both personal and professional development on formal job specific training.

A training need analysis is conducted annually, based on the annual performance appraisal and developments at Abans Finance and the financial services sector. The training plan for the year facilitates in house training as well as external training programmes.

In-house training includes induction training and training sessions carried out by our own staff. We make use of the experience and expertise of our team members for these programmes.

External training includes programmes carried out by the accredited professional institutions to expose employees to best practices.

Providing a fully fledged work environment

Human Rights

We are committed to maintain a working environment which is safe and comfortable to work in. We remain dedicated to respect the human rights of each and every employee on our team as well as all our business operations to achieve this. Our non-discriminatory approach prevents us from discriminating against any employee based on their race, colour, religion, gender, sexual orientation or any other status protected by law.

Diversity and Inclusion

We believe that a diversified workforce enables us to better understand the local cultures, business opportunities and client needs. We therefore strive to promote diversity at all levels in our organisation in an effort to generate value for all stakeholders of our business including employees, customers, communities and shareholders.

Building a sense of community

At Abans Finance employee engagement initiatives are intended to encourage our staff to participate in non-work related activities such as sports, community service and soft skills development while giving them an opportunity to interact socially with their colleagues.
During the year under review, Abans Finance continued to promote participation of employees in sports and other activities that include;

- The Annual Christmas Party
- The Finance House Associations Sports Day

Workforce

Workforce -Type of Employment and Gender

Type of Employment	Male	Female	Total
Permanent	144	121	259
Probationers	65	26	107
Contract	5	0	7
Total	**214**	**147**	**373**

Workforce – Age and Gender

Age Group	Male	Female	Total
Below 21 years	6	5	11
21-30 years	136	117	253
31-40 years	47	22	69
41-50 years	22	3	25
Above 51 years	12	3	15
Total	**223**	**150**	**373**

Workforce – Region and Gender

Region	Male	Female	Total
Central	32	22	54
Eastern	20	7	27
North Central	19	5	24
North Western	13	6	19
Northern	10	5	15
Sabaragamuwa	9	6	15
Southern	17	6	23
Uva	10	3	13
Western	93	90	183
Total	**223**	**150**	**373**

New Recruits – 2016/17

New Recruits – Age & Gender

Age Group	Male	Female	Total
Below 21 years	5	6	11
21-30 years	48	33	81
31-40 years	16	1	17
41-50 years	4	0	4
Above 51 years	3	0	3
Total	**76**	**40**	**116**
Percentage	66%	34%	100%

New Recruits – Grade & Gender

Age Group	Male	Female	Total
Senior Management	3	0	3
Management	14	1	15
Executive	20	19	39
Trainee Executive	35	19	54
Other	4	1	5
Total	**76**	**40**	**116**
Percentage	**66%**	**34%**	**100%**

Turnover 2016/17

Turnover - Age & Gender

Age Group	Male	Female	Total
Below 21 years	1	0	1
21-30 years	28	17	45
31-40 years	6	5	11
41-50 years	0	0	0
Above 51 years	3	0	3
Total	**38**	**22**	**60**
Percentage	**63%**	**37%**	**100%**

Turnover – Grade & Gender

Age Group	Male	Female	Total
Senior Management	1	0	1
Management	1	1	2
Executive	23	16	39
Trainee Executive	8	4	12
Other	5	1	6
Total	**38**	**22**	**60**
Percentage	**63%**	**37%**	**100%**

Social & Environmental Capital

The Company operates within its social internal environment that simply includes: customs, beliefs, practices and behaviours within the confines of the environment. The organisational values of Abans Finance PLC ensure that they always encourage their customers and employees through community development that contribute to the society and its environment.

The Company further focuses on improving it by engaging in different CSR activities.

WORK PLACE

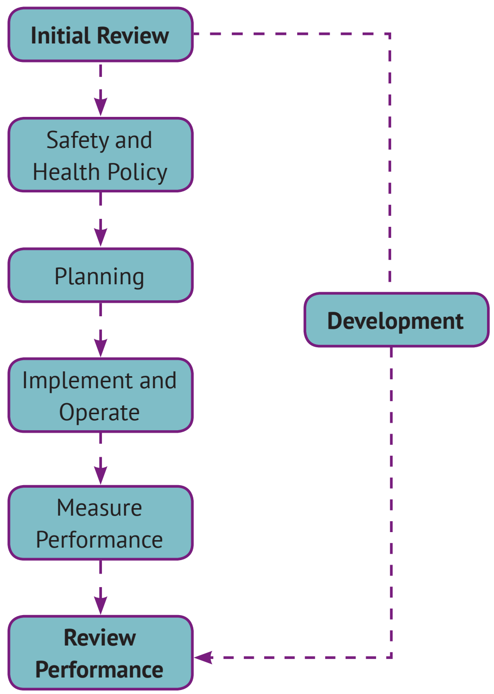
Management of Abans Finance has engaged the staff by listening to them, learning what keeps them motivated and building a suitable culture around and building the people and traits that make the organisation unique. These engagements create a conducive environment that will help achieve the objectives of the Company.

In this respect the Company has formulated wellness programmes, better benefits schemes and talent development by displaying commitment toward employees by supporting them to uplift their skills and helping them to achieve advancement in their career.

Health & Safety

The Company maintains a healthy environment that is safe and conducive to work. It always ensures that safe working practices are developed implemented and maintained.

Appropriate work equipments are provided and regularly maintained. All staff members have also been made aware of how to operate and use equipment in a manner that ensures the safety and protection. Continuous review of security related issues and concerns with all employees will ensure that security is constantly addressed. Taking reasonable steps to avoid potentially dangerous work is also addressed effectively.



Source: Workplace Safety and Health Management

MARKET PLACE

Customers

Customer satisfaction is a key indicator of how likely the same customer will obtain another service in the future. Abans Finance always ensures that its customers are satisfied to an extent where they come back to receive the same or a different service provided by the Company. The business of finance is always competitive. Companies repeatedly compete for good customers. Therefore always ensures customer satisfaction as a key differentiator in the business the Company operates.

Environment

We monitor and ensure the impact on the environment and performance of organisation by:

- Adopting practices that will benefit the resource efficiency, lower energy consumption, emissions and waste minimisation.
- Retaining customers who have contributed positively to the environment.
- Making our employees feel that they work in an environmentally-friendly Company. In order to positively display the employers' contribution, Abans Group of Companies has a waste management and water efficiency system in a sister Company.

Community

To maintain the corporate image and attract new clients, a Company must understand its corporate responsibilities towards the public. For this purpose, we always ensure that we serve the community within its reach. Some of the key community activities of the Company are providing training and development opportunities to young school leavers and undergraduates. These trainings have assisted these students to obtain employment in corporate entities and be successful. There are lists of such successful students in the finance field.

Abans Finance has also trained graduates and developed them to the requirements of the private sector that assist them to enhance their career prospects. The Company as a part of its obligations, has identified the importance in practical training and has recruited them whenever job opportunities arise in the Company or/ and in the group, as trainees in suitable positions that helps fulfill their aspirations.

BOARD OF DIRECTORS

MR. RUSI PESTONJEE - CHAIRMAN

NON-EXECUTIVE DIRECTOR

Appointed as a Director and Chairman with effect from 1 January 2012. A member of the Remuneration Committee and the Chairman of the Nomination Committee of the Company.

A Director of Abans PLC. (Formally Abans (Pvt) Ltd). He is an alumnus of the executive management programmes at the Indian School of Business, focusing on strategy and managing family businesses. He supports relationship building with key international partners and has been instrumental in implementing several new strategic growth initiatives. He also holds directorships within Abans Group of Companies.

MR. KITHSIRI WANIGASEKARA

MANAGING DIRECTOR

Appointed to the Abans Finance PLC Board as Executive Director on 1st June 2009. Assumed duties as Managing Director / CEO on 1st January 2012 and held the position until 2nd May, 2016. He Continues to hold the position of Managing Director.

A member of the Related Party Transactions Review Committee and Integrated Risk Management Committee of the Company.

Functioned as Chairman & Managing Director / CEO of Sinhaputhra Finance Ltd., from December 1990 to September 2007. Counts more than 36 years of service in the financial services sector out of which 29 years of service had been as a Director and 23 years as a Managing Director / CEO. A finalist of the Chartered Institute of Management Accountants, UK and holds a Masters Degree in Business Administration. The present Chairman of the Finance Houses Association of Sri Lanka (FHASL).He was also the Chairman of the FHASL in the years 1998, 1999 and 2000. A member of the Steering Committee on Non-Bank Financial Institutions of the Ceylon Chamber of Commerce and a past member of the Committee of the Ceylon Chamber of Commerce. A member of the Committee appointed by the Ministry of Finance to make recommendations to the Cabinet Committee on Economic Management (CCEM) on the Draft Bill for the setting up of the Financial Asset Management Agency. A Past Council Member of the Sri Lanka Institute of Credit Management. He has been serving as a member of the Council of Management of the FHASL for more than two decades.

Past Chairman of The Kandy Hotels Co. (1938) Ltd., owners of “Hotel Suisse” and “Queen’s Hotel” from 1994 to 2001. A member of the PSRE 17 Group of Sri Lankan Entrepreneurs to Japan in 2003 sponsored by The Association of Overseas Technical Scholarships of Japan. One of the three Sri Lankan nominees of the United States – Sri Lanka Fullbright Commission for the Hubert H. Humphrey North – South Fellowship Programme for Mid-Career Professional Study in the USA on Finance and Banking for the Academic year 2006-07.

He has been awarded with the following :
*Central Provincial Chamber of Commerce-“Silver Award” winner for the most Outstanding Entrepreneur of the Central Province in 2000.

“Sri Lankan Entrepreneur of The Year 2005” Organised by the Federation of Chamber of Commerce of Sri Lanka (FCCSL).

Extra Large Category - * Central Province – “ Silver Award Winner”

*National – “ Bronze Award Winner”

MR.VISHTASP KAIRSHASP CHOKSY

INDEPENDENT NON-EXECUTIVE DIRECTOR/ SENIOR DIRECTOR

Appointed to the Board on 15 March 2011. He became the senior Director with effect from 1 January 2012 in terms of the Finance Companies (Corporate Governance) Direction No 3 of 2008.

The Chairman of the Remuneration Committee of the Company, a member of the Audit Committee and the Nomination Committee. Provides specialised legal advice to the Company on key business-related issues.

An Attorney- at- Law by profession. Possesses twenty-four years of legal practice and has been specialising in Civil Law with particular emphasis in Commercial, Business and Industrial Law.

MR. AJITH S. RATNAYAKE

FCA, FCMA (UK), FCCA, CMA, FCMI, FCMA, CGMA
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 16 May 2014. Chairman of the Audit Committee and the Related Party Transactions Review Committee. He is also a member of the Remuneration Committee.

Mr. Ajith S. Ratnayake is the founder Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), where he served for 15 years. He was responsible for setting up its monitoring process for financial reporting and auditing of public interest entities in Sri Lanka and building its technical capacity.

As the Director General of SLAASMB, he served in the Advisory Council of the International Forum of Audit Regulators (IFIAR), Consultative Advisory Committees of the International Auditing and Assurance Standards

Board of Directors *Contd.*

Board (IAASB) and the Ethics Standards Board for Accountants (IESBA), Intergovernmental Group of Experts on International Standards on Accounting and Reporting (ISAR) serviced by the United Nations Conference on Trade and Development (UNCTAD), and in the working group on Commercial Forests of the International Valuations Standards Council (IVSC).

Prior to setting up SLAASMB, Mr. Ratnayake served in a number of private sector enterprises in Sri Lanka and in multinational companies abroad in diverse positions, including as CEO and CFO, over a period of more than 15 years after qualifying as a Chartered Accountant. In his last assignment before SLAASMB, he headed the setting up of the Finance Division of a joint venture Vodafone (UK) established in Fiji. He has extensive experience and expertise in revival of underperforming enterprises and in acting as a catalyst for growth in profitability.

MR. MAYANK PRAVIN PAREKH

NON-EXECUTIVE DIRECTOR

Appointed to the Board on 14 December 2016. Chairman of the Integrated Risk Management Committee (w.e.f 16 December 2016) and a member of the Remuneration Committee (w.e.f 16 December 2016) and the Related Party Transactions Review Committee (w.e.f 14 December 2016)

Mayank Parekh is the founder of Grange Partners (2012), a private investment holding Company based in Singapore focused on making venture and growth capital investments in the SME sector across Southeast Asia. From 2007 to 2012, Mr. Parekh was a General Partner/ Managing Director with Southern Capital Group (SCG), a private equity fund based in Singapore focused on middle market leveraged buyouts pan-Asia. The firm adopts an activist value-add approach and Mayank led the portfolio management function; he was on the Board of several portfolio companies, including holding Chairman Positions. Prior to joining SCG, Mr. Parekh spent 11 years with McKinsey & Company across three offices, namely Chicago, Johannesburg and Singapore. He joined McKinsey post-MBA in 1996 and was elected a Partner in 2001. At McKinsey, Mayank was the Managing Partner of the Singapore Office; prior to that, he held the position of Managing Partner, Corporate Finance Practice, Southeast Asia.

Mr. Parekh earned his MBA in Finance from the University of Chicago, Graduate School of Business in 1996 and his Bachelor of Arts in Economics and Psychology from Hamilton College in 1989.

MR. CHANAKA WICKRAMASURIYA (CFA)

NON-EXECUTIVE DIRECTOR (ALTERNATE TO MR. MAYANK PAREKH)

Appointed as an Alternate Director to Mr. Mayank Parekh on 14 December 2016.

Mr. Chanaka Wickramasuriya is currently joint Managing Partner at Ironwood Capital Partners. He has a long track record in Private Equity as a Partner with Aureos Capital and LR Global Lanka. From 2009 to 2011 he was a Partner at Aureos Capital, where he oversaw the development and functioning of the overall Global Portfolio Management process. During this time, he was also seconded to the Aureos' China office and oversaw portfolio management and investment in 4 transactions. From 2000 to 2006 he was a Partner based at Aureos' Colombo office where he worked on investment transactions, exits, and sat as a Board Representative for 10 transactions in Sri Lanka. From 2006 to 2009 he functioned as Country Head of Fitch Ratings in Colombo, and has also worked as Head of Research for a local stock broking firm. Chanaka was also the Managing Partner of LR Global Lanka Private Equity Fund.

Mr. Chanaka Wickramasuriya graduated Summa Cum Laude with a BSc in Electrical Engineering from The Rutgers College of Engineering and is also a Chartered Financial Analysts (CFA).

MR CHANNA DILHAN PATHIRANA

NON - EXECUTIVE DIRECTOR

Appointed to the Board on 26 November 2007. He holds the position of the Chairman of the Integrated Risk Management Committee (IRMC) w.e.f. 29 April 2014 until ceased from the Board. Mr. Channa Pathirana ceased to be a Director of the Company with effect from 26 November 2016 after completing nine years of service as a Non-Executive Director of the Company.

A Deputy Director of Abans PLC., authorised distributor for LG electronics in Sri Lanka since 2002. Heads the Hero Motor Cycle retail operation of the Abans Group. Counts 24 years of experience in Sales, Marketing, Leasing and Hire Purchase in Multi National/Local organisations. Prior to his appointment to Abans Group he has extensive experience related to Sales and Marketing of Consumer electronics in a Multi-National Company. He has a Master of Business Administration and having qualified as a Marketer from the Chartered Institute of Marketing (UK).

CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholder,

It is my pleasure to present to you on behalf of my fellow Board members, the Corporate Governance Report of Abans Finance PLC for the year ended 31st March 2017. This report gives details of our progress, achievements, challenges and areas which we seek to improve.

The Board firmly believes that a sound governance framework is vital for sustainable growth in the Finance business in order to maintain trust and confidence that our investors and customers place in us. We believe that good corporate governance is a cornerstone of a successful and sustainable Company.

As we drive towards achieving our strategic goals, it is important that we possess the right balance of skills, breadth of experience and diversity on the Board. We appointed Mr. M. P. Parekh as a Non Executive Director of the Company in order to fill the casual vacancy that arose due to the cessation of Mr. C. D. Pathirana, as a Director of the Company. Mr. C. H. A. W. Wickramasuriya was also appointed as an Alternate Director to Mr. M. P. Parekh.

During the year, few initiatives were taken to strengthen the governance of the business, in line with best practices which are highlighted in this report. We continue to adopt all mandatory guidelines on corporate governance such as Finance Companies (Corporate Governance) Direction No.3 of 2008 as amended, Listing Rules of the Colombo Stock Exchange and in addition, voluntarily adopted Code of Best Practice on Corporate Governance 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

During the year under review, the Board focused more on improving its effectiveness towards governance and conducted an independent evaluation on Board's effectiveness. This encompasses the effectiveness of the Board as a whole, and the effectiveness of each Sub-Committees of the Board.

I wish to extend my appreciation to the members of the Board who have been supportive and committed in their efforts in implementing a good governance culture within the Company. Their contribution at meetings of the Board as well as at the Sub-Committees of the Board in sustaining transparent governance practices is immense. Going forward, we will ensure that we continuously commit to further improve on transparency, accountability and reporting.

The Corporate Governance Report on pages 40 to 67 contains comprehensive governance arrangements as required under the regulations and details on the extent of the Company's compliance with the provisions set out in the regulations.

Rusi Pestonjee
Chairman / Non-Executive Director

15th August 2017

CORPORATE GOVERNANCE

Introduction

Corporate governance is a system by which a Company is directed, controlled and managed. A good corporate governance framework guides the Company to drive towards progress with implementation of relevant strategies. Good corporate governance has as its objectives the maintenance of a high level of governance that will foster a culture of integrity, values and rewards for the stakeholders. The creation of long term stakeholder value is a key towards an effective governance framework.

The Board of Directors of the Company under the leadership of the Chairman is responsible for the Governance of the Company. The development of an effective corporate governance framework is a priority on the agenda of the Board. The Board of Directors is committed to review and improve systems within the Company in order to maintain accountability and transparency.

The Company operates with an effective Corporate Governance Framework. The framework has been designed based on the provisions of the Finance Companies (Corporate Governance) Direction No.3 of 2008 as amended, Code of Best Practice on Corporate Governance 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the Listing Rules of the Colombo Stock Exchange.

Board Composition and Balance

Strong governance is dependent upon a Board of Directors that is cohesive, independent in nature, fully engaged and committed to the role and, as a result, operates effectively. The Board reflects a balance between financial, sector specific and general business skills, with a highly experienced team that leads the business in both executive and non-executive roles. The major role of the Board includes overseeing the risk profile of the Company, monitoring the integrity of its business and control mechanisms, ensuring expert management and maximising the interest of all stakeholders.

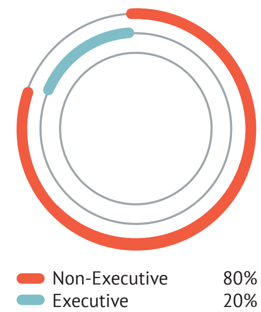
The Board of Directors currently has five members which consist of the following structure;

a. Two Non Independent Non Executive Directors
- Mr. R. Pestonjee (Chairman)
- Mr. M. P. Parekh (Alternate Director Mr. C. H. A. W. Wickramasuriya)

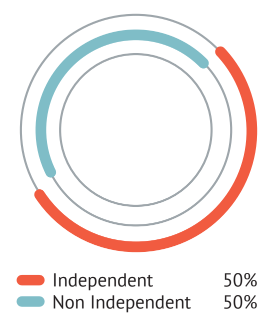
b Two Independent Non Executive Directors
- Mr. V. K. Choksy (Senior Director)
- Mr. A. S. Ratnayake

c. One Executive Director
- Mr. K. B. Wanigasekara (Managing Director)

The Board comprises of individuals with appropriate abilities, skills and competencies. Each Director provides the Company the knowledge, experience and skills for effective performance of the Board and they allocate adequate time to discharge their responsibilities. A list of the individual directors and their profiles including dates of appointment to the Board and their Committee memberships are set out in the Directors' profile on pages 37 to 38 of this report.



Executive Vs. Non-Executive Directors



Non Executive Directors
- Independent Vs. Non Independent

Division of Responsibilities - Chairman and Chief Executive Officer (CEO)

The role of Chairman and CEO is segregated and there are clear and documented divisions of accountability and responsibility. The Chairman is accountable to shareholders for the effectiveness of the Board and this builds a sustainable business through consistent, profitable growth, while taking account of the interests of wider stakeholders. The Chairman leads the Board and chairs its meetings, having agreed on a balanced agenda covering business performance, strategy, risk, compliance and people. He ensures that the directors receive accurate, timely and relevant information for deliberations and high-quality decision-making.

The CEO is the apex executive-in-charge of the day to day management of the Company's operations and business and accountable to the Board. This includes developing business strategies for the approval of the Board and timely and effective implementation of such strategies whilst managing relevant risks. The CEO provides the leadership and environment within the Company to implement the Board's policies and the achievement of the Company's objectives.

Appointment and Re-election

Directors are elected by the shareholders at the Annual General Meeting (AGM) except for casual vacancies arising during the year filled by the Board of Directors until the next AGM (Article 26 (5) of the Article of Association addresses this). Accordingly, all directors are subject to election by shareholders at the first AGM following their appointment, and to re-election thereafter at intervals of no more than three years in compliance with the Code of Best Practice on Corporate Governance 2013. Directors who are nominated for re-election submit affidavits and declarations and obtain prior approval from the Director, SNBFI of Central Bank of Sri Lanka in compliance with the Finance Companies (Assessment of fitness and propriety of Directors and Officers performing executive functions) Direction No. 03 of 2011.

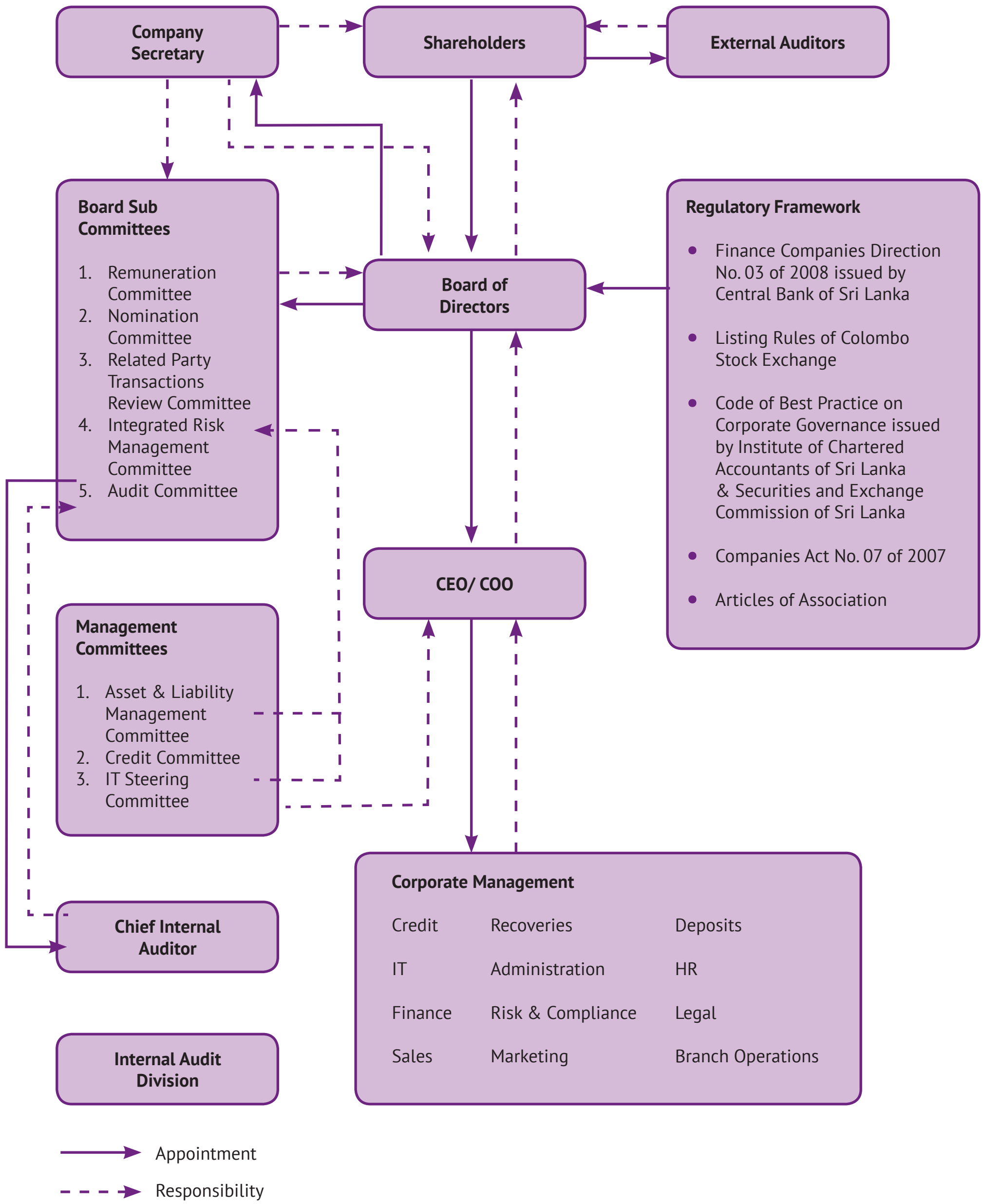
During the year under review Mr. M. P. Parekh was appointed as a Non Executive Director in order to fill the casual vacancy arisen due to the cessation of Mr. C. D. Pathirana after completing nine years of services as a Non-Executive Director of the Company in conformity with Section 4(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008. Mr. C. H. A. W. Wickramasuriya was appointed as an Alternate Director to Mr. M. P. Parekh.

Determination of Independence of Non-Executive Directors

The Board evaluates annually whether each of the Non-Executive Directors is independent. The Non-Executive Directors submit declarations on their independence in terms of rule 7.10.2(b) of the Listing Rules of the Colombo Stock Exchange to facilitate the Board to decide on their independence. The Board further considers criteria for independence set out in the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Listing Rules of the Colombo Stock Exchange and Code of Best practice on Corporate Governance – 2013.The Board has concluded that Mr. V. K. Choksy and Mr. A. S. Ratnayake are independent and Mr. M. P. Parekh and Mr. R. Pestonjee are non-independent.

Board Sub Committees

The Board has established Board Sub Committees such as Audit Committee, Remuneration Committee, Nomination Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee. Each committee plays a vital role in serving the Board to discharge its duties and to ensure that high standards of Corporate Governance are preserved throughout the Company. The Committees are governed by Board approved Terms of Reference which are reviewed periodically. Each Sub Committee's minutes are forwarded to the Board and the Chairman of each sub Committee provides the Board with a summary of crucial issues considered at the meetings of the Sub Committees. The diagram below illustrates the Organisation's Governance Structure.



Board and its Sub Committees' Effectiveness

An effective Board is crucial to the success of the Company. To assess the performance of the Board and its Sub Committees, the Company conducted a rigorous performance evaluation during the year. The process was led by the Chairman and supported by the Secretaries to the Board. As part of the evaluation, the Directors performed a self-evaluation (separate set of questionnaire for Board and Board Sub Committees such as Audit Committee, Remuneration Committee, Nomination Committee, Integrated Risk Management Committee and Related Party Transactions Review Committee) and it was summarised by the Secretaries for the evaluation of the Board and its Sub Committees as a whole. The Secretaries maintain the records of the Board and Sub Committees' evaluations. Following this review, the Board is satisfied that the Board and its Sub Committees are performing effectively and that there is appropriate balance of skills, experience, independence and knowledge to enable the Directors to discharge their respective duties and responsibilities, effectively. The Board is also satisfied that the members of the Board, in particular the Non Executive Directors, have sufficient time to undertake their roles at Board and Sub Committee levels within the Company.

Management of Conflicts of Interests

A conflict of interests arises when a Board member has a personal interest that conflicts with the interests of the Company. The Company has adopted a Board approved policy on the Management of Conflicts of Interests which specifies the processes and procedures to be followed to manage conflicts since the ultimate purpose of managing a conflict of interests is protecting the public interest. Accordingly, any Director who has a conflict of interests on a matter will not participate in the deliberations except to disclose material facts and to respond to questions and abstain from voting thereon.

Board and Board Sub Committee Meetings and Attendance

The Directors meet on regular basis and receive accurate, timely and relevant information for such meetings so that they can maintain full and effective oversight of strategic, financial, risk management, operational, compliance and governance issues. The following table shows the number of Board and Sub Committee meetings held during the financial year of 2016/17 and the attendance by individual Directors.

Directors' Attendance at Board and Committee Meetings

Name of the Director	Non Independent Non Executive	Executive	Independent Non Executive	Board		Audit Committee		Integrated Risk Management Committee		Related Party Transactions Review Committee		Remuneration Committee		Nomination Committee	
				C / M	Attend-ance	C / M	Attend-ance	C / M	Attend-ance	C / M	Attend-ance	C / M	Attend-ance	A	Attend-ance
R Pestonjee*	✓			**C**	11							M	1	**C**	1
K B Wanigasekara		✓		M	12			M	3	M	4				
V K Choksy			✓	M	11	M	23					**C**	1	M	1
A S Ratnayake			✓	M	12	**C**	23			**C**	4	M	1		
C D Pathirana**	✓			M	6			M	3	M	4				
M P Parekh or his Alternate***	✓			M	4			**C**	1			M	1		

C indicates the Chairman & M indicates Member
Column Attendance Indicates the number of Meetings attended

* Resigned from the Remuneration Committee with effect from 16th December, 2016
** Ceased from the Board with effect from 26th November, 2016
*** Appointed to the Board and Related Party Transactions Review Committee with effect from 14th December, 2016; Appointed to the Integrated Risk Management Committee and Remuneration Committee with effect from 16th December, 2016

Management Committees

The management committees at Abans Finance PLC function under the guidance of the Chief Executive Officer with the direction on designing, implementing and monitoring best practices in their respective functions. These committees implement the policies and strategies determined by the Board and Board Sub Committees and manage the business and affairs of the Company with the main objective of improving sustainable growth. Management Committees include Asset and Liability Committee (ALCO), Credit Committee and IT Steering Committee. The scope of the Credit Committee is to review and make recommendations on Credit Policy and procedures, portfolio delinquency management and Credit evaluation process, whilst the scope of the ALCO is to monitor and manage liquidity risks, interest rate risks, pricing and capital planning. The function of the IT Steering Committee is to ensure that the Company's information technology needs and objectives are being adequately addressed and that the IT strategy is aligned with the Company's strategic perspectives and goals.

Engagement of External Auditors to Provide Non Audit Services and Auditors' Independence

The external auditors' independence is a key factor in ensuring that the financial statements of the Company would meet the highest standards of financial integrity. The Audit Committee of the Company annually evaluates the independence of the external auditors including any relationships with the group or any other person or the Company that may impair or compromise their independence. The Company also adopted a procedure on the "engagement of external auditor to provide non audit services" in order to ensure the best practices and to avoid actual or perceived conflict of interests. The policy has precisely identified the permitted services and prohibited services, approval process and reporting requirements including non audit fees to audit fees ratio in order to ensure the External Auditors' independence and objectivity. The recruitment of external audit partners and / or employees as either Directors or as employees in senior positions within the preceding two years of involvement with the Company's audit is also prohibited. Further, the Engagement Partner and / or the Partner responsible for quality review will be rotated in order to ensure the partner should not serve the Company for more than five successive years. The external auditors M/s. Ernst & Young have provided a declaration of their independence to the Audit Committee and the Committee evaluated their independence, objectivity and effectiveness of the audit process and recommended their re-appointment for the ensuing year.

Delegated Authority

The Corporate Governance framework and Article 38 of the Articles of Association of the Company provide the delegation of authority and segregation of duties while enabling the Board to retain effective control. Accordingly, the Board has delegated its authority to the Board Sub Committees and the Management with clearly defined mandates, directives and authorities, while ensuring such delegations would not hinder or reduce the ability of the Board to discharge its duties. The Board of Directors of the Company makes necessary reviews on delegated authority limits in order to ensure that the set limits remain relevant to the needs of the Company.

Degree of Conformity with Corporate Governance Regulations

The level of compliance with the regulations on Corporate Governance is presented under the three sections given below.

Section One – The level of compliance with Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto issued by the Central Bank of Sri Lanka.

Section Two – The level of compliance with the Listing Rules - Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange.

Section Three – The level of compliance with the Code of Best Practice on Corporate Governance 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka.

Section One - Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto) on Corporate Governance for Licensed Finance Companies in Sri Lanka

The Central Bank of Sri Lanka issued the Direction on Corporate Governance in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka. This Direction is identified as the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and the amendments are referred to as Finance Companies (Corporate Governance – Amendment) Direction No. 04 of 2008 and Finance Companies (Corporate Governance – Amendment) Direction No. 06 of 2013. The above Directions comprise of nine fundamental principles, namely the responsibilities of the Board, Meetings of the Board, Composition of the Board, Criteria to assess the fitness and propriety of Directors, Management functions delegated by the Board, The Chairman and the Chief Executive Officer, Board appointed Committees, Related party transactions and Disclosures.

The Company's level of compliance with the Corporate Governance Directions is tabulated below.

Section	Rule	Status of Compliance
2.	**THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS**	
2 (1)	**Strengthening the safety and soundness of the Company**	
	(a) Approve, oversee and communicate the strategic objectives and corporate values	Board approved Strategic objectives and Corporate values have been derived from the Company's vision and mission and it has been communicated throughout the Company.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	The Company's strategic plan was approved by the Board for three years covering the period from 2015/16 to 2017/18. The above strategic plan includes the overall risk management policy, procedures and mechanisms with measurable goals. The strategic plan for 2018/19 to 2020/21 is currently at the final stage. The business strategy is reviewed by the Board on a regular basis with management updates at Board meetings on the execution of the agreed strategy.
	(c) Identifying and managing risk	Integrated Risk Management Committee (IRMC) of the Company identifies risks related to credit, market, liquidity and operations and ensures that appropriate actions are taken to manage risks. Further, IRMC reports to the Board of Directors. The Risk Management Report on pages 74 to 81 provides further information.
	(d) Communication policy with all stakeholders	A Board approved communication policy is in place and ensures the effective internal and external communication of corporate information with all stakeholders including depositors, creditors, shareholders and borrowers of the Company.
	(e) Integrity of the internal control system and management information system.	The Internal Auditors of the Company on the instructions of the Audit Committee have reviewed the integrity of the Company's internal control system and the management information system. The Board of Directors of the Company confirmed the adequacy of the management information submitted for regular Board Meetings.
	(f) Identifying and designating Key Management Personnel.	The Board of Directors identified and designated the Key Management Personnel as Members of the Board including Managing Director, Chief Executive Officer, Chief Operating Officer, Head of Finance, Head of Credit & Recoveries, Head of Deposits, Head of Branches, Head of Sales, Head of Information Technology, Head of Risk & Compliance/ Compliance Officer, Manager- Corporate Affairs and Manager- IT.
	(g) Authority and responsibilities of the Board and Key Management Personnel.	The Board of Directors of the Company has defined the duties and responsibilities of the Key Management Personnel. Article 28 of the Company's Articles of Association contains provisions pertaining to the authority of the Board of Directors and the Board of Directors has approved delegated authority limits applicable to Management and staff.

Section	Rule	Status of Compliance
	(h) Oversight of affairs of the Company by Key Management Personnel.	Oversight of the affairs of the Company by its Key Management Personnel takes place at the Board meetings and Board Sub-Committee meetings and Key Management Personnel make regular presentations to the Board / Board Sub-Committees on matters under their purview.
	(i) Periodically assess the effectiveness of its governance practices, including: i) selection, nomination, and election of directors and appointment of KMP ii) management of conflicts of interests iii) determination of weaknesses and implementation of changes where necessary.	The Board has delegated the functions of selection, nomination and election of Directors and appointment of Key Management Personnel to the Nomination Committee which is a Board Sub-Committee. The extent of compliance with this requirement is disclosed on page No 42 under "Management of Conflicts of Interests" The Board and the Board Sub Committees have a formal self-evaluation process annually in order to identify and rectify the weaknesses.
	(j) Succession plan for Key Management Personnel.	The Company has a Board approved one to one succession plan in place for the Key Management Personnel and the Board currently reviews the same in order to accommodate changes in the Key Management Personnel that took place during the recent past.
	(k) Regular meetings with the Key Management Personnel.	Key Management Personnel participate in discussions at the Board and its Sub-Committee meetings when the need arises to explain matters relating to their areas of responsibility.
	(l) Understanding Regulatory environment.	The Board of Directors closely monitors regulatory compliances at monthly Board meetings by means of a regular monthly board paper on compliance. Further, the Compliance Officer presents changes to the regulatory environment from time to time and any other necessary information to the Board.
	(m) Hiring and oversight of External Auditors	Hiring of external auditors is carried out by the Board with the recommendation of the Audit Committee and it is approved by shareholders at the Annual General Meeting (AGM).
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Board has appointed the Chairman and the Chief Executive Officer (CEO) and there is a clear division of the functions and responsibilities of the Chairman and CEO.
2 (3)	Directors' ability to seek independent professional advice.	The Directors are able to obtain independent professional advice as and when necessary at the expense of the Company and a Board approved procedure is in place. However, no such instances have occurred during the year.
2 (4)	Dealing with conflicts of interests.	The extent of compliance with this requirement is disclosed on page No 42 under "Management of Conflicts of Interests"
2 (5)	Formal schedule of matters specifically reserved for Board Decisions	A Board approved formal schedule of matters specifically reserved for Board decisions is in place which ensures that the direction and control of the Company is firmly under the authority of the Board.

Section	Rule	Status of Compliance
2 (6)	Situation on insolvency.	No such situation has arisen during the year and we do not visualise such situations in the foreseeable future.
2 (7)	Publish corporate governance report in the Annual Report.	Annual corporate governance report has been published in the Annual Report 2016/17. This report from pages 40 to 67 satisfies this requirement.
2 (8)	Annual self-assessment by the Directors and maintenance of such records.	The extent of compliance with this requirement is disclosed on page No 42 under "Board and its Sub Committees' effectiveness".
3. MEETINGS OF THE BOARD		
3 (1)	Regular Board meetings and circulation of written or electronic resolutions	The Board has conducted 12 meetings during the year. The consent of the Board is usually obtained at meetings with due notice given with Board papers. Consent obtained by circulation has been kept at minimal.
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	A formal procedure has been implemented to enable all directors to include matters and proposals in the agenda for regular board meetings.
3 (3)	Notice of meetings.	An annual calendar of Board meetings has been issued at the beginning of the year. It was ensured that prior notice of at least 7 days was given to Board members. There were no special meetings held during the period.
3 (4)	Directors' attendance at Board meetings	All Directors have attended at least two thirds of the meetings and non-attendance of consecutive three meetings did not arise. Refer page 43 for details on Directors' attendance at Board meetings.
3 (5)	Appointment of a Company Secretary to handle the secretarial services to the Board	The Board has appointed Varners International (Pvt.) Ltd., Level 14, World Trade Centre (West Tower), Colombo – 01 as Secretaries to the Company. The Company Secretaries advise the Board and ensure that matters concerning the Companies Act, Board procedures and other applicable rules and regulations are followed.
3 (6)	Responsibility of preparation of agenda for a Board meeting.	The Chairman has delegated to the Company Secretaries the function of preparing the Agenda for Board Meetings and for circulation to the Board.
3 (7)	Directors' access to advice and services of the Company Secretaries	A formal procedure has been implemented and all Directors have access to the Company Secretaries for advice and services where necessary.
3 (8)	Maintenance of Board minutes.	The Company Secretaries maintain and circulate the minutes to Board members and provide certified copies of the Minutes at any time at the request of any director of the Company. A formal procedure is in place to enable directors to inspect the minutes.
3 (9)	Recording of Minutes of Board meetings in sufficient detail.	The Company Secretaries record the contributions made by each member and the decisions / resolutions made in sufficient detail to satisfy the requirements of the direction.
4. COMPOSITION OF THE BOARD		
4 (1)	The number of directors	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and Balance"
4 (2)	Period of service of a Director	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and Balance"
4 (3)	Board balance	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and Balance"

Section	Rule	Status of Compliance
4 (4)	Independent Non-Executive Directors and the criteria for independence.	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and Balance" and on page No 41 under "Determination of independence of Non-Executive Directors"
4 (5)	Appointment of Alternate Directors	No alternate director was appointed to represent any Independent Director. Further, Mr. C.H.A.W. Wickramasuriya was appointed as an Alternate Director to Mr. M.P. Parekh, Non Executive (Non Independent) Director of the Company with effect from 14th December, 2016.
4 (6)	Skills and experience of Non-Executive Directors.	Appointments to the Board are made with the recommendation of the Nomination Committee. The Directors are eminent persons with the required knowledge, expertise and experience to bring an independent judgement and their profiles are given on pages 37 to 38.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	All Board meetings held during the Financial Year were duly constituted with one half of the number of Directors present and one half of the number of Directors constituting the quorum being non-executive Directors.
4 (8)	Express identification of the Independent Non-Executive Directors in corporate communications and disclosing the details of Directors.	Please refer the profiles of Board of Directors on Pages 37 to 38 and report of Board of Directors on Pages 86 to 92.
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	The new appointments to the Board are based on the recommendations made by the Nomination Committee and there is a procedure in place for the succession of appointments to the Board.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at the first general meeting after their appointment.	The extent of compliance with this requirement is disclosed on page No 41 under "Appointment and Re-election of Directors"
4 (11)	Communication of reasons for removal or resignation of Directors.	Appointment, removal or resignations of Directors are informed to shareholders, with immediate notification to the Colombo Stock Exchange (CSE). Prior approval is obtained from the Central Bank of Sri Lanka (CBSL) on such circumstances.
5.	**CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETY OF DIRECTORS**	
5 (1)	The age of a Director shall not exceed 70 years.	All the Directors were below the age of 70 years during the year under review.
5 (2)	Directors shall not hold office as a Director of more than 20 Companies / Societies / Corporate bodies including Associate and Subsidiary Companies.	There were no directors who held directorates in more than twenty (20) companies / entities/ institutions. The Company did not have subsidiaries or associates during the year under review.
6.	**DELEGATION OF FUNCTIONS**	
6 (1)	Delegation of work to the Management.	The extent of compliance with this requirement is disclosed on page No 44 under "Delegated Authority".
6 (2)	Periodical evaluations of the delegation process.	The extent of compliance with this requirement is disclosed on page No 44 under "Delegated Authority".

Section	Rule	Status of Compliance
7.	**THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER**	
7 (1)	Division of responsibilities of the Chairman and Chief Executive Officer	The roles of Chairman and Chief Executive Officer were held by two (02) individuals separately.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Chairman of the Company is a Non Independent Non-Executive Director. Since the Chairman is not an Independent Non-Executive Director, the Board has designated Mr. V.K.Choksy, Independent Non-Executive Director as the Senior Director and the terms of reference have been documented. The designation of the Senior Director has been disclosed by the Company in the Annual Report on Page 37.
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	The Board has adopted a formal procedure to identify and disclose the relationships between the CEO and the Chairman and among other Directors. Accordingly, the Board has declared that there are no material relationships [including financial, business, family or other material / relevant relationship(s)] between the Chairman and Chief Executive Officer and among the members of the Board which will impair their respective roles. Details of the Chairman and Chief Executive Officer are disclosed in the "Corporate Information" of the Annual Report.
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	Functions and responsibilities of the Chairman approved by the Board include the stipulated requirements. The annual self-assessment of the Board includes a criterion that evaluates the effectiveness of the Chairman in facilitating the Board's discharge of its responsibilities.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	The Chairman has delegated this function to the Company Secretaries, to prepare the agenda of Board Meetings.
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	The Chairman ensures that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and Board papers with sufficient time prior to the meetings.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interests of the Company.	The Chairman ensures that all Directors make a full and active contribution to the Board's affairs and the Board acts in the best interests of the Company.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	The Chairman ensures that the relationship among the Directors provides an opportunity to all Directors to actively participate in the Board's affairs. This process is further strengthened through the annual self-evaluation of the Board and Board Sub Committees where views of all Directors are canvassed in respect of the performance of the Board and Sub Committees as a whole.

Section	Rule	Status of Compliance
7 (9)	Refrain from direct supervision of Key Management Personnel or executive duties.	The Chairman is not directly involved in the supervision of Key Management Personnel or any other executive duties.
7 (10)	Maintain effective communication with shareholders.	The AGM of the Company is the main forum where the Board maintains effective communication with shareholders. Further, the Board approved communication policy evidences the Company's process in this regard.
7 (11)	Chief Executive Officer functions as the apex executive-in-charge of the day-to-day operations and businesses.	In terms of duties and responsibilities of the CEO, he is the apex executive of the Company who is responsible for day-to-day operations of the Company with the assistance of Key Management Personnel and is accountable to the Board to recommend the Company's strategy, implementation, and ensure appropriate internal controls are in place to assess and manage risks.
8. BOARD APPOINTED COMMITTEES		
8 (1)	Establishing Board committees, their functions and reporting.	The following Board Sub-committees have been appointed by the Board and each Committee is required to report to the Board, (a) Audit Committee (b) Integrated Risk Management Committee (c) Remuneration Committee (d) Nomination Committee (e) Related Party Transactions Review Committee Each Committee has a Secretary, and the Secretary arranges its meetings, maintains minutes and carries out other secretarial functions under the supervision of the Committee Chairman and minutes of the Sub-Committees are submitted to the Board. The Company has presented a report on the performance, duties and functions of each Board Sub-Committee on pages 68 to 73.
8 (2)	**Audit Committee**	
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	The Chairman of the Audit Committee, Mr. Ajith S. Ratnayake is an Independent Non- Executive Director. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of U.K. Please refer pages 37 to 38 for the complete profile of Mr. Ajith S. Ratnayake.
	(b) All members of the Committee to be Non-Executive Directors	All members of the Audit Committee are Non-Executive Directors.

Section	Rule	Status of Compliance
	(c) Functions of the committee include; (i) The appointment of the External Auditors (ii) The implementation of the Central Bank Guidelines. (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the Auditor;	The Audit Committee has recommended, the re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors for Audit Services; the implementation of guidelines issued by the Central Bank of Sri Lanka to auditors from time to time; the application of Accounting Standards in consultation with the Head of Finance and External Auditors. the service period, audit fees, resignation or dismissal of an auditor, re-engaging the audit partner in line with the regulatory requirements. No resignation or dismissal of the auditor has taken place during the year under review.
	(d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.	The extent of compliance with this requirement is disclosed on page No 44 under "Engagement of External Auditor to Provide Non Audit Services and Auditors' Independence".
	(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering; (i) skills and experience of the Auditor (ii) threat to the independence (iii) Fee for the non-audit services and independence	The extent of compliance with this requirement is disclosed on page No 44 under "Engagement of External Auditor to Provide Non Audit Services and Auditors' Independence".
	(f) Determines the nature and the scope of the External Audit.	The Audit Committee met with External Auditors, M/s. Ernst and Young and discussed the Audit Plan, nature and scope before the commencement of the Audit.
	(g) Review the financial information of the Company.	The Audit Committee periodically reviews the financial information in order to monitor major judgemental areas, changes in accounting policies, significant audit judgements in the financial statements, going concern assumption and compliance with Accounting Standards and other legal requirements. The Audit Committee reviews and recommends the Interim Financial Statements and Audited Financial Statements before submission thereof to the Board.
	(h) Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary)	The Audit Committee has met the External Auditors twice, without Key Management Personnel during the year under review.
	(i) Reviewing of the External Auditors' management letter and the response thereto.	The Audit Committee has reviewed the Management Letter issued by the External Auditors with the responses of the Management.

Section	Rule	Status of Compliance
	(j) Review of the Internal Audit Function, - Review scope, function and resources	The Audit Committee has reviewed the information provided in the risk based audit plan and concluded that scope, functions and resources of the Internal Audit Dept. are sufficient to carry out its functions.
	- Review of Internal Audit Programme	The Audit Committee has reviewed and approved the Internal Audit Programme.
	- Review of Internal Audit Department	The Audit Committee has carried out a performance appraisal of the Internal Audit Division.
	- Recommendations on Internal Audit Functions	The Audit Committee has recommended and with the approval of the Board appointed M/s.BDO Partners to conduct Information Systems Audits.
	- Appraise the resignation of Senior staff of Internal Audit and any outsourced service providers.	Circumstances to this effect have not arisen during the year under review.
	- Independence of Internal Audit Functions	The Committee ensured the independence of the Internal Audit Function.
	(k) Consideration about the internal investigations and management's responses.	The need for an internal investigation on major findings has not arisen during the year.
	(l) Attendees of Audit Committee meeting with Corporate Management and External Auditors.	The Committee met twice with the External Auditors without the presence of the Executive Directors and Key Management Personnel. Head of Finance / CFO and Chief Internal Auditor normally attend the meetings. The MD, CEO and other members of the Key Management Personnel also attend meetings by invitation.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice wherever necessary.	The Audit Committee is empowered by Board approved terms of reference which set out the authority and responsibility of the Committee.
	(n) Regular meetings	The Audit Committee met 23 times during the financial year under review. Please refer page 43 for details of the attendance of the committee members.
	(o) Disclosures in the Annual Report.	The "Audit Committee report"on pages 68 to 69 include the details of activities of the Audit Committee. Please refer page 43 for details of attendance of the committee members.
	(p) Maintain minutes of meetings	The Company Secretaries act as the Secretary to the Audit Committee and maintain the minutes of the meetings.
	(q) Whistle Blower Policy	On the recommendation of the Audit Committee, the Board has adopted a Whistle Blower policy for employees, in confidence to report violations of laws, rules, regulations or unethical conduct to the Audit Committee.

Section	Rule	Status of Compliance
8 (3)	**Integrated Risk Management**	
	(a) The composition of IRMC	The Integrated Risk Management Committee is chaired by a Non-Executive Director and comprises of Managing Director, CEO and Other Key Management Personnel who supervise the broad risk categories such as Credit, Market, Liquidity, Operational and Strategic risks.
	(b) Periodical risk assessment	The Committee has a process to assess risks, such as Credit, Market, Operational and Liquidity through appropriate risk indicators and management information.
	(c) Review the adequacy and effectiveness of Management level Committees to manage risk.	Asset and Liability Committee and Credit Committee review the adequacy and effectiveness in addressing the specific risks and managing risks. However, the Committee is in the process of reviewing the effectiveness of the Asset and Liability Committee and Credit Committee.
	(d) Corrective action to mitigate the risk	The risk indicators introduced have been reviewed and corrective action has been taken to mitigate risks. Further, the Company is in the process of reviewing the risk limits to identify the factors which have exceeded the specified limits.
	(e) Frequency of meetings	The Committee has met four times on a quarterly basis during the year.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	No such matters have arisen during the year. Further, the Committee is in the process of documenting the formal procedure.
	(g) Risk assessment report to the Board	Risk assessment reports have been submitted to the Board within the specified time frame.
	(h) Establishment of a compliance function	A Compliance Officer (Head of Risk & Compliance) selected from Key Management Personnel has been appointed to carry out the Compliance function. The Compliance Unit reviews the Company's compliance with laws, regulations, guidelines and rules on a regular basis and reports non-compliances, if any, to the Board. The Audit Committee reviews adequacy of the Internal Control mechanism of the Company in order to maintain the independence and objectivity of the Internal Audit function.
9.	**RELATED PARTY TRANSACTIONS**	
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	The Board has approved a Related Party Transactions Policy where the categories of persons considered as "Related Parties" have been identified. Further, the Company is not involved in any transactions, which gives favourable treatment to such parties.
9 (3)	Related party transactions.	The Related Party transactions policy of the Company addresses all the transactions with related parties irrespective of their nature and value. Related Party Transactions Review Committee further ensures that the transactions with related parties are on an arm's length basis.

Section	Rule	Status of Compliance
9 (4)	Monitoring of related party transactions defined as more favourable treatment including, (a) Granting accommodation in excess of prudent percentage of regulatory capital (b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty (c) Allowing preferential treatment compared to unrelated parties in the normal course of business (d) Providing or obtaining services without proper evaluation (f) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.	The Company has established a Board approved documented procedure to monitor the Related Party Transactions in order to avoid more favourable treatment to such parties. The Company is in the process of implementing, monitoring and reporting the process through the IT system.
10. DISCLOSURES		
10 (1)	Publish Interim and Annual Financial Statements based on applicable accounting standards and published in Sinhala, Tamil and English newspapers.	The audited financial statements and periodical financial statements were prepared in accordance with the formats prescribed by regulatory and supervisory authorities and applicable accounting standards, and have been published in an abridged form in Sinhala, Tamil and English newspapers.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report; (a) A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	 Compliance with applicable Accounting Standards and regulatory requirements has been reported under "Statement of Directors' responsibility for Financial Reporting" on pages 93 to 94.

<table>
<tr><th>Section</th><th>Rule</th><th>Status of Compliance</th></tr>
<tr><td></td><td>(b) A report by the Board on the finance company's internal control mechanism.</td><td>Directors' Statement on the Internal Control system over financial reporting is given on page 95.</td></tr>
<tr><td></td><td>(c) The External Auditors' certification on the effectiveness of the internal control mechanism.</td><td>The Company has obtained an assurance report from the External Auditors on the effectiveness of the Internal Control Mechanism.</td></tr>
<tr><td></td><td>(d) Details of directors and the transactions with the finance company</td><td>This is disclosed under "Report of the Board of Directors" on pages 86 to 92.</td></tr>
<tr><td></td><td>(e) Fees / remuneration paid by the finance company to the directors in aggregate.</td><td>Fees and remuneration paid is disclosed under note No 12 to the Financial Statements.</td></tr>
<tr><td></td><td>(f) Total net accommodation and the net accommodation outstanding to the related parties as a percentage of the capital funds.</td><td>The details of the net accommodation of each related party and as a percentage of the Company's capital funds are as follows
<table><tr><th>Name of the Related Party</th><th>Outstanding as at 31.03.2017</th><th>Percentage of Capital Funds</th></tr><tr><td>Abans Tours (PVT) Ltd</td><td>50,679,120</td><td>4.19%</td></tr><tr><td>Abans Transport (PVT) Ltd</td><td>18,126,280</td><td>1.50%</td></tr></table></td></tr>
<tr><td></td><td>(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.</td><td>The aggregate value of remuneration paid to KMPs (as defined by CBSL) is Rs. 50,478,610/-.
The aggregate value of transactions of the Company with KMPs (as defined by CBSL),
Loans and Advances –Rs. 6,062,526/-
Deposits – Rs. 4,210,561/-</td></tr>
<tr><td></td><td>(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.</td><td>This is disclosed under "Report of the Board of Directors" on pages 86 to 92.</td></tr>
<tr><td></td><td>(i) Non-Compliance reporting</td><td>There are no significant lapses which require to be disclosed to the public.</td></tr>
<tr><td></td><td>(j) The External Auditors' certification of compliance with the corporate governance direction.</td><td>The Company has obtained a certificate from the External Auditors of the compliance with the corporate governance direction.</td></tr>
</table>

Section Two - Listing Rules - Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange

The Listing Rules – Section 7.10 of the Colombo Stock Exchange (CSE) mandates listed companies to publish a table in the Annual Report, confirming that as at the date of the Annual Report they comply with the Corporate Governance rules. The rule addresses areas such as Non-Executive Directors, Independent Directors and Disclosures relating to Directors, Remuneration Committee and Audit Committee.

The Company's level of compliance with the Listing Rules (Section 7.10) is tabulated below.

Section Reference	Rule	Status of Compliance
7.10.1 NON EXECUTIVE DIRECTORS		
7.10.1 (a)	Two or one third of the Directors, whichever is higher, should be Non-Executive Directors	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and balance".
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	The Board comprised of five Directors as at the conclusion of the immediately preceding Annual General Meeting. Mr. M.P. Parekh was appointed with effect from 14th December, 2016 in order to fill the casual vacancy that arose with the cessation of Mr. C.D. Pathirana with effect from 26th November, 2016 in conformity with Section 4 (2) of the Finance Companies (Corporate Governance) Direction No 03 of 2008.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	The cessation and the appointment of directors as disclosed in 7.10.1. (b) comply with the requirement.
7.10.2 INDEPENDENT DIRECTORS		
7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	The extent of compliance with this requirement is disclosed on page No 40 under "Board Composition and balance"
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	The extent of compliance with this requirement is disclosed on page No 41 under "Determination of Independence of Non-Executive Directors"
7.10.3 DISCLOSURES RELATING TO DIRECTORS		
7.10.3 (a)	The Board shall make determination of Independence / Non Independence annually and Names of Independent Directors should be disclosed in the Annual Report.	The extent of compliance with this requirement is disclosed on page No 41 under "Determination of Independence of Non-Executive Directors"

Section Reference	Rule	Status of Compliance
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	No such determination was required since all Independent Directors have qualified as independent as per the said rules.
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Please refer pages 37 to 38 for the profiles of the Board of Directors to the Annual Report.
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	The resumes of Mr. M. P. Parekh, Non Executive Director and Mr. C.H.A.W. Wickramasuriya, alternate to Mr. M. P. Parekh were published in the Colombo Stock Exchange Website for dissemination to the public upon their appointments with effect from 14th December, 2016.
7.10.4 CRITERIA FOR DETERMINATION OF INDEPENDENCE OF DIRECTORS		
7.10.4 (a-h)	Requirements for meeting criteria to be independent	All Independent Directors of the Company met the criteria for independence specified in this rule.
7.10.5 REMUNERATION COMMITTEE		
7.10.5 (a)	A listed Company shall have a Remuneration Committee. The remuneration committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	Remuneration Committee comprised of three Directors and out of which two of them are Independent Non Executive Directors. Refer the Remuneration Committee Report on page 71.
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Refer the Remuneration Committee Report on page 71 for details.
7.10.5 (c)	The Annual Report shall set out; (i) The names of the Directors that comprise the Remuneration Committee; (ii) A statement of remuneration policy; (iii) Aggregate remuneration paid to Executive and Non-Executive Directors.	 Refer the Remuneration Committee Report on page 71 for details. Refer the Remuneration Committee Report on page 71 for details. Refer the Note No 12 of the Audited Financial Statements

Section Reference	Rule	Status of Compliance
7.10.6 AUDIT COMMITTEE		
7.10.6 (a)	The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher.	Audit Committee is comprised of two Directors and both of them are Independent Non-Executive Directors and hence complied with the requirements.
	One Non-Executive Director shall be appointed as Chairman of the Audit Committee by the Board.	Mr. Ajith S. Ratnayake (Independent Non- Executive Director) functions as the Chairman of the Board Audit Committee.
	The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings.	Chief Executive Officer and Chief Financial Officer / Head of Finance attend the meetings regularly by invitation.
	The Chairman or one member of the Committee should be a member of a recognised professional accounting body.	The Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka and Chartered Institute of Management Accountants of U.K. Please refer pages 37 to 38 for the complete profile of Mr. Ajith S. Ratnayake.
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Please refer Audit Committee Report on pages 68 to 69 of the Annual Report for description of its functions.
7.10.6 (c)	Annual Report shall set out;	
	(i) The names of the Directors who comprise the Audit Committee.	Please refer Audit Committee Report on pages 68 to 69 for the composition of the Audit Committee.
	(ii) The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination.	The extent of compliance with this requirement is disclosed on page No 44 under "Engagement of External Auditors to Provide Non Audit Services and Auditors' Independence"
	(iii) A report by the Audit Committee setting out the manner of compliance of the functions set out in section 7.10 of the listing rules.	Please refer Audit Committee Report on pages 68 to 69 or the Board Audit Committee Report.

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Section Three - Code of Best Practice on Corporate Governance 2013, issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka

The Corporate Governance Code issued initially, in 2008 that was revised and updated in 2013, comprises of seven fundamental principles such as Directors, Directors' Remuneration, Relations with Shareholders, Accountability and Audit, Institutional Investors, Other Investors and Sustainability Reporting. The Company's adherence with the Code of Best Practice on Corporate Governance is tabulated below.

Section	Rule	Degree of Compliance
A.	**DIRECTORS**	
A.1	**The Board –** The Company should be headed by an effective Board of Directors, which should direct, lead and control the Company. The Board comprises of professionals with required professional competence, skills and experience to lead and control the Company. The Board gives leadership in setting the strategic direction and creates a sound environment for the successful functioning of the Company.	
A.1.1.	Board meetings – The Board should meet at least once in every quarter	The Board usually meets monthly and special meetings are convened wherever necessary. During the year, the Board met 12 times. Please refer page 43 for the details of attendance at Board meetings held during the year.
A.1.2	Board's responsibilities – Formulation and implementation of a sound business strategy	The Board engages in providing direction in formulating strategic direction for the development of strategy which is aimed at the long term success of the Company. The Company's strategic plan was approved by the Board for three years covering the period from 2015/16 to 2017/18. The strategic plan for 2018/19 to 2020/21 is currently at the final stage.
	CEO, Executive Directors and Senior Management team possess the skills, experience and knowledge	The Managing Director, CEO and other Key Management Personnel possess extensive skills, knowledge, competencies and experience.
	CEO and Key Management Personnel (KMP) succession planning	The Company has a Board approved one to one succession plan in place for the Key Management Personnel and the Board reviews the same in order to accommodate changes in the Key Management Personnel that took place during the recent past.
	Implementing security and integrity of information, internal controls, business continuity and risk management	The Board ensures that an effective system is in place to secure the integrity of information, internal controls and risk management. The Audit Committee and the IRMC on behalf of the Board monitor the integrity of financial information, the robustness of financial control and system of risk management of the Company.
	Ensuring compliance with laws, regulations and ethical standards	The Board has established a separate Compliance function to ensure that the Company has complied with the relevant laws, regulations, ethical standards and other regulatory frameworks.

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Section	Rule	Degree of Compliance
	Ensuring all stakeholder interests are considered in corporate decisions	The Board considers the stakeholder interests in the decision making process.
	Recognising sustainable business development.	The Board recognises the importance of sustainable development in corporate strategy and business development.
	Ensuring that the Company's values and standards are set with emphasis on adopting appropriate Accounting Policies	The Company's accounting policies are reviewed annually by the Audit Committee so as to be updated with new developments, changing business requirements and best practices.
	Fulfilling other Board functions is vital, given the scale, nature and the complexity of the organisation.	The Board has attempted to fulfill the obligations towards all stakeholders during the year.
A.1.3	Compliance with laws and access to independent professional advice.	The Board collectively and individually recognises its duty to comply with the laws prevailing in the country. The Board ensures that policies and procedures are in place to comply with applicable laws and regulations. The Board has approved a procedure to seek Independent Professional advice by Directors at the expense of the Company. No such advice has been taken during the year under review.
A.1.4	All Directors should have access to the services and advice of the Company Secretary.	A Board approved policy is in place to enable all Directors to have access to the Company Secretaries. Directors are authorised to access the Company Secretaries to obtain advice and services as and when required on any matter relating to the Board procedures and all applicable rules and regulations.
A.1.5	Independent judgement of Directors	All Directors exercise independent judgement in the decisions made by the Board on issues of strategy, performance, resources and conduct of business.
A.1.6	Every Director should dedicate adequate time and effort to the matters of the Board and the Company	All Directors of the Company have dedicated adequate time and attention to the affairs of the Company. The Company circulates Board papers and relevant information with adequate notice in order for them to review before the Board / Board Sub Committee meetings. The number of Board / Board Sub Committee meetings held and attendance is presented on page 43.
A.1.7	Every Director should receive appropriate training	Every Director is provided appropriate induction with regard to the affairs, rules and regulations of the Company and subsequent training on latest trends and issues facing the Company and the industry in general.
A.2	**Chairman and Chief Executive Officer –** There should be a clear division of responsibilities at the head of the Company, which will ensure the balance of power and authority, so that no one individual has unfettered powers of decision.	
A.2.1	If CEO and Chairman is one person justification in the Annual Report	Since CEO's and Chairman's roles are segregated, a specific disclosure is not made.
A.3	**Chairman's Role –** The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running of the Board, the Chairman should preserve order and facilitate the effective discharge of the Board functions.	

Section	Rule	Degree of Compliance
A.3.1	Chairman's role	The Chairman conducts Board procedures in a proper manner and ensures that Board members discharge their responsibility effectively to make a contribution to Board's affairs. Agenda for meetings and matters to be taken up at Board Meetings are duly scheduled.
A.4	**Financial Acumen –** The Board should ensure the availability of those with sufficient financial acumen and knowledge to offer guidance on matters of finance within the Board.	
A.4.1	Financial Acumen	The Board is comprised with sufficient number of directors with financial acumen who provide guidance to the Board on matters relating to finance. Please refer pages 37 to 38 of the Annual Report for the profile of the Directors.
A.5	**Board Balance –** It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group can dominate the Board's decision taking.	
A.5.1	Board should include at least two Non- Executive Directors or one-third of total Directors, whichever is higher	The extent of compliance with this requirement is disclosed in page No 40 under "Board Composition and balance"
A.5.2	Two or one-third of Non- Executive Directors whichever is higher should be independent.	The extent of compliance with this requirement is disclosed in page No 40 under "Board Composition and balance"
A.5.3	Evaluation of independence of Non- Executive Directors	The extent of compliance with this requirement is disclosed in page No 41 under "Determination of Independence of Non-Executive Directors"
A.5.4	Signed declaration of Independence by the Non-Executive Directors	
A.5.5	Determination of the independence and non-independence of each Non- Executive Directors annually.	
A.5.6	Alternate Directors to meet the criteria for independence / Non Executive status of the appointer.	No alternate director was appointed to represent any Independent Director. Further, Mr. C.H.A.W. Wickramasuriya (who is not an Executive Director) was appointed as an Alternate Director to Mr. M.P. Parekh, Non Executive (Non Independent) Director of the Company with effect from 14th December, 2016.
A.5.7	Senior Independent Director (SID)	Even though a Senior Independent Director's role was not necessary under this section, Mr. V. K. Choksy has been appointed as the Senior Director (Independent Non- Executive) in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, since the Chairman is not an Independent Director.
A.5.8	Confidential discussion with other Directors by the Senior Independent Director	The Terms of Reference adopted by the Board for the Senior Independent Director requires him to make himself available for any confidential discussion with Non-Executive Directors. However, no such situation has arisen during 2016/17.
A.5.9	Meetings held by the Chairman with Non-Executive Directors	Chairman meets the Non Executive Directors without the presence of Managing Director and CEO on a need basis.
A.5.10	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	Concerns raised by Directors at Board Meetings and the final decisions are recorded in the Minutes of the meetings.

Section	Rule	Degree of Compliance
A.6	**Supply of Information –** The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.	
A.6.1	Management should provide timely information to the Board	The management ensured that the Board has been provided with timely and accurate information that is circulated within the prescribed period. Key Management personnel make themselves available to respond to any queries raised at the meetings and for the provision of additional information.
A.6.2	Adequate time for effective Board meetings.	In order to facilitate an effective Board Meeting the minutes, agenda and Board papers are circulated to the Directors prior to 7 days of the Board Meeting.
A.7	**Appointments to the Board –** There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1	Nomination Committee	Nomination Committee makes recommendations to the Board on all new appointments to the Board. Refer page 73 for the details of the Nomination Committee.
A.7.2	Assessment of Board composition by the Nomination Committee	Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications.
A.7.3	Disclosure requirements when appointing new Directors to the Board	Details of new Directors are disclosed to shareholders when appointed, with immediate notification to the Colombo Stock Exchange along with a brief resume of such Director. Further, prior approvals for such appointments are obtained from the Central Bank of Sri Lanka in terms of regulations applicable to finance companies.
A.8	**Re Election –** All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A.8.1 – A.8.2	Re-election of Directors	The extent of compliance with this requirement is disclosed in page No 41 under "Appointment and Re-election"
A.9	**Appraisal of Board Performance -** The Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9.1 - A.9.3	Appraisal of Board Performance Annual self-evaluation by the Board members and of its committees Disclosure of evaluation process	The extent of compliance with this requirement is disclosed in page No 42 under "Board and its Sub Committees' effectiveness".
A.10	**Disclosure of information in respect of Directors** Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1	Annual Report disclosure in respect of Directors (Name, Qualifications, etc.)	Profiles of the Board of Directors are given on pages 37 to 38.

Section	Rule	Degree of Compliance
A.11	**Appraisal of Chief Executive Officer (CEO)** The Board should require at least annually to assess the performance of the CEO.	
A.11.1	Targets for CEO at the commencement of each fiscal year	CEO's performance targets are aligned with business strategies of the Company. Targets are set at the beginning of every financial year by the Board which is in line with the short, medium and long term objectives of the Company.
A.11.2	Evaluation of the performance at the end of each fiscal year	At the end of each financial year the Board evaluates the set targets and the actual performance.
B.	**DIRECTORS' REMUNERATION**	
B.1	**Remuneration procedure** The Company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his / her remuneration.	
B.1.1	Setting up of Remuneration Committee	The Committee determines the compensation and benefits of the Executive Directors and ensures no director is involved in determining his own remuneration. Further, the Committee is responsible for deciding the overall remuneration structure of the Company.
B.1.2	Composition of Remuneration Committee	Remuneration Committee is comprised of Non-Executive Directors. Refer the Remuneration Committee report on page 71.
B.1.3	Disclosure in the Annual Report about the Remuneration Committee members	Remuneration Committee report is given on page 71.
B.1.4	Remuneration of Non-Executive Directors	The Non-Executive Directors (Independent) receive fees for attending meetings of the Board and Board Sub-committees.
B.1.5	Consultation of the Chairman / CEO and other Executive Directors and access to the professional advice	Chairman of the Board is a member of the Remuneration Committee and the Directors are empowered to seek appropriate professional advice within and outside the Company as and when it is deemed necessary by the Committee.
B.2	**The level and make up of Remuneration** Level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors' to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to corporate and individual performance.	
B.2.1 – B.2.9	Level and make up of remuneration of Executive Directors including performance element in pay structure	The Remuneration Committee gives due consideration to the provisions of these sections and arrives at final recommendations as specified.
	- Remuneration packages in line with industry practices	Remuneration Committee ensures that remuneration packages are in line with the industry practices.
	- Executive share option	The Company does not have an executive share option scheme
	- Non Executive Directors' remuneration	The Non-Executive Directors (Independent) receive a fee for attending meetings of the Board and additional fee whenever they serve on Board Sub-committees.

Section	Rule	Degree of Compliance
B.3	**Disclosure of Remuneration** Annual Report of the Company should contain a statement of remuneration policy and details of remuneration of the Board as a whole.	
B.3.1	Disclosure in the Annual report about the (a) Remuneration Committee members (b) statement of remuneration policy (c) aggregate remuneration paid	Please refer the Remuneration Committee report on page No 71 and Note No 12 to the Financial Statements.
C.	**RELATIONS WITH SHAREHOLDERS**	
C.1	**Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings.** Board should use the AGM to communicate with shareholders and should encourage their participation.	
C.1.1	Use of proxy votes	The Company has recorded all proxy votes for each resolution prior to the General Meeting.
C.1.2	Separate resolutions for separate issues	Separate resolutions are placed before shareholders for business transactions at the AGM.
C.1.3	Arrangement made by the Chairman of Board that all Chairmen of sub-committees make themselves available at the AGM	The Chairman of the Board ensures that the Chairmen of the Board sub-committees are present at the AGM unless under exceptional circumstances.
C.1.4	Adequate notice for the AGM to the shareholders	Annual Report including Financial Statements and the notice of the meeting are sent to shareholders at least 15 working days prior to the date of the AGM.
C.1.5	Procedure of voting at general meeting	A summary of the procedure is set out in the Proxy form itself sent to each shareholder.
C.2	**Communication with Shareholders** The Board should implement effective communication with shareholders.	
C.2.1	Channel to reach all shareholders to disseminate timely information	The Board approved communication policy addresses this matter.
C.2.2	Policy and methodology of communicating	The Annual General Meeting of the Company is the main forum where the Board maintains effective communication with the shareholders. Hence all shareholders are encouraged to participate at the AGM. Further, the Company's website, corporate disclosures and other news releases to the Colombo Stock Exchange function as additional communication channels.
C.2.3	Implementation of the methodology	Refer the comment on principle C.2.2
C.2.4	Contact person in relation to communications	Shareholders may contact the Head of Finance for queries, if any.
C.2.5	Awareness of Directors on major issues and concerns of shareholders	The Company Secretaries maintain records of all correspondence received from shareholders and direct the same to appropriate channels for resolution.

Section	Rule	Degree of Compliance
C.2.6	Contact person in relation to shareholders' matters	The Company Secretaries can be contacted for any queries of shareholders, whose details are given below, Varners International (Pvt.) Ltd., Corporate Secretaries, Level 14, West Tower,World Trade Centre, Echelon Square, Colombo – 01.
C.2.7	Process for responding to shareholders	Refer the comment on principle C.2.5
C.3	**Major and material transactions** Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.	
C.3.1	Disclosure of major and material transactions	The Company did not enter into major transactions during the year.
D.	**ACCOUNTABILITY AND AUDIT**	
D.1	**Financial Reporting** The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.	
D.1.1	The Board should present interim and other price sensitive information to the public and reports to regulators	The Company has reported the Audited Financial Statements as at 31st March, 2017 and the Interim Financial Statements at the end of each quarter of the financial year which has complied with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions made thereunder and in conformity with the Sri Lanka Accounting Standards. This information is initially uploaded to the Colombo Stock Exchange website in order to ensure the maintenance of a fair and orderly securities market as required by Listing Rules of the CSE.
D.1.2	Directors' Report in the Annual Report	Refer the Report of the Board of Directors on pages 86 to 92.
D.1.3	Annual Report disclosure stating Board's and Auditors' responsibility	Statement of Directors' responsibilities is given on pages 93 to 94.
D.1.4	Management discussion and analysis	Management Discussion and Analysis is given on pages 10 to 36.
D.1.5	Directors' assumption of the going concern of the business	Please refer the Report of the Board of Directors on pages 86 to 92.
D.1.6	Serious loss of Capital	This situation has not arisen during the year and the likelihood of such a situation is remote.
D.1.7	Disclosure of related party transactions	Refer the Note No 46 to the Audited Financial Statements and Report of the Board of Directors on pages 86 to 92.
D.2	**Internal control** The Board should maintain a sound system of internal control to safeguard shareholders' investments and Company assets.	
D.2.1	Evaluation of internal controls by the Board	The Audit Committee, with the assistance of the Internal and External Auditors reviews the effectiveness of the internal control procedures and takes corrective action where necessary.
D.2.2	Internal Audit function	The Company's Internal Audit Function is carried out by the Chief Internal Auditor of Abans Group. Findings together with appropriate recommendations are discussed at Audit Committee Meetings. Please refer the Audit Committee Report on pages 68 to 69 for more details.

Section	Rule	Degree of Compliance
D.2.3	Evaluation of the process and effectiveness of risk management and internal controls.	The Internal Audit Division regularly reviews and reports to the Audit Committee on Risk Management measures and internal control system. The Audit Committee on behalf of the Board monitors and takes corrective action where necessary on the said controls and risk management measures.
D.2.4	Responsibilities of Directors in maintaining a sound system of internal control and statement of internal control	Refer Directors' Statement on Internal Control over Financial Reporting on page 95.
D.3	**Audit Committee** The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintain an appropriate relationship with the Company's Auditors.	
D.3.1	Composition of the Audit Committee	The Audit Committee comprises two Independent Non-Executive Directors. Please refer Audit Committee Report on pages 68 to 69.
D.3.2	Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors	The extent of compliance with this requirement is disclosed on pages 68 to 69 under "Audit Committee Report"
D.3.3	Terms of reference of the Audit Committee	The Audit Committee is guided by the Terms of Reference approved by the Board which outlines its authority and responsibility.
D.3.4	Disclosure made in the Annual Report about the Audit Committee.	Refer the Audit Committee Report on pages 68 to 69.
D.4	**Code of Business Conduct and Ethics** The Company must adopt a Code of Business Conduct and Ethics for Directors and members of the Senior Management team. Any non-compliance with the said Code should be promptly disclosed.	
D.4.1	Code of business conduct and ethics	The Company has in place a code of conduct and ethics which is applicable to Directors and Employees.
D.4.2	Chairman's confirmations for any violation of code of conduct and ethics	Refer the Chairman's Statement on Corporate Governance on page 39.
D.5	**Corporate Governance disclosures** The Board should include this in the Annual Report setting out the manner and extent for it to be complied.	
D.5.1	Disclosure of corporate governance compliance	This requirement is met through presentation of this report
E.	**INSTITUTIONAL INVESTORS**	
E.1	**Shareholder voting** Institutional shareholders are required to make considered use of their votes and encouraged to ensure that their voting intentions are translated into practice.	
E.1.1	Regular dialogue to be maintained with shareholders and Chairman to communicate shareholders views to the Board	Annual General Meeting is a forum to have an effective dialogue with shareholders.

Section	Rule	Degree of Compliance
E.2	**Evaluation of Governance disclosure** Institutional investors are encouraged to give due weight to all relevant factors in the Board structure and composition.	
F.	**OTHER INVESTORS**	
F.1	**Investing / Divesting Decisions**	
F.1	Individual shareholders' investment decisions	Individual shareholders investing directly in the Company are encouraged to seek independent advice on their investment holding or divesting decisions.
F.2	**Shareholder Voting**	
F.2	Individual shareholder voting	Individual shareholders are encouraged to participate at the Annual General Meeting and to exercise their voting rights. Notices of the meetings are dispatched to all shareholders within the prescribed time period.
G.	**SUSTAINABILITY REPORTING**	
G.1.1	Economic Sustainability	Refer Pages 22 to 25 to the Annual Report
G.1.2	The Environment	Refer Page 36 to the Annual Report
G.1.3	Labour Practice	Refer Pages 34 to 35 to the Annual Report
G.1.4	Society	Refer Page 36 to the Annual Report
G.1.5	Product Responsibility	Refer Pages 31 to 33 to the Annual Report
G.1.6	Stakeholder identification, engagement and effective communication	Refer Page 26 to the Annual Report
G.1.7	Sustainable reporting and disclosure should be formalised.	Refer Pages 10 to 36 to the Annual Report

AUDIT COMMITTEE REPORT

TERMS OF REFERENCE

The Audit Committee assists the Board of directors in its general oversight of financial reporting, internal control and internal audit functions. Recommendations of the Audit Committee are discussed and appropriate measures are taken by the management or the Board on a continuous basis. The Terms of Reference of the Audit Committee are reviewed periodically by the Board of Directors. The Company has derived the requirements relating to the composition and the terms of reference of the Audit Committee from the Finance Companies (Corporate Governance) Direction No. 03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka, Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

COMPOSITION OF THE AUDIT COMMITTEE

The composition of the Audit Committee is as follows;

- Mr. Ajith S. Ratnayake- Chairman, Independent Non-Executive Director
- Mr. V.K.Choksy- Independent Non-Executive Director and Senior Director

The Chairman of the Committee is the retired founder Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka, fellow member of the Chartered Institute of Management Accountants (UK) and a fellow member of the Association of Chartered Certified Accountants.

RESPONSIBILITIES OF THE AUDIT COMMITTEE

Responsibilities include;

- Overseeing the internal control systems and reviewing their effectiveness.
- Reviewing and monitoring the systems adopted by the management to control impairment of receivables.
- Reviewing and monitoring the effectiveness of the internal audit function.
- Review of accounting policies, practices and the financial statements.
- Monitoring the integrity of the financial statements.
- Advising the Board on appointment of the External Auditors and the remuneration of the External Auditor.

MEETINGS

The Audit Committee met twenty three times during the year. The attendance of committee members at meetings is given below.

Name of the Directors	No. of Meetings held	No. of Meetings Attended
Mr. A. S. Ratnayake	23	23
Mr. V.K. Choksy	23	23

The Managing Director, Chief Executive Officer, Chief Operating Officer, Chief Internal Auditor, Head of Finance, Head of Risk and Compliance/Compliance Officer, Head of Credit and Recoveries, and Head of Branches and other officers attended meetings by invitation based on the items under discussion during the year under review. The Audit Committee met the external auditors without the presence of the management on two occasions during the year to facilitate their independence and maintenance of the scope of the audit. The Committee also met the internal auditors without the presence of the management.

FINANCIAL REPORTING

The Audit Committee assists the Board of Directors in its oversight on the preparation and presentation of the financial statements in order to show a true and fair view of the financial position and performance in compliance with Sri Lanka Accounting Standards (SLFRSs). In accordance with the mandates mentioned above, the Audit Committee reviewed the following.

- The adequacy and the effectiveness of the internal control systems and procedures to provide reasonable assurance that all transactions are monitored and recorded in the books of accounts.
- The Company's financial statements and accounting policies and practices.
- Effectiveness of the financial reporting systems in place to ensure reliability of the information provided to the stakeholders.
- The processes by which the Company ensures compliance with Sri Lanka Accounting Standards (SLFRSs) relating to financial reporting.
- The Annual Financial Statements for the year and the Interim Financial Statements.

RISK AND INTERNAL CONTROL

The committee reviewed the effectiveness of the Company's internal control systems over financial reporting and other relevant operations. The committee also recommended systems and procedures to reduce identified risks.

SYSTEMS TO CONTROL IMPAIRMENT

A review of the financial statements indicated that systems and procedures to control impairment are critical to prevent erosion of the earnings of the Company. Therefore the Audit Committee, with the approval of the Board, monitored the design, implementation and maintenance of systems and procedures to control impairment during the year. The continuous improvement of these systems and procedures were also regularly monitored by the Audit Committee.

MANUAL INTERVENTION IN INFORMATION SYSTEMS

Manual intervention in information and control systems leads to internal control weaknesses. Therefore, at the request of the Board, the Audit Committee reviewed the systems of the Company, and monitored the reduction in manual intervention in information and control systems.

INTERNAL AUDIT

The Internal Audit plan of the Company was reviewed and approved by the committee. The committee regularly reviewed the internal audit reports and their findings. Detailed discussions were conducted with the management at committee meetings to improve procedures to prevent or reduce recurrence of adverse findings.

EXTERNAL AUDIT

The committee met the external auditors to discuss the management letter of the auditors relating to the previous year's audit and to monitor action taken by the management. The committee reviewed and monitored implementation of the required improvements.

DETERMINATION OF INDEPENDENCE

The Audit Committee evaluated the independence and objectivity of the External Auditors, Messrs. Ernst & Young, Chartered Accountants. The Audit Committee monitored and reviewed the external auditors' independence, and the objectivity and effectiveness of the audit process considering relevant regulatory requirements.

The committee obtained a declaration of independence from the external auditors, and assessed their independence. Non-audit services provided by the external auditors were reviewed by the committee to ensure that they are not likely to impair the independence and objectivity of the external auditors.

ETHICS AND GOOD GOVERNANCE

The Company's Whistle Blowing Policy serves as a mechanism to manage risks pertaining to corporate fraud. There is a provision under this policy for any staff member, who has a legitimate concern on an existing potential "wrong doing" committed by any person within the Company, to bring such concerns in confidence to the notice of the Chairman of the Audit Committee. A process is also in place for such concerns to be investigated, while maintaining identity of the whistle-blower confidential. The Committee is empowered under their Terms of Reference to monitor this procedure.

On behalf of the Audit Committee

Ajith S. Ratnayake
Chairman- Audit Committee

15th August 2017

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee (RPTRC) was formed by the Board of Directors of the Company as a Board Sub Committee effect from 1st January, 2016 in compliance with the Section 9 of the Listing Rules of the Colombo Stock Exchange. The Committee comprised of a combination of Executive, Non-Executive (Non-Independent) and Independent Non-Executive Directors as follows,

Mr. Ajith S. Ratnayake - Independent Non-Executive Director
Mr. Channa Pathirana - Non-Independent Non-Executive Director *
Mr. Kithsiri Wanigasekara - Managing Director (Executive Director)
Mr. Mayank Parekh - Non-Independent Non- Executive Director **

* Ceased to be a member of the Board of Abans Finance PLC with effect from 26th November, 2016 in terms of Section 4 (2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 after completing nine years of service as a Non Executive Director of the Company.

** Appointed to the Board of Abans Finance PLC and as a Member of the Committee with effect from 14th December, 2016. Mr. Chanaka Wickramasuriya – Alternate Director to Mr. Mayank Parekh, attends meetings of the Committee as his alternate.

Mr. Ajith S. Ratnayake, Independent Non-Executive Director functions as the Chairman of the Committee. Secretaries of the Company function as the Secretary to the Committee.

THE ROLE OF THE COMMITTEE

The Committee is entrusted with the responsibility to assist the Board

(a) to ensure that every related party transaction is conducted in a manner that will protect the Company from conflict of interest which may arise between the Company and its Related Parties;
(b) that the interest of shareholders as a whole are taken into account by the Company when entering into transactions with Related Parties;
(c) to ensure proper approval may obtained from the Committee either prior to the transaction being entered into or if the transaction is expressed to be conditional on such approval, prior to the completion of the transaction;
(d) to recommend the Board of Directors to obtain the shareholder approval by way of special resolution prior to the concerned transaction being entered into in conformity with Section 9.1 and 9.4 of the Listing Rules;
(e) to ensure that the objective and the economic and commercial substance of the Related Party Transactions should take precedence over the legal form and technicality, and
(f) to monitor disclosure of transactions between the Company and any of its Related Party/ies as required in compliance with legal and / or regulatory requirements stipulated by the Listing Rules of the Colombo Stock Exchange, Central Bank of Sri Lanka and Sri Lanka Financial Reporting Standards.

MEETINGS

The quorum for a meeting is two Directors and both of them should be Non-Executive. The Committee met four times in the financial year under review and the attendance of the Directors at the meetings is given on page 43 of the Annual Report. The Chief Executive Officer, Chief Operating Officer, Head of Finance and the Compliance Officer attended the meeting by invitation. The minutes of the meeting were reported to the Board of Directors.

SUMMARY OF ACTIVITIES DURING THE FINANCIAL YEAR

The Committee discussed and reviewed the existing transactions with related parties, and the reporting requirements in conformity with Listing Rules of the Colombo Stock Exchange. The Committee also reviewed the Capital Infusion by way of Private Placement (allotment to Ironwood Investment Holding (Private) Limited) and recommended for shareholder approval by way of a special resolution in compliance with applicable laws and regulations. The Committee further implemented an approval process for Related Party Transactions which exceeds the threshold limit specified in the Listing Rules of the Colombo Stock Exchange.

On behalf of the Related Party Transactions Review Committee

Ajith S. Ratnayake
Chairman.

15th August 2017.

REMUNERATION COMMITTEE REPORT

THE COMPOSITION

The Remuneration Committee comprises three Non-Executive Directors, of whom two including the Chairman are Independent Directors. Details of the members of the committee during the year are as follows.

Mr. V. K. Choksy
Chairman
Independent Non Executive Director/ Senior Director

Mr. Ajith S. Ratnayake
Independent Non-Executive Director

Mr. Rusi Pestonjee*
Non-Executive Director

Mr. Mayank Parekh**
Non-Executive Director

* Resigned from the committee w.e.f. 16th December 2016
** Appointed to the committee w.e.f. 16th December 2016

Brief profiles of the members are given on pages 37 to 38 of the Annual Report. The Chief Executive Officer (CEO) who is the apex executive-in-charge of the day to day management of the Company attends meetings and participates in the Committee meetings by invitation. The CEO takes part in all deliberations except when his own performance and remuneration is discussed. The Company Secretaries functions as the Secretary to the Committee.

THE ROLE OF THE COMMITTEE

The Committee is entrusted with the responsibility of evaluating, assessing and recommending to the Board of Directors on any matters that may affect the remuneration structure of the Company including the following;

- The determination of remuneration and other benefits of Key Management Personnel and the establishment of performance parameters.
- The determination of the remuneration of the CEO and the Independent Non - Executive Directors while ensuring that no Director is involved in setting his own remuneration.
- To introduce policies and parameters of the remuneration structure for all staff members of the Company and monitor the implementation thereof.
- Review of information related to remuneration of staff members from time to time in order to ensure that the remuneration payable by the Company is on par or above the industry norms and align remuneration to market rates to ensure the retention of the Key Management Personnel.
- Recruitments and promotions of staff at management level are also considered and recommended based on proposals submitted by the CEO following a formal process of evaluation.
- Approval of annual increments, profit share bonus and incentives.

REMUNERATION POLICY

The Company's rewarding strategies and remuneration structures are designed to attract, motivate and retain high competent staff at all levels of the organisation. Accordingly salaries and other benefits are reviewed periodically taking into account the performance of the employee and comparison with the group companies. The qualifications, competence and experience are considered in determining the remuneration. Further the employees who are directly related to the performance of the Company are rewarded with a variable payment based on the performance that he or she demonstrates.

Principles that strengthen the Company's remuneration strategy:

- The reward focus is on the creation of an appropriate balance between the fixed and variable pay.
- Individual performance appraisals identify talents at all levels of the organisation, enabling fair and competitive remuneration.
- There is no discrimination against employees based on diversity or physical differences.
- Remuneration is commensurate with each employee's expertise and contribution and it is aligned with the business performance and long term shareholders' returns.

MEETINGS

The committee held one meeting during the financial year. The attendance by members is given in the Corporate Governance Report on page 43 of the Annual Report.

The proceedings of the Committee meetings have been reported to the Board of Directors during the year.

DIRECTORS' REMUNERATION

The total of Directors' Remuneration paid during the year under review is set out in Note 12 to the Financial Statements. This comprises fees for all the committees of the Company that Directors serves on.

COMMITTEE EVALUATION

The Committee completed an evaluation process with self-assessment of members in March 2017, which was forwarded to the Board and the Board was satisfied with the performance of the Committee.

V. K. Choksy
Chairman – Remuneration Committee

15th August 2017

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Integrated Risk Management Committee (IRMC) is a Board Sub-Committee established in conformity with Section 8 of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 with the Board approved Terms of Reference. The IRMC is entrusted with the responsibility to assist the Board to oversee the Risk Management framework of the Company, set the risk appetite and to determine the appropriate tolerable limits, monitor the limits continuously for effective risk management and to overlook the Compliance Function of the Company.

COMPOSITION OF THE COMMITTEE

The Committee comprised of the following members,

- Mr. Channa Pathirana – Chairman (Non Independent Non Executive Director) *
- Mr. Mayank Pravin Parekh (Alternate C. H. A. W. Wickramasuriya) – Chairman (Non Independent Non Executive Director) **
- Mr. Kithsiri Wanigasekara – Managing Director
- Mr. Roshan Nanayakkara – Chief Executive Officer (appointed w.e.f. 28th June, 2016)
- Mr. J.A.P.Fernando – Chief Operation Officer (appointed w.e.f. 28th June, 2016)
- Mr. Chaminda Sugathadasa – Head of Branches
- Mr. Aruna Somasiri – Head of Credit and Recoveries
- Mr. Gemunu Gunawardena – Head of Deposits
- Mr. Kamal Roshan – Head of Finance
- Mr. Mahadevan Suthakar – Head of Risk & Compliance / Compliance Officer
- Mr. Manura Rajakaruna – Manager-IT
- Ms. Mahika Rajakaruna – Manager-Corporate Affairs

* Ceased to be a member of the Board of Abans Finance PLC with effect from 26th November, 2016 in terms of Section 4 (2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008 after completing nine years of service as a Non Executive Director of the Company.

** Appointed as the Chairman of the Committee with effect from 16th December, 2016. Mr. Chanaka Wickramasuriya – Alternate Director to Mr. Mayank Parekh, attends meetings of the Committee in the absence of the Chairman.

COMMITTEE MEETINGS

The Committee meets on an approximately quarterly basis and the attendance of the Directors at the meetings is given on Page 43. The Committee assesses all key risks of the Company and discussions and conclusions reached at meetings are recorded in the minutes of the meetings and a Risk Assessment Report is circulated within a week to the Board of Directors for information and appropriate action.

DUTIES AND RESPONSIBILITES OF THE COMMITTEE

The main responsibility of the Committee is to assess risks faced by the Company such as Credit Risk, Market Risk, Liquidity Risk, Operational Risk and Strategic Risk. In fulfilling its duties, the Committee covers the following areas,

- Review the quality of the Credit Portfolio including delinquency monitoring and Credit Concentration Management.
- Review the Funding Concentration Risks and the available Contingency Funding Plans.
- Review financial performance and the Capital Adequacy of the Company.
- Review the Asset and Liability Management Policy including the specific risk limits and monitoring the compliance.
- Review progress on operational risk throughout the Company.
- Review of Business Continuity and Disaster Recovery Plan related issues.
- Assess adequacy and effectiveness of Management Committees, namely Credit Committee and Asset and Liability Committee (ALCO)
- Review the Company's Compliance with laws and regulations.
- Propose appropriate measures for corrective action as part of the risk mitigation process.

On behalf of the Integrated Risk Management Committee,

C.H.A.W. Wickramasuriya
(Alternate to Mayank Pravin Parekh)
Chairman

15th August 2017.

NOMINATION COMMITTEE REPORT

The Nomination Committee comprises of two Non-Executive Directors appointed by the Board of Directors of the Company. The following Directors served on the Nomination Committee during the year under review,

Mr. Rusi Pestonjee – Chairman of the Committee (Non – Executive Director)

Mr. V. K. Choksy - Independent Non-Executive Director / Senior Director

Brief profiles of the members of the Committee are given at pages 37 to 38 of the Annual Report. The Company Secretary functions as the secretary to the committee.

COMMITTEE'S ROLES AND RESPONSIBILITIES

The Committee is entrusted with the board approved terms of reference and its role and responsibilities are in conformity with the provisions stipulated in the Code of Best Practice on Corporate Governance - 2013 issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Nomination Committee is responsible for reviewing the composition of the Board to ensure that the Board is properly constituted and balanced in terms of skills, experience and diversity. In addition, the Committee is also entrusted with the following responsibilities,

- Recommending to the Board on appointments of new Directors and ensuring the implementation of the approved procedure in selecting such Directors;
- Recommending the re-appointment of existing Directors of the Board of Directors, taking into account the performance and contribution made by such Directors towards the overall discharge of responsibilities of the Board and Board-Sub Committees;
- Ensuring that the Directors fulfill the fit and proper criteria to hold office in conformity with Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011 and other applicable statutes;
- Reviewing criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment of Directors;
- Assessing from time to time the requirements of additional and / or new expertise and the succession arrangements for retiring Directors with a view to providing advice and recommendations to the Board on any such appointment.

MEETINGS & MINUTES

The Committee held one meeting during the year and the attendance of Committee Members at each of these meetings is given in page 43 to the Annual Report. The Committee reports to the Board of Directors on its activities and the minutes of the meetings are tabled at the Meetings of the Board of Directors.

Rusi Pestonjee
Chairman - Nomination Committee

15th August 2017

RISK MANAGEMENT REPORT

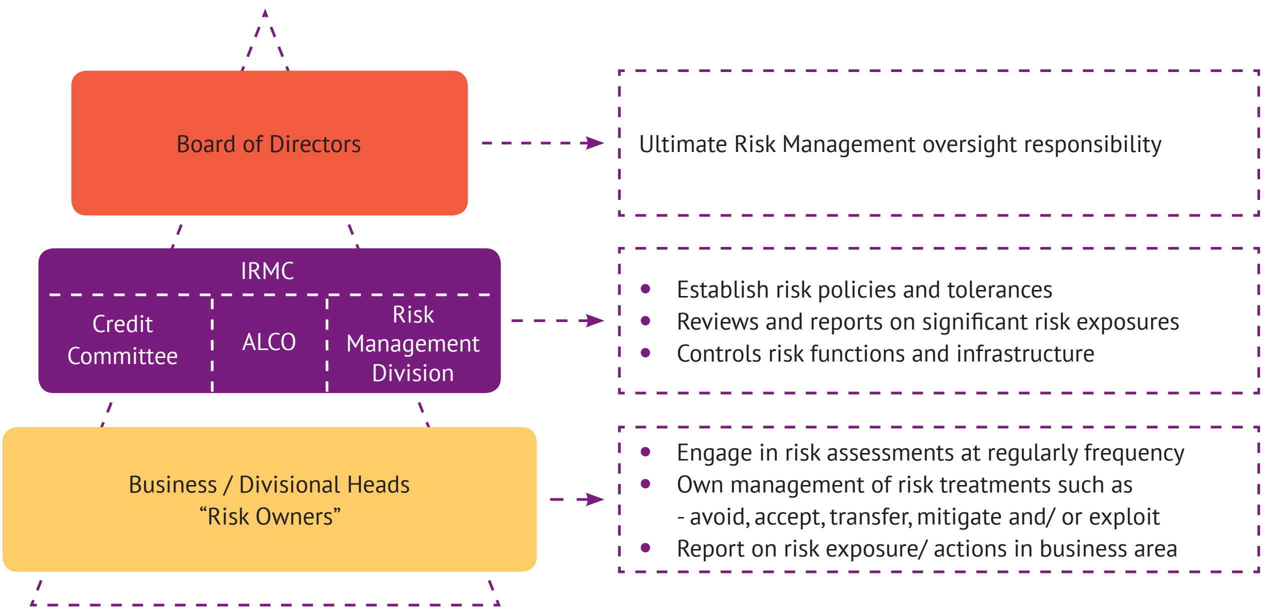
OVERVIEW

In the course of our daily operations, the Company takes on a wide variety of risks. These risks arise from the products/ services we offer and the business activities that the Company is engaged in. An effective risk management is fundamental to the business activities of the Company. While we remain committed to increasing shareholder value by developing and growing our business within our board-determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

The Board determines the risk appetite based on current and anticipated exposures and views on the economy in normal and stressed conditions. In effect, the risk appetite is designed to measure the magnitude of market volatility and stress which the Company can withstand, while meeting its financial goals and regulatory requirements. This enables the risk function to set, monitor and enforce appropriate risk limits.

RISK GOVERNANCE

We believe that an effective Risk Management begins with effective risk governance. The Company has an established risk governance structure with an active and engaged Board of Directors supported by an experienced management team. The following figure illustrates the risk governance structure of the Company.



The risk management function serves to enable the business risk owners and executive management to carry out their respective responsibilities for the execution of risk framework. The ultimate risk oversight responsibilities remain at the Board level and the Board of Directors, either directly or through Integrated Risk Management Committee (IRMC) ensures that decision-making is aligned with the Company's strategies. The Board receives regular updates on key risks indicators of the Company.

The IRMC plays a catalytic role in formulating and recommending relevant policy framework to the Board in conformity with the Directions issued by the regulator on Risk Management to ensure the safety and financial soundness of the Company. IRMC is entrusted with the responsibility by the Board to have in place a well structured and effective risk policy and framework. The IRMC is supported by the Credit Committee, Asset and Liability Management Committee and an independent Risk & Compliance Management Division headed by the "Head of Risk & Compliance".

The Credit Committee is entrusted to implement credit policies approved by the Board while reviewing and making recommendations periodically, that arise in day to day high value credit decisions, managing of portfolio delinquency and establishing strategies to improve the quality of credit disbursements.

The Asset and Liability Committee is engaged in Liquidity Risk Management, Interest Rate Risk Management, Capital Planning, Product Pricing, Settings of appropriate Margins and conducting reviews on shock analysis, stress testing and sensitivity analysis and reporting the identified concerns to IRMC and / or Board.

Independent Risk & Compliance Management Division is entrusted with independent oversight function, assisting in identifying and managing risks, monitoring the status of remedial actions and monitoring the compliance with risk limits and reporting.

Three lines of defence

The Company's three lines of defence model helps to oversee risks and provide an independent assurance.

1st Line - Business Units

Take and manage risk -
Primarily responsible for risk management of the Company by managing the risk-reward trade-off within the scope of risk tolerance and policies. The process of assessing, evaluating and measuring risk is ongoing and integrated into day-to-day activities of the business. This process includes implementing the Company's risk management framework, identifying issues and taking remedial action where required.

2nd Line - Oversight Function

Set risk policy and monitor -
The risk management function is primarily accountable for setting the Company's risk management framework and policy, providing oversight and independent reporting. This function doesn't have the business line responsibilities and provide an independent overview of the effectiveness of risk management by the first line of defence.

3rd Line - Independent Assurance

Validate -
Provides an independent assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures, and reports to the Audit Committee.

CREDIT RISK

Credit Risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit Risk arises in the Company's direct lending operations, and investment activities where counterparties have repayment or other obligations to the Company. The Credit Risk Management of lending operations and investment activities are the responsibilities of the Credit Committee and the Asset & Liability Committee, the two key Management Committees. The Board of Directors monitors the performance of these management committees with the assistance of the Integrated Risk Management Committee.

The Board of Directors approves the Company's Credit Risk framework, which provides the overall structure that supports effective governance of the Company's Credit Risk. The Company's Credit Policy, Credit Risk Appetite and the Credit Risk framework set expectations for the conduct of the Credit Risk Management activities and behaviour throughout the organisation. This ensures,

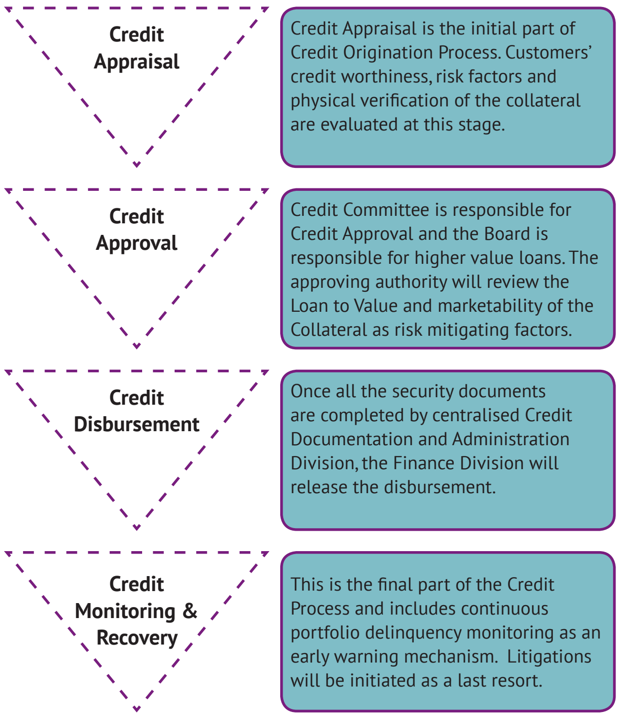
- A consistent and effective execution of Credit Risk Management activities across the Company
- A strong Credit Risk Management culture
- A performance that is in line with strategic objectives
- Compliance with regulatory requirements in relation to lending activities

Credit Process

The Company's credit process ensures that loans are granted within the customers' financial capacity and that delinquent loans are identified at an early stage and managed proactively. Assessing customer's financial capacity is an element of the credit approval process. The Company follows a policy of mitigating Credit Risk by

Risk Management Report *Contd.*

means of collateralisation and/or guarantees. The credit control environment verifies that credit facilities granted are in compliance with credit policies and in alignment with the Company's Credit Risk Appetite. The following figure defines the credit process of the Company,

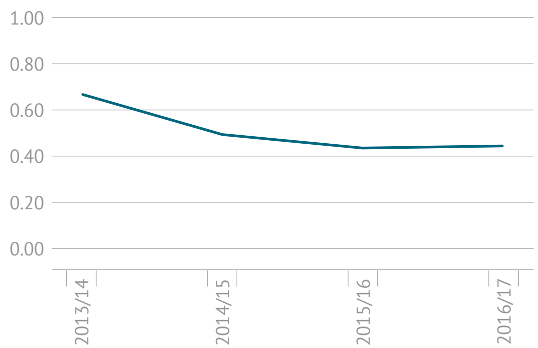


Concentration Risk

The Credit Risk profile is monitored and strengthened in accordance with the Credit Risk Appetite, which encompasses credit quality and Credit Concentration (limits on single borrowers, products, collateral and geographical regions). As a part of the overall risk appetite framework, the Company has implemented a set of frameworks to manage Credit Concentrations. The frameworks cover the following concentrations:

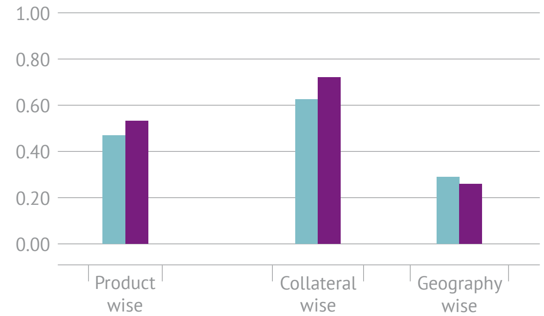
- Single-borrower concentrations
- Product concentrations
- Collateral concentrations
- Geographical concentrations

The Company uses the Gini Coefficient, based on the Lorenz curve of inequalities to measure the Single-borrower concentrations. The Gini Coefficient varies from zero to one. The closer to zero, the more equal is the distribution of loans in the portfolio. A Coefficient closer to one indicates a less equal distribution of loans in the portfolio.



Gini Coefficient

The Herfindahl - Hirschman Index (HHI) is used to measure the Concentration risk (Product, Collateral and Geographical concentrations). A well diversified portfolio has an HHI value close to zero and a high concentrated portfolio may represent a very high HHI value.



Herfindahl - Hirshman Index

Impairment Charges and Non-Performing Loans

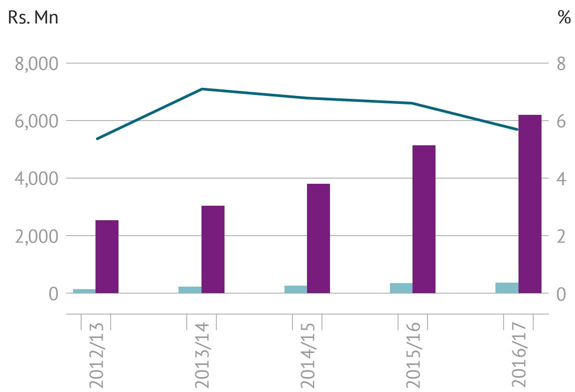
The Company conducts impairment tests collectively as well as individually (for individually significant loans and advances) in accordance with IFRSs. The Company assesses all individually significant credit facilities for objective evidence and impairment is calculated based on a discounted cash flow model. The charge equals the difference between the carrying amount and the present value of the estimated future cash flow from the asset, including the realisation value of collateral.

In addition to the individual impairment charges, the Company is required to test the remaining Loan portfolio collectively. This includes,

(a) Loans and Advances which are not individually significant,
(b) Individually significant but no objective evidence of impairment is found, and
(c) Individually significant with objective evidence of impairment and however where the present value of the estimated future cash flow exceeds the carrying amount of the Loan.

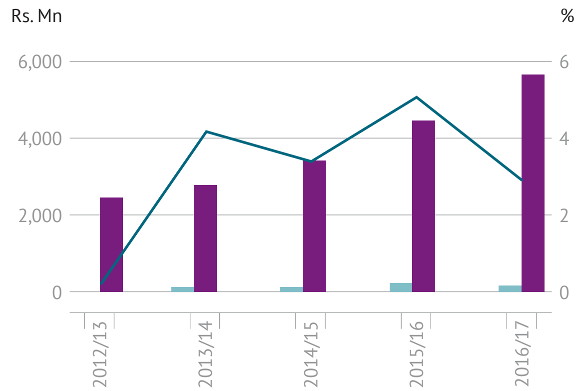
Collective impairment charges are calculated by grouping the Loans and Advances with similar credit characteristics.

The allowance for Loan Losses to Gross loan ratio has declined to 5.68% during the financial year compared to 6.60% in the previous year. This ratio has increased considerable over the years as a result of strengthened credit risk management practices of the Company. Similarly, the credit cost ratio has also improved to 2.91% in the year under review compared to 5.06% in 2015/16.



Allowances for loan losses to Gross loans

- Allowance for loan losses
- Gross loans
- Allowances for loan losses to Gross loans



Credit Cost Ratio

- Provision for loan losses
- Average Loans & Advances (Gross)
- Credit Cost Ratio

Stress testing for credit risk

The Company conducts a regular stress test to assess the impact to Capital Adequacy Ratio (Core Capital Ratio) due to increase in impairment charges with identified stress scenarios, in order to ensure that the Company operates with adequate capital. Stress tests were carried out by the Company to gauge the potential impact of the following hypothetical stress scenarios,

Increase in Allowance for Loan Losses to Gross Loans Ratio

Capital Adequacy Ratio (Core) as at 31.03.2017 - 19.41%		
Scenario	**Magnitude of the Shock**	**Shock Adjusted Capital Adequacy Ratio (Core)**
1	1%	18.59%
2	2%	17.76%
3	3%	16.90%

Allowance for Loan Losses to Gross loans Ratio as at 31/03/2017 is 5.68%.

Top 20 Customers Falling into Delinquent Category

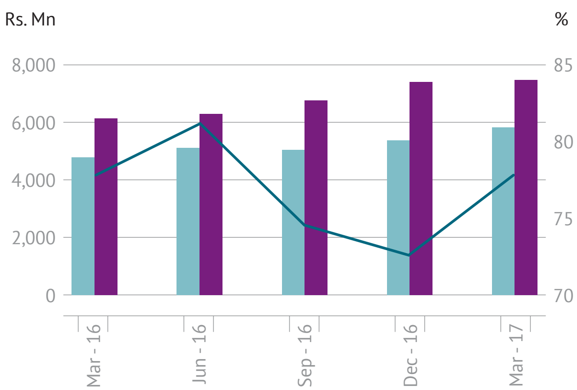
Capital Adequacy Ratio (Core) as at 31.03.2017 - 19.41%		
Scenario	**Magnitude of the Shock**	**Shock Adjusted Capital Adequacy Ratio (Core)**
1	Top 5	14.96%
2	Top 10	13.83%
3	Top 20	10.94%

LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due to suppliers, settlement of borrowings and lending and investment commitments. An effective liquidity risk management is crucial to maintain the confidence of depositors and counterparties, manage the funding cost and to enable the core businesses to continue the generation of revenue even under adverse circumstances.

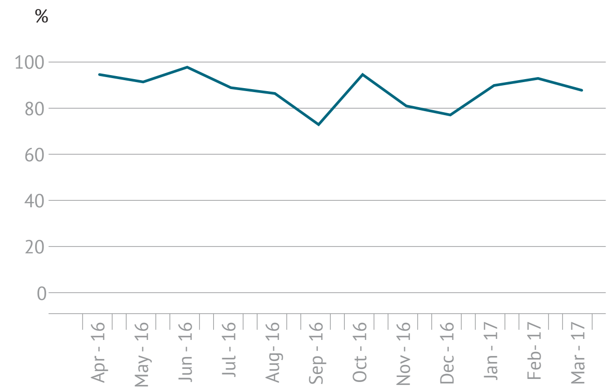
The objective of liquidity risk management is to ensure that sufficient funding is available at all times irrespective of cyclical fluctuations in the market. The Company analyses periodical liquidity requirements with the assistance of the ALCO in order to ensure satisfactory liquidity status at all times. The ALCO uses the Statutory Liquid Asset Ratio, Net Loans to Total Assets Ratio, Deposit Renewal Ratio and Funding Mix to evaluate the liquidity position on a regular basis. ALCO also considers the Funding / Deposits concentration risk on a regular basis. During the year under review, the Company maintained a pool of high liquid, unencumbered assets that can be readily sold or pledged to secure any borrowings.

Risk Management Report *Contd.*

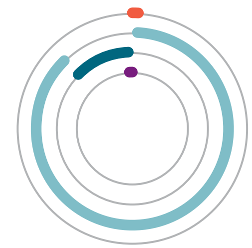


Net Loans to Total Assets Ratio

- Net Loans
- Total Assets
- Net Loans to Asset Ratio

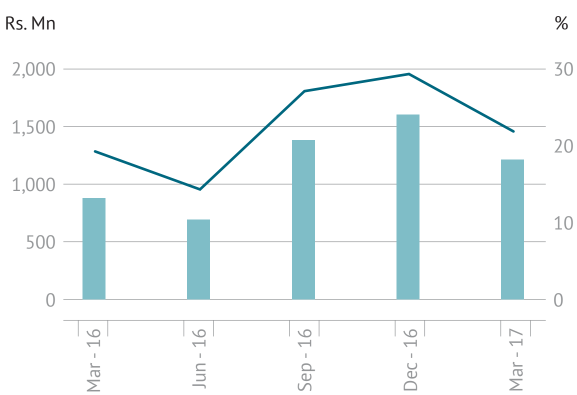


Deposit Renewal Ratio



Funding Mix - 2015/16

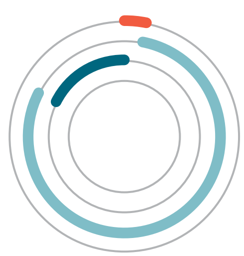
Due to Banks	0.90%
Due to Customers	86.76%
Equity	11.75%
Debt Instruments	0.59%



Liquid Assets

- Liquid Assets
- Liquid Asset Ratio

Funding Mix



Funding Mix - 2016/17

Due to Banks	3.07%
Due to Customers	79.58%
Equity	17.35%
Debt Instruments	0.00%

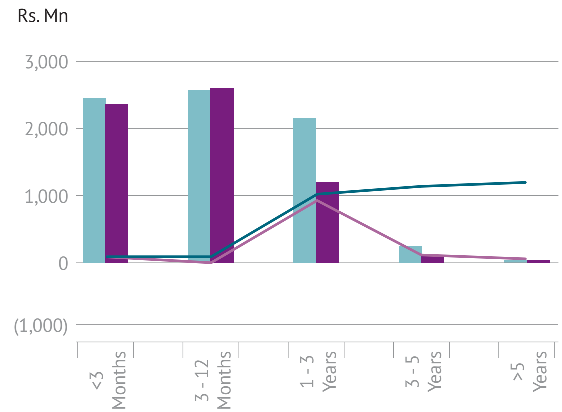
Contingency Funding Plan

The Company maintains a Contingency Funding Plan (CFP) that specifies the approach for analysing and responding to actual and potential liquidity requirements. The CFP outlines an appropriate governance structure for the management and monitoring of liquidity events (Company specific triggers as well as systemic triggers), processes for effective internal and external communication, Severity Levels and Reponses including identification of potential counter measures to be considered at various stages of an event.

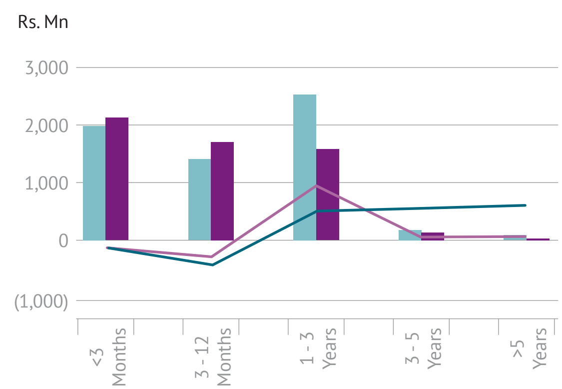
Integrated Risk Management Committee and the Board of Directors continuously review the liquidity position of the Company and contingency funding sources.

Liquidity Gap

The Company assesses on a continuous basis the vulnerability of liquidity and solvency related issues that arise mainly due to mismatches in its assets and liabilities. ALCO monitors the Maturity Gap Statement on a monthly basis to reduce the mis-matches as much as possible in each of the time frames. Maturity Gap represents the ratio of assets to liabilities maturing or having a scheduled amortisation in a given time frame. This Gap represents the estimated cash flows of the month end Financial Position.



Maturity Gap as at 31.03.2017



Maturity Gap as at 31.03.2016

Stress Testing for Liquidity Risk

Liquidity stress testing is one of the key tools for measuring liquidity risk and evaluating the Company's short-term liquidity position. We use stress testing to evaluate the impact of sudden and severe stress events on our liquidity position. This helps ALCO to assess and determine the buffers against potential liquidity shocks. Stress testing were carried out by the Company to determine the potential impact of the following hypothetical stress scenarios,

Unexpected fall in Deposit Base

Statutory Liquid Asset Ratio - 21.81%			
Scenario	Magnitude of the Shock (Fall in Deposit Base by)	Stress Adjusted Liquid Asset Ratio	Stress Adjusted Liquid Asset Ratio with Contingent Funds
1	5.0%	17.69%	21.62%
2	7.5%	15.46%	19.51%
3	10.0%	13.11%	17.27%

Unexpected fall in the Deposit Renewal Ratio (over next 3 months)

Statutory Liquid Asset Ratio - 21.81%			
Scenario	Magnitude of the Shock (Fall in Renewal Ratio by)	Stress Adjusted Liquid Assets Ratio	Stress Adjusted Liquid Asset Ratio with Contingent Funds (%)
1	75%	15.11%	19.17%
2	50%	7.16%	11.60%

Statutory Liquid Asset Ratio - 21.81%			
Scenario	Magnitude of the Shock (Fall in Renewal Ratio by)	Stress Adjusted Liquid Assets Ratio	Stress Adjusted Liquid Asset Ratio with Contingent Funds (%)
3	25%	(2.44)%	2.46%

MARKET RISK

Market risk refers to the risk to an institution resulting from movements in market prices, in particular, changes in interest rates, foreign exchange rates, equity and commodity prices. The Company is exposed to Market risk that may arise as a result of values of assets and liabilities or revenues being adversely affected by changes in market conditions. This includes interest rates, equity prices and commodity prices (vehicle / collateral prices).

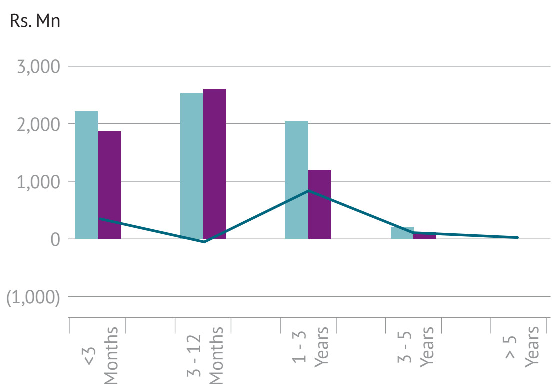
Interest Rate Risk

Interest rate risk management in finance business has assumed such importance during the last decades in relation to the interest rate volatility. Interest rate risk is the risk that changes in market rates which will adversely affect the financial institution's net worth and earnings. The Company's major line of business is the financial intermediation function and the impact of interest rate risk is mainly on interest earnings.

The Asset and Liability Committee (ALCO) monitors and reviews the Company's net interest income that ultimately affects the performance in financial terms. For the purpose of proper mitigation of risks in this area, ALCO takes into account the proper maintenance of the interest spread and net interest margin for the Company, principally through minimising of gaps between rate sensitive assets and rate sensitive liabilities.

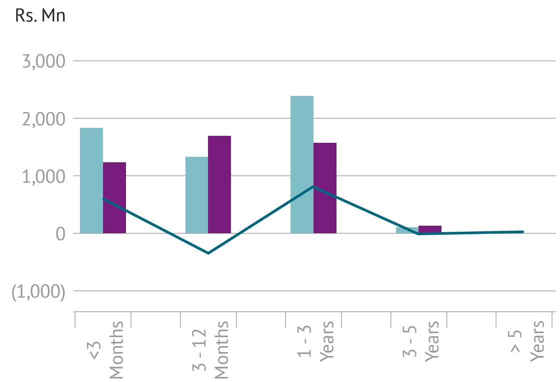
Risk Management Report *Contd.*

The change in interest rates in the market place from time to time requires the Company to assess its assets and liabilities portfolio with particular attention in re-pricing the both. In order to ensure that the interest spread and net interest margin are maintained, ALCO conducts monthly reviews and re-prices the assets and liabilities, where necessary.



Reprising Gap - 2016/17

Rate Sensitive Assets
Rate Sensitive Liabilities
Reprising Gap



Reprising Gap - 2015/16

Rate Sensitive Assets
Rate Sensitive Liabilities
Reprising Gap

Equity Risk

This is the risk associated with volatility in stock prices. The Company is exposed to equity price risk as a result of our investments in marketable equity securities. ALCO regularly reviews the impact from adverse movement in the equity investments held by the Company. However, the Company holds a relatively small portion of investments in equities and maintains a diversified portfolio.

Equity Investment- Sector Concentration 2016/17

Manufacturing	20.30%
Financial Services	38.33%
Trading	0.51%
Hotels	7.36%
Services	15.53%
Others	17.97%

Equity Investment- Sector Concentration 2015/16

Manufacturing	13.85%
Financial Services	41.16%
Trading	0.60%
Hotels	9.17%
Services	17.28%
Others	17.94%

OPERATIONAL RISK

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to inadequate or failed internal processes or systems, human error, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. It exists in some form in every Company's business and function. Operational risk cannot only result in financial loss, but also regulatory sanctions and damage to the Company's reputation. The Company is very successful in managing operational risk with the view to safeguarding client assets and preserving shareholder value.

The Company has developed policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. The governing principles include the three lines of defence model which helps to ensure proper accountability and clearly define the roles and responsibilities for operational risk management. The individual business units are accountable for management and control of the significant operational risks to which they are exposed.

The Company has a governance and organisational structure through which operational risk is managed. As pre-requisite to management of Operational Risk the Company defined the areas of responsibility for key management including segregation of duties between key functions. The system has as its priorities to find out errors/ frauds or other aspects on mismanagement, to prevent errors or frauds or other related aspects, monitoring of operational procedures, assisting in resolving issues for the purpose of control, guiding human resources in the execution of businesses and providing a favourable business environment with good governance. Further, an independent Internal Audit Division is responsible for verification of significant risks identification and assessment, and for testing controls to ensure that overall risk is at an acceptable level. The Internal Audit Division is also responsible for auditing and assessing the Company's operational risk management framework and its design and effectiveness.

STRATEGIC RISK

Strategic risk is the risk that the Company's business strategies are ineffective, being poorly executed, or insufficiently resilient to changes in the business environment. The Board of Directors is ultimately responsible for oversight of strategic risk, by adopting a strategic planning process and approving, on a regular basis. The Key Management Team meets regularly to evaluate the effectiveness of the Company's strategic plan, and consider amendments, if any, are required and recommends to the Board for final approval. The Company's three year strategic plan is in the final stage and it describes the overall business plan for the next three years with clearly defined risk limits.

REPUTATIONAL RISK

Reputational risk is the risk of negative publicity about the Company's conduct, business practices, whether true or not, will adversely affect its revenue, operations or customer base, or require costly litigation or other defensive measures. Negative publicity about Company's practices may involve any aspect of its operations, but usually relates to questions of business ethics and integrity, or quality of products and services. Reputational risk is managed and controlled throughout the Company by codes of conduct, governance practices and risk management programmes, policies, procedures and training. All Directors, Officers and employees have a responsibility to conduct their activities in accordance with the guidelines for business conduct, and in a manner that minimises reputational risk.

EVENTS CALENDAR

UPGRADING BRANCH NETWORK

Abans Finance PLC has always been committed to maintain a workplace environment which is safe and comfortable to work in. During the year 2016/17, we upgraded our Branch & Customer Service network via emphasising easy access to our customers whilst continuing to capture market share and achieving lending targets.

WORK LIFE BALANCE

We have prioritised the enhancement of the work-life balance of staff members, which is essential to realise the mutual objectives of the Company and the employees. Therefore, we encouraged them to improve and display their talents in areas such as sports. Outstanding achievers were given support to improve their performance and represent the Company in mercantile tournaments.

AFPLC's Welfare Society ensures the well-being of the staff members. A committee appointed annually plans the welfare agenda of the Company, initiating activities for the staff members. On an individual basis, financial assistance is extended to staff members in emergency situations and for sports activities. On a common basis, numerous events are organised to improve interaction between staff members and their families.

AFPLC SPORTS DAY

AFPLC Sports day held at the Bloom Field Sports Grounds.

ACHIEVEMENTS IN SPORTS

FHA Sports Day - 100 Meters-Women 1st Runner up – Ms.W M M Madubashini

Runner up of the Netball Tournament organised by Abans PLC Sports Club

CA SRI LANKA ANNUAL REPORT AWARDS 2016

In 2016, the Company once again received an award for excellence in Annual Report and Accounts for its good corporate governance reporting and its ethical and transparent financial activities.

The Company's Annual Reports for the years 2011, 2012, 2014 and 2015 were also recognised by the Institute of Chartered Accountants of Sri Lanka in the respective Annual Awards Ceremonies.

DONATIONS AND CHARITIES

During the year, we provided donations, charities and sponsorships for various religious organisations, government bodies and schools, with the intention of supporting the community. Most of these donations and charities were annual allocations where AFPLC continues to support them for a long period of time.

As a special project of the Company, the welfare society continued to engage in providing support to the flood affected areas.

Events Calendar *Contd.*

AFPLC CHRISTMAS PARTY

For the Second consecutive year in Abans Finance PLC, a Christmas Party was held in December 2016, which drew an emphatic response from all divisions.

BRANCH GET-TOGETHER

Two separate events were held at hotel Heritage Anuradhapura and Hotel Tree of Life - Kandy for branch staff in the month February 2017. It was a day full of fun and frolic activities for staff.

VESAK DANSALA

Abans Finance staff gathered in their numbers to commemorate Vesak with an Ice Cream Dansala, which was frequented by huge crowds.

FINANCIAL INFORMATION

REPORT OF THE BOARD OF DIRECTORS

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GENERAL

The Directors of Abans Finance PLC have pleasure in presenting to the shareholders the report of the Directors together with the Audited Financial Statements for the year ended 31st March 2017 and the Independent Auditor's Report on those Financial Statements in conformity with the requirements of the Companies Act No. 7 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued thereunder.

The Company was incorporated as a Public Company in terms of the Companies Act No. 17 of 1982 and was subsequently re-registered as per the requirements of the Companies Act No. 7 of 2007 on 15th June 2009. The Company registration No. is PB-1015-PQ. The Ordinary Shares of the Company are quoted in the Colombo Stock Exchange. The Registered Office is at No. 498, Galle Road, Colombo 03 and the Head Office / principal place of business is located at No. 456, R. A. De Mel Mawatha, Colombo 03.

PRINCIPAL ACTIVITIES

The principal business activity of the Company is the conduct of finance business as defined in the Finance Business Act No. 42 of 2011 and includes the Acceptance of Deposits, granting Finance Leasing, Hire Purchase, Mortgage Loans, Personal Loans, Real Estate and Capital Market Operations.

REVIEW OF PERFORMANCE FOR 2016/2017 AND FUTURE DEVELOPMENT PLAN

The Chairman's Message, Chief Executive Officer's Review and the Management Discussion and Analysis provide a comprehensive analysis of the financial performance, financial position, and the state of affairs of the Company together with the important events that took place during the year under review and future development plans.

THE FINANCIAL STATEMENTS

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRSs). The Financial Statements are duly certified by the Head of Finance and approved by the Board of Directors and signed on behalf of the Board by the Chairman and Managing Director in accordance with the Companies Act No. 7 of 2007.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible to oversee the preparation of Financial Statements with a view to ensure that the Financial Statements comply with the provisions of the Sri Lanka Accounting Standards Act No. 15 of 1995, and provide additional disclosures as required by the Companies Act No. 7 of 2007 and the continuing listing requirements of the Colombo Stock Exchange, subject to the provisions of Section 190 (1) of the Companies Act.

INDEPENDENT AUDITOR'S REPORT OF THE COMPANY

The Company's External Auditors M/s. Ernst & Young performed the audit of the Financial Statements for the year ended 31st March 2017 and their report as required by Section 168 (1)(c) of the Companies Act is provided together with the Audited Financial Statements.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The significant accounting policies adopted in the preparation of the Financial Statements are given in the Audited Financial Statements.

GOING CONCERN

The Board of Directors has reasonable expectation that the Company has adequate resources to continue the business activities in the foreseeable future. Therefore, the Company has adopted a "Going Concern" basis in preparing its Financial Statements.

ACCOUNTING PERIOD

The financial reporting period reflects the information from 1st April 2016 to 31st March 2017.

FINANCIAL PERFORMANCE

The Company's Profit before Taxation amounted to Rs. 197,406,328/- (after deducting Value Added Tax on Financial Services of Rs. 55,318,763/-) in comparison to Rs.130, 480,894/ - in 2015/2016. After deducting Rs.63, 842,188/- (Rs. 40,356,230/- in 2015/2016) for Taxation, the Profit after Tax for the year amounted to Rs.133, 564,140/- (Rs.90, 124,664/- in 2015/2016). This represents net profit growth by 48% compared to the previous financial year. Details are given in the Statement of Comprehensive Income on pages 98 to 99 to the Annual Report.

PROFIT APPROPRIATIONS

A summary of the financial results of the Company for the years ended 31st March 2016 and 31st March 2017 are given below;

Description	2015/2016 (Rs)	2016/2017 (Rs)
Profit before Taxation from Operations	130,480,894	197,406,328
Provision for Income Tax	(40,356,230)	(63,842,188)
Profit for the Year	90,124,664	133,564,140
Transfer to Statutory Reserve Fund	(18,025,000)	(26,712,829)
Retained Profit Brought Forward From the Previous Year	97,837,286	169,597,476
Direct Cost on Right Issue	-	(785,447)
Direct Cost on Private Placement	-	(1,279,995)
Other Comprehensive Income Net of Tax	(339,475)	2,542,503
Retained Earnings Carried Forward	**169,597,476**	**276,925,848**

TOTAL OPERATING INCOME

The Total Operating Income of the Company for 2016/2017 was Rs. 912,119,367/- compared to Rs. 759,122,945/- in 2015/2016. An analysis of the Income is given on pages 98 to 99 to the Annual Report.

EQUITY AND RESERVES

The stated capital and reserves were Rs.1, 210,265,757/- million (Rs.614, 525, 106/- million as at 31st March 2016).

The Equity and Reserves of the Company as at the end of each of the following years were follows;

Description	2015/2016 (Rs)	2016/2017 (Rs)
Stated Capital *	382,373,630	844,073,080
Statutory Reserve	62,554,000	89,266,829
Retained Earnings	169,597,476	276,925,848
Total Shareholders' Funds	614,525,106	1,210,265,757

* The movement in the Stated Capital during the Financial Year under review is as follows;

Description	Stated Capital (Rs)
As at the beginning of the year (01/04/2016)	382,373,630
Rights Issue of Shares (listed in May 2016)	185,000,000
	567,373,630
Private Placement of Shares (listed in November 2016)	276,699,450
As at the end of the Year (31/03/2017)	844,073,080

ISSUE OF ORDINARY SHARES DURING THE FINANCIAL YEAR

(a) Issue of Shares by way of Rights Issue

The Ordinary Resolution pertaining to the issue of 7,400,000 ordinary shares by way of a Rights Issue (offered to the existing holders in the proportion of One (01) new ordinary share for every Five (05) existing ordinary shares held in the Capital of the Company) at a consideration of Rupees Twenty Five (Rs.25/-) per share amounting to a total consideration of Rupees One Hundred and Eighty Five Million (Rs. 185,000,000/-), was approved by the shareholders at an Extraordinary General Meeting held on 17th March, 2016 and the allotment for cash consideration was completed during the financial year under review. The status of the utilisation of the proceeds as at 31.03.2017 is as follows,

Report of The Board of Directors *Contd.*

Continuous Disclosure regarding status of utilisation of funds raised via Rights Issue (Listed in May 2016) Rights Issue proceeds utilisation as at 31-03-2017

Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds in Rs. (A)	Percentage of total proceeds	Amount utilised in Rs. (B)	Percentage Utilised against allocation (B/A)	Clarification if funds are not fully utilised including where the funds are invested
To expand the lending activities of the Company	183,800,000	1st Quarter 2016/2017	184,214,553	99.6%	184,214,553	100%	-
Expenses relating to the rights issue	1,200,000	1st Quarter 2016/2017	785,447	0.4%	785,447	100%	-
	185,000,000		**185,000,000**	**100%**	**185,000,000**		

(b) Issue of Shares by way of Private Placement

The Special Resolution pertaining to the issue of 11,067,978 Ordinary Shares by way of a Private Placement to Ironwood Investment Holding (Private) Limited at a consideration of Rupees Twenty Five (Rs.25/-) per share amounting to a total consideration of Rupees Two Hundred and Seventy Six Million Six Hundred and Ninety Nine Thousand and Four Hundred and Fifty (Rs. 276,699,450/-), was approved by the shareholders at an Extraordinary General Meeting held on 30th September 2016 and the allotment of shares to Ironwood Investment Holding (Private) Limited for cash consideration was completed during the financial year under review. The status of the utilisation of the proceeds as at 31.03.2017 is as follows,

Continuous Disclosure regarding status of utilisation of funds raised via private placement (Listed in November 2017) Private placement proceeds utilisation as at 31-03-2017

Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds in Rs. (A)	Percentage of total proceeds	Amount utilised in Rs. (B)	Percentage Utilised against allocation (B/A)	Clarification if funds are not fully utilised including where the funds are invested
To expand the lending activities of the Company	246,699,450	3rd Quarter 2016/2017	246,699,450	89.2%	46,699,450	100%	-
Investment in IT systems (Hardware and Software)	30,000,000	3rd Quarter 2016/2017	30,000,000	10.8%	13,519,518	45%	Remaining funds are invested in Placements with Banks
	276,699,450		**276,699,450**	**100%**	**260,218,968**		

PROPERTY, PLANT AND EQUIPMENT

Capital Expenditure incurred on Property, Plant and Equipment amounted to Rs. 26,179,255/- in 2016/2017 (Rs. 60,472,866/- in 2015/16). Details applicable to Capital Expenditure are given in Note 27 to the Financial Statements.

BOARD OF DIRECTORS

In terms of the Articles of Association of the Company, the Board of Directors, as at 31st March 2017 consisted of five Directors including the Chairman and the Managing Director. The list of Directors who held office as at the end of the financial year is as follows.

Name of the Director	Independent / Non-Independent	Executive /Non-Executive
Mr. R. Pestonjee	Non-Independent	Non-Executive
Mr. V. K. Choksy	Independent	Non-Executive
Mr. Mayank P. Parekh (Alternate Director – Mr. C. H. A. W. Wickramasuriya)	Non-Independent	Non-Executive
Mr. Ajith S. Ratnayake	Independent	Non-Executive
Mr. K. B. Wanigasekara	Non-Independent	Executive

RETIREMENT / CESSATION AND NEW APPOINTMENT OF DIRECTORS

Mr. Channa Dilhan Pathirana ceased to be a Director of the Company with effect from 26th November 2016 after completing nine years of service as a Non-Executive Director of the Company in conformity with Section 4(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008. Mr. Mayank Pravin Parekh was appointed as a Non-Executive Director of the Company with effect from 14th December 2016 and Mr. Chanaka Wickramasuriya was appointed as an alternate Director to Mr. Mayank Pravin Parekh with effect from the same date. The approval of the Central Bank of Sri Lanka has been obtained for both appointments in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011.

RE – ELECTION OF DIRECTORS

In conformity with Article 26 (05) of the Articles of Association of the Company and in terms of Section 4 (10) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, Mr. Mayank Pravin Parekh, Non Executive Director who was appointed with effect from 14th December 2016 retires at the Annual General Meeting and being eligible, offers himself for re-election with the unanimous support of the other Directors on the recommendation of the Nomination Committee and the Board of Directors of the Company.

In terms of Section A.8 of the Code of Best Practice on Corporate Governance 2013, the following Directors will also retire at the Annual General Meeting and being eligible, offer themselves for re-election with the unanimous support of the other Directors on the recommendation of the Nomination Committee and the Board of Directors of the Company.

1. Mr. V. K. Choksy – Independent Non Executive Director
2. Mr. Ajith S. Ratnayake – Independent Non Executive Director

All Directors nominated for re-election have submitted declarations and affidavits in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.3 of 2011 issued by the Central Bank of Sri Lanka.

MEETINGS OF THE BOARD OF DIRECTORS AND BOARD SUB COMMITTEES

Details of Directors' meetings and Board Sub Committee meetings are given in the Corporate Governance Report.

BOARD SUB COMMITTEES

There are Five permanent committees of the Board, namely, Audit Committee, Related Party Transactions Review Committee, Integrated Risk Management Committee, Remuneration Committee and Nomination Committee. The details of the members are as follows;

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AUDIT COMMITTEE

All members of the Audit Committee are Independent Non Executive Directors. The Managing Director, Chief Executive Officer, Chief Operating Officer, Senior Management, Internal and External Auditors attend the meeting by invitation as and when required.

- Mr. Ajith S. Ratnayake – Chairman (Independent Non-Executive Director)
- Mr. V. K. Choksy – (Independent Non-Executive Director, Senior Director)

REMUNERATION COMMITTEE

- Mr. V. K. Choksy –Chairman (Independent Non-Executive Director/ Senior Director)
- Mr. R. Pestonjee (Non Independent Non Executive Director) *
- Mr. Ajith S. Ratnayake (Independent Non-Executive Director)
- Mr. Mayank Parekh (Alternate Mr. Chanaka Wickramasuriya) (Non Independent Non Executive Director) **

* Resigned from the committee w.e.f 16th December 2016
**Appointed to the committee w.e.f. 16th December 2016

NOMINATION COMMITTEE

- Mr. R. Pestonjee – Chairman (Non Independent Non Executive Director)
- Mr. V. K. Choksy (Independent Non-Executive Director/ Senior Director)

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

- Mr. Ajith S. Ratnayake – Chairman (Independent Non-Executive Director)
- Mr. Mayank Parekh (Alternate Mr. Chanaka Wickramasuriya) (Non Independent Non Executive Director)*
- Mr. K. B. Wanigasekara (Managing Director)
- Mr. C.D. Pathirana (Non Independent Non Executive Director)**

*Appointed to committee w.e.f. 14th December 2016
**Ceased from the Board w.e.f. 26th November 2016 in terms of section 4(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

- Mr. Mayank Parekh (Alternate Mr. Chanaka Wickramasuriya) – Chairman (Non Independent Non Executive Director)*
- Mr. C.D. Pathirana – Chairman (Non Independent Non Executive Director) **
- Mr. K. B. Wanigasekara – Managing Director
- Mr. Roshan Nanayakkara – Chief Executive Officer
- Mr. Anura Frenando – Chief Operating Officer
- Mr. Chaminda Sugathadasa – Head of Branches
- Mr. Aruna Somasiri – Head of Credit & Recoveries
- Mr. M. Suthakar – Head of Risk & Compliance / Compliance Officer
- Mr. Gemunu Gunawardena – Head of Deposits
- Mr. Kamal Roshan – Head of Finance
- Ms. Mahika Rajakaruna – Manager Corporate Affairs
- Mr. Manura Rajakaruna – Manager IT

* Appointed to the committee w.e.f. 16th December 2016
** Ceased from the Board w.e.f. 26th November 2016 in terms of section 4(2) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.

DISCLOSURE OF DIRECTORS INTERESTS IN SHARES

Directors	As at 31-03-2017	As at 31-03-2016
Mr. R. Pestonjee	183,884*	153,237*
Mr. K. B. Wanigasekara	Nil	Nil
Mr. V. K. Choksy	Nil	Nil
Mr. C. D. Pathirana	Nil	Nil
Mr. Ajith S. Ratnayake	Nil	Nil
Mr. Mayank Parekh	Nil	Nil

* This includes 20,000 shares held jointly.

DIRECTORS' INTERESTS IN CONTRACTS AND RELATED PARTY TRANSACTIONS

The Directors' interests in contracts, if any, that could be classified as related party transactions in terms of the Sri Lanka Accounting Standard LKAS 24, are disclosed in Note 46 to the Audited Financial Statements.

Recurrent Related Party Transactions which exceed 10% of the gross revenue require disclosure as per Rule 9.3.2 of the Listing Rules of the Colombo Stock Exchange. As required, we tabulate below the relevant transactions:

Recurrent Transactions with Abans Auto (Private) Limited

Name of the Related Party	Abans Auto (Pvt.) Ltd.
Relationship	Affiliate Company
Nature of Transaction	Purchase of Motorcycles for Finance Leases
Aggregate value of Related Party Transactions entered into during the financial year	Rs. 2,096,101,772/-
Aggregate value of Related Party Transactions as a % of Net Revenue/ Income	129%
Terms and Conditions of the Related Party Transactions	Usual Terms available to the general public

Recurrent Transactions with Ironwood Investment Holding (Private) Limited

Name of the Related Party	Ironwood Investment Holding (Pvt.) Ltd.
Relationship	Significant shareholder and Mr. Hiran Embuldeniya is a Common Director of Ironwood Investment Holding (Private) Limited and Abans PLC (Holding Company of Abans Finance PLC)
Nature of Transaction	Fixed Deposits
Aggregate value of Related Party Transactions entered into during the financial year	Rs. 258,289,333/-
Aggregate value of Related Party Transactions as a % of Net Revenue/ Income	16%
Terms and Conditions of the Related Party Transactions	Usual Terms available to the general public

STATUTORY PAYMENTS

The Directors to the best of their knowledge and belief are satisfied that all material statutory payments due to the Government, other Regulatory Institutions and related to the employees have been made. The Board of Directors has assessed the status pertaining to statutory payments at the Board meetings for which regular Board Papers have been submitted by the Key Management Personnel.

APPOINTMENT OF AUDITORS

The Company's Auditors during the year under review were M/s. Ernst & Young, Chartered Accountants. The retiring auditors M/s. Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting. The Audit Committee has recommended the re-appointment of the Auditors.

SYSTEM OF INTERNAL CONTROL

The Board of Directors ensures that an effective and robust internal controls procedure is in place to safeguard the Company's Assets. The Board appointed Audit Committee reviews the adequacy and the integrity of the internal control systems relating to compliance and risk management.

Further, the Board has issued a Statement on the Internal Controls for Financial Reporting and an Assurance Report from External Auditors in terms of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 has also been obtained.

CORPORATE GOVERNANCE

The Board of Directors places heavy emphasis in maintaining an effective Corporate Governance framework within the Company. The report on Corporate Governance covers the extent of compliance in Corporate Governance.

OUTSTANDING LITIGATION

The Directors are of the opinion that pending litigation against the Company will not have any material impact on the financial position of the Company.

EVENTS OCCURRING AFTER THE REPORTING DATE

No material events have taken place since 31 March 2017 that requires disclosure except for the following;

(a) Issue of Shares by way of Rights Issue

The Company issued 11,093,595 ordinary shares by way of a Rights Issue in the proportion of One (01) Ordinary Share for every Five (05) Ordinary Shares held in the capital of the Company at a consideration of Rupees Twenty Five (Rs.25/-) per share amounting to a total consideration of Rupees Two Hundred and Seventy Seven Million Three Hundred and Thirty Nine Thousand Eight Hundred and Seventy Five (Rs. 277,339,875/-). The Ordinary Resolution pertaining to the above issue was approved by the shareholders at an Extraordinary General Meeting held on 5th April 2017 and the allotment for cash considerations was completed on 09.05.2017 (listed on 23.05.2017). The status of the utilisation of the proceeds as at 30.06.2017 is as follows,

Continuous Disclosure regarding status of utilisation of funds raised via Rights Issue (Listed on May 2017) Rights Issue proceeds utilisation as at 30.06.2017

Objective as per Circular	Amount allocated as per Circular in Rs.	Proposed date of utilisation as per Circular	Amount allocated from proceeds in Rs. (A)	Percentage of total proceeds	Amount utilised in Rs. (B)	Percentage Utilised against allocation (B/A)	Clarification if funds are not fully utilised including where the funds are invested
To expand the lending activities of the Company	275,839,875	1st & 2nd Quarter 2017/2018	276,708,733	99.8%	276,708,733	100%	-
Expenses relating to the Rights Issue	1,500,000	1st Quarter 2017/2018	631,142	0.2%	631,142	100%	-
	277,339,875		**277,339,875**	**100%**	**277,339,875**		

(b) Proposed Dividends

The Directors have recommended that a first and final dividend of Rs. 0.20 per share (in cash) be paid for the financial year ended 31st March 2017 subject to approval of the Shareholders at the forthcoming Annual General Meeting. The Board of Directors is satisfied that the Company would meet the solvency test immediately after the proposed dividend which will be paid in October 2017 in terms of the provisions of the Companies Act No. 7 of 2007 and Listing Rules of the CSE. The Board provided the Statement of Solvency to the auditors and obtained the Certificate of Solvency from the auditors in respect of the proposed dividend payment in conformity with the statutory provisions. Further, in terms of Guideline No. 01 of 2013, issued by the Central Bank of Sri Lanka, approval of the Director, Department of Supervision of Non-Bank Financial Institutions has been obtained for the proposed dividend.

(c) Resignation of Mr. Kithsiri Wanigasekara (Managing Director)

Mr. Kithsiri Wanigasekara has submitted a letter of resignation as a Director of the Company and the relinquishment of office of the Managing Director of the Company with effect from the date of the forthcoming Annual General Meeting of the Company. The Board of Directors accepted the resignation subject to approval from the Central Bank of Sri Lanka in terms of the Finance Companies (Structural Changes) Direction No. 01 of 2013.

(d) Appointment of Mr. Roshan Nanayakkara

The Nomination Committee of the Company has recommended and the Board of Directors is desirous of appointing Mr. Roshan Nanayakkara, the Chief Executive Officer of the Company, as a Director of the Company and as the Managing Director with effect from the date of the forthcoming Annual General Meeting of the Company subject to approval from the Central Bank of Sri Lanka in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No. 03 of 2011 and the passing of an Ordinary Resolution for the appointment as a Director by the shareholders at the said Annual General Meeting.

NOTICE OF THE ANNUAL GENERAL MEETING

The Eleventh Annual General Meeting of the Company will be held at the Organisation of Professional Associations of Sri Lanka, No. 275 /75, Professor Stanley Wijesundara Mawatha, Colombo 7 on Wednesday, 27th September 2017 at 9.30am.

For and on behalf of the Board of Directors,

Varners International (Pvt.) Ltd.
Corporate Secretaries
Level 14, West Tower, World Trade Centre,
Echelon Square, Colombo 1

15th August 2017

DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibilities of the Directors of Abans Finance PLC in relation to the preparation of Financial Statements as at 31 March 2017 are set out in this Statement.

The Financial Statements comprise the Statement of Financial Position as at the end of the period, the Statement of Comprehensive Income for the period, the Statement of Changes in Equity for the period and the Statement of Cash Flows for the period and Notes comprising a Summary of Significant Accounting Policies and other Explanatory Information.

The Directors are responsible to oversee the preparation of Financial Statements with a view to ensure that the Financial Statements comply with the provisions of the Sri Lanka Accounting Standards Act No. 15 of 1995, and provide additional disclosures as required by the Companies Act No. 7 of 2007 and the continuing listing requirements of the Colombo Stock Exchange.

The Directors are responsible for overseeing the preparation of Financial Statements with a view to ensure that the Company prepares Financial Statements which present fairly the financial position, financial performance and cash flows of the entity. The application of Sri Lanka Accounting Standards (SLFRSs & LKASs), with additional disclosure when necessary, is presumed to result in Financial Statements that achieve a fair presentation.

The Directors are required to oversee the preparation of Financial Statements with a view to ensure that all applicable Accounting Standards are followed as relevant in preparing the Financial Statements. This includes;

- Appropriate selection and application of accounting policies; and
- Judgements and estimates being made on an appropriate basis.

The Directors are responsible for overseeing the keeping of books of accounts with a view to ensure that proper accounting records which appropriately record and explain the Company's transactions are maintained.

SLFRSs require that the Company prepare Financial Statements on a going concern basis unless the management either intents to liquidate the entity or cease trading, or has no realistic alternative but to do so. The Directors have made an assessment and have concluded that the going concern basis is appropriate.

The Directors have overseen the maintenance of a system of internal control. The system of internal control comprise internal checks, internal audits and the whole system of financial and other controls required to carry on its business in an orderly manner, safeguard assets, prevent and detect fraud and other irregularities and secure as far as practicable accuracy and reliability of records. The details relating to the system of internal control are provided in the Statement of Internal Control, Report of the Integrated Risk Management Committee, Report of the Audit Committee and the Report of the Directors. The Directors obtained an Assurance Report from the External Auditors on the Statement of Internal Control.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

The Financial Statements of the Company have been certified by the Head of Finance of the Company, the officer responsible for their preparation as required by the section 151 (2) (b) and they have also been signed by two Directors of the Company as required by the section 151 (1) (c) of the Companies Act.

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments which were due and payable by the Company as at the date of the Statement of Financial Position have been paid or, where relevant, provided for.

The External Auditors, M/s Ernst & Young, Chartered Accountants were given access to all accounting records and other documents of the Company to carry out the audit as they considered appropriate to form their opinion on the Financial Statements.

Section 189 of the Companies Act No. 7 of 2007 states that a person exercising powers or performing duties as a Director of a Company-

Directors Responsibility for Financial Reporting *Contd.*

- Shall not act in a manner which is reckless or grossly negligent; and
- Shall exercise the degree of skill and care that may reasonably be expected of a person of his knowledge and experience.

Section 190 (1) of the said Act states:
Subject to the provisions of subsection (2), a Director of a Company may rely on reports, statements, and financial data and other information prepared or supplied, and on professional or expert advice given by any of the following persons:

- an employee of the Company;
- a professional adviser or expert in relation to matters which the Director believes to be within the person's professional or expert competence; Any other Director or committee of directors in which the director did not serve, in relation to matters within the Director's or Committee's designated authority.

Sub section (2) of that section states that provisions of subsection (1) shall apply to a Director, if, and only if, the Director:

- Acts in good faith;
- Makes proper inquiry where the need for Inquiry is indicated by the circumstances; and
- Has no knowledge that such reliance is unwarranted.

The Directors of the Company are of the view that they have discharged their responsibilities accordingly, and as set out in this Statement.

By order of the board,

Varners International (Pvt.) Ltd.
Corporate Secretaries,
Level 14, West Tower, World Trade Centre,
Echelon Square, Colombo 01.

15th August 2017

DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In line with the Finance Companies Corporate Governance Direction No.03 of section 10(2) (b), the Board of Directors present this report on Internal Control over Financial Reporting.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of the internal control mechanism in place at the Abans Finance PLC. ("Company")

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and this process includes the system of Internal Control over Financial Reporting. The process is regularly reviewed by the Board. The Board is of the view that the system of Internal Control over Financial Reporting in place, is adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purpose is in accordance with relevant accounting principles and regulatory requirements.

The management assists the Board in the implementation of the Board's policies and procedures pertaining to Internal Control over Financial Reporting. In assessing the Internal Control System over Financial Reporting, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Company. These in turn are being observed and checked by the Internal Audit Department of the Company for suitability of design and effectiveness on an on-going basis.

Company adopted the revised Sri Lanka Accounting Standards prefixed LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2016/17 based on the feedback received from the external auditors, internal audit department, regulators and the Board Audit Committee.

Progressive improvements on process to comply with new requirements of recognition measurement, classification and disclosure are being made by upgrading the new system required. In particular, due to time constraints, areas with respect to the processes such as related party transactions, monthly impairment computation and IT controls are being implemented as at the reporting date. Company is updating the relevant procedure manuals pertaining to these new requirements.

Confirmation

Based on the above processes, the Board confirms that the Financial Reporting System of the Company has been designed to provide reasonable assurance regarding the reliability of Financial Reporting and the preparation of Financial Statements for external purposes and has been done in accordance with Sri Lanka Accounting Standards.

External Auditors Assurance Report

The External Auditors have submitted an Assurance Report on the process adopted by the Directors on the system of internal control over financial reporting.

By order of the Board,

Chairman

Director

Chairman- Audit Committee

22nd June 2017

CEO'S AND CFO'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Abans Finance PLC for the year ended 31 March 2017 are prepared and presented in conformity with the following requirements;

- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka
- Companies Act No. 7 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Finance Business Act No. 42 of 2011 and amendments thereto
- Directions, determinations and guidelines issued by the Central Bank of Sri Lanka
- Listing rules of the Colombo Stock Exchange.
- Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The formats used in the preparation of the Financial Statements and disclosures made comply with the formats prescribed by the Central Bank of Sri Lanka.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Company. There are no material departures from the prescribed accounting standards in there adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, has been disclosed and explained.

Significant Accounting Policies and Estimates that involved a high degree of judgement and complexity were discussed with External Auditors and the Audit Committee. The Board of Directors and the management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. These estimates and judgements relating to the Financial Statements were made on a prudent and reasonable basis; in order that the Financial Statements reflect a true and fair manner, the form and substance of transactions and that the Company's state of affairs is reasonably presented. To ensure this, the Company has taken proper and sufficient care in installing a system of internal controls and accounting records, for safe guarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our Internal Audit Division has conducted periodic audits to provide a reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Company were audited by M/s. Ernst & Young Chartered Accountants, the Independent External Auditors and their report is given on page 97 to the Annual Report.

The Audit Committee of the Company meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. Audit Committee also reviewed the quality of Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Audit Committee report on pages 68 to 69 of this Annual Report. To ensure complete independence, the External Auditors and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the Audit and Non Audit Services provided by External Auditors, M/s Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors.

We confirm to the best of our knowledge;

- The Company has complied with all applicable laws, regulations and prudential requirements and there is no material non – compliance
- There are no material litigations that are pending against the Company
- All taxes, duties, levies and all statutory payments of the Company and all contributions, levies and taxes paid on behalf of and in respect of the employees of the Company as at the Statement of Financial Position date have been paid off where relevant provided for.

Kamal Roshan
Head of Finance

Roshan Nanayakkara
Chief Executive Officer

15th August 2017

EY
Building a better working world

Ernst & Young
Chartered Accountants
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TO THE SHAREHOLDERS OF ABANS FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Abans Finance PLC, ("the Company"), which comprise the statement of financial position as at 31 March 2017, 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 information set out on pages 98 to 158.

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 controls 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 March 2017, and of its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Report on other legal and regulatory requirements

As required by Section 163(2) of the Companies Act No. 7 of 2007, we state the following:

a) The basis of opinion, Scope and Limitations of the audit are as stated above.

b) In our opinion :
- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company, and
- The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 7 of 2007.

Ernst & Young

22 June 2017
Colombo

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 March 2017	Notes	2017 Rs.	2016 Rs.
Income	5	1,620,506,380	1,317,233,363
Interest Income	5.1	1,494,673,696	1,189,278,894
Interest Expenses	5.2	(623,639,761)	(481,221,503)
Net Interest Income		871,033,935	708,057,391
Fee and Commission Income	6.1	104,114,176	111,586,810
Fee and Commission Expenses	6.2	(84,747,252)	(76,888,915)
Net Fee and Commission Income		19,366,924	34,697,895
Net Gain/(loss) from Trading	7	948,394	(582,293)
Other Operating Income (net)	8	20,770,114	16,949,952
Total Operating Income		912,119,367	759,122,945
Impairment (Charges) / Reversal for loans and other losses			
Individual	9.1	(21,441,585)	(35,826,562)
Collective	9.2	(167,927,808)	(190,013,555)
Net Operating Income		722,749,974	533,282,828
Operating Expenses			
Personnel Costs	10	(217,088,659)	(166,916,649)
Depreciation & Amortisation	11	(18,660,549)	(12,908,611)
Other Operating Expenses	12	(234,275,675)	(192,788,213)
Operating Profit before Value Added Tax on Financial Services		252,725,091	160,669,355
VAT & NBT on Financial Services		(55,318,763)	(30,188,461)
Profit before Taxation from Operations		197,406,328	130,480,894
Provision for Income Taxation	13.1	(63,842,188)	(40,356,230)
Profit for the Year		133,564,140	90,124,664

Year ended 31 March 2017	Notes	2017 Rs.	2016 Rs.
Other Comprehensive Income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Available for sale financial asset - Reclassified to profit or loss		-	(130,255)
		-	(130,255)
Items that will not be reclassified to profit or loss			
Actuarial Gains/(Losses) on Defined Benefit Plan	34.1	3,531,254	(471,493)
Deferred Tax effect of above	13.1	(988,751)	132,018
		2,542,503	(339,475)
Other Comprehensive Loss for the Year, Net of Tax		2,542,503	(469,730)
Total Comprehensive Income for the Year		136,106,643	89,654,934
Basic Earnings Per Share (Rs.)	14	2.75	2.29

Accounting Policies and Notes from pages 103 to 158 form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2017	Notes	2017 Rs.	2016 Rs.
Asset			
Cash and Bank Balances	15	376,968,804	73,385,295
Placement With Banks	16	384,100,772	224,098,165
Repurchase Agreements	17	250,809,890	630,158,527
Financial Investments - Held for Trading	18	7,624,408	6,915,241
Loans and Advances	19	2,145,676,031	1,188,546,845
Lease rentals receivable & Stock out on hire	20	3,679,965,646	3,596,251,779
Financial Investments - Available for Sale	21	80,400	80,400
Financial Investments - Held to Maturity	22	238,572,963	21,669,813
Other Financial Assets	23	108,507,477	73,802,179
Real Estate Stock	24	66,050,693	83,066,481
Other Non Financial Assets	25	40,725,064	97,894,824
Tax Recoverable		20,800,270	-
Property, Plant & Equipment	27	85,843,673	75,811,265
Intangible Assets	26	22,681,042	15,608,896
Deferred Tax Assets	28	57,800,324	61,419,536
Total Assets		7,486,207,457	6,148,709,246
Liabilities			
Due to Banks	29	213,738,920	47,004,092
Due to Customers	30	5,550,552,545	4,539,362,221
Debt Instruments Issued and Other Borrowed Funds	31	-	31,110,631
Other Financial Liabilities	32	482,649,541	837,025,511
Other Non Financial Liabilities	33	13,862,374	8,086,521
Current Tax Liabilities		-	56,345,826
Retirement Benefit Liability	34	15,138,320	15,249,338
Total liabilities		6,275,941,700	5,534,184,140
Shareholders' Funds			
Stated Capital	35	844,073,080	382,373,630
Statutory Reserve Fund	36.2	89,266,829	62,554,000
Retained Earnings	36.1	276,925,848	169,597,476
Total Shareholders' Funds		1,210,265,757	614,525,106
Total Liabilities and Shareholders' Funds		7,486,207,457	6,148,709,246
Commitments and Contingencies	41	172,609,297	210,778,208

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.

Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board by,

Director

Director

Accounting Policies and Notes from pages 103 to 158 form an integral part of these Financial Statements.

22 June 2017
Colombo

STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2017	Stated Capital Rs. (Note 35)	Statutory Reserve Rs. (Note 36.2)	Reserve on Available for Sale Financial Instruments Rs.	Retained Earnings Rs. (Note 36.1)	Total Rs.
Balance as at 1 April 2015	382,373,630	44,529,000	130,255	97,837,286	524,870,171
Net profit for the year	-	-	-	90,124,664	90,124,664
Other Comprehensive Income net of tax	-	-	(130,255)	(339,475)	(469,730)
Total Comprehensive Income for the year	-	-	(130,255)	89,785,190	89,654,934
Transfer to Statutory Reserve	-	18,025,000	-	(18,025,000)	-
Balance as at 31 March 2016	382,373,630	62,554,000	-	169,597,476	614,525,106
Issue of Shares	461,699,450	-	-	-	461,699,450
Direct Cost on Right Issue	-	-	-	(785,447)	(785,447)
Direct Cost on Private Placement	-	-	-	(1,279,995)	(1,279,995)
Net profit for the year	-	-	-	133,564,140	133,564,140
Other Comprehensive Income net of tax	-	-	-	2,542,503	2,542,503
Total Comprehensive Income for the year	461,699,450	-	-	134,041,201	595,740,651
Transfer to Statutory Reserve	-	26,712,829	-	(26,712,829)	-
Balances as at 31 March 2017	844,073,080	89,266,829	-	276,925,848	1,210,265,757

Accounting Policies and Notes from pages 103 to 158 form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

Year ended 31 March 2017	Notes	2017 Rs.	2016 Rs.
Cash Flows From / (Used in) Operating Activities			
Profit before Income Tax Expense		197,406,328	130,480,894
Adjustments for			
Depreciation	27.2	16,146,846	11,416,894
Amortisation of Intangible Assets	26	2,513,703	1,491,717
Impairment Provision	9	189,369,393	225,840,117
Diminution/(Appreciation) in Value of Investments	7	(674,167)	827,662
Loss/(Profit) from Sale of Unit Trust	8	(2,142,786)	(8,924,199)
Loss/(Profit) on Disposal of Property & Equipment	8	-	19,829
Provision/(Reversal) for Defined Benefit Plans	10	4,466,536	3,788,956
Dividend Received		(274,227)	(245,369)
Operating Profit before Working Capital Changes		406,811,625	364,696,501
(Increase)/Decrease in Real Estate Stock		17,015,788	(14,020,577)
(Increase)/Decrease in Loans and Advances		(1,017,572,990)	(552,542,106)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on hire		(83,841,030)	(838,856,351)
(Increase)/Decrease in Other Financial Assets		(163,503,724)	(110,379,280)
(Increase)/Decrease in Other Non Financial Assets		57,169,761	(16,109,497)
Increase/(Decrease) in Amounts Due to Customers		1,011,190,324	947,401,216
Increase/(Decrease) in Other Financial Liabilities		(354,375,970)	375,408,654
Increase/(Decrease) in Other Non Financial Liabilities		5,775,853	6,227,303
Cash Generated from Operations		(121,330,364)	161,825,862
Retirement Benefit Liabilities Paid	34	(1,046,300)	(485,813)
Taxes Paid		(138,357,828)	(53,343,375)
Net Cash From/(Used in) Operating Activities		(260,734,492)	107,996,674

Year ended 31 March 2017	Notes	2017 Rs.	2016 Rs.
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	27	(26,179,254)	(32,378,791)
Acquisition of Intangible Assets	26	(9,585,849)	(6,859,530)
Proceeds from Sales of Property , Plant & Equipment		-	32,250
Acquisition of Financial Investment held - for - trading		(35,000)	(372,546)
Cash Flow from /(Used in) Fixed Deposits		(3,710)	(2,807)
Sale/(Purchase) of Financial Investments- Held to Maturity		(216,903,150)	(519,400)
Sale of Financial Investments- Unit Trust		102,142,786	208,924,199
Purchase of Financial Investments- Unit Trust		(100,000,000)	(100,000,000)
Proceeds from Disposal of Debt Securities		-	49,278,342
Dividend Received		274,227	245,369
Net Cash Flows from/(Used in) Investing Activities		(250,289,950)	118,347,087
Cash Flows from / (Used in) Financing Activities			
Net Cash Outflow from Securitised Borrowings and other bank facilities		(104,971,953)	(96,643,162)
Cash Flow from Debt Instruments Issued and Other Borrowings	29.2	250,000,000	31,110,631
Net Cash Flow from Issue of Shares		459,634,008	-
Net Cash Flows from/(Used in) Financing Activities		604,662,054	(65,532,531)
Net Increase in Cash and Cash Equivalents		93,637,612	160,811,230
Cash and Cash Equivalents at the beginning of the year		905,839,030	745,027,800
Cash and Cash Equivalents at the end of the year	15.1	999,476,642	905,839,030

Accounting Policies and Notes from pages 103 to 158 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 General

Abans Finance PLC is a domiciled, public limited liability Company incorporated in Sri Lanka on 08 April 2005 under the Companies Act No. 17 of 1982, The Company was reregistered under the Companies Act No.7 of 2007 on 15 June 2009.It is a Licensed Finance Company registered under the Finance Business Act No.42 of 2011.The Company was listed on the Colombo Stock Exchange in 2011.

The registered office of the Company is located at No. 498, Galle Road, Colombo 03 and the principal place of business is situated at No. 456, R.A. De Mel Mawatha, Colombo 03.

1.2 Principal Activities and Nature of Operations

The Company provides a comprehensive range of financial services encompassing Acceptance of Fixed Deposits, Maintenance of saving Deposits, Providing Finance Leases, Hire Purchase, Mortgage Loans, Personal Loans and Other Credit Facilities. The Company also deals in Real Estate and related Services.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent and ultimate parent Company is Abans PLC.

1.4 Date of Authorisation for Issue

The Financial Statements of Abans Finance PLC for the year ended 31 March 2017 was authorised for issue in accordance with a resolution of the Board of Directors on 22 June 2017.

1.5 Directors' Responsibility Statement

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No.07 of 2007 and the Sri Lanka Accounting Standards comprising LKASs and SLFRSs (hereafter "SLFRS").

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Company (Statement of Financial Position and Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31 March 2017 are prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (hereafter referred as SLFRSs), as laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except for Financial Investments held for trading and Available-for-sale financial assets which are measured at fair value and Defined Benefit Obligations which are measured at present value using the projected unit credit method in the Statement of Financial position.

2.3 Functional and Presentation Currency

The Financial Statements of the Company are presented in Sri Lankan Rupees, which is also the Company's functional and presentation currency. (except otherwise indicated).

2.4 Presentation of Financial Statements

The Company presents its Statement of Financial Position broadly grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in note 40.

2.5 Materiality & Aggregation

In compliance with LKAS 01 on Presentation of Financial Statements, each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or functions too are presented separately, if they are material.

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.

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements.

2.7 Events after Reporting Date

All material events after the reporting date have been considered and appropriate disclosures are made in Note 42 to the Financial Statements.

2.8 Statement of Cash Flows

The Statement of Cash flows is prepared using the indirect method, as stipulated in LKAS 7-"Statement of Cash Flows". Cash and cash equivalents comprise cash in hand, cash at bank, bank overdraft and Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of Financial Statements requires the application of certain critical accounting and assumptions relative to the future. Further, it requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

a) Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based these assumptions and estimates on parameters available at the time Financial Statements were prepared. Existing circumstances and assumptions about future developments, these may change due to market changes or circumstances arising beyond the control of the Company. Such changes are taken in to consideration in the assumptions when they occur.

I. Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

II. Defined Benefit Plans

The cost of defined benefit pension plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and their long term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date as disclosed in Note 34.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government Bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

III. Impairment Losses on Loans and Advances

The Company reviews their individually significant loans and advances at each date of Statement of Financial position 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 impairment allowance.

Loans and advances that have been assessed individually and found to be not 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 the effects of which are not yet evident. The collective assessment takes in to account data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgements on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates, exchange rates).

IV. Impairment of Financial Investments - Available for Sale Financial Assets

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.

V. Useful life of Property, plant and Equipment and Intangible Assets

The Company reviews the assets' residual values, useful lives and methods of depreciation at each reporting date. Judgement by the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty.

VI. Provisions, Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote. Refer Note 41 for more details on Commitments and Contingencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, balance with banks and investments in Government Securities.

For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short term deposits and investments in Government Securities as defined above, net of unfavourable bank balances.

4.2 Financial Assets

4.2.1 Financial Assets – initial recognition and subsequent measurement

Financial Assets within the scope of LKAS 39 are classified as Loans and Advances, Lease Rental Receivables, Financial Investments Held-to-Maturity, Financial Investments Available-for-sale, Financial Investments Held for Trading as appropriate. The Company determines the classification of its financial assets at initial recognition.

(i) Date of Recognition

All Financial Assets are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. This includes 'regular way trades': purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Initial Measurement of Financial Assets

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All Financial Assets are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

(iii) Financial Assets Held for Trading

Financial Assets Held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net Trading Income'. Dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to the payment has been established.

(iv) Available for Sale Financial Assets

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

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 Company has measured its non- quoted equity investments classified as available for sale financial instruments at Fair Value.

(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. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate 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 Effective Interest Rate.

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 line 'Impairment (Charges) / Reversal for loans and other losses'.

If the Company was 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.

(vi) Loans and Advances to customers and Lease Rental Receivables from customers

Loans and advances to customers and Lease Rental Receivables from customers 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, amounts 'Loans and Advances to customers and Lease Rental Receivables from customers are subsequently measured at amortised cost using the Effective Interest Rate, 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 Effective Interest Rate. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Impairment (Charges) / Reversal for loans and other losses".

4.2.2 'Day 1' difference

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net Trading Income'.

4.2.3 Reclassification of Financial Assets
Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost, if the basis of measurement of the reclassified category is amortised cost.

For a financial asset reclassified out of the 'Available For Sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the Effective Interest Rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Income Statement.

The Company may reclassify a non–derivative trading asset out of the 'Held For Trading' category and into the 'Loans and Receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Company does not reclassify any financial instrument into the Fair Value Through Profit or Loss category after initial recognition.

4.2.4 Derecognition of Financial Assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either:
    - The Company has transferred substantially all the risks and rewards of the asset. or
    - The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

4.2.5 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.

i. Loans and Advances to customers, Lease Rental Receivable from customers and Stock Out on Hire to Customers

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and for groups of loans, this is done collectively. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed Loans and Advances and Lease and Stock out on hire
For all loans that are considered individually significant, the Company assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence includes:

- Know cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- Breach of loan covenants or conditions;
- The probability that the borrower will enter bankruptcy or other financial realisation; and
- A significant down grading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and the capacity to trades successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- The realisable value of security and likelihood of successful repossession; and
- The likely deduction of any costs involved in recovery of amounts outstanding;

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed Loans and Advances to customers, Lease Rental Receivable from customers and Stock out on Hire to customers

Impairment is assessed on a collective basis in two circumstances:

- To cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- For homogeneous groups of loans that are not considered individually significant.
- Incurred but not yet identified impairment

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the balance sheet date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated.

These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's experience judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

Homogeneous groups of Loans and Advances

Statistical methods are used to determine impairment losses on a collective basis for homogeneous groups of loans. Losses in these groups of loans are recorded on an individual basis when individual loans are written off, at which point they are removed from the group.

Following method is used to calculate historical loss experience on a collective basis:

- Net flow rate method

Under this methodology the movement in the outstanding balance of customers in to bad categories over the periods are used to estimate the amount of loans that will eventually be written off as a result of the events occurring before the reporting date which the Group is not able to identify on an individual loan basis, and that can be reliably estimated.

Under these methodologies, loans are grouped into ranges according to the number of days in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency, and ultimately prove irrecoverable.

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required covering inherent loss.

These additional macro and portfolio risk factors may include:

- Recent loan portfolio growth and product mix,
- Unemployment rates, Gross Domestic Production (GDP) growth, inflation
- Exchange rates, interest rates
- Changes in government laws and regulations

Write-off of Loans and Advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

Reversals of Impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the statement of comprehensive income.

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 debt instruments classified as Available for Sale, the Company assesses individually whether there is objective evidence of impairment.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The Interest Income is recorded as part of 'Interest Income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the income statement. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as Available for Sale shall not be reversed through Profit or Loss.

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.

iii. Held-to-Maturity Financial Assets

An impairment loss in respect of Held-to-Maturity financial assets measured at amortised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original Effective Interest Rate and is recognised in profit or loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

iv. 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 Effective Interest Rate 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 Effective Interest Rate.

4.2.6 Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/ guarantees, real estate, receivables, other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

4.2.7 Collateral Repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.2.8 Other Financial Assets

Other Financial Assets includes the Other Receivables and Refundable Deposits. Refundable Deposits are initially recorded at Fair value and subsequently measured and amortised cost.

4.2.9 Real Estate Stock

Real Estate stock comprises all costs of purchase, cost of conversion and other costs incurred in bringing the real estate to its saleable condition.

Purchase Cost	-	Land Cost with Legal Charges.
Cost of Conversion	-	Actual Development Costs.

Real Estate stocks are valued at the lower of cost and net realisable value, after making due allowances for slow moving items. Net realisable value is the price at which the Real Estate stocks can be sold in the ordinary course of business less estimated cost necessary to make the sale.

4.3 Non - Financial Assets

4.3.1 Property, Plant and equipment

Recognition and Measurement

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with LKAS 16 on Property, Plant & Equipment. Initially property and equipment are measured at cost.

- Cost Model

Property, Plant and Equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Subsequent Cost

These are costs that are recognised in the carrying amount of an item, if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured.

Depreciation

The provision for depreciation is calculated by using the straight line method over the useful life of the assets on cost or valuation of the Property & Equipment other than freehold land, commencing from when the assets are available for use. The rates of depreciations are given below;

Asset Category	Rate of Depreciation (per annum)
Furniture & Fittings	12.5% - 33.33%
Office Equipment	12.5%
Motor Vehicle	12.5%
Computer Equipment	25%

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other Operating Income' in the Income Statement in the year the asset is derecognised. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.3.2 Intangible Assets

The Intangible Assets include the value of computer software.

Basis of Recognition

An Intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company in accordance with the Sri Lanka Accounting Standard LKAS 38 on Intangible Assets.

Intangible Assets acquired separately are measured on initial recognition at cost. The cost of Intangible Assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses if any.

Subsequent Expenditure

Subsequent expenditure on Intangible Asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful Economic Life, Amortisation and Impairment

The useful lives of Intangible Assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an Intangible Asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on Intangible Assets with finite lives is recognised in the Income Statement in the expense category consistent with the function of the Intangible Asset.

Amortisation

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows;

Asset Category	Useful life
Computer software	10 Years

The residual value of the Intangible Asset is zero.

The unamortised balances of Intangible Assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised in profit or loss to the extent that they are no longer probable of being recovered from the expected future benefits.

Derecognition

Intangible Assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the asset, Calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the profit or loss in the year the asset is derecognised.

4.3.3 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 Cash Generating Unit'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, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4.4 Finance and Operating Lease
The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance Lease
Agreements which transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. When the Company is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Lease Rentals Receivables and Stock Out on Hire. The finance income receivable is recognised in 'Net Interest Income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Due to Banks'. A finance lease and its corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised in 'Net Interest Income' over the period of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

Operating Lease
All other leases are classified as Operating Leases. When acting as lessor, the Company includes the assets subject to Operating Leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the Statement of Financial Position. Rentals payable and receivable under Operating Leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and Administrative Expenses 'and 'Other Operating Income', respectively.

4.5 Taxation
Income tax expense comprises of current and deferred tax. Income tax expense is recognised in the Statement of Comprehensive Income.

4.5.1 Current Taxes
Current Income Tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for Income Tax is based on the elements of income and expenditure as reported in the Financial Statements and computed in accordance with the provisions of the relevant tax legislation.

Current Income Tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

4.5.2 Deferred Taxation
Deferred Income 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 purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred Income Tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of Deferred Income Tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the Deferred Income Tax asset to be utilised.

Deferred Income Tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred Income Tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Comprehensive Income.

4.5.3 Value Added Tax (VAT) on Financial Services

VAT on Financial Services is calculated in accordance with Value Added Tax Act No 14 of 2002 and subsequent amendments thereto. The base for the computation of Value Added Tax on Financial Services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

4.5.4 Economic Service Charge (ESC)

As per provisions of the Economic Service Charge (ESC) Act No. 13 of 2006 and subsequent amendments thereto, ESC is payable on aggregate turnover of the Company at 0.5% and is deductible from income tax payable. Unclaimed ESC, if any, can be carried forward and set-off against the income tax payable in the three subsequent years.

4.5.5 Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act, No 9 of 2009 and subsequent amendments thereto with effect from 01st January 2014.NBT on financial services is calculated as 2% of the value addition used for the purpose of VAT on Financial Services.

4.6 Financial Liabilities

Initial Recognition and Measurement

Financial instruments issued by the Company that are not designated as Fair value Through Profit or Loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares.

The Company recognises financial liabilities in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial liability.

After initial measurement, other financial liabilities are subsequently measured at Amortised Cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

Derecognition of Financial Liabilities

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

Other Financial Liabilities

Other Financial liabilities including Due to Customer (Deposits), Due to Banks, Debt issued and Other Borrowed Funds are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the Effective Interest Rate method.

Amortised cost is calculated by taking in to account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

Borrowings

Borrowings obtained by the Company that are not designated at Fair value Through Profit or Loss, are classified as liabilities under 'Borrowings', where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments.

After initial measurement, borrowings are subsequently measured at amortised cost using the Effective Interest Rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the Effective Interest Rate.

4.7 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, where 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. When the Company expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

4.8 Retirement Benefit Obligations

(i) Defined Benefit Plan – Gratuity

The Company measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit Method (PUC) as required by LKAS 19, Employee Benefits.

The item is stated under Defined Benefit Liability in the Statement of Financial Position.

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognised in Other Comprehensive Income in the year in which they arise.

Recognition of Past Service Cost (Applicable only when a plan has been changed)

Past Service Costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already been vested, immediately following the introduction of, or changes to the plan, past service costs are recognised immediately.

(ii) Defined Contribution Plan

The Company also operates a defined contribution plan. 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'. Unpaid contributions are recorded as a liability.

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 (excluding overtime) to the Provident Fund.

- **Employees' Trust Fund**

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

4.9 Recognition of Income and Expenses

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.

4.9.1 Interest Income and Interest 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 Effective Interest Rate.

Effective Interest Rate 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 (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original Effective Interest Rate and the change in carrying amount is recorded as 'Interest and similar income' for financial assets or 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the Effective Interest Rate from the date of the change in estimate.

When the carrying amount 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.

4.9.2 Fee and Commission Income

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

4.9.3 Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include Credit related Fees & Commission, Service charge, Transfer Fees and Other Fees Income. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the Effective Interest Rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

4.9.4 Dividend Income

Dividend Income is recognised when the right to receive the payment is established.

4.9.5 Net Trading Income

Net trading income includes all gains and losses from changes in fair value and related dividends for financial assets and financial liabilities 'Held for Trading' other than Interest Income.

4.9.6 Personnel Expenses
Personnel Expenses include salaries and bonuses, terminal benefits and other staff related expenses. The provision for bonuses is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of the obligation.

4.9.7 Other Operating Expenses
Other operating expenses are recognised in the Statement of Comprehensive Income on the basis of a direct association between the cost incurred and the earnings of the specific items of the income. All the expenditure incurred in the running business and in maintaining the property, plant and equipment in a state of efficiency has been charged to the Statement of Comprehensive Income in arriving at the profit of the year.

4.9.8 Dividends on Ordinary Shares
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

4.10 Segment Reporting
The Company's segmental reporting is based on the following operating segments identified based on products and services;

- Leasing
- Hire Purchase
- Term Loans
- Others

A segment is a distinguishable component of a Company that is engaged in providing products and services. (Business segment, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Company.

4.11 Regulatory Provisions
(a) Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 20% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

(b) Deposit Insurance and Liquidity Support Scheme

In terms of the Finance Company's Act Direction No 2 of 2010 "Insurance of Deposit Liabilities" issued on 27 September 2010 and subsequent amendments there to all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32E of the Monetary Law Act with effect from 1 October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013.

Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

a) Deposit liabilities to member institutions
b) Deposit liabilities to Government of Sri Lanka
c) Deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
d) Deposit liabilities held as collateral against any accommodation granted
e) Deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Registered Finance Companies are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

(c) Crop Insurance Levy

In terms Section 15 of the Finance Act No 12 of 2013 all institutions under the purview of Banking Act No 30 of 1988, Finance Companies Act No 78 of 1988 and Regulation of Insurance Industry Act No 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund Board effective from 01 April 2013.

4.12 Standards Issued But Not Yet Effective
Certain new accounting standards and amendments / improvements to existing standards have been published, that are not mandatory for 31 March 2017 reporting periods. None of those have been early adopted by the Company.

SLFRS 9: Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement.

SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 15: Revenue from Contracts with Customers
SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

SLFRS 16: Leases
SLFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model requiring lessees recognise assets and liabilities for all leases unless the term is 12 months or less or the underlying asset has a lower value. The Lessors continue to classify leases as Operating or Finance as SLFRS 16's approach for lessor accounting substantially unchanged from its predecessor.

SLFRS 16 is effective for financial reporting periods beginning on or after 1st January 2019, with early adoption permitted, provided the new Revenue standard, SLFRS 15 Revenue from Contracts with Customers has been applied, or is applied at the same date as SLFRS 16.

With respect to the above the Company has obtained advice from external consultants regarding the possible effects on the Financial Statement. Currently the Company is in the process engaging an external consultant to assist in the implementation of above standards. Pending the completion of the detailed impact analysis, possible impact from SLFRS 9, SLFRS 15 and SLFRS 16 is not reasonably estimable as of the reporting date.

4.13 Amendments To Existing Standards Not Yet Effective

LKAS 7: Disclosure Initiative - Amendments to LKAS 7
The amendments to LKAS 7: Statement of Cash Flows are a part of the CASL's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

These amendments are effective for annual periods beginning on or after 1st January 2017, with early application permitted. Application of amendments will result in additional disclosure to be provided by the Company.

LKAS 12: Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to LKAS 12
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of those deductible temporary differences. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings or in another component of equity, as appropriate, without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The above amendments are effective for annual periods beginning on or after 1st January 2017 with early application permitted. If an entity applies the amendments for an earlier period, it must disclose that fact. These amendments are not expected to have significant impact on the Company.

5 . INCOME

	2017 Rs.	2016 Rs.
Interest Income	1,494,673,696	1,189,278,894
Fee & Commission Income	104,114,176	111,586,810
Net Gain/(Loss) from Trading	948,394	(582,293)
Other Operating Income	20,770,114	16,949,952
	1,620,506,380	1,317,233,363

5.1 Interest Income

	2017 Rs.	2016 Rs.
Loans and Advances	453,946,296	130,926,781
Lease Rentals Receivable & Stock out on hire	924,623,165	989,663,807
Financial Investments - Held to Maturity & Repurchase Agreements	52,571,244	44,223,302
Financial Investments -Debt Securities	-	4,962,391
Other Financial Assets	11,566,438	2,818,437
Placement with Banks	51,966,553	16,684,176
Total Interest Income	1,494,673,696	1,189,278,894

Interest income on Loans and Advances and Lease Rentals Receivable & Stock out on hire includes interest income accrued on impaired Financial Assets amounting to Rs.14,695,267/- (2015/2016 -Rs.11,047,846/-)

5.2 Interest Expenses

	2017 Rs.	2016 Rs.
Due to Banks	17,909,634	8,348,442
Due to Customers	605,501,131	471,613,582
Debt Instruments Issued and Other Borrowed Funds	228,996	1,259,479
Total Interest Expenses	623,639,761	481,221,503

Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue Act No.10 of 2007, provided that a Company which derives interest income from the secondary market transactions in Government Securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly the net interest income earned from the secondary market transactions in Government Securities for the year, has been grossed up in the Financial Statement & the resulting notional Tax credit amounts to Rs.5,257,125/- (2016 - Rs.4,422,331/-)

6. NET FEE AND COMMISSION INCOME

	2017 Rs.	2016 Rs.
6.1 Fee and Commission Income		
Credit Related Fees and Commissions	16,584,089	12,266,379
Service Charge	82,777,943	93,190,829
Transfer Fees	4,089,167	5,496,192
Other Fees	662,977	633,410
Total Fee and Commission Income	104,114,176	111,586,810
6.2 Fee and Commission Expenses		
Brokerage Fees	84,747,252	76,888,915
Total Fee and Commission Expenses	84,747,252	76,888,915
6.3 Net Fee and Commission Income		
	19,366,924	34,697,895

7. NET GAIN/(LOSS) FROM TRADING

	2017 Rs.	2016 Rs.
Dividend Income from Financial Investments - Held for Trading	274,227	245,369
Appreciation/ (Depreciation) in Market Value of Financial Investments - Held for Trading	674,167	(827,662)
	948,394	(582,293)

8. OTHER OPERATING INCOME

	2017 Rs.	2016 Rs.
Income from Sale of Available - for-Sale Financial Investments	2,142,786	8,924,199
Profit/(loss) on disposal of Property & Equipment	-	(19,829)
Bad Debt Recoveries	9,077,411	1,550,864
Rent Income	3,292,892	2,833,650
Others	6,257,025	3,661,068
Total Other Operating Income	20,770,114	16,949,952

9. IMPAIREMENT CHARGES/ (REVERSAL) FOR LOANS AND OTHER LOSSES

	2017 Rs.	2016 Rs.
9.1 Individual		
Loans and Advances	10,742,981	(511,617)
Lease Rentals Receivable & Stock Out on Hire	(15,785,057)	38,513,173
Other Debtors	26,483,661	(2,174,994)
	21,441,585	35,826,562
9.2 Collective		
Loans and Advances	49,700,823	1,755,479
Lease Rentals Receivable & Stock Out on Hire	15,912,220	107,376,648
Other Debtors	102,314,765	80,881,428
	167,927,808	190,013,555
Total Impairment charges/ (Reversal) for Loans and Advances	189,369,393	225,840,117

10. PERSONNEL COSTS

	2017 Rs.	2016 Rs.
Salaries and Bonus	159,818,313	122,728,343
Employer’s Contribution to EPF	16,943,581	12,690,484
Employer’s Contribution to ETF	4,248,395	3,172,621
Gratuity Charge/ (Reversals) for the Year (Note 34.1)	4,466,536	3,788,956
Other Allowances & Staff Related Expenses	31,611,834	24,536,245
	217,088,659	166,916,649

11. DEPRECIATION & AMORTISATION

	2017 Rs.	2016 Rs.
Depreciation of Property Plant & Equipment	16,146,846	11,416,894
Amortisation of intangible assets	2,513,703	1,491,717
	18,660,549	12,908,611

12. OTHER OPERATING EXPENSES

			2017 Rs.	2016 Rs.
Directors' Emoluments			10,900,600	9,945,000
Auditors Remuneration	- Audit	- Current year provision	876,500	1,022,800
		- (Over)/Under Provision	-	(174,205)
	-Non Audit		300,000	250,000
Professional & Legal Expenses			6,486,716	8,556,393
Office Administration & Establishment Expenses			130,593,126	102,575,230
Advertising & Business Promotion Expenses			35,374,417	35,087,952
Deposit Insurance premium			7,228,136	6,162,461
Others			42,516,180	29,362,582
			234,275,675	192,788,213

13. TAXATION

	2017 Rs.	2016 Rs.
13.1 The major components of income tax expense for the years ended 31 March are as follows.		
(A) Statement of Profit or Loss		
Current Income Tax		
Income Tax for the year	61,211,726	83,197,598
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 28)	2,630,462	(42,841,368)
	63,842,188	40,356,230
(B) Other Comprehensive Income		
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 28)	988,751	(132,018)
	988,751	(132,018)
(C) Total Tax Expense for the year		
	64,830,939	40,224,212

13. TAXATION (Contd.)

13.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit multiplied by government of Sri Lanka's tax rate for the Years ended 31 March 2017 and 2016 is as follows.

	2017 Rs.	2016 Rs.
Accounting Profit Before Income Taxation	197,406,328	130,480,894
Adjustments		
Capital Portion of Leasing Rental Due	1,469,478,702	1,464,427,833
Non-taxable Income/ Losses	(3,091,181)	(11,832,579)
Disallowable Expenses	247,852,138	157,486,281
Allowable Expenses	(1,693,032,679)	(1,443,428,152)
Total Statutory Income	218,613,308	297,134,277
Taxable Income	218,613,308	297,134,277
Income Tax Rate (%)	28%	28%
Income Tax	61,211,726	83,197,598
Deferred Taxation Charge/(Reversal) (Note 28)	2,630,462	(42,841,368)
Total Tax Expense (Note 13.1 (A))	63,842,188	40,356,230
Effective tax rate	32%	31%

14. BASIC EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by weighted average number of ordinary shares outstanding during the year, as per LKAS 33- Earnings Per Share.

For the year ended 31 st March	2017	2016
Profit/ (Loss) attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs.)	133,564,140	90,124,664
Weighted Average Number of Ordinary Shares prior to the right issue and private placement	37,000,000	37,000,000
Adjusted to right issue and private placement	11,591,203	2,354,545
Weighted Average Number of Ordinary Shares Adjusted to the effects of the right issue and private placement	48,591,203	39,354,545
Basic Earnings per ordinary share (Rs.)	2.75	2.29

15. CASH AND BANK BALANCES

	2017 Rs.	2016 Rs.
Cash in Hand	42,315,367	5,836,617
Balances with Banks	334,653,437	67,548,678
	376,968,804	73,385,295

	2017 Rs.	2016 Rs.
15.1 Cash and Cash Equivalents in the Cash Flow Statement		
Cash and Bank Balances	376,968,804	73,385,295
Bank Overdrafts	(12,350,088)	(21,753,939)
Treasury Bills and Repurchase Agreements	250,809,890	630,158,527
Placement with Banks	384,048,036	224,049,147
Total Cash and Cash Equivalents for the purpose of Cash Flow Statements	999,476,642	905,839,030

16. PLACEMENT WITH BANKS

	2017 Rs.	2016 Rs.
Fixed Deposit Investments	384,100,772	224,098,165
	384,100,772	224,098,165

Fixed Deposit Investments include Investments amounting to Rs.34,000,000/- that have been Pledged for facilities obtained from Banks.

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENT

	2017 Rs.	2016 Rs.
Repurchased Agreements	250,809,890	630,158,527
	250,809,890	630,158,527

18. FINANCIAL ASSETS- HELD FOR TRADING

	2017 Rs.	2016 Rs.
Quoted equities (Note 18.1)	7,624,408	6,915,241
	7,624,408	6,915,241

Quoted Shares	2017 No of Shares Rs.	2017 Cost Rs.	2017 Market value Rs.	2016 No of Shares Rs.	2016 Cost Rs.	2016 Market value Rs.
18.1 Dealing Securities						
Hotels & Travels						
Mahaweli Reach Hotels PLC	9,400	365,104	178,600	9,400	365,104	212,440
Renuka City Hotel PLC	1,300	394,136	382,850	1,300	394,136	421,720
	10,700	759,240	561,450	10,700	759,240	634,160
Diversified Holdings						
John Keells Holdings PLC	2,720	490,343	375,088	2,333	490,343	345,284
Aitken Spence PLC	-	-	-	48	-	446
	2,720	490,343	375,088	2,381	490,343	345,730
Power & Energy						
Lanka IOC PLC	15,000	649,191	435,000	15,000	649,191	487,500
	15,000	649,191	435,000	15,000	649,191	487,500
Banking & Finance						
Sampath Bank PLC	4,361	1,036,175	1,129,499	4,037	1,036,175	912,362
Seylan Bank PLC - Voting	1,000	102,131	87,000	1,000	102,131	86,000
Seylan Bank PLC - Non Voting	12,000	673,660	656,400	12,000	673,660	756,000
Hatton National Bank PLC	1,525	248,806	302,597	1,500	248,806	270,650
First Capital Holdings PLC	1,952	78,757	39,235	1,952	78,757	37,283
Central Finance Company PLC	2,067	239,149	178,175	1,000	239,149	210,000
DFCC Bank	1,000	213,262	114,000	1,000	213,262	137,000
Nations Trust Bank PLC	2,000	183,027	148,000	2,000	183,027	148,400
Union Bank PLC	7,000	189,600	99,400	7,000	189,600	116,200
Commercial Bank Of Ceylon PLC	514	57,740	52,993	506	57,740	57,178
Pan Asia Banking Corporation PLC	7,500	159,486	115,500	5,000	124,486	115,000
	40,919	3,181,793	2,922,800	36,995	3,146,793	2,846,073

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18. FINANCIAL ASSETS- HELD FOR TRADING (Contd.)

Quoted Shares	2017 No of Shares Rs.	2017 Cost Rs.	2017 Market value Rs.	2016 No of Shares Rs.	2016 Cost Rs.	2016 Market value Rs.
18.1 Dealing Securities *Contd.*						
Telecommunication						
Sri Lanka Telecom PLC	4,190	239,386	139,527	4,190	239,386	162,572
	4,190	239,386	139,527	4,190	239,386	162,572
Manufacturing						
Singer Sri Lanka	500	60,672	69,950	500	60,672	58,850
Tokyo Cement Company (Lanka) PLC - Non Voting	16,375	640,367	867,875	16,375	640,367	528,913
Tokyo Cement Company (Lanka) PLC - Voting	10,000	444,928	610,000	10,000	444,928	370,000
	26,875	1,145,967	1,547,825	26,875	1,145,967	957,763
Hospitals						
Lanka Hospital Corporation PLC	3,000	157,343	184,500	3,000	157,343	153,000
	3,000	157,343	184,500	3,000	157,343	153,000
Investment						
Ceylon Investment PLC	1,009	108,300	40,360	1,009	108,300	53,174
Access Engineering Ltd	4,000	150,264	95,200	4,000	150,264	83,200
Ceylon Guardian Investment Trust PLC	505	102,687	45,501	505	102,687	60,449
	5,514	361,251	181,061	5,514	361,251	196,823
Automobiles						
United Motors Lanka PLC	500	53,088	39,000	500	53,088	41,500
	500	53,088	39,000	500	53,088	41,500
Beverage Food & Tobacco						
Stores Supplies						
Hemas Holdings PLC	2,333	117,502	253,597	2,333	117,502	188,040
Piramal Glass Ceylon Plc	100,000	465,152	560,000	100,000	465,152	510,000
	102,333	582,654	813,597	102,333	582,654	698,040
Insurance						
Peoples' Insurance PLC	23,200	348,000	424,560	23,200	348,000	392,080
	23,200	348,000	424,560	23,200	348,000	392,080
Total	234,951	7,968,257	7,624,408	230,688	7,933,257	6,915,241

19. LOANS AND ADVANCES

	2017 Rs.	2016 Rs.
Real Estate Loans	3,313,673	6,407,673
Mortgage Loans	405,840,872	281,054,017
Vehicle Loans	-	2,729,872
Personnel Loans	113,901,642	118,681,734
Loans against Fixed Deposits	164,754,856	113,678,128
Staff Loans	28,408,286	20,075,782
Revolving Loans	170,837,388	141,365,811
Business Loans	393,506,492	71,561,755
Other Loans	967,502,971	494,265,499
	2,248,066,180	1,249,820,271
Less : Allowance for Impairment Losses (Note 19.1)	(102,390,149)	(61,273,426)
Net Loans and Advances	2,145,676,031	1,188,546,845

	2017 Rs.	2016 Rs.
19.1 Allowance for Impairment Losses		
As at 01 April	61,273,426	61,803,888
Charge / (Reversal) for the year	60,443,804	1,243,861
Amounts written off	(19,327,081)	(1,774,323)
As at 31 March	102,390,149	61,273,426
Individual Impairment	18,144,449	11,119,767
Collective Impairment	84,245,700	50,153,659
	102,390,149	61,273,426
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	61,937,004	59,953,056

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20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	2017 Rs.	2016 Rs.
Gross rentals receivables		
- Lease Rentals	5,050,089,722	4,841,637,384
- Amounts Receivable from Hirers	78,079,436	212,885,003
	5,128,169,158	5,054,522,387
Less: Unearned Income	(1,192,323,653)	(1,175,976,821)
Net rentals receivables	3,935,845,505	3,878,545,566
Less : Rental Received In Advance	(16,512)	(20,500)
Less : Suspended VAT	(7,171,161)	(5,492,338)
	3,928,657,832	3,873,032,728
Less : Allowance for Impairment Losses (Note 20.1)	(248,692,186)	(276,780,949)
Total net rentals receivable (Note 20.2, 20.3)	3,679,965,646	3,596,251,779

Lease & hirers receivables include receivables amounting to Rs. 750,144,331/- that have been Pledged for facilities obtained from Banks.

	2017 Rs.	2016 Rs.
20.1 Allowance for Impairment Losses		
As at 01 April	276,780,949	195,612,684
Charge / (Reversal) for the year	127,163	145,889,821
Amounts written off	(28,215,926)	(64,721,556)
As at 31 March	248,692,186	276,780,949
Individual Impairment	17,888,120	57,988,976
Collective Impairment	230,804,066	218,791,973
	248,692,186	276,780,949
Gross amount of lease and hire purchase rental receivables individually determined to be impaired, before deducting the individually assessed impairment allowance	52,440,345	97,095,662

20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE (Contd.)

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
20.2 As at 31st March 2017				
Gross rentals receivables				
- Lease Rentals	2,805,275,780	2,244,813,942	-	5,050,089,722
- Amounts Receivable from Hirers	65,384,569	12,694,867	-	78,079,436
	2,870,660,349	2,257,508,809	-	5,128,169,158
Less: Unearned Income	(730,522,043)	(461,801,610)	-	(1,192,323,653)
Net rentals receivables	2,140,138,306	1,795,707,199	-	3,935,845,505
Less : Rental Received In Advance				(16,512)
Less : Suspended VAT				(7,171,161)
				3,928,657,832
Less : Allowance for Impairment Losses				(248,692,186)
Total net rentals receivable				3,679,965,646

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
20.3 As at 31st March 2016				
Gross rentals receivables				
- Lease Rentals	2,608,328,913	2,233,296,837	11,634	4,841,637,384
- Amounts Receivable from Hirers	165,402,739	47,482,264	-	212,885,003
	2,773,731,652	2,280,779,101	11,634	5,054,522,387
Less: Unearned Income	(767,466,097)	(408,510,589)	(135)	(1,175,976,821)
Net rentals receivables	2,006,265,555	1,872,268,512	11,499	3,878,545,566
Less : Rental Received In Advance				(20,500)
Less : Suspended VAT				(5,492,338)
				3,873,032,728
Less : Allowance for Impairment Losses				(276,780,949)
Total net rentals receivable				3,596,251,779

21. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2017 Rs.	2016 Rs.
Credit Information Bureau-Unquoted Equities *	80,400	80,400
	80,400	80,400

* Cost is assumed to be the best approximation for the fair value of unquoted equity shares due to the absence of most recent exit prices.

22. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2017 Rs.	2016 Rs.
Government of Sri Lanka Treasury Bills	216,321,780	-
Government of Sri Lanka Treasury Bonds	22,251,183	21,669,813
	238,572,963	21,669,813

23. OTHER FINANCIAL ASSETS

	2017 Rs.	2016 Rs.
Other Receivables	150,009,839	207,612,266
Deposit	13,682,034	11,132,799
Due From Related Parties	21,011,870	22,714,432
	184,703,743	241,459,497
Less : Allowance for Impairment Losses (Note 23.1)	(76,196,266)	(167,657,318)
	108,507,477	73,802,179

23. OTHER FINANCIAL ASSETS (Contd.)

	2017 Rs.	2016 Rs.
23.1 Allowance for Impairment Losses		
Balance at the Beginning	167,657,318	102,627,971
Charge / (Reversal) for the year	128,798,427	78,706,435
Amounts written off	(220,259,479)	(13,677,088)
Balance at the end of the year	76,196,266	167,657,318
Individual Impairment	25,349,764	3,601,478
Collective Impairment	50,846,502	164,055,840
	76,196,266	167,657,318
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	27,904,052	16,487,160

24. REAL ESTATE STOCK

	2017 Rs.	2016 Rs.
Real Estate Stocks	66,050,693	83,066,481
	66,050,693	83,066,481

25. OTHER NON FINANCIAL ASSETS

	2017 Rs.	2016 Rs.
Advances	15,831,344	75,030,292
Pre-paid Staff Cost	9,710,210	6,118,365
Other Receivables	212,630	212,630
Pre Paid Rent Deposit	5,376,261	6,073,901
Pre-Paid Expenses	9,594,619	10,459,636
	40,725,064	97,894,824

26. INTANGIBLE ASSETS

	Computer Software 2017 Rs.	Computer Software 2016 Rs.
Cost		
Cost as at 01st April	44,381,555	37,522,025
Additions	9,585,849	6,859,530
As at 31 March	53,967,404	44,381,555
Amortisation & Impairment:		
As at 1 April	28,772,659	27,280,942
Amortisation Charge for the year	2,513,703	1,491,717
As at 31 March	31,286,362	28,772,659
Net book value:		
As at 31 March	22,681,042	15,608,896

Nature and Amortisation Method

Intangible Assets represent acquisition of computer software from third parties. These software are amortised over the estimated useful life of 10 years on a straight line basis.

During the financial year, the Company acquired intangible assets (Computer Software) to the aggregate value of Rs. 9,585,849 (2015/2016 - Rs. 6,859,530).

27. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance As at 01.04.2016 Rs.	Additions/ Transfers Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
27.1 Gross Carrying Amounts				
Freehold Assets				
Land	28,094,075	-	-	28,094,075
Furniture & Fittings	48,009,438	5,139,691	(102,550)	53,046,579
Office Equipment	15,207,614	6,722,892	-	21,930,506
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	31,337,983	14,316,671	-	45,654,654
Total Value of Depreciable Assets	125,974,723	26,179,254	(102,550)	152,051,427

27. PROPERTY, PLANT AND EQUIPMENT (Contd.)

27.2 Depreciation

	Balance As at 01.04.2016 Rs.	Charge for the Period Rs.	Disposals Rs.	Balance As at 31.03.2017 Rs.
Freehold Assets				
Furniture & Fittings	22,671,449	6,773,913	(102,550)	29,342,812
Office Equipment	7,764,418	1,886,557	-	9,650,975
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Hardware	16,401,978	7,486,376	-	23,888,354
	50,163,458	16,146,846	(102,550)	66,207,754

27.3 Net Book Values

	2017 Rs.	2016 Rs.
At Cost		
Land	28,094,075	28,094,075
Furniture & Fittings	23,703,767	25,337,989
Office Equipment	12,279,531	7,443,196
Motor Vehicles	-	-
Computer Hardware	21,766,300	14,936,005
Total Carrying Amount of Property, Plant & Equipment	85,843,673	75,811,265

27.4 The useful lives of the assets are estimated as follows;

	2017	2016
Furniture & Fittings	3 - 8 Years	3 - 8 Years
Office Equipment	8 Years	8 Years
Motor Vehicles	8 Years	8 Years
Computer Equipment	4 years	4 years

27.5 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 26,179,255/- (2015/2016- Rs.32,378,791/-)

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28. DEFERRED TAXATION

Deferred Tax Assets, Liabilities and Income Tax relates to the followings

	Statement of Financial Position		Recognised in Statement of Other Comprehensive Income		Recognised in Statement of Profit or Loss	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Deferred Tax Liability						
Capital Allowances for Tax Purposes						
-Property Plant & Equipment	8,900,867	5,407,824	-	-	3,493,043	1,974,906
-Leased Asset	15,953,999	-	-	-	15,953,999	(21,627,422)
Define Benefit Plan- Other Comprehensive Income	558,540	-	558,540	-	-	-
	25,413,406	5,407,824	558,540	-	19,447,042	(19,652,516)
Deferred Tax Assets						
Capital Allowances for Tax Purposes						
-Leased Asset	-	(31,099,822)	-	-	31,099,822	(31,099,822)
Defined Benefit Plans- Income Statement	(4,797,269)	(3,839,603)	-	-	(957,666)	(998,716)
Define Benefit Plan- Other Comprehensive Income	-	(430,211)	430,211	(132,018)	-	-
Provision for Impairment on Financial Assets	(78,416,461)	(31,457,724)	-	-	(46,958,736)	8,909,686
	(83,213,730)	(66,827,360)	430,211	(132,018)	(16,816,580)	(23,188,852)
Deferred income tax charge/(reversal)			988,751	(132,018)	2,630,462	(42,841,368)
Net Deferred Tax Liability/ (Asset)	(57,800,324)	(61,419,536)				

29. DUE TO BANKS

	2017 Rs.	2016 Rs.
Bank Overdrafts	12,350,088	21,753,939
Securitised Borrowings and Other Bank Facilities (Note 29.2 (a), 29.2 (b))	201,388,832	25,250,153
Total	213,738,920	47,004,092

29. DUE TO BANKS (Contd.)

	2017 Amount repayable within 1 year Rs.	2017 Amount repayable after 1 year Rs.	2017 Total Rs.	2016 Amount repayable within 1 year Rs.	2016 Amount repayable after 1 year Rs.	2016 Total Rs.
29.1 Due to Banks						
Securitised Borrowings and Other Bank Facilities	83,333,333	118,055,499	201,388,832	25,250,153	-	25,250,153
	83,333,333	118,055,499	201,388,832	25,250,153	-	25,250,153

	As at 01.04.2016 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2017 Rs.	Period	Security
29.2 (a) Securitised Borrowings and Other Bank Facilities								
Direct Bank Borrowings								
Term Loans								
Term Loan Bank of Ceylon	492,203	-	-	486,112	6,091	-	48 Months	Lease & Hire
Term Loan 01 Union Bank of Colombo PLC	15,757,950	-	324,377	15,757,950	324,377	-	48 Months	Purchase
Term Loan Sampath Bank PLC	9,000,000	-	453,670	9,000,000	453,670	-	50 Months	Portfolio
Term Loan 02 Union Bank of Colombo PLC	-	250,000,000	16,698,382	48,611,111	16,698,439	201,388,832	36 Months	Lease Portfolio
	25,250,153	250,000,000	17,476,429	73,855,173	17,482,578	201,388,832		

	As at 01.04.2015 Rs.	Loans Obtained Rs.	Interest Recognised Rs.	Repayments Capital Rs.	Repayments Interest Rs.	As at 31.03.2016 Rs.	Period	Security
29.2 (b) Securitised Borrowings and Other Bank Facilities								
Direct Bank Borrowings								
Term Loans								
Term Loan Bank of Ceylon	18,875,594	-	1,112,110	18,333,044	1,162,457	492,203	48 Months	Lease & Hire
Term Loan Union Bank of Colombo PLC	70,219,721	-	5,037,241	54,461,771	5,037,241	15,757,950	48 Months	Purchase
Term Loan Sampath Bank PLC	32,798,000	-	2,046,839	23,798,000	2,046,839	9,000,000	50 Months	Portfolio
	121,893,315	-	8,196,190	96,592,815	8,246,537	25,250,153		

30. DUE TO CUSTOMERS

	2017 Rs.	2016 Rs.
Fixed Deposits	5,527,707,069	4,505,511,938
Savings Deposits	22,845,476	33,850,283
	5,550,552,545	4,539,362,221

31. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	2017 Rs.	2016 Rs.
Commercial Papers	-	31,110,631
	-	31,110,631

32. OTHER FINANCIAL LIABILITIES

	2017 Rs.	2016 Rs.
Trade Payables - Related Parties (32.1)	218,443,576	136,038,658
Non Trade Payables - Related Parties (32.2)	-	407,755
Trade Payables - Other Parties	32,953,866	485,136,258
Accrued Expenses	231,252,099	215,442,840
	482,649,541	837,025,511

	Relationship	2017 Rs.	2016 Rs.
32.1 Trade Payables to Related Parties			
Abans PLC	Ultimate Parent Company	1,590,488	2,121,183
Abans Auto (Pvt)Ltd	Affiliate Company	216,853,088	133,917,475
		218,443,576	136,038,658
32.2 Non Trade Payables to Related Parties			
Abans Retail (Pvt) Ltd	Affiliate Company	-	407,755
		-	407,755

33. OTHER NON FINANCIAL LIABILITIES

	2017 Rs.	2016 Rs.
VAT on Financial Services	4,547,099	1,939,314
VAT Payable	1,785,335	4,604,804
Others	7,529,940	1,542,403
	13,862,374	8,086,521

34. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity	2017 Rs.	2016 Rs.
Balance at the beginning of the year	15,249,338	11,474,701
Current Service Cost	2,754,035	2,833,113
Payments made during the year	(1,046,300)	(485,813)
Interest Charged/(Reversed) for the year	1,712,501	955,843
(Gain)/loss arising from changes in the assumption	(3,531,254)	471,494
Balance at the end of the year	15,138,320	15,249,338
34.1 Expenses on Defined Benefit Plan		
Current Service Cost for the year	2,754,035	2,833,113
Interest Charge for the year	1,712,501	955,843
	4,466,536	3,788,956
Amount Reccognised in the Other Comprehensive Income		
(Gain)/Loss arising from changes in the assumption (Note 34.2)	(3,531,254)	471,493
	(3,531,254)	471,493
34.2 (Gain) / Loss arising from the changes in the assumption		
Due to change in Demographic Assumptions	30,566	46,728
Due to change in Financial Assumptions	(2,222,119)	(808,811)
Experience Adjustment	(1,339,701)	1,233,576
	(3,531,254)	471,493

34. RETIREMENT BENEFIT OBLIGATIONS (Contd.)

34.3 Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2017 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Project Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

	2017	2016
34.4 Assumptions		
Discount Rate	12.50%	11.23%
Salary Increment Rate	8.50%	10.80%
Staff Turnover	17.00%	19.00%
Retirement Age	60 Years	60 Years

Assumptions regarding future mortality are based on 67/70 Mortality Table and issued by the Institute of Actuaries, London.

34.5 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31 March 2017. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

Increase/(Decrease) in Discount rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	586,660	(586,660)
-1%	-	(644,288)	644,288
-	1%	(734,610)	734,610
-	-1%	678,756	(678,756)

34.6 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	2017 Years	2016 Years
Weighted Average Duration of the Defined Benefit Obligation	4.54	4.87
Average Time to Benefit Payout	5.35	4.75

34. RETIREMENT BENEFIT OBLIGATIONS (Contd.)

34.7 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates distribution of the future working lifetime of the Defined Benefit Obligation as at the reporting period.

	2017 Rs.	2016 Rs.
Less than 1 year	3,944,830	3,376,487
Between 1-5 years	6,416,140	6,258,497
Between 5-10years	2,793,136	3,433,626
Over 10 years	1,984,214	2,180,728
	15,138,320	15,249,338

35. STATED CAPITAL

	2017		2016	
	No. of Shares	Rs.	No. of Shares	Rs.
35.1 Issued and Fully Paid-Ordinary shares				
At the beginning of the year	37,000,000	382,373,630	37,000,000	382,373,630
Issued during the year				
-Right Issue	7,400,000	185,000,000	-	-
-Private Placement	11,067,978	276,699,450	-	-
At the end of the year	55,467,978	844,073,080	37,000,000	382,373,630

During the year, the authorised share capital was increased by Rs.461,699,450 by the issue of 18,467,978 ordinary shares of Rs.25/= each by way of Right issue and private placement.

35.2 Rights of Shareholders

The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at the meeting. All shares rank equally with regard to the Company's residual assets.

36. RETAINED EARNINGS AND OTHER RESERVES

	2017 Rs.	2016 Rs.
36.1 Retained Earnings		
As at 01 April	169,597,476	97,837,286
Profit /(Loss) for the Year	133,564,140	90,124,664
Other Comprehensive Income net of tax	2,542,503	(339,475)
Transfers to Statutory Reserve Fund	(26,712,829)	(18,025,000)
Direct Cost on Right Issue	(785,447)	-
Direct Cost on Private Placement	(1,279,995)	-
As at 31 March	276,925,848	169,597,476

Retained Earnings represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

	Statutory Reserve Rs.	Total Rs.
36.2 Other Reserves		
As at 01 April 2016	62,554,000	62,554,000
Transfers to/(from) during the year	26,712,829	26,712,829
As at 31 March 2017	89,266,829	89,266,829

36.2.1 Statutory Reserve Fund

The statutory reserve fund is maintained as required by Finance Companies (Capital Funds) Direction No.1 of 2003 issued by Central Bank of Sri Lanka. As per the said Direction, every Registered Finance Company shall maintain a reserve fund, out of the net profit for each year after provisions for taxation and bad and doubtful debts. Accordingly 20% of the net profit for the year transferred to Reserve Fund as required by Section 3(b) ii of the said Direction.

37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

37.1 As at 31st March 2017

	HFT at Fair Value Rs.	HTM at Amortised Cost Rs.	L&R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	376,968,804	-	376,968,804
Placement With Banks	-	-	384,100,772	-	384,100,772
Repurchase Agreements	-	-	250,809,890	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	7,624,408
Loans and Advances	-	-	2,145,676,031	-	2,145,676,031
Lease rentals receivable & Stock out on Hire	-	-	3,679,965,646	-	3,679,965,646
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	238,572,963	-	-	238,572,963
Other financial assets	-	-	108,507,477	-	108,507,477
Total Financial Assets	7,624,408	238,572,963	6,946,028,620	80,400	7,192,306,391

	OFL at Amortised Cost Rs.	Total Rs.
Liabilities		
Due to Banks	213,738,920	213,738,920
Due to Customers	5,550,552,545	5,550,552,545
Debt Instruments Issued and Other borrowed funds	-	-
Other Financial Liabilities	482,649,541	482,649,541
Total Financial Liabilities	6,246,941,006	6,246,941,006

37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

	HFT at Fair Value Rs.	HTM at Amortised Cost Rs.	L&R at Amortised Cost Rs.	AFS at Fair Value Rs.	Total Rs.
37.2 As at 31st March 2016					
Assets					
Cash and Bank Balances	-	-	73,385,295	-	73,385,295
Placement With Banks	-	-	224,098,165	-	224,098,165
Repurchase Agreements	-	-	630,158,527	-	630,158,527
Financial Investments - Held for Trading	6,915,241	-	-	-	6,915,241
Financial Investments - Debt Securities	-	-	-	-	-
Loans and Advances	-	-	1,188,546,845	-	1,188,546,845
Lease rentals receivable & Stock out on Hire	-	-	3,596,251,779	-	3,596,251,779
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	21,669,813	-	-	21,669,813
Other financial assets	-	-	73,802,179	-	73,802,179
Total Financial Assets	6,915,241	21,669,813	5,786,242,790	80,400	5,814,908,244

	OFL at Amortised Cost Rs.	Total Rs.
Liabilities		
Due to Banks	47,004,092	47,004,092
Due to Customers	4,539,362,221	4,539,362,221
Debt Instruments Issued and Other borrowed funds	31,110,631	31,110,631
Other Financial Liabilities	837,025,511	837,025,511
Total Financial Liabilities	5,454,502,455	5,454,502,455

HFT - Held for Trading
HTM - Held-to-Maturity
L & R - Loans and Receivables
AFS - Available for Sale
OFL - Other Financial Liabilities

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the financial instruments.

38.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by Valuation techniques.

Level 1 :Quoted (unadjusted) prices in active markets for identical assets or liabilities in the active Market.

Level 2: Valuation technique using observable inputs: Quoted prices for similar assets and liabilities in Active markets or quoted prices for identical or similar assets and liabilities in active markets and are valued using models where all significant inputs are observable.

Level 3: Valuation techniques with significant unobservable inputs: assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

Assets and Liabilities Measured at Fair Value - Fair Value Hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy in to which the fair value measurement is categorised.

As at 31st March 2017	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Quoted equities	7,624,408	-	-	7,624,408
Financial Investments - Available for Sale				
Unquoted equities	-	-	80,400	80,400
Total Financial Assets	7,624,408	-	80,400	7,704,808

As at 31st March 2016	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial Investments - Held for Trading				
Quoted equities	6,915,241	-	-	6,915,241
Financial Investments - Available for Sale				
Unquoted equities	-	-	80,400	80,400
Total Financial Assets	6,915,241	-	80,400	6,995,641

There were no financial liabilities recorded at fair value as at 31 March 2016 & 2017.

There were no transfers between Level 1 and Level 2 during 2016 & 2017.

38.2 Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

Set out below is the comparison, by class, of the carrying amounts of fair values of the Company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

	2017					2016				
	Carrying Amount	Fair Value				Carrying Amount	Fair Value			
		Level 01	Level 02	Level 03	Total		Level 01	Level 02	Level 03	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Assets										
Loans and Advances	2,145,676,031	-	1,916,636,928	-	1,916,636,928	1,188,546,845	-	1,180,640,911	-	1,180,640,911
Lease rentals receivable & Stock out on Hire	3,679,965,646	-	3,369,188,748	-	3,369,188,748	3,596,251,779	-	3,633,442,953	-	3,633,442,953
Financial Investments - Held to Maturity	238,572,963	-	236,853,501	-	236,853,501	21,669,813	-	21,230,364	-	21,230,364
	6,064,214,640	-	5,522,679,177	-	5,522,679,177	4,806,468,437	-	4,835,314,228	-	4,835,314,228
Financial Liabilities										
Due to Customers	5,550,552,545	-	5,835,968,390	-	5,835,968,390	4,539,362,221	-	4,544,278,859	-	4,544,278,859
Debt Instruments Issued and Other borrowed funds	-	-	-	-	-	31,110,631	-	31,110,631	-	31,110,631
	5,550,552,545	-	5,835,968,390	-	5,835,968,390	4,570,472,852	-	4,575,389,490	-	4,575,389,490

The following describes the methodologies and assumptions used to determine the fair values for those financial assets & Liabilities which are not already recorded at fair value in the Financial Statements.

Fixed Rate Financial Instruments

Carrying amounts are considered as fair values for short term credit facilities. All credit facilities with fixed interest rates were fair valued using market rates at which fresh credit facilities were granted during the last month of the reporting year. Conversely, fixed deposits with remaining tenors above one year and interest paid at maturity were discounted using current market rates offered to customers during the last month of the reporting year.

Assets & Liabilities for which Fair Value Approximates Carrying Value

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for an example they are short-term in nature or reprice to current market rates Frequently:

Assets
Cash and Bank Balances
Placement With Banks
Repurchase Agreements
Other Financial assets

Liabilities
Due to Banks
Due to Customers Savings
Debt Instruments Issued and Other borrowed funds
Other Financial Liabilities

Reclassification of financial assets
There have been no reclassifications during 2016 & 2017.

39. RISK MANAGEMENT DISCLOSURES

39.1 Introduction

Risk is inherent in a financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is exposed to credit risk, interest rate risk, liquidity risk, operational risk, the latter being subdivided into regulatory & compliance risk, reputation risk and environmental risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry.

The Company's policy is to monitor those business risks through the Company's strategic planning process.

39.2 Risk Management Structure

The Board is primarily responsible for risk management initiatives. Integrated Risk Management Committee (IRMC), which is a sub-committee of the Board has been established and delegated risk management responsibilities. This Committee plays a vital role in establishing best practices in relation to risk policies and practices within the Company.

The quantum and level of risks that the Company is willing to accept is decided at the IRMC level, and the decisions made by this Committee are communicated to the Board of Directors. The Board ratifies the risk policies and risk tolerance levels agreed at the Integrated Risk Management Committee meetings.

The Committee fulfills the requirement set out in the Finance Companies Direction No. 3 of 2008 on Corporate Governance issued by Central Bank of Sri Lanka (CBSL) under Finance Business Act No. 42 of 2011.

The Committee currently consists of 2 Directors; Managing Director and one Non Executive Director. Chief Executive Officer, Chief Operating Officer, Head of Finance / Assistant Accountant, Head of Sales, Head of Recoveries, Head of Branches, Manager – Risk & Compliance, Manager - IT and Manager - Corporate Affairs were also co-opted to the Committee.

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39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.2 Risk Management Structure (Contd.)

IRMC is supported by two sub committees such as Assets and Liabilities Committee (ALCO) and Credit Committee (CC). ALCO is entrusted with the identification and managing of Market Risk and Liquidity Risk where as CC is responsible for managing Assets Quality and Credit Policy of the Company.

The Company's policy is to ensure that risk management processes throughout the Company are audited by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit division discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

39.3 Risk measurement & Reporting System and Risk Mitigation

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk.

39.4 Credit Risk

Credit risk refers to the risk that borrowers will default on any type of debt by failing to disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances to make payments they are obligated to do. The risk of loss of principal or loss of a financial reward stems from a borrower's failure to repay a loan or otherwise meet a contractual obligation. The risk is primarily that of the lender and includes lost principal and interest.

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

39.4.1 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or encounter other financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis, including any overdue payments of interests, credit rating down grades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.4.1 Impairment Assessment (Contd.)

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments.

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems).

39.4.2 Maximum Exposure to Credit Risk

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets covered by the collateral.

Type of Collateral	Maximum	Fair Value of Collateral Held				Total	Net
As at 31st March 2017	Exposure to Credit Risk Rs.	Cash / Near Cash Rs.	Property Mortgages Rs.	Moveable Assets * Rs.	Other ** Rs.	Collateral Value Rs.	Exposure to Credit Risk Rs.
Cash and Bank Balances (Excluding cash in hand)	334,653,437	-	-	-	-	-	334,653,437
Placement With Banks	384,100,772	-	-	-	-	-	384,100,772
Repurchase Agreements	250,809,890	-	-	-	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	2,248,066,180	164,754,856	538,541,871	1,153,949,890	3,313,673	1,860,560,290	387,505,890
Lease rentals receivable & Stock out on hire	3,928,657,832	-	-	3,694,689,732	-	3,694,689,732	233,968,100
Financial Investments - Available for Sale	80,400	-	-	-	-	-	80,400
Financial Investments - Held to Maturity	238,572,963	-	-	-	-	-	238,572,963
Other Financial assets	108,507,477	-	-	-	-	-	108,507,477
	7,501,073,359	164,754,856	538,541,871	4,848,639,622	3,313,673	5,555,250,022	1,945,823,337

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.4.2 Maximum Exposure to Credit Risk (Contd.)

Type of Collateral As at 31st March 2016	Maximum Exposure to Credit Risk Rs.	Fair Value of Collateral Held Cash / Near Cash Rs.	Property Mortgages Rs.	Moveable Assets * Rs.	Other ** Rs.	Total Collateral Value Rs.	Net Exposure to Credit Risk Rs.
Cash and Bank Balances (Excluding cash in hand)	67,548,678	-	-	-	-	-	67,548,678
Placement With Banks	224,098,165	-	-	-	-	-	224,098,165
Repurchase Agreements	630,158,527	-	-	-	-	-	630,158,527
Financial Investments - Held for Trading	6,915,241	-	-	-	-	-	6,915,241
Loans and Advances	1,249,820,271	113,495,177	392,191,087	494,223,479	5,572,660	1,005,482,402	244,337,869
Lease rentals receivable & Stock out on Hire	3,873,032,728	-	-	3,769,396,511	-	3,769,396,511	103,636,217
Financial Investments - Available for Sale	80,400	-	-	-	-	-	80,400
Financial Investments - Held to Maturity	21,669,813	-	-	-	-	-	21,669,813
Other Financial assets	73,802,179	-	-	-	-	-	73,802,179
	6,147,126,001	113,495,177	392,191,087	4,263,619,990	5,572,660	4,774,878,914	1,372,247,089

* Movable assets includes absolute ownership/ mortgage over Motor Vehicles, Machineries & Equipments.
** Other collateral includes secured by consumer durables & title deed transfers (Real Estate Loans).

39.4.3 Credit Quality by Class of Financial Assets

The amounts presented are gross of Impairment allowances.

As at 31 March 2017	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and Bank Balances	376,968,804	-	-	376,968,804
Placement With Banks	384,100,772	-	-	384,100,772
Repurchase Agreements	250,809,890	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	7,624,408
Loans and Advances	1,448,058,464	738,070,712	61,937,004	2,248,066,180
Lease rentals receivable & Stock out on Hire	2,301,218,597	1,574,998,890	52,440,345	3,928,657,832
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	238,572,963	-	-	238,572,963
Other financial assets	107,627,817	49,171,875	27,904,052	184,703,743
Total	5,115,062,115	2,362,241,477	142,281,401	7,619,584,993

39. RISK MANAGEMENT DISCLOSURES (Contd.)
39.4.3 Credit Quality by Class of Financial Assets (Contd.)

As at 31 March 2016

	Neither Past Due nor Individually Impaired Rs.	Past Due Not Individually Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and Bank Balances	73,385,295	-	-	73,385,295
Placement With Banks	224,098,165	-	-	224,098,165
Repurchase Agreements	630,158,527	-	-	630,158,527
Financial Investments - Held for Trading	6,915,241	-	-	6,915,241
Loans and Advances	837,869,287	351,997,927	59,953,056	1,249,820,271
Lease rentals receivable & Stock out on Hire	1,690,466,460	2,085,470,606	97,095,662	3,873,032,728
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	21,669,813	-	-	21,669,813
Other financial assets	201,964,483	36,257,392	3,237,623	241,459,497
Total	3,686,607,671	2,473,725,925	160,286,340	6,320,619,937

39.4.3.1 Aging Analysis of past due(i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of financial assets as at the end of the relevant financial period.

As at 31 March 2017

	Past Due but Not Individually Impaired				
	1 to 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and Advances	230,230,277	164,128,873	78,065,440	265,646,122	738,070,712
Lease rentals receivable & Stock out on hire	524,621,687	295,416,729	163,487,667	591,472,807	1,574,998,890
Other financial assets	5,616,355	5,163,070	4,016,378	34,376,072	49,171,875
	760,468,319	464,708,672	245,569,485	891,495,001	2,362,241,477

Aging Analysis of past due(i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of financial assets as at the previous financial period.

As at 31 March 2016

	Past Due but Not Individually Impaired				
	1 to 30 days	31 to 60 days	61 to 90 days	More than 91 days	Total
Loans and Advances	79,249,900	42,420,869	34,453,902	195,873,256	351,997,927
Lease rentals receivable & Stock out on hire	641,358,019	429,639,453	280,381,664	734,091,470	2,085,470,606
Other financial assets	2,625,039	2,446,936	1,775,997	29,409,420	36,257,392
	723,232,959	474,507,257	316,611,563	959,374,146	2,473,725,925

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.4.4 Analysis of Risk Concentration

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

As at 31 March 2017

Purpose wise Breakdown	Cash and Bank Balances Rs.	Placement With Banks Rs.	Securities Purchased under Repurchase Agreement Rs.	Financial Investments - Held for Trading Rs.	Loans and Advances Rs.	Lease rentals receivable & Stock out on hire Rs.	Financial Investments - Available for Sale Rs.	Financial Investments - Held to Maturity Rs.	Other Financial assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	-	-	9,799,863	8,690,219	-	-	-	18,490,082
Manufacturing	-	-	-	1,547,825	19,134,976	22,866,380	-	-	-	43,549,181
Construction	-	-	-	-	67,369,355	41,461,540	-	-	-	108,830,895
Financial Services	376,968,804	384,100,772	-	2,922,800	13,530,929	2,244,575	80,400	-	-	779,848,280
Trading	-	-	-	39,000	71,991,584	14,242,347	-	-	-	86,272,931
Government	-	-	250,809,890	-	-	-	-	238,572,963	-	489,382,853
Hotels	-	-	-	561,450	2,217,406	2,456,330	-	-	-	5,235,186
Services	-	-	-	1,183,587	894,059,031	3,603,103,354	-	-	-	4,498,345,972
Others	-	-	-	1,369,746	1,169,963,036	233,593,087	-	-	108,507,477	1,513,433,346
Total	376,968,804	384,100,772	250,809,890	7,624,408	2,248,066,180	3,928,657,832	80,400	238,572,963	108,507,477	7,543,388,726

As at 31 March 2016

Purpose wise Breakdown	Cash and Bank Balances Rs.	Placement With Banks Rs.	Securities Purchased under Repurchase Agreement Rs.	Financial Investments - Held for Trading Rs.	Loans and Advances Rs.	Lease rentals receivable & Stock out on hire Rs.	Financial Investments - Available for Sale Rs.	Financial Investments - Held to Maturity Rs.	Other Financial assets Rs.	Total Financial Assets Rs.
Agriculture	-	-	-	-	13,273,913	18,538,216	-	-	-	31,812,129
Manufacturing	-	-	-	957,763	35,317,769	35,321,051	-	-	-	71,596,582
Construction	-	-	-	-	101,102,969	70,618,119	-	-	-	171,721,088
Financial Services	73,385,295	224,098,165	-	2,846,073	24,712,288	3,421,962	80,400	-	-	328,544,183
Trading	-	-	-	41,500	132,929,187	20,280,786	-	-	-	153,251,473
Government	-	-	630,158,527	-	-	-	-	21,669,813	-	651,828,340
Hotels	-	-	-	634,160	5,418,784	2,885,057	-	-	-	8,938,002
Services	-	-	-	1,195,152	441,046,205	3,546,157,299	-	-	-	3,988,398,656
Others	-	-	-	1,240,593	496,019,155	175,810,238	-	-	73,802,179	746,872,166
Total	73,385,295	224,098,165	630,158,527	6,915,242	1,249,820,271	3,873,032,728	80,400	21,669,813	73,802,179	6,152,962,619

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.5 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and / or the fair values of financial instruments. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to Company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Reprising risk arising from a fixed rate borrowing portfolio where reprising frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve.

Assets and Liabilities Committee of the Company is having the primary responsibility of managing the Interest Rate Risk. Interest rate risk is managed principally through minimising interest rate sensitive asset liability gaps. In order to ensure interest rate margin and spreads are maintained, the Company conducts periodic reviews and re-prices its assets accordingly.

39.5.1 Interest Rate Sensitivity

39.5.1.1 The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Profit or Loss and Equity.

Rs. Million

Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
Long Term Loans linked to AWPLR -Rs.	**2017**	**2017**	**2017**
	+100/ (-100)	(1.41) / 1.41	(2.48) / 2.48
	2016	**2016**	**2016**
	+100/ (-100)	(0.75) / 0.75	(0.06) / 0.06

The base ratio considered in the Interest Rate Sensitivity Analysis is the AWPLR. Since 63% of total borrowings (excluding Due to Customers) are linked to AWPLR, the above sensitivity ratio indicates the impact on Profit or Loss and Equity.

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.5.2 Interest Rate Risk

The table below analyses the Company's interest rate risk exposure on non- trading financial assets & liabilities. The Company's assets & liabilities are included at carrying amount caterorised by the earlier of contractual reprising or maturity dates as at the end of the relevant financial period.

	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31/03/2017 Rs.
ASSETS							
Cash and Bank Balances	281,963,504	-	-	-	-	95,005,300	376,968,804
Placement with Banks	384,048,045	52,727	-	-	-	-	384,100,772
Securities Purchased under Repurchase Agreement	-	250,809,890	-	-	-	-	250,809,890
Loans and Advances	619,219,423	712,006,394	754,545,182	54,863,979	5,041,053	-	2,145,676,031
Lease rentals receivable & Stock out on Hire	928,025,318	1,342,912,059	1,278,980,503	126,697,428	3,350,338	-	3,679,965,646
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	216,321,780	3,150,104	19,101,079	-	-	238,572,963
Other financial assets	-	-	-	-	-	108,507,477	108,507,477
TOTAL ASSETS	2,213,256,290	2,522,102,850	2,036,675,789	200,662,486	8,391,391	203,593,177	7,184,681,983
LIABILITIES							
Due to Banks	26,238,920	69,444,445	118,055,555	-	-	-	213,738,920
Due to Customers	1,842,797,336	2,522,776,498	1,076,828,418	108,150,293	-	-	5,550,552,545
Other Financial Liabilities	-	-	-	-	-	482,649,541	482,649,541
TOTAL LIABILITIES	1,869,036,256	2,592,220,943	1,194,883,973	108,150,293	-	482,649,541	6,246,941,006
TOTAL INTEREST SENSITIVITY GAP	344,220,034	(70,118,093)	841,791,816	92,512,193	8,391,391	(279,056,364)	937,740,977

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.5.2.1 Interest Rate Risk

The table below analyses the Company's interest rate risk exposure on non- trading financial assets & liabilities. The Company's assets & liabilities are included at carrying amount caterorised by the earlier of contractual reprising or maturity dates as at the end of the previous financial period.

	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Non interest bearing Rs.	Total as at 31/03/2016 Rs.
ASSETS							
Cash and Bank Balances	11,637,390	-	-	-	-	61,747,905	73,385,295
Placement with Banks	224,049,147	49,017	-	-	-	-	224,098,164
Securities Purchased under Repurchase Agreement	630,158,527	-	-	-	-	-	630,158,527
Loans and Advances	305,347,276	205,989,315	594,700,594	77,710,965	4,798,695	-	1,188,546,845
Lease rentals receivable & Stock out on Hire	656,315,030	1,122,194,929	1,794,058,182	23,672,139	11,499	-	3,596,251,779
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	77,158	447,515	3,088,000	5,868,958	12,188,182	-	21,669,813
Other Financial assets	-	-	-	-	-	73,802,179	73,802,179
TOTAL ASSETS	1,827,584,530	1,328,680,776	2,391,846,776	107,252,062	16,998,376	135,630,484	5,807,993,003
LIABILITIES							
Due to Banks	47,004,092	-	-	-	-	-	47,004,092
Due to Customers	1,149,094,232	1,692,409,186	1,571,289,040	126,569,763	-	-	4,539,362,221
Debt Instruments Issued and Other borrowed funds	31,110,631	-	-	-	-	-	31,110,631
Other Financial Liabilities	-	-	-	-	-	837,025,511	837,025,511
TOTAL LIABILITIES	1,227,208,955	1,692,409,186	1,571,289,040	126,569,763	-	837,025,511	5,454,502,455
TOTAL INTEREST SENSITIVITY GAP	600,375,575	(363,728,410)	820,557,736	(19,317,701)	16,998,376	(701,395,027)	353,490,549

39.6 Liquidity Risk

Liquidity risk refers to the availability of sufficient cash balances to meet the demand on deposits and new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity. The Company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles, including periods of financial stress. To achieve this objective the asset and liability management committee (ALCO) analyses and monitors liquidity risk, and maintains an adequate margin of safety in liquid assets.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

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39.6.1 Statutory Liquid Asset Ratio

As per the requirements of Finance companies (Liquid Assets) Direction No.4 of 2013 the Company has to maintain minimum liquid assets comprises of 10% of Time Deposits and Certificates of Deposits at the close of the business on such day and 15% of Savings Deposits at the close of the business on such day. In addition to the above, with effect from 01st July, 2014 the Company needs to maintain 10% on Borrowings which are not included in the Tier – II capital base and borrowings which are not secured by mortgage of any assets. Further the Company has to maintain liquid assets in the form of Sri Lanka Government Securities not less than 7.5% of average month end total deposit liabilities and the above said borrowings of twelve months of the preceding financial year.

The Company maintained a healthy statutory liquid asset ratio throughout the year. The Company considers cash balances, Favorable Balances held with Commercial Banks on demand deposits, Placement with banks in the form of Time Deposits and Savings, Investment in Treasury Bills, Securities Purchased under Repurchase Agreement are considered as Liquid Assets for the purpose Statutory Liquid Asset Ratio calculation.

	Statutory Liquid Asset Ratio	
	2017	2016
Maximum	29.31%	25.96%
Minimum	14.24%	18.22%
Average	23.62%	21.76%
Closing	21.81%	19.21%

39.6.2 Advances to Deposits ratio

The Company stresses the importance of maintaining an adequate Customer Deposit Base such as Time and Savings Deposits as sources of funds to finance Loans and Advances. They are monitored using the Advances to Deposits ratio which comprises accommodations to customers as a percentage of customer deposits.

	Advances to Deposits Ratio	
	2017	2016
Maximum	109.53%	105.41%
Minimum	97.76%	91.94%
Average	102.68%	99.42%
Closing	104.96%	105.41%

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

39.6.3.1 The table below analyses the maturity profile of the undiscounted cash flows of the Company's financial assets & liabilities as at the end of relevant financial period.

	On Demand Rs.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2017 Rs.
ASSETS							
Cash and Bank Balances	376,968,804	-	-	-	-	-	376,968,804
Placement With Banks	35,301,130	354,084,754	56,298	-	-	-	389,442,182
Securities Purchased under Repurchase Agreement	-	-	276,873,626	-	-	-	276,873,626
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	213,663,189	498,143,368	920,296,880	1,092,180,440	101,377,420	8,868,958	2,834,530,255
Lease rentals receivable & Stock out on Hire	429,893,243	702,658,053	1,803,267,913	1,977,295,411	209,086,391	5,970,760	5,128,171,772
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	-	221,415,805	3,165,200	21,605,500	-	246,186,505
Other financial assets	-	108,507,477	-	-	-	-	108,507,477
Total Financial Assets	1,063,450,774	1,663,393,653	3,221,910,522	3,072,641,051	332,069,312	14,920,118	9,368,385,429
LIABILITIES & EQUITY							
Due to Banks	12,350,088	18,005,043	85,692,420	129,104,122	-	-	245,151,673
Due to Customers	371,351,090	1,486,877,630	2,631,955,350	1,140,835,712	117,369,730	-	5,748,389,512
Other Financial Liabilities	-	482,649,541	-	-	-	-	482,649,541
Total Financial Liabilities	383,701,179	1,987,532,214	2,717,647,769	1,269,939,834	117,369,730	-	6,476,190,726
	679,749,595	(324,138,561)	504,262,753	1,802,701,217	214,699,582	14,920,118	2,892,194,703

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39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

39.6.3.2 The table below analyses the maturity profile of the undiscounted cash flows of the Company's financial assets & liabilities as at the end of previous financial period.

	On Demand Rs.	Up to 03 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2016 Rs.
ASSETS							
Cash and Bank Balances	73,385,295	-	-	-	-	-	73,385,295
Placement With Banks	31,380,186	194,112,957	51,218	-	-	-	225,544,361
Securities Purchased under Repurchase Agreement	333,939,581	297,423,925	-	-	-	-	631,363,506
Financial Investments - Held for Trading	6,915,241	-	-	-	-	-	6,915,241
Loans and Advances	158,467,755	103,316,042	402,039,008	801,925,596	111,553,687	5,169,500	1,582,471,588
Lease rentals receivable & Stock out on Hire	555,200,917	482,104,475	1,734,772,626	2,226,721,535	55,711,201	11,634	5,054,522,388
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	94,000	2,770,870	8,758,836	12,607,325	14,948,162	39,179,193
Other Financial Assets	-	73,802,179	-	-	-	-	73,802,179
Total Financial Assets	1,159,288,975	1,150,853,578	2,139,633,722	3,037,405,967	179,872,213	20,209,696	7,687,264,151
LIABILITIES & EQUITY							
Due to Banks	22,246,168	19,248,927	6,169,444	-	-	-	47,664,539
Due to Customers	119,197,581	1,077,375,263	1,918,464,612	1,777,430,675	156,665,564	-	5,049,133,696
Debt Instruments Issued and Other borrowed funds	-	31,339,628	-	-	-	-	31,339,628
Other Financial Liabilities	-	837,025,511	-	-	-	-	837,025,511
Total Financial Liabilities	141,443,749	1,964,989,328	1,924,634,057	1,777,430,675	156,665,564	-	5,965,163,374
	1,017,845,226	(814,135,750)	214,999,666	1,259,975,291	23,206,649	20,209,696	1,722,100,778

39.7 Operational Risk

An operational risk is the risk arising from execution of a Company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a Company operates. It also includes other categories such as fraud risks, regulatory and compliance risks, reputation and physical or environmental risks.

40. MATURITY ANALYSIS (CONTRACTUAL)

40.1 An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the date of the Statement of Financial Position to the respective contractual maturity dates are given below.

	On Demand Rs.	Less than 3 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2017 Rs.
ASSETS							
Cash and Bank Balances	376,968,804	-	-	-	-	-	376,968,804
Placement With Banks	35,301,130	348,746,915	52,727	-	-	-	384,100,772
Securities Purchased under Repurchase Agreement	-	-	250,809,890	-	-	-	250,809,890
Financial Investments - Held for Trading	7,624,408	-	-	-	-	-	7,624,408
Loans and Advances	197,795,369	421,424,054	712,006,394	754,545,182	54,863,979	5,041,053	2,145,676,031
Lease rentals receivable & Stock out on Hire	370,612,889	557,412,429	1,342,912,059	1,278,980,503	126,697,428	3,350,338	3,679,965,646
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	-	216,321,780	3,150,104	19,101,079	-	238,572,963
Other financial assets	-	108,507,477	-	-	-	-	108,507,477
Real Estate Stock	-	-	12,166,878	32,532,500	21,351,315	-	66,050,693
Other Non Financial Assets	-	17,415,422	19,654,641	3,318,000	337,000	-	40,725,064
Tax Recoverable	-	-	20,800,270	-	-	-	20,800,270
Property, Plant & Equipment	-	4,443,823	12,639,597	25,495,713	8,823,728	34,440,811	85,843,673
Intangible Assets	-	708,783	2,126,348	5,670,260	5,670,260	8,505,392	22,681,042
Deferred tax assets	-	-	-	57,800,324	-	-	57,800,324
Total Assets	988,302,600	1,458,658,903	2,589,490,584	2,161,492,586	236,844,790	51,417,994	7,486,207,457
LIABILITIES							
Due to Banks	12,350,088	13,888,832	69,444,445	118,055,555	-	-	213,738,920
Due to Customers	371,038,551	1,471,758,785	2,522,776,498	1,076,828,418	108,150,293	-	5,550,552,545
Other Financial Liabilities	-	482,649,541	-	-	-	-	482,649,541
Other Non Financial Liabilities	-	13,862,374	-	-	-	-	13,862,374
Retirement Benefit Liability	-	-	3,944,830	2,901,140	3,515,000	4,777,350	15,138,320
	383,388,639	1,982,159,532	2,596,165,773	1,197,785,113	111,665,293	4,777,350	6,275,941,700

40. MATURITY ANALYSIS (CONTRACTUAL) (Contd.)

40.2 An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the end of the previous financial period to the respective contractual maturity dates are given below.

	On Demand Rs.	Less than 3 Months Rs.	03-12 Months Rs.	01-03 Years Rs.	03-05 Years Rs.	Over 05 Years Rs.	Total as at 31/03/2016 Rs.
ASSETS							
Cash and Bank Balances	73,385,295	-	-	-	-	-	73,385,295
Placement With Banks	31,372,173	192,676,975	49,017	-	-	-	224,098,164
Securities Purchased under Repurchase Agreement	333,810,726	296,347,801	-	-	-	-	630,158,527
Financial Investments - Held for Trading	6,915,241	-	-	-	-	-	6,915,241
Loans and Advances	152,019,925	58,171,555	258,385,282	617,343,009	97,828,378	4,798,695	1,188,546,845
Lease rentals receivable & Stock out on Hire	378,153,431	278,161,599	1,122,194,929	1,794,058,182	23,672,139	11,499	3,596,251,779
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	77,158	447,515	3,088,000	5,868,958	12,188,182	21,669,813
Other financial assets	-	73,802,179	-	-	-	-	73,802,179
Real Estate Stock	-	26,919,440	6,585,225	28,210,500	21,351,315	-	83,066,481
Other Non Financial Assets	-	80,217,322	13,408,337	3,046,166	1,223,000	-	97,894,824
Property, Plant & Equipment	-	-	-	21,871,725	25,845,464	28,094,076	75,811,265
Intangible Assets	-	-	-	-	-	15,608,896	15,608,896
Deferred tax assets	-	-	-	61,419,536	-	-	61,419,536
Total Assets	975,656,790	1,006,374,029	1,401,070,306	2,529,037,118	175,789,254	60,781,749	6,148,709,246
LIABILITIES							
Due to Banks	22,246,168	18,757,924	6,000,000	-	-	-	47,004,092
Due to Customers	114,851,353	1,034,242,879	1,692,409,186	1,571,289,040	126,569,763	-	4,539,362,221
Debt Instruments Issued and Other borrowed funds	-	31,110,631	-	-	-	-	31,110,631
Other Financial Liabilities	-	837,025,511	-	-	-	-	837,025,511
Other Non Financial Liabilities	-	8,086,521	-	-	-	-	8,086,521
Current tax liabilities	-	56,345,826	-	-	-	-	56,345,826
Retirement Benefit Liability	-	-	3,376,487	3,755,098	2,503,399	5,614,354	15,249,338
	137,097,521	1,985,569,292	1,701,785,673	1,575,044,138	129,073,162	5,614,354	5,534,184,141

41. COMMITMENTS AND CONTINGENCIES

41.1 Commitments

As at 31st March 2017	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 yeas Rs.	Total Rs.
Operating Lease Commitments-Company as lessee	-	41,111,281	131,498,016	-	172,609,297
	-	41,111,281	131,498,016	-	172,609,297

As at 31st March 2016	On Demand Rs.	With in 01 year Rs.	1-5 years Rs.	More than 5 yeas Rs.	Total Rs.
Operating Lease Commitments-Company as lessee	-	40,419,511	154,246,435	16,112,262	210,778,208
	-	40,419,511	154,246,435	16,112,262	210,778,208

41.2 Contingent Liabilities

There were no material contingent liabilities outstanding as at the reporting date.

41.3 Capital Commitments

The Company has no commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business.

42. EVENTS AFTER THE REPORTING DATE

The Company issued 11,093,595 ordinary shares by way of a Rights Issue in the proportion of One (01) Ordinary Share for every Five (05) Ordinary Shares held in the capital of the Company (which is ranked pari passu). The Company raised Rs. 277,339,875/- from the Rights Issue and increased the Stated Capital of the Company from Rupees Eight Hundred and Forty Four Million Seventy Three Thousand and Eighty (Rs.844,073,080/-) representing Fifty Five Million Four Hundred and Sixty Seven Thousand Nine Hundred and Seventy Eight (55,467,978) shares to Rupees One Billion One Hundred and Twenty One Million Four Hundred and Twelve Thousand Nine Hundred and Fifty Five (Rs.1,121,412,955/-) representing Sixty Six Million Five Hundred and Sixty One Thousand Five Hundred and Seventy Three (66,561,573) shares.

43. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the Company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximise shareholders' value.

Notes to the Financial Statements *Contd.*

44. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged 2017 Rs.	Carrying Amount Pledged 2016 Rs.	Included Under
Lease & Hire Purchase Receivables	Bank Overdraft	313,366,667	279,366,667	Lease Rental Receivables and Stock Out on Hire
Placement With Banks	Bank Overdraft	34,000,000	34,000,000	Placement With Banks
Lease & Hire Purchase Receivables	Term Loan	402,777,664	47,193,955	Lease Rental Receivables and Stock Out on Hire
		750,144,331	360,560,622	

45. FINANCIAL REPORTING BY SEGMENT

	Leasing		Hire purchase		Term Loans		Others		Total	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.
Interest Income	904,576,211	933,631,256	20,046,954	56,032,551	453,946,296	130,926,781	116,104,235	68,688,307	1,494,673,696	1,189,278,894
Fee Based Income & Others	87,468,321	97,689,895	659,385	1,167,893	15,986,470	12,729,023	3,964,382	1,050,117	108,078,558	112,636,928
Unallocated Income	-	-	-	-	-	-	17,754,126	15,317,540	17,754,126	15,317,540
Total Revenue	992,044,532	1,031,321,151	20,706,339	57,200,444	469,932,766	143,655,804	137,822,743	85,055,964	1,620,506,380	1,317,233,363
Interest Expenses	(355,219,827)	(282,782,421)	(7,539,007)	(21,766,189)	(166,229,062)	(85,551,242)	(94,651,865)	(91,121,652)	(623,639,761)	(481,221,503)
Fee Based Expenses & Others	(57,823,136)	(52,012,635)	-	-	(215,708)	(109,903)	(26,708,408)	(24,766,377)	(84,747,252)	(76,888,915)
Impairment Reversal / (Provision)	(11,746,867)	(126,967,604)	11,619,704	(18,922,217)	(60,443,804)	(1,243,861)	(128,798,427)	(78,706,435)	(189,369,393)	(225,840,117)
Net Operating Income	567,254,703	569,558,490	24,787,037	16,512,038	243,044,191	56,750,798	(112,335,957)	(109,538,499)	722,749,974	533,282,828
Unallocated Expenses									(525,343,646)	(402,801,934)
Profits/ (Loss) before Tax									197,406,328	130,480,894
Income Tax expenses									(63,842,188)	(40,356,230)
Net Profit /(Loss) for the period									133,564,140	90,124,664
Other Comprehensive Income									2,542,503	(469,730)
Total Comprehensive Income for the Year									136,106,643	89,654,934
Segment Assets	3,636,435,388	3,488,564,623	43,530,258	107,687,158	2,145,676,031	1,188,546,842	939,534,318	958,992,986	6,765,175,995	5,743,791,609
Unallocated Assets									721,031,462	404,917,637
Total Assets	3,636,435,388	3,488,564,623	43,530,258	107,687,158	2,145,676,031	1,188,546,842	939,534,318	958,992,986	7,486,207,457	6,148,709,246
Unallocated Liabilities									6,275,941,700	5,534,184,140
Total Liabilities									6,275,941,700	5,534,184,140

46. RELATED PARTY TRANSACTIONS

The Company carried out transactions with key management and their related concerns and other related entities in the ordinary course of its business on an arm's length basis at commercial rates with the parties who are defined as Sri Lanka Accounting Standard No.24 Related party disclosure, details of which are reported below. Such transactions is based on the assessment of risk and pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated customers.

Outstanding balances as at the year-end are unsecured, interest free, and due on demand. There have been no guarantees provided or received for any related party receivables or payables.

Details of related party transactions during the year are as follows:

46.1 The Parent

Abans PLC owns 71.60% (2016- 89.29%) shareholding of the Company.

46.2 Transactions with Key Management Personnel

According to Sri Lanka Accounting Standard-LKAS 24 (Related Party Disclosures), Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. According to the above definition a person cannot be considered as a KMP unless such person has both the authority and responsibility to carry out all of the three activities mentioned in the above definition (i.e. planning, directing and controlling the activities of the entity). Such KMPs include the Board of Directors of the Company and Chief Executive Officer (CEO).

Other related parties include CFMs of the KMPs who are family members who may be expected to influence or be influenced by that KMP in their dealings with the entity.

Compensation to Key Management Personnel	2017 Rs.	2016 Rs.
Short Term Employee Benefits	24,630,698	14,454,750
Post-employment benefits	2,000,000	-
	26,630,698	14,454,750

Other transactions with Key Management Personnel	2017 Rs.	2016 Rs.
Fixed Deposits accepted during the year	2,310,130	15,000,000
Fixed Deposits held at the beginning of the year	1,231,212	13,772,515
Consultancy Fee paid during the year	4,450,600	6,510,173

In addition to the above, the Company has also provided non-cash benefits such as vehicle & fuel allowance to Key Management Personnel in line with the approved employment benefits of the Company.

Loans and advances granted

No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2015/2016- Nil).

46. RELATED PARTY TRANSACTIONS (Contd.)

46.3 Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close member of family, or shareholders who have either control, significant influences or joint control over entity.

	Abans PLC Parent Company		Other Related Parties **		Total	
	2017 Rs.	2016 Rs.	2017 Rs.	2016 Rs.	2017 Value Rs.	2016 Value Rs.
Nature of Transaction						
Fixed Deposits Accepted during the year	-	-	266,000,000	150,000,000	266,000,000	150,000,000
Fixed Deposits held at the end of the year	-	-	350,148,232	160,023,713	350,148,232	160,023,713
As at 1 April	20,593,249	4,003,095	(134,325,229)	(294,693,792)	(113,731,980)	(290,690,698)
Purchase of Articles Consumer Credit Granting	-	-	-	-	-	-
Purchase of Motor Bikes - Lease Granting	-	-	(2,096,101,772)	(2,684,141,194)	(2,096,101,772)	(2,684,141,194)
Collections made on behalf of Abans Finance	1,391,491,587	958,093,773	-	-	1,391,491,587	958,093,773
Expense on collection commission	(15,575,555)	(10,277,499)	-	-	(15,575,555)	(10,277,499)
Sale of real Estate Loan Granting	-	-	-	-	-	-
Interest income on real estate Loan	-	-	-	-	-	-
Printing Expenses	-	-	(2,467,934)	(1,108,138)	(2,467,934)	(1,108,138)
Rent Income Recognised & Expense Recoveries	9,938,041	4,371,181	(903,061)	(845,510)	9,034,980	3,525,671
Rent Expense Paid	-	-	1,310,816	437,755	1,310,816	437,755
Settlements Paid/(Received)	(1,387,025,941)	(935,597,300)	2,015,634,093	2,846,025,650	628,608,152	1,910,428,350
As at 31 March	19,421,382	20,593,249	(216,853,088)	(134,325,229)	(197,431,706)	(113,731,979)

Included in	2017 Rs.	2016 Rs.
Other Financial Assets	(21,011,870)	(22,714,432)
Other Financial Liabilities	218,443,576	136,446,411
	197,431,706	113,731,979

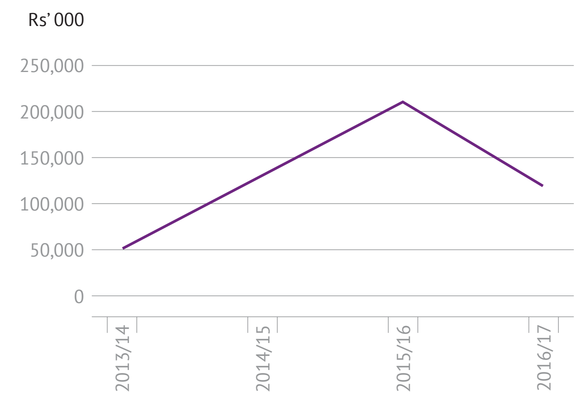
**Other Related Parties include the following companies
Abans Graphics (Pvt) Ltd
Abans Retail (Pvt) Ltd
Abans Auto (Pvt) Ltd
Abans Electricals PLC (Service Department)
Abans Marketing (Pvt) Ltd
ABS Gardner Dixon Hall International (Pvt) Ltd
Abans Office Automation (Pvt) Ltd
Ironwood Investments Holdings (Pvt) Ltd

“Other Related Parties are companies controlled / jointly controlled / significantly influenced by Key Management Personnel.

VALUE ADDITION

Financial Value Addition

For the year ended 31 March	2017 Rs.'000	%	2016 Rs.'000	%
Value Added				
Income earned by providing Financial Services	1,619,558		1,317,816	
Cost of Services	(942,663)		(750,899)	
Value added by financial services	676,895		566,917	
Net gain / (loss) from trading	948		(582)	
Impairment	(189,369)		(225,840)	
Total Value Added	488,474		340,495	
Value Allocated				
Employees as Remuneration	217,089	44	166,917	49
Government as Taxes	119,161	24	70,545	21
Shareholders as Dividends	-	-	-	-
Retained within the Business				
- As depreciation & amortisation	18,661	4	12,909	4
- As reserves	133,564	27	90,125	26
Total Value Allocated	488,474	100	340,495	100



Economic Value Addition

Economic Value Added (EVA)

Responsibility towards Economic Value Addition is the core of the business strategy that adds value to our stake holders comprising equity holders, customers, employees and finally the entire community.

For the year Ended 31 March	2017 Rs.'000	2016 Rs.'000
Shareholders' Funds	1,210,266	614,525
Accumulated Provision for Impairment chargers	427,279	505,712
	1,637,544	1,120,237
Profit Attributable to:		
Shareholders	133,564	90,125
Add-Impairment Provision.	189,369	225,840
	322,934	315,965
Economic Cost (Average treasury bill rate +2% Risk Premium)	12.42%	9.32%
Economic Cost	203,383	104,406
Economic Value Addition	119,551	211,559

TEN YEAR SUMMARY

Statement of Comprehensive Income

	2017	2016	2015	2014	2013	2012	*2011	*2010	*2009	*2008
Income	1,620,506,380	1,317,233,363	958,110,639	751,979,154	570,344,914	456,093,900	396,244,898	287,674,710	354,520,565	205,558,532
Interest Income	1,494,673,696	1,189,278,894	853,772,285	688,523,379	541,111,997	434,997,143	369,635,871	269,854,363	338,696,974	184,543,497
Interest Expense	(623,639,761)	(481,221,503)	(409,914,041)	(387,218,811)	(328,177,272)	(221,598,714)	(181,474,454)	(191,575,112)	(230,983,120)	(73,383,478)
Net Interest Income	871,033,935	708,057,391	443,858,244	301,304,568	212,934,725	213,398,429	188,161,417	78,279,251	107,713,854	111,160,019
Fee and Commission Income	104,114,176	111,586,810	91,787,158	48,243,961	24,513,497	19,240,537	-	-	-	-
Fee and Commission Expenses	(84,747,252)	(76,888,915)	(45,314,982)	(22,452,896)	(7,055,624)	(3,855,418)	-	-	-	-
Net Fee and Commission Income	19,366,924	34,697,895	46,472,176	25,791,065	17,457,873	15,385,119	-	-	-	-
Net Gain / (Loss) from Trading	948,394	(582,293)	1,830,282	272,657	449,377	(2,869,874)	-	-	-	-
Other Operating Income (Net)	20,770,114	16,949,952	10,720,913	14,939,157	4,270,043	4,726,094	26,609,027	17,820,347	15,823,591	21,015,035
Total Operating Income	912,119,367	759,122,945	502,881,616	342,307,447	235,112,018	230,639,768	214,770,444	96,099,598	123,537,445	132,175,054
Impairment (Charge) / Reversal (Prov. For Bad Debts)	(189,369,393)	(225,840,117)	(115,592,554)	(115,721,812)	(5,143,119)	(2,649,110)	(19,220,718)	(95,177,038)	(31,333,036)	(13,939,427)
Net Operating Income	722,749,974	533,282,828	387,289,061	226,585,635	229,968,899	227,990,658	195,549,726	922,560	92,204,409	118,235,627
Less: Operating Expenses										
Personnel Cost	(217,088,659)	(166,916,649)	(118,587,829)	(78,998,858)	(69,738,998)	(58,603,261)	(53,341,872)	(36,157,265)	(40,850,660)	(28,824,745)
Other Operating Expenses	(252,936,224)	(205,696,824)	(160,067,903)	(118,563,171)	(93,872,626)	(83,203,335)	(70,204,434)	(67,224,035)	(71,503,989)	(52,934,767)
Operating Profit before VAT on FS	252,725,091	160,669,355	108,633,329	29,023,606	66,357,275	86,184,062	72,003,420	(102,458,740)	(20,150,240)	36,476,115
Value Added Tax on Financial Services	(55,318,763)	(30,188,461)	(11,123,943)	(3,655,613)	(7,585,827)	(8,379,298)	(8,935,538)	-	(1,192,032)	(6,825,205)
Profit before Taxation from Operations	197,406,328	130,480,894	97,509,387	25,367,993	58,771,448	77,804,764	63,067,882	(102,458,740)	(21,342,272)	29,650,910
Income Tax Expenses	(63,842,188)	(40,356,230)	(24,707,819)	(16,672,634)	(18,083,398)	(32,130,568)	(20,568,382)	37,729,196	(2,306,621)	(19,653,086)
Profit for the year	**133,564,140**	**90,124,664**	**72,801,568**	**8,695,359**	**40,688,050**	**45,674,196**	**42,499,500**	**(64,729,544)**	**(23,648,893)**	**9,997,824**

**Figures as per SLASs*

Statement of Financial Position

Assets	2017	2016	2015	2014	2013	2012	*2011	*2010	*2009	*2008
Cash and Bank Balances	376,968,804	73,385,295	68,497,383	105,135,491	33,802,530	24,020,124	12,497,605	7,771,603	4,525,613	13,739,953
Placements with Banks	384,100,772	224,098,165	283,645,333	127,536,938	125,140,325	25,480,046	65,103,633	42,401,609	15,000,000	8,500,000
Investment in Government Securities	489,382,853	651,828,340	448,038,936	326,071,980	168,522,407	208,659,434	156,762,970	65,878,767	73,315,520	55,093,236
Financial Investments - Held for Trading	7,624,408	6,915,241	7,370,358	7,050,136	8,336,546	8,085,928	11,716,200	-	-	-
Financial Investments - Debt Securities	-	-	49,278,340	49,436,762	-	-	-	-	-	-
Loans and Advances	2,145,676,031	1,188,546,845	637,248,600	742,249,738	836,056,102	973,335,065	773,016,923	324,568,604	194,209,439	140,794,501
Lease Rentals Receivable & Stock Out on Hire	3,679,965,646	3,596,251,779	2,903,285,248	2,073,588,417	1,549,447,291	1,236,193,230	901,333,337	777,541,018	1,012,680,534	747,511,231
Financial Investments - Available for Sale	80,400	80,400	100,210,655	80,400	80,400	80,400	80,400	80,400	80,400	80,400
Real Estate and Vehicle Stock	66,050,693	83,066,481	97,139,978	130,860,857	133,841,502	144,617,200	135,883,066	136,058,707	133,343,132	131,738,766
Other Assets	149,232,541	171,697,004	123,914,661	117,875,934	41,400,543	40,906,702	36,477,522	79,322,350	55,775,411	46,752,731
Tax Recoverable	20,800,270	-	-	-	-	6,602,175	6,468,996	13,345,635	10,727,880	-
Intangible Assets	22,681,042	15,608,896	10,241,083	9,340,722	12,268,902	10,410,217	12,900,571	-	-	-
Property, Plant & Equipment	85,843,673	75,811,265	26,807,373	17,957,131	16,608,243	19,253,353	16,984,244	18,682,524	27,976,307	25,741,470
Deferred Tax Assets	57,800,324	61,419,536	18,446,150	155,429	-	81,683	20,557,523	32,969,828	-	-
Total Assets	**7,486,207,457**	**6,148,709,246**	**4,774,124,097**	**3,707,339,935**	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**	**1,169,952,288**
Liabilities										
Due to Banks & Other Financial Institutions	213,738,920	47,004,092	155,850,542	263,270,842	359,435,796	383,057,225	153,893,325	92,607,209	340,489,122	163,159,067
Due to Customers	5,550,552,545	4,539,362,221	3,591,961,005	2,600,119,545	1,765,882,547	1,672,108,739	1,519,571,106	1,009,533,058	591,000,334	396,825,828
Debt Instruments Issued and Other Borrowed Funds	-	31,110,631	-	122,265,623	174,325,059	99,374,620	24,999,996	-	136,714,790	107,389,187
Other Liabilities	496,511,915	845,112,032	463,476,075	255,500,318	169,836,413	135,377,017	87,281,639	85,686,066	79,202,217	76,906,007
Retirement Benefit Liability	15,138,320	15,249,338	11,474,701	7,411,816	5,833,972	3,716,167	5,619,332	2,659,537	2,589,813	1,038,000
Current Tax Liabilities	-	56,345,826	26,491,603	5,876,796	3,376,089	-	-	-	-	14,573,005
Deferred Tax Liability	-	-	-	-	2,589,526	-	-	-	4,773,242	3,952,104
Total Liabilities	6,275,941,700	5,534,184,140	4,249,253,926	3,254,444,940	2,481,279,402	2,293,633,768	1,791,365,398	1,190,485,870	1,154,769,517	763,843,198
Shareholders' Funds										
Stated Capital	844,073,080	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630
Statutory Reserve	89,266,829	62,554,000	44,529,000	29,968,000	28,228,500	20,201,500	9,519,900	1,020,000	1,020,000	1,020,000
Investment Fund	-	-	-	18,454,242	14,723,671	7,833,381	-	-	-	-
Reserve on Available for Sale Financial Instruments	-	-	130,255	-	-	-	-	-	-	-
Retained Earnings	276,925,848	169,597,476	97,837,286	22,099,123	18,899,588	(6,316,722)	(33,475,938)	(75,258,455)	(10,528,911)	22,715,460
Total Shareholders' Funds	1,210,265,757	614,525,106	524,870,171	452,894,995	444,225,389	404,091,789	358,417,592	308,135,175	372,864,719	406,109,090
Total Liabilities and Shareholders' Funds	**7,486,207,457**	**6,148,709,246**	**4,774,124,097**	**3,707,339,935**	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**	**1,169,952,288**

**Figures as per SLASs*

CAPITAL ADEQUACY

Capital is one of the most important sources of funds to a financial business since provides a buffer against any losses that might occur in relation to Credit Risk, Interest Rate Risk, Liquidity Risk, Operational Risk etc. Hence, Capital Adequacy of a financial business is a dynamic concept.

The Capital Adequacy Assures the public and the financial business supervisor that the financial business is in a position to survive whatever strains that may be placed on it.

Capital Adequacy Ratio (CAR) is a measure of capital of a finance company as a percentage of its Risk Weighted Assets.

01. Core Capital Ratio (Tier I) : (Minimum 5%)

$$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$$

02. Total Risk Weighted Capital Ratio (Tire 01+Tire II) : (Minimum 10%)

$$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}} \times 100$$

Tier I -Core capital

The Tier I core capital mainly consist of shareholder's equity (paid up shares/common stock) and reserves created or increased by appropriations of retained earnings or other surpluses, i.e. retained profits and other reserves.

Tier II-Supplementary capital

The Tier II supplementary capital representing revaluation reserves approved by CBSL, general provisions and other capital instruments which combine certain characteristics of equity and debt, such as subordinated term debt.

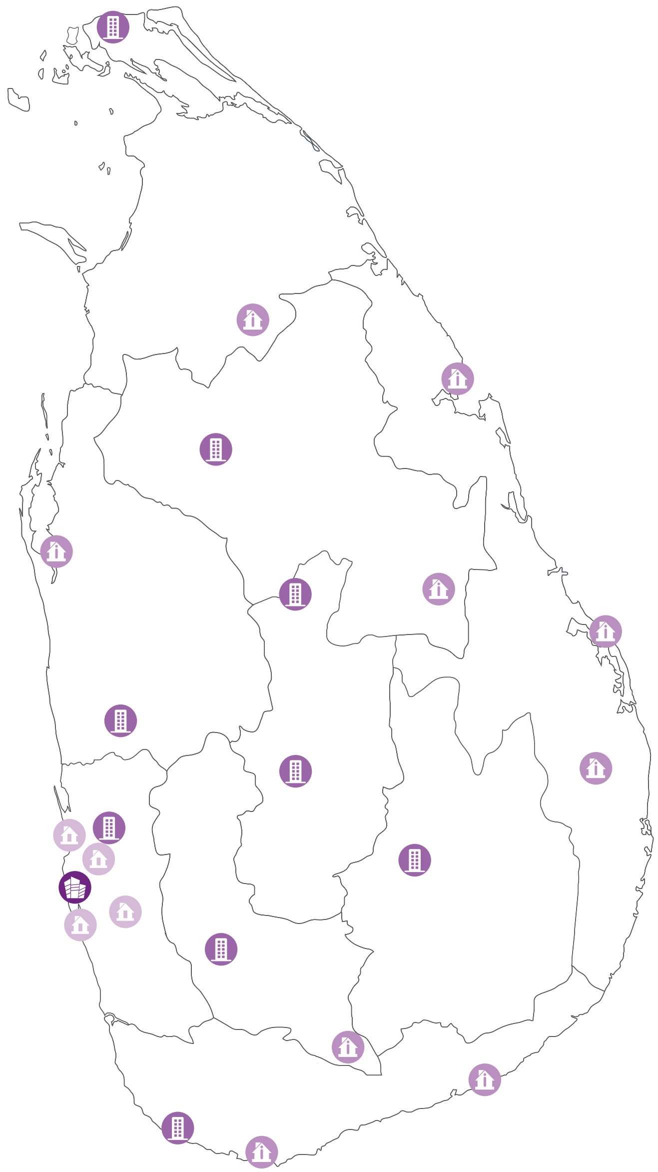
31st March	2016-17 ('000)	2015-16 ('000)
Total Tier I core capital (schedule I)	1,190,266	594,525
Total Capital Base (schedule II)	1,187,382	594,525
Total Risk Weighted Assets (schedule III)	6,130,991	5,130,539
Core Capital Ratio (Minimum 5%)	19.41	11.59
Total Risk Weighted Capital Ratio (Minimum10%)	19.37	11.59

The capital adequacy ratios stood at 19.41% (Tier 1) and 19.37% (Total of Tier 1 and Tier 2), as at 31st March, 2017. Capital adequacy ratios of the Company have increased during the year under review as opposed to previous year.

The total capital adequacy ratio increased to 19.37% as at 31st March 2017, from 11.59% at 31st March 2016. This increase was due to the issuance of shares by way of rights issue amounting Rs. 185 Million and private placement amounting Rs. 276.6 Million taken place during the year under review.

BRANCH NETWORK

Operating Locations



Head Office/ Branch
Colombo

Branch
Kurunegala
Dambulla
Badulla
Anuradhapura
Galle
Gampaha
Jaffna
Rathnapura
Kandy

Customer Centre
Kaduruwela
Embilipitiya
Ampara
Batticaloa
Puttalam
Matara
Thissamaharama
Trincomalee
Vavuniya

KIOSK
Kadawatha
Ja-ela
Moratuwa
Piliyandala

Branch Network *Contd.*

	Barnch	Category	Address	Telephone Number	Fax Number	Name of the Branch Manager/ Officer in Charge	Branch Code
1	Colombo	Head Office/ Branch	No 456, R.A.De Mel Mawatha, Colombo 03.	011-2208888	011-2375517	Mr. Anura Fernando (COO)	HO
2	Kurunegala	Branch	No. 19 Bauddhaloka Mawatha, Kurunegala.	037-3877888/037-3616655	037-2222611	Mr. Jayantha Wijewardane	KG
3	Dambulla	Branch	Sujatha Building, Kurunegala Junction, Dambulla	066-3669876/066-3925777	066-2285000	Mr. M J Jayathilake	DB
4	Badulla	Branch	No. 30, Anagarika Dharmapala Mawatha, Badulla	055-3557730/055-2228180	055-2222101	Mr. Harendra Kumara	BD
5	Anuradhapura	Branch	No 348/A, 348/B, Maithripala Senanayaka Mw, Anuradhapura	025-3856947/025-3244969	025-2234557	Mr. Sunil Kahawatta	AP
6	Galle	Branch	No. 02, Malwatta Road, Kaluwella, Galle	091-3907720/091-2235888	091-2227122	Mr. Ranjith Kalyananda	GL
7	Gampaha	Branch	No. 118, Colombo Road, Gampaha	033-3438602/033-3555450	033-2234970	Mr. Malin Kulasekara	GM
8	Jaffna	Branch	No 221, Power House Road, Jaffna	021-3207686	021-2217022	Mr. C Rushanthan	CH
9	Rathnapura	Branch	No 176, Main Street, Rathnapura	045-3457777/045-3608060	045-2226873	Mr. Sujeewa Kumara	RT
10	Kandy	Branch	No. 26, Hill Street, Kandy	081-3827710/081-3842720	081-2205675	Mr. Samantha Gunawardane	KD
11	Kaduruwela	Customer Centre	No.16, Near Police Station, Kaduruwela	066-3062444	027-2223323	Mr. Nuwan Wanasinghe	KW
12	Embilipitiya	Customer Centre	No.125/A, Dhankotuwa Uluhala New Town Road, Embilipitiya	047-3220400/ 047-3220401	047-2262261	Mr. Chinthana Madhuranga	EB
13	Ampara	Customer Centre	No. 19, D.S. Senanayaka Veediya, Ampara	036-2224747	036-2224747	Mr. Darshana Padmakumara	AP
14	Batticaloa	Customer Centre	No.175B, Trinco Road, Batticaloa	065-3063336	065-2229799	Mr. R Rasalingam	BT
15	Puttalam	Customer Centre	No. 138, Kurunegala Road, Puttalam	032-3295105	032-2267667	Mr. Sarath Wickramasinghe	PT
16	Matara	Customer Centre	No.402/1, Galle Road, Paburana,Matara	041-3021980 / 041-3021981	041-2238440	Mr. J G Chinthaka	MT
17	Thissamaharama	Customer Centre	No.18, Pahala Veediya Tissamaharama	047-3220240/047-3220241	047-2237937	Mr. Anushanga Mudannayake	TS
18	Trincomalee	Customer Centre	No.36/C,Sumethagama, Stage 02, Kandy Road, Trincomalee	026-3207334/026-3207333	026-2054849	Mr. R Jerome	TR

	Barnch	Category	Address	Telephone Number	Fax Number	Name of the Branch Manager/ Officer in Charge	Branch Code
19	Vavuniya	Customer Centre	No.24,Second Cross Street, Vauniya	024-2228222/ 024-3200222	024-2228222	Mr. T Srinesa	VY
20	Kadawatha	KIOSK	No. 172/12/E, Kandy Road, Kadawatha	011-2926811	011-2926811	Mr. Urantha Perera	KS
21	Ja-ela	KIOSK	No 17. Negambo Road, Ja- ela	011-3144338	011-2240228	Mr. Urantha Perera	KS
22	Moratuwa	KIOSK	No. 486, Galle Road Rawathawattha, Moratuwa	011-3052200	011-2649177	Mr. Urantha Perera	KS
23	Piliyandala	KIOSK	No. 28, Saranapala Mw, Piliyandala.	011-3034200	011-2609310	Mr. Urantha Perera	KS

GLOSSARY OF TERMS

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and Presenting Financial Statements.

Accrual Basis
Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation
The systematic allocation of the depreciable amount of an Intangible Asset over its useful life.

Available for Sale (AFS)
AFS are those non-derivative financial assets that are designed as available for sale or are not classified as Loans and Receivable, Held –To-Maturity investment or financial assets at fair value through profit or loss.

C

Capital Adequacy
The percentage of risk-adjusted assets supported by capital as defined under the framework of risk based capital standards developed by the Bank for International Settlement (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital Reserves
Capital Reserves consist of revaluation reserves arising from revaluation of properties owned by the Company and Reserve Fund set aside for specific purposes defined under the Business Finance Act No.42 of 2011 which is not available for distribution.

Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which subject to an insignificant risk of changes in value.

Collective Impairment
Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

Contingencies
A condition or situation existing at the balance sheet date where the outcome will be confirmed only by the occurrence or non-occurrence of one or more future events.

Commitments
Credit facilities approved but not yet utilised by the clients as at the Balance Sheet Date.

Corporate Governance
The Process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Credit Risk
Credit risk or default risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms and conditions.

D

Dealing Securities
These are marketable securities acquired and held with the intention to resale over a short period of time.

Deferred Tax
Sum set aside in the financial statements for taxation that may become payable in a financial year other than the current financial year.

Depreciation
The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition
Removal of a previously recognised financial asset or financial liability from an entity's Statement of Financial Position.

E

Earnings per Share (EPS)
Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue

Effective Interest Rate (EIR)
Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

Effective Tax Rate
Provision for taxation expressed as a percentage of Profit Before Tax.

Events after Reporting Date
Transactions that are not recognised as assets or liabilities in the statement of financial position, but which give rise to the contingencies and commitments.

F

Fair Value
Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance Lease
A contract where by a Lessor conveys to the Lessee the right to use asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Assets
Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

Financial Instruments
Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

Financial Liabilities
A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

H

Held for Trading
Debt and Equity Investments that are purchased with the intent of selling them within a short period of time.

Held To Maturity Investment
A non derivative financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Hire Purchase
A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

I

Impairment
This occurs when recoverable amount of an asset is less than the carrying amount.

Individual Impairment
Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

Intangible Asset
An identifiable non-monetary asset without physical substance held for use in production/supply of goods/ services or for rental to others or for administrative purposes.

Interest Bearing Liabilities
Liabilities on which the Company is paying interest.

Interest Margin
Net interest income as a percentage of average interest earning assets.

Interest Rate Risk
The risk that the fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

Investment Securities
Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Interest Spread
This represents the difference between the average interest rate earned and the average interest rate paid on funds.

Interest in Suspense
Interest suspended on Non-Performing Loans, Lease, Hire Purchase and Advances (as per previous accounting standards)

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks and Bills of Exchange and Treasury Bills.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with Financial Liabilities.

M

Market Capitalisation
Number of ordinary shares in issues multiplied by the market value of a share as at the year end.

Glossary of Terms *Contd.*

Materiality
The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

Market Risk
This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices and commodity prices.

N

Net-Interest Income (NII)
The difference between what a Company earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and other borrowings.

Non-Performing Loans (NPL)
All loans classified as Non-Performing when a payment of capital and/or interest is in arrears for 6 months or more.

NPL Ratio (Gross)
Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense).

NPL Ratio (Net)
Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense and Loan loss provision).

O

Operational Risk
This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

P

Past Due
A Financial Asset is past due when a counter-party has failed to make a payment when contractually due.

Price Earnings Ratio
A valuation ratio of a Company's current share price to its per share earnings. It can be calculated by dividing the market Value per share by Earnings per share.

Probability of Default (PD)
An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understand.

R

Return on Average Assets (ROA)
Net Income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Revenue Reserve
Reserves set aside for future distribution and investment.

Return on Equity (ROE)
Net Income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Related Parties
Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Related Party Transactions
A transfer of resources, services, obligations between related parties, regardless of whether a price is charged or not.

Repurchase Agreement
Contract to sell and subsequently repurchase securities at a specific date and price.

Risk Weighted Assets
On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors as specified by Central Bank of Sri Lanka.

Risk Adjusted Asset
Used the calculation of risk based capital ratio. The face amount of lower risk assets is discounted using risk weighted factor in order to reflect a comparable risk per-rupee among all type of asset.

S

Segmental Analysis
Analysis of financial information by segments of an enterprise specifically the different industries and the different geographical areas in which it operates.

Shareholders' Funds
Total of issued and fully paid share capital and capital and revenue reserves.

Statutory Reserve Fund
A capital reserve created as per the provisions of the Finance Business Act No. 42 of 2011.

T

Tier 1 Capital
Core Capital representing permanent Shareholders' equity and reserve created or increased by appropriation of retained earnings or other surpluses.

Tier 2 Capital
Tier 2 Capital or Supplementary Capital represents total value of Re-valuation reserves, General provisions and subordinated Debt.

Transaction Costs
They are incremental costs that are directly attributable to the acquisition, issue or disposal of a Financial Asset or Financial Liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

V

Value Added
Value of wealth created by providing financial and other related services less the cost of providing such services.

Y

Yield
Rate of return on an investment in percentage terms, taking in to account annual income and any changes in capital value.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the ELEVENTH ANNUAL GENERAL MEETING of ABANS FINANCE PLC will be held on 27th September 2017 at 09.30 a.m. at the Organisation of Professional Associations of Sri Lanka, No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07 for the following purposes:

1. To receive and adopt the Report of the Directors, the Audited Financial Statements of the Company for the year ended 31st March 2017 and the Report of the Auditors thereon.

2. To declare a first and final dividend of Rs.00.20 per share for the year ended 31st March 2017 as recommended by the Directors.

3. To appoint Mr. Roshan Nanayakkara, the Chief Executive Officer of the Company, as a Director of the Company with immediate effect.

4. To re-elect Mr. Mayank Pravin Parekh, a Director of the Company who retires by rotation in conformity with Article 26 (05) of the Articles of Association of the Company and in terms of Section 4 (10) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008, as recommended by the Directors.

5. To re-elect Mr. Vishtasp Kairshasp Choksy, a Director of the Company who retires by rotation in in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013, as recommended by the Directors.

6. To re-elect Mr. Ajith Surendra Ratnayake, a Director of the Company who retires by rotation in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013, as recommended by the Directors.

7. To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.

By Order of the Board

Sgd.
Varners International (Private) Limited
Company Secretaries of Abans Finance PLC,
Level 14, West Tower,
World Trade Center,
Echelon Square,
Colombo 01.

15th August 2017

Notes;

1. A member unable to attend the above meeting is entitled to appoint a proxy, who need not be a member, to attend and vote in his/her place.

2. The completed Form of Proxy should be deposited at the office of the Secretaries at Level 14, West Tower, World Trade Center, Echelon Square, Colombo 1, not less than 48 hours before the time fixed for the meeting.

3. For reasons of security, it is essential that you bring with you, your National Identity Card/ Passport.

FORM OF PROXY

I/We*……….of …………………………………………………………………………… ………………………………………………
being a member/members * of ABANS FINANCE PLC, hereby appoint;

Mr. Rusi Pestonjee	of Colombo or failing him
Mr. Kithsiri Bandara Wanigasekara	of Colombo or failing him
Mr. Mayank Pravin Parekh	of Colombo or failing him
(or his alternate Mr. C H A W Wickramasuriya)	
Mr. Vishtasp Kairshasp Choksy	of Colombo or failing him
Mr. Ajith Surendra Ratnayake	of Colombo or failing him

…….of ………………………..……………………………………………… ……………………………………………

(National Identity Card Number………………………………………………………………) as my/our* proxy to represent me/us* and to vote as indicated hereunder for me/us* and on my/our* behalf at the Annual General Meeting of the Company to be held on 27th September 2017 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	FOR	AGAINST
1. To receive and adopt the Report of the Directors and the Audited Financial Statements for the year ended 31 March 2017 and the Report of the Auditors there on.		
2. To declare a first and final dividend of Rs.00.20 per share for the year ended 31st March 2017.		
3. To appoint Mr. Roshan Nanayakkara, the Chief Executive Officer of the Company, as a Director of the Company with immediate effect.		
4. To re-elect Mr. Mayank Pravin Parekh, a Director of the Company who retires by rotation in conformity with Article 26 (05) of the Articles of Association of the Company and in terms of Section 4 (10) of the Finance Companies (Corporate Governance) Direction No. 03 of 2008.		
5. To re-elect Mr. Vishtasp Kairshasp Choksy, a Director of the Company who retires by rotation in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013.		
6. To re-elect Mr. Ajith Surendra Ratnayake, a Director of the Company who retires by rotation in conformity with section A.8 of the Code of Best Practice on Corporate Governance 2013.		
7. To re-appoint Messrs. Ernst & Young, Chartered Accountants, as the Auditors of the Company for the ensuring year and to authorise the Directors to determine their remuneration.		

Signed this ………………………………………… day of ……………………………… 2017

…………………………………
Signature of Shareholder

* Please delete the inappropriate words.

Form of Proxy *Contd.*

INSTRUCTIONS FOR THE COMPLETION OF THE FORM OF PROXY

1. Please perfect the Form of Proxy after filling in legibly your name and address and by signing in the space provided and inserting the date of signature.

2. Please return the completed Form of Proxy to the Office of the Secretaries at Level 14, West Tower, World Trade Centre, Echelon Square, Colombo 01 after crossing out one or the other of the alternative words indicated by the asterisks on the body of the form. The Form of Proxy shall be lodged with the Secretaries not less than Forty Eight (48) hours before the time appointed for holding the Meeting.

3. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the completed Form of Proxy for registration, if a Power of Attorney has not already been registered with the Company.

4. If the shareholder is a Company or body corporate, the Form of Proxy should be under its Common Seal in accordance with its Articles of Association or Constitution.

5. If there is any doubt as to the manner in which the proxy holder should vote by reason of the manner in which instructions in 2 above have been carried out, the proxy holder will vote as she/ he thinks fit.

CORPORATE INFORMATION

NAME OF THE COMPANY
Abans Finance PLC

LEGAL FORM
A Public Limited Liability Company Incorporated in Sri Lanka on 8th April 2005 under the Companies Act No. 17 of 1982. Re-registered on 15th June 2009 in terms of the Companies Act No. 7 of 2007. A Finance Company licensed by the Monetary Board of the Central Bank of Sri Lanka in terms of The Finance Business Act No. 42 of 2011. A Registered Finance Leasing Establishment under the Finance Leasing Act No. 56 of 2000. An approved Credit Agency under the Mortgage Act No. 6 of 1949 and the Trust Receipts Ordinance No. 12 of 1947.

REGISTRATION NO.
PB 1015 PQ

STOCK EXCHANGE LISTING
The ordinary shares of the Company are listed on the Colombo Stocks Exchange of Sri Lanka.

REGISTERED OFFICE
No. 498, Galle Road, Colombo 3

HEAD OFFICE
No. 456, R.A.De Mel Mawatha, Colombo 3.
Tel. 011- 2208888
E-mail : finance@abansgroup.com

AUDITORS
M/s Ernst & Young
Chartered Accountants,
201, De Saram Place,
P. O. Box 101,
Colombo 10

INTERNAL AUDITORS
Chief Internal Auditor
Abans Group of Companies
498, Galle Road,
Colombo 3

SECRETARIES & LAWYERS
Varners International (Pvt) Ltd.,
Level 14, World Trade Centre Building,
Colombo 1

BANKERS
Bank of Ceylon, Seylan Bank, People's Bank, Commercial Bank, Pan Asia Bank, Union Bank, Sampath Bank, Hatton National Bank

VAT REGISTRATION NO.
134012439-7000

BOARD OF DIRECTORS
Mr. R. Pestonjee
Chairman

Mr. K. B. Wanigasekara
Managing Director

Mr. C. D. Pathirana
Non-Executive Director (Retired w.e.f 26 November 2016)

Mr. V. K. Choksy
Senior Director
Independent Non-Executive Director

Mr. Ajith S. Ratnayake
Independent Non-Executive Director

Mr. M. P. Parekh
Non-Executive Director (Appointed w. e. f. 14 December 2016)

Mr. C. H. A. W. Wickramasuriya
(Alternate to Mr. M. P. Parekh)
Non-Executive Director (Appointed w. e. f. 14 December 2016)

CHIEF EXECUTIVE OFFICER
Mr. R. A. Nanayakkara

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Abans Finance PLC
No. 456, R.A.De Mel Mawatha, Colombo 3.
Tel. 011- 2208888, Fax. 011- 2375517, E-mail : finance@abansgroup.com

A Finance Company Licensed by the Monetary Board of the
Central Bank of Sri Lanka under the Finance Business Act No. 42 of 2011