FOCUS

ABANS FINANCE PLC

Annual Report 2012/2013

Abans
FINANCE

OUR VISION

Be the Soundest and most trusted financial solutions provider in the industry.

OUR MISSION

Power the consumer through innovative products, personalized service and a wide range of financial solutions by maximizing the synergies of the Abans Group, thereby creating wealth, fuelling growth and addition to stakeholder value.

Our story on Focus

We focus on identified exploitable niche markets and, by understanding the dynamics of the markets and the unique needs of customers within it, concentrates on uniquely cost focus or developing and positioning well-specified products for the market.

Due to the fact that we serve customers in their market uniquely well, we have built strong brand loyalty amongst our customers.

We are mindful that with broad market strategies, it is still essential to decide whether we will pursue Cost focus or Differentiation focus. Once we have selected the Focus as the main approach: Focus is not normally enough on its own.

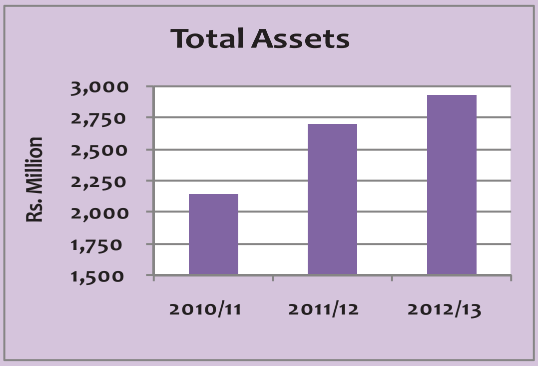
We understand that whether we use Cost Focus or Differentiation Focus, the key to making a success of a Generic Focus strategy is to ensure that we are adding something extra as a result of serving only that market niche. We appreciate that it's simply not enough to focus on only one market segment because our organization is too small to serve a broader market.

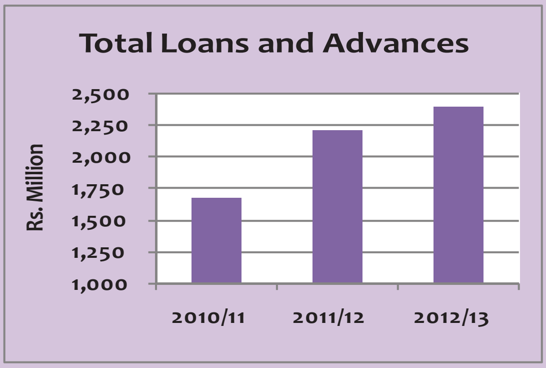
The "something extra" that we add has contributed immensely towards building a loyal customer base.

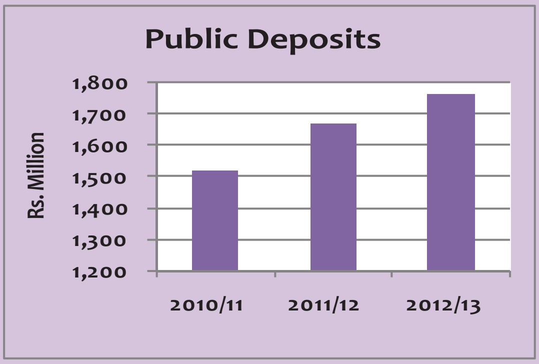
Contents

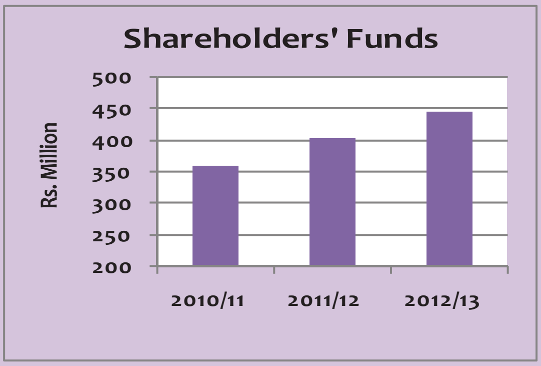
Financial Highlights

Year Ended 31st March	2013	2012	
Financial Performance			
Income	570,345	456,094	25.05%
Profit Before Taxation	58,001	77,805	(25.45%)
Revenue to the Government	25,454	40,510	(37.17%)
Profit After Taxation	40,134	45,674	(12.13%)
Position at the Year End (Rs. '000)			
Total Assets	2,925,505	2,697,726	8.44%
Loans & Advances to Customers	2,385,503	2,209,528	7.96%
Due to customers	1,765,883	1,672,109	5.61%
Due to Banks	359,436	383,057	(6.17%)
Debt Instruments Issued	174,325	99,375	75.42%
Shareholder's Funds	444,225	404,092	9.93%
Financial Ratios			
Return on Average Assets (%)	1.43%	1.88%	
Return on Average Equity (%)	9.46%	11.98%	
Net Interest Margin	7.57%	8.80%	
Information Per Ordinary Share			
Earnings Per Share (Rs.)	1.08	1.23	
Price to Earning Ratio (Times)	26.74	32.65	
Net Asset values Per Share (Rs.)	12.01	10.92	
Market Value (Rs.)	29.00	40.30	
Statutory Ratios (%)			
Capital Adequacy			
- Core Capital Ratio (Minimum - 5%)	16.60%	18.41%	
- Total Risk Weighted Capital Ratio (Minimum - 10%)	16.60%	18.41%	
Statutory Liquid Aseet Ratios	17.51%	15.08%	
Capital Funds to Total Deposit Liabilities (Minimum - 10%)	25.16%	24.17%	









Board of Directors

MR. RUSI PESTONJEE
CHAIRMAN – NON EXECUTIVE DIRECTOR

He was alternate to the Chairperson until 31st December 2011. Appointed a Director and Chairman with effect from 1st January 2012. A member of the Remuneration Committee of the company. A Director of Abans Ltd. (formally Abans (Pvt) Ltd). He joined Abans (Pvt) Ltd., in 1981 and has had several important leadership roles within the Group. He leads the Finance Division within the Group and has been instrumental in several of the new strategic growth initiatives of the Group. He also supports relationship building with key international partners such as LG. As part of his leadership roles within the Abans Group, he is also involved in the management and oversight of Abans Tours, Abans Environmental Services and Abans Restaurants. He is an alumnus of the Executive Management Programs at the Indian School of Business focusing on strategy and managing family businesses. He is a member of the Sri Lanka Institute of Directors and American Chamber of Commerce.

MR. KITHSIRI WANIGASEKARA
MANAGING DIRECTOR / CHIEF EXECUTIVE OFFICER

Appointed to the Board on 1st June 2009. He became Managing Director / Chief Executive Officer with effect from 1st January 2012 having previously held the position of Executive Director. He has a wealth of industry knowledge with over twenty five years of experience in the finance industry before joining Abans Finance PLC. Served as Chairman and Managing Director of Sinhaputhra Finance PLC from December 1990 to September 2007. A past Chairman of the Finance Houses Association (FHA) of Sri Lanka from 1998 to 2000. A member of the committee of the Ceylon Chamber of Commerce during the same period. Currently serves as a member of the Council of Management of the FHA. The National Bronze Award Winner and the Provincial Silver Award Winner in the Extra Large Category at the Sri Lankan Entrepreneur of the Year 2005 contest organized by the Federation of Chambers of Commerce of Sri Lanka (FCCSL). He was also the Silver Award Winner for the most outstanding Entrepreneur of the Central Province in 2000. A past Chairman of the Kandy Hotels Co. (1938) Ltd., the owning company of "Queen's Hotel and Hotel Suisse" from 1994 to 2001.

DR. SAROSHI DUBASH
NON-EXECUTIVE DIRECTOR

Appointed to the Board on 8th April 2005. Chairperson of the Integrated Risk Management Committee (IRMC) and a member of the Remuneration Committee. A Director of Abans Ltd., and other Group Companies. Within the group, she is involved in , HR and Administration and administering the Supply chain functions of import, purchasing, wharf clearance, warehousing, inventory control, distribution and information systems. Retail Accounts and Hire Purchase divisions also come under her purview. She oversees the training & development to ensure continuous training and development of quality Abans employees. She holds a Honours Degree in Chemistry (London), MBA (US), PhD. Her major projects include sourcing a 3 PL partner introducing an ERP system for the Abans Ltd. Channel and spearheading other e-commerce initiatives, most recent of which is BuyAbans.com the online retail arm of Abans Ltd. She is currently the Chairperson of the Women's Chamber of Industry and Commerce of Sri Lanka and representative on the Ceylon Chamber of Commerce main Board. She is also a member of the Institute of Directors.

MR. CHANNA DILHAN PATHIRANA
NON EXECUTIVE DIRECTOR

Appointed to the Board on 26th November 2007. A member of the Integrated Risk Management Committee (IRMC). A deputy Director of Abans Ltd., authorized distributor for LG electronics in Sri Lanka since 2002. Counts 22 years of experience in Sales, Marketing, Leasing and Hire Purchase in Multi National / local organizations. 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 is currently reading for a Master of Business Administration from the University of Wales having qualified as a marketer from Chartered Institute of Marketing (UK).

Board of Directors Contd....

MR. VISHTASP KAIRSHASP CHOKSY
INDEPENDENT NON-EXECUTIVE DIRECTOR (SENIOR DIRECTOR)

Appointed to the Board on 15th March 2011. He became the Senior Director with effect from 1st January 2012 in terms of the Finance Companies (Corporate Governance) Direction No. 3 of 2008. An Attorney-at-Law by profession. Possesses twenty years of legal practice and has been specializing in Civil Law with particular emphasis in Commercial, Business and Industrial Law. Chairman of the Remuneration Committee of the company and a member of the Audit Committee. Provides specialized legal advice to the company on key business related issues.

MR. THIRUNAVUKARASU SOMESWARAN
INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointed to the Board on 10th May 2011. Chairman of the Audit Committee. Former Senior Partner of SJMS Associates, a firm of Chartered Accountants and Independent Correspondent Firm to Deloitte Touche Tohmatsu. Vice President of the International Chamber of Commerce of Sri Lanka and Treasurer of the European Chamber of Commerce. A member of the Organization for Professional Associations (OPA), International Fiscal Association (IFA) Sri Lanka Branch and Governing Council of the Institute of Management Accountants of Sri Lanka. Serves on the Boards of Serendib Lands PLC, CLEANCO (Pvt) Ltd., Pan Asia Power, Commercial Credit PLC, Sunrise Senior (Pvt) Ltd., and ECSAT.

Chairman's Message

As another financial year of accomplishment comes to an end, It gives me great pleasure to welcome all of you to the Seventh Annual General Meeting of Abans Finance PLC and to present to you the audited Financial Statements and Annual Report for the year ended 31st March 2013.

In the year under review, Abans Finance PLC has reached new heights in terms of strength and stability.

Global and Local Economic environment

The global macroeconomic environment continued to be challenging in 2012.

Whilst the US fiscal cliff did not materialise, growth remained slow. The weaker Euro zone was further affected by the sovereign debt crisis, fiscal tightening, widespread austerity measures and uncertainty about the Euro. Unemployment levels remained high in the US and most parts of the peripheral Eurozone. However, the fundamentals for growth remained strong in emerging markets, with Asia gearing to be the new economic power with key drivers of development, such as industrialisation and infrastructure spending being given prominence.

This global economic outlook in the short term will impact on the speed of economic progress of Sri Lanka resulting from the reduced demand for exports, tourism and Foreign Direct Investments from the major trading partners.

Amidst the challenges posted by a unpredictable global economy, Sri Lanka showed resilience growing at 6.4% while falling short of a targeted 8% registered the previous year. As in the past, the national economy maintained stability through cautious policy management.

While tourism, foreign remittances and infrastructure development contributed significantly to GDP growth, a sharp increase in credit growth prompted policy measures to maintain macroeconomic stability through increased import tariffs and excise duties on selected capital goods, together with an 18% ceiling on credit expansion imposed on the banking sector. These measures resulted in moderating credit off take which also affected the sale and demand for vehicles.

The liberalisation of exchange control regulations coupled with the growth potential of specific sectors resulted in attracting capital inflows particularly into the financial and tourism sectors. The flow of inward remittances from the migrant Sri Lankan workforce continued to show impressive growth as the most important source of foreign currency earnings of the Country.

Prolonged drought conditions and the flash floods that followed the heavy rains in the latter part of the financial year hindered loan servicing, resulting in an increase in non-performing loans compared to the previous year. The increase in non-performing loans and resulting impairments were witnessed across the industry. The strategy of selectively growing the portfolio as adopted by the Company in the year under review, reaped dividends.

A significant change in corporate reporting during the year under review was the convergence with International Financial Reporting Standards (IFRSs). Conversion to IFRSs results in presenting the Company's financial statements on the same basis as overseas counterparts making comparisons easier and facilitating access to international capital markets when the need arises.

The year that was

Throughout the year Abans Finance has promptly dealt with each challenge faced by us. We have been focussed and at the same time remaining true to the core values of Abans Finance PLC. Today we stand strong and owe our success to the commitment of the entire Abans Finance PLC team. Their dedication is what has made us what we are today and we believe we have truly lived up to expectations. A detailed analysis of the Company's performance is provided in the CEO's Review, Management Discussion and Analysis and the Financial Statements of this Annual Report.

Our Promise

We will continue to rapidly expand our network presence by leveraging on the group strength and endeavour to offer transactional capability with state of the art delivery solutions.

Chairman's Message Contd....

We have formulated our operational strategies keeping in mind the synergies which we could derive from the operational and distributional strengths of the group.

While effectively balancing the bottom line our long term goals are stability and strength, rather than sort term results.

Compliance for greater governance

Our operations are based on the foundation of strong ethics and good governance. We continued to strengthen our governance and risk structures in a bid to enhance the perspective of risk, regulation and compliance.

We place depositor, shareholder, customer and stakeholder interest at the very forefront of our operations.

We report to the Central Bank of Sri Lanka in every sphere of the regulatory requirements and readied for the proposed policies for financial sector stability in the medium term.

Appreciations

In conclusion, I wish to express my sincere appreciation to my colleagues on the Board who have at all times extended their support and shared their valued expertise for the betterment of the Company. My deep gratitude is extended to the Management and staff for their tireless pursuit of the Companies strategic expectations.

I also wish to thank the other stakeholders in business namely the customers, Bankers and other business partners for the support provided.

Finally, we thank our share holders for their co-operation and the trust placed in our company.

Rusi Pestonjee
Chairman

Managing Director's Review

The year under review was unquestionably a difficult year for the company and for the Licensed Finance Companies (LFCs). The company experienced stiff competition from the business environment on all fronts during the year. The decline in the demand for motor vehicles, particularly due to the increase in duty on importation of vehicles and credit ceiling imposed on Banks by the Central Bank of Sri Lanka (CBSL) for the curtailment of Credit Growth were key contributory factors. The first three quarters of the year were particularly a challenge owing to high interest rates that prevailed in the market place. The easing of the interest rate environment in the last quarter of the year did not make a favourable impact on the performance.

High interest rates that were offered by the company during the major part of the year, though resulted in an increase in Interest Income, owing to high growth in Interest Cost on Deposits and Borrowings, resulted in an insignificant growth in Net Interest Income exerting pressure on the company's profitability. This was further aggravated by the adoption of LKAS/SLFRS for the first time resulting in a further reduction in the overall profitability. The ultimate result was a 13% decline in Net Earnings for the year under review. The Non-Bank Financial Institutions Sector (NBFI) registered a 27% decline in Net Earnings during the year 2012.

Total Assets, Loans and Advances and Public Deposits grew at moderate rates in comparison to the Industry Averages. This was mainly due to precautionary measures taken by the company by strengthening the credit criteria as part of the Risk Management Policy of mitigating Risks associated with Credit within an environment that has been competitive. The expected low growth in Loans and Advances during the current year was due to the sluggish credit environment that was experiencing high lending rates compelled the company to maintain its operations at moderate levels with the objective of improving the Asset Quality of Loans and Advances portfolio. The strategy assisted the company to maintain a Gross NPL ratio under control as at end of the year. The Gross NPL ratio registered was slightly higher than the Industry Average.

The CBSL strengthened the regulatory framework that necessitated LFCs to maintain and improve Regulatory capital at appropriate levels was a challenge to some Institutions. The CBSL's requirement for the maintenance of minimum capital requirements and capital adequacy ratios did not affect the company since it has complied with regulatory standards. In order to maintain healthy capital adequacy standards, it is vital that the company registers a significant growth in profitability. Further, any disproportionate growth in Risk Assets without an improvement in profitability is likely to act negatively in this regard and may necessitate the company to infuse new capital unless proper attention is drawn to this important area.

OUTLOOK

We recognize the fact that Abans Finance remains a unique business and we need to re-shape it to meet the needs of Shareholders and other Stakeholders.

What is important is for Abans Finance to be recognized not only for its performance but for the values we embody in everything we do. Our goal is ambitious. The changes we are making are fundamental and the plans that are underway are comprehensive. In this changing environment we will have to implement them for Abans Finance to prosper.

The New Year 2013/2014, should see a completely different approach by the company with a strategy for growth making use of the synergies within the Abans Group. The newly introduced "Hero Brand" two wheelers and the network of Dealers and Showrooms for that segment island-wide will act as a catalyst in our execution. The newly introduced product with value added services and the premium on returns will make our journey comparatively easy in 2013/2014. The re-shaping of our portfolio of businesses with appropriate risk mitigating measures and a high growth scenario that will be kept under control will no doubt add value to our business and ensure an above average financial performance. Finally, we recognize that it is our stakeholders who will judge whether or not we have succeeded in our objectives. This is likely to be supported by the IT infrastructure that is now being upgraded with scalability to accommodate high volume of businesses in the years ahead.

I place on record my sincere thanks and appreciation for the advice and guidance given by our Chairman, Mr. Rusi Pestonjee, Senior Director, Mr. V.K. Choksy, Audit Committee and Integrated Risk Management Committee (IRMC) headed by Mr. T. Someswaran and M/s. S. Dubash respectively, for their counsel. Mr. Channa Pathirana deserves our thanks for providing support and co-operation in strengthening marketing related operations during the year and for his role as a member of the IRMC. I owe my grateful thanks to the General Manager and Key Management Personnel for their concerted efforts to manage the business and all members of the staff for their contribution. I offer my gratitude to the External Auditors, M/s Ernst Young and Chief Internal Auditor and their staff for assisting us to maintain requisite standards with advice and guidance and the Officials of the Central Bank for providing due assistance in maintaining regulatory standards. In conclusion it is my primary duty to appreciate our Depositors and Customers for the confidence they have placed in the company.

Kithsiri Wanigasekara
Managing Director / Chief Executive Officer

30th July 2013

THE ECONOMY

The Sri Lankan economy registered yet another successful year with a real growth rate of 6.4% in 2012. The economic performance for the year is a creditable one, achieved in a challenging environment after two consecutive years of growth in excess of 8% per annum. All three sectors Industry, Services and Agriculture contributed immensely towards this growth with industry sector being the main driver of growth. Services sector provided a moderate assistance due to the retardation of the transportation sub sector. Agriculture sector performed well in 2012 and supported towards the overall growth. Inflation was maintained within single digit level and by year end reached 9.2%. Unemployment rate declined during 2012 to 4%. The country is to move towards a US $ 100 Bn economy by 2016 as given in the **"Road Map 2013"** that included monetary and finance sector policies for 2013 and beyond. The per capita income is also expected to reach US $ 4000 by 2016. The growth is envisaged making use of the strategy of five hubs, namely, Aviation hub, Maritime Hub, Energy Hub, Commercial Hub and Knowledge Hub in addition to Tourism Hub that are likely to spherehead the medium term economic growth of the country.

FINANCIAL SECTOR

The sector expanded to support growth and remains stable against challenging market conditions. Banking sector dominated further and accounted for 56.4% of the sector assets that amounted to Rs. 5,101.7Bn as at end of 2012. The NBFI Sector also expanded during 2012 and registered 6.6% of Total Assets or Rs. 596.6 Bn as at end of December 2012. When moving towards a US $ 100 Bn economy, a stock market capitalisation of US $ 70 Bn, Corporate Bond market of US $ 10 Bn and Bank Assets of Rs.10Tn are other key milestones that are to be reached.

NON BANK FINANCIAL INSTITUTIONS (NBFIs)

The sector comprised of 47 Licensed Finance Companies (LFCs) and 13 Specialised Leasing Companies (SLCs) as at end of 2012 and operated with 972 Branches and Customer Centres. Assets of the NBFIs grew by 22% and registered Rs. 596.6 Bn as at end of 2012 in comparison to a growth of 20% in 2011. Growth in Advances was 25% as against 46% in 2011. Deposits of NBFIs registered a 37% growth (2011 – 27%) and reached Rs. 254 Bn as at 31st December 2012. Growth in Borrowings was 3% and the Total Borrowings of the sector reached Rs. 176 Bn by the end of the year. The profit after tax of the NBFIs during 2012 declined to Rs. 15 Bn from Rs. 19 Bn registered in 2011. Return on Assets and the Return on Equity of the NBFIs in 2012 registered 4% (2011- 6%) and 19% (2011 – 34%) respectively. The Central Bank's (CBSL) regulatory process was strengthened further in 2012 particularly in the areas of Risk Management and Corporate Governance.

OPERATIONAL REVIEW

Branch wise Operations

The company continued with its business operations with nine Branches and five Customer Centres spread across nine Provinces in addition to the Head Office. The branches accounted for 59.7% of the Total Lending whilst the Head office accounted for 40.3% of the total lending.

Product wise Operations

During the year under review, the company continued with the diversified portfolio of lending as in the previous year. Finance Leases and Hire Purchase accounted for 38.1% and 35.0% respectively. Mortgage and Revolving Loans accounted for 17.6%. Personal Loans and Consumer Durables accounted for the rest. The company added a new segment of business during the latter part of the year, namely, the "Hero Leasing" product as part of its Finance Leasing portfolio. During 2012/13, Hero leasing accounted for 5.5% of the total lending. The company is expected to penetrate the market in respect of this product in the ensuing year. The additional features applicable to the product with an additional premium coupled with the utilisation of the Hero Two Wheeler Network of the Abans Group should assist the company to strengthen this product, significantly in the new financial year. The company mobilised Rs. 993.2 Mn in deposits during the year. Head Office accounted for 73.3% and branches 26.7%. The deposit mobilisation is expected to gain momentum during the new financial year to fund business operations.

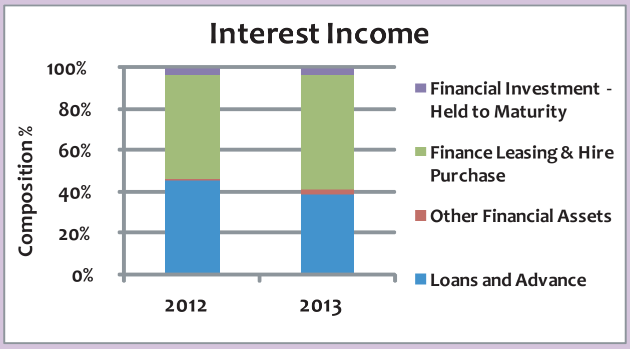
Management Discussion and Analysis Contd....

FINANCIAL REVIEW

Composition of Interest Income

Interest Income	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Loans and Advance	209.8	38.8	195.6	45.0
Other Financial Assets	11.4	2.1	5.9	1.4
Finance Leasing & Hire Purchase	299.3	55.3	218.9	50.3
Financial Investment - Held to Maturity	20.6	3.8	14.6	3.3
	541.1	100.0	435.0	100.0

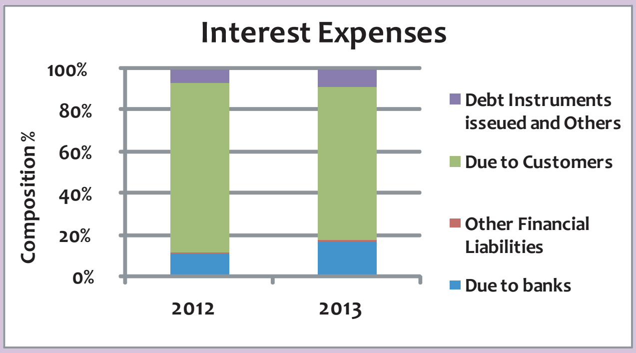
The company registered interest income of Rs. 541.1 Mn in 2012/2013 in comparison to Rs.435.0 Mn in the previous year. This is 24.4% growth. Growth in interest income was affected during the year as a result of total volume of lending not reaching the expected level. Further, competitive rates of interest the company had to offer on facilities also contributed towards this moderate growth. Interest on Finance Leases and Hire Purchase accounted for 50.3% and interest on Loans & Advances registered 45.0% of the total Interest Income.



COMPOSITION OF INTEREST EXPENSE

	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Due to banks	56.2	17.1	24.1	10.9
Other Financial Liabilities	0.9	0.3	1.4	0.6
Due to Customers	242.5	73.9	180.9	81.6
Debt Instruments isseued and Others	28.6	8.7	15.2	6.9
	328.2	100.0	221.6	100.0

Interest expense increased sharply by 48.1% during the year and registered Rs.328.2 Mn (2011/12 – Rs. 221.6 Mn). The continuous increase in interest rates on deposits and other borrowings during the major part of the year was the key reason for the unprecedented growth. Interest Expense on Deposits accounted for 73.9% of the total interest expense. Interest Expense on Bank borrowings and other debt instruments were 17.1% and 8.7% respectively.

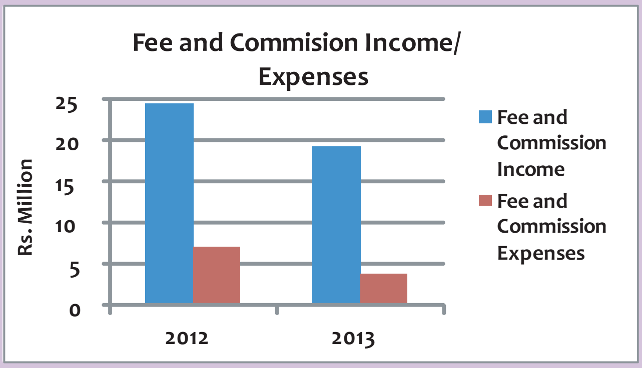


NET INTEREST INCOME

Net Interest income for the year was Rs. 212.9 Mn in comparison to Rs.213.4 Mn achieved in in 2011/12. This is a marginal decline in comparison to the previous year and has resulted in a decline in the overall financial performance in 2012/13. The intense competition that prevailed in the market for lending and deposits exerted pressure on the company's Net Interest Income and Earnings. In addition to this, the repricing of bank and other borrowings also made a negative impact.

FEE AND COMMISSION INCOME

Fee and commission income registered Rs. 24.5 Mn in 2012/13 and recorded a 27.4% growth. Fee and commission expenses increased sharply by 83.0%. However, Net Fee and Commission income registered a 13.4% growth and contributed positively towards the total operating income in 2012/13.



TOTAL OPERATING INCOME

	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Net Interest Income	212.9	90.6	213.4	92.5
Net Fee & Commission Income	17.5	7.4	15.4	6.7
Net Gains / (Losses) from Trading	0.4	0.2	(2.9)	(1.2)
Other Operating Income	4.3	1.8	4.7	2.0
	235.1	**100.0**	**230.6**	**100.0**

The Total Operating Income of Rs. 235.1 Mn was only a marginal increase over that of the previous year. The non-achievement of budgeted volumes in lending, competitive rates of interest the company had to offer on disbursements and a significant increase in the Interest Expense made a negative impact towards the Total Operating Income in 2012/13. The impairment charges on loans amounting to Rs. 5.1 Mn was made during the year as against 2.6 Mn in the previous year. Net Operating Income registered Rs. 230.0 Mn as against Rs. 228.0 Mn in 2011/12. Net Interest Income accounted for 90.6% of the total Operating Income and Net Fee and Commission Income registered 7.4%. The Other Operating income and Net Gains / Losses from Trading amounted to 2.0%.

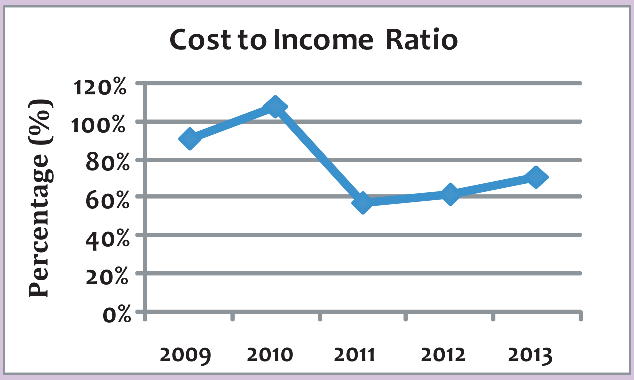
OPERATING EXPENSES

	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Personnel Cost	70.5	42.9	58.6	41.3
Other Operating Expenses				
Administration & Establishment Expenses	49.2	29.9	39.5	27.8
Advertising & Business Promotion Expenses	10.6	6.4	8.3	5.9
Depreciaton & Amortisation	8.4	5.1	8.3	5.9
Other	25.7	15.7	27.1	19.1
	164.4	**100.0**	**141.8**	**100.0**

Personnel cost increased by 20.3% during the year. Other operating expenses increased by 12.8% and made a further impact on the profitability. As a result of these factors, operating profit before VAT on financial services declined to a considerable extent. Personnel Cost, Admin & Establishment Expenses and Advertising and Business Promotion Expenses accounted for 42.9%, 29.9% and 6.4% respectively out of Total Operating Expenses.

COST TO INCOME RATIO

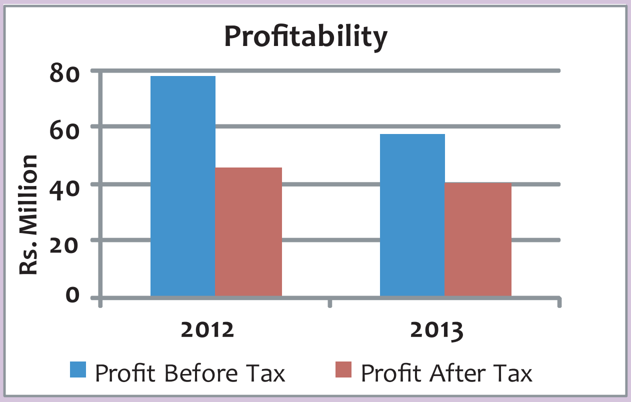
Cost to Income Ratio in 2012/13 increased sharply to 70.8% from 62.1% in 2011/12. A significant increase in staff cost mainly due to staff carder to cater to the increased concentration on the Hero Leasing product the benefits of which will accrue in ensuing years and other operating expenses coupled with only a marginal growth in net operating income acted negatively towards this adverse trend.



PROFIT BEFORE TAXATION FROM OPERATIONS AND NET PROFIT FOR THE YEAR.

Profit before taxation from operations declined by 25.4% during 2012/13 and registered Rs. 58.0 Mn (2011/12- Rs. 77.8 Mn). After making provision for income tax amounting to Rs. 17.9 Mn, the company registered Rs. 40.1 Mn as net profit for the year as against Rs. 45.7 Mn in 2011/12. The adoption of SLFRS/LKAS and the restatement of financial results for the previous year associated with the above stated negative factors contributed towards a 12.1% decline in net profit for the year under review.

Management Discussion and Analysis Contd....



TOTAL ASSETS, LOANS AND ADVANCES AND DEPOSITS

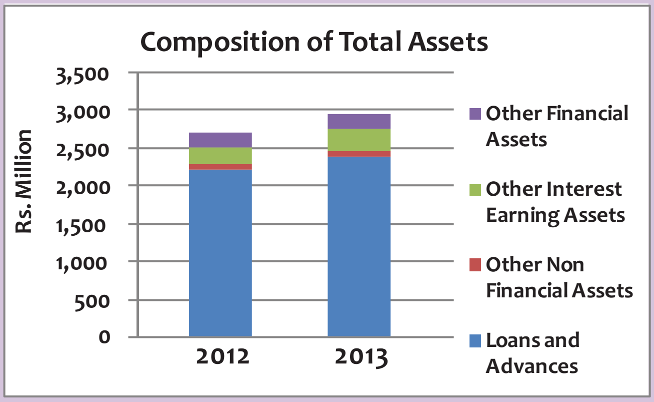
Total Assets, Loans and Advances and Deposits registered growth rates that are below the industry average during the year. The major contributory factor was the company's decision to discontinue a segment of business operation from the beginning of the year in compliance with regulatory advise.

TOTAL ASSETS AND LOANS AND ADVANCES

	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Loans and Advances	2385.5	81.5	2209.5	81.9
Other Interest Earning Assets	293.7	10.0	234.2	8.7
Other Financial Assets	192.0	6.6	191.7	7.1
Other Non Financial Assets	54.3	1.9	62.3	2.3
	2925.5	**100.0**	**2697.7**	**100.0**

The Total Assets of the company registered a marginal growth of 8.4% during the year in comparison to 25.5% in the previous year. Total Assets as at 31/03/2013 recorded Rs. 2,925.5 Mn (Rs. 2,697.7 Mn – 31/03/2012).

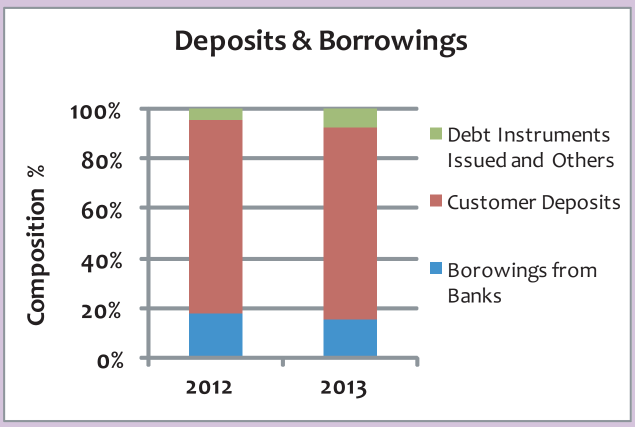
Total Assets of the Industry grew by 21% during 2012. Loans and Advances reached Rs. 2,385.5 Mn as at 31/03/2013 as against Rs. 2,209.5 Mn as at end of the previous year. Financial Assets accounted for 98.1% of the Total Assets. Included in the Total Assets was Non Financial Assets which accounted for 1.9% of the Total Assets. Each component of Assets and its representation out of Total Assets is reflected in the Table above.



DEPOSITS & BORROWINGS

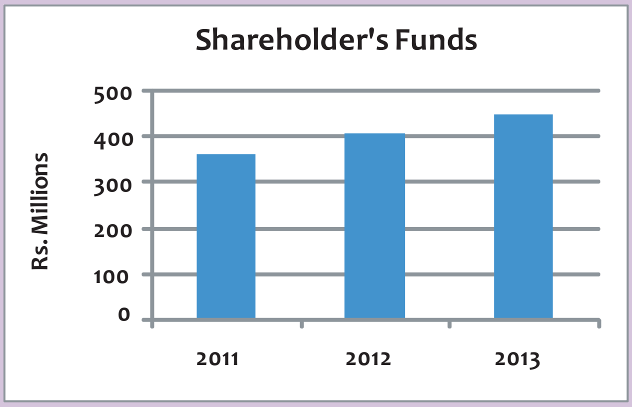
	2013		2012	
	Rs. Mn	%	Rs. Mn	%
Borowings from Banks	359.4	15.6	383.1	17.8
Customer Deposits	1765.9	76.8	1672.1	77.6
Debt Instruments Issued and Others	174.3	7.6	99.4	4.6
	2299.6	**100.0**	**2154.6**	**100.0**

The company held public deposits of Rs. 1,765.9 Mn as at end of the year under review and was up from Rs. 1,672.1 Mn registered as at 31/03/2012. The deposits of the LFC industry registered a 37% growth in 2012. The borrowings that were due to banks amounted Rs. 359.4 Mn as at end of the year and was down from Rs. 383.1 Mn as at 31/03/12. The other borrowings increased to Rs. 174.3 Mn from Rs. 99.4 Mn registered as at end of the previous year. Customer deposits accounted for 76.8% of Interest Bearing Liabilities. Bank borrowings and other debt instruments registered 15.6% and 7.6%.



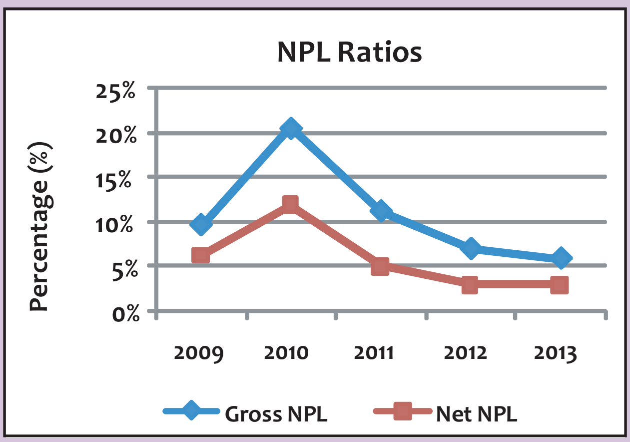
SHAREHOLDERS' FUNDS

The total shareholders' funds increased by 10.0% to reach Rs. 444.2 Mn from Rs. 404.0 Mn registered as at 31/03/2012. The implementation of SLFRS/LKAS and the restatement of figures for the previous years' contributed towards this moderate growth which would otherwise have been much higher than the registered figures.



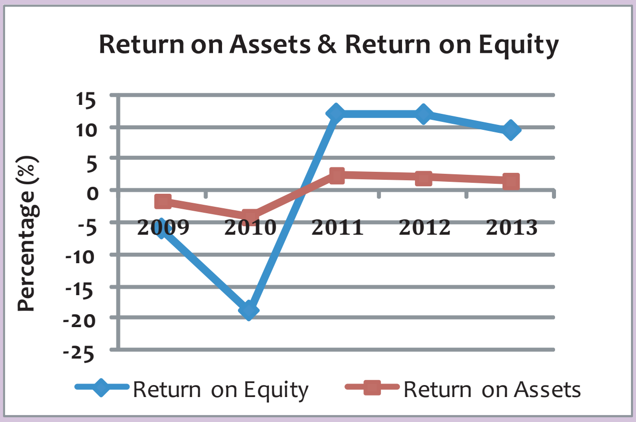
ASSET QUALITY

The Gross NPA ratio of the company improved to a comparatively satisfactory level as at 31/03/2013 and registered 5.87% against the industry average of 5%. The achievement was supported by improvement in credit quality on new disbursements and a robust recovery monitoring process implemented by the company. The Net NPL ratio as at end of the year was 2.90% in comparison to industry average of 1.60%.



RETURN ON ASSETS AND RETURN ON EQUITY.

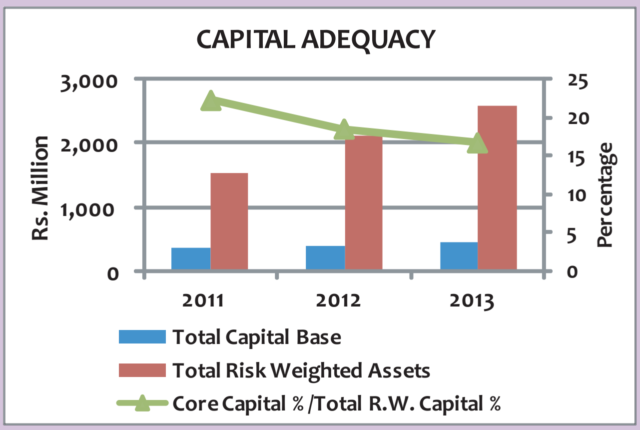
Return on Average Assets decreased marginally for the year and was 1.43%. (2011/12- 1.88%) The industry average for 2012 was 4.0%. Return on Equity in 2012/13 declined to 9.46% from 11.98% in the previous year. The industry registered Return on Average Equity of 19.0% in 2012.



CAPITAL ADEQUACY

The adoption of SLFRS/LKAS for the first time and restatement of previous financial results made an impact on the growth of the Core Capital during 2012/2013. The restatement of financial results for 2010 /11 and 2011/12 resulted in the growth in shareholders' funds below the expected level. However, the company was able to maintain Core Capital and Total Risk Weighted Capital Ratios that were well above the statutory limits of 5% and 10% respectively.

The Core Capital Ratio and the Total Risk Weighted Capital ratios registered 16.6 % as at end of 2012/13. (31/03/2012– 18.4%).



Management Discussion and Analysis Contd....

Capital Adequacy

Rs.000'

Assets	Risk Weight %	As At 31st March 2013		As At 31st March 2012		As At 31st March 2011	
		Principal Amount of On-Balance Sheet Items	Risk weighted Assets Amount	Principal Amount of On-Balance Sheet Items	Risk weighted Assets Amount	Principal Amount of On-Balance Sheet Items	Risk weighted Assets Amount
On-Balance Sheet - Total Assets		**2,925,505**	**2,555,430**	**2,697,726**	**2,086,855**	**2,149,783**	**1,527,419**
Cash & Current Accounts with Banks	0%	33,803		24,020		12,498	
Deposits with Banks	20%	125,140	25,028	25,480	5,096	65,104	13,021
Sri Lanka Govt Treasury Bills	0%	150,258		202,574		156,763	
Other Securities guaranteed by Sri Lanka Government	0%	18,264		6,085			
Loans and Advances :		**2,385,503**	**2,317,866**	**2,209,528**	**1,851,722**	**1,674,350**	**1,273,330**
- Against Deposits with the Company	0%	67,638		357,807		401,021	
- Other Loans and Advances	100%	2,317,866	**2,317,866**	1,851,722	**1,851,722**	1,273,330	**1,273,330**
Fixed Assets	100%	16,608	16,608	19,253	19,253	16,984	16,984
Other Assets	100%	195,928	195,928	210,784	210,784	224,084	224,084

Rs.000'

Costituents of Capital	31st March 2013	31st March 2012	31st March 2011
Tier I : Core Capital	**424,225**	**384,092**	**338,418**
Issued and Paid-up Ordinary Shares/Common Stock (Cash)	350,000	350,000	350,000
Share Premium	12,374	12,374	12,374
Statutory Reserve Fund	28,229	20,202	9,520
Published Retained Profits/(Accumulated Losses)	18,900	(6,317)	(33,476)
General and Other Reserves	14,724	7,833	
Tier 2 : Supplementary Capital	0	0	0
Total Capital	**424,225**	**384,092**	**338,418**
CAPITAL BASE	**424,225**	**384,092**	**338,418**

Total	31st March 2013 (%)	31st March 2012 (%)	31st March 2011 (%)
Core Capital Ratio (Minimum 5%)	16.60	18.41	22.16
Total Risk Weighted Capital Ratio (Minimum 10%)	16.60	18.41	22.16

Corporate Governance Report

Overview

Abans Finance PLC has a well-defined and well-structured Corporate Governance framework in place to support the Board's aim of achieving long term and sustained shareholder value.

The Board has the principal responsibility to promote the long term success of the company by creating and delivering sustainable shareholder value. The Board leads and provides directions for management by setting strategy and overseeing its implementation by management.

The Board has the responsibility for ensuring that a robust Internal Control System is maintained in addition to an effective risk management and oversight across the company. Major decisions have been reserved for approval by the Board. The risk appetite, capital and liquidity matters, financial results, governance issues have been reserved for approval by the Board.

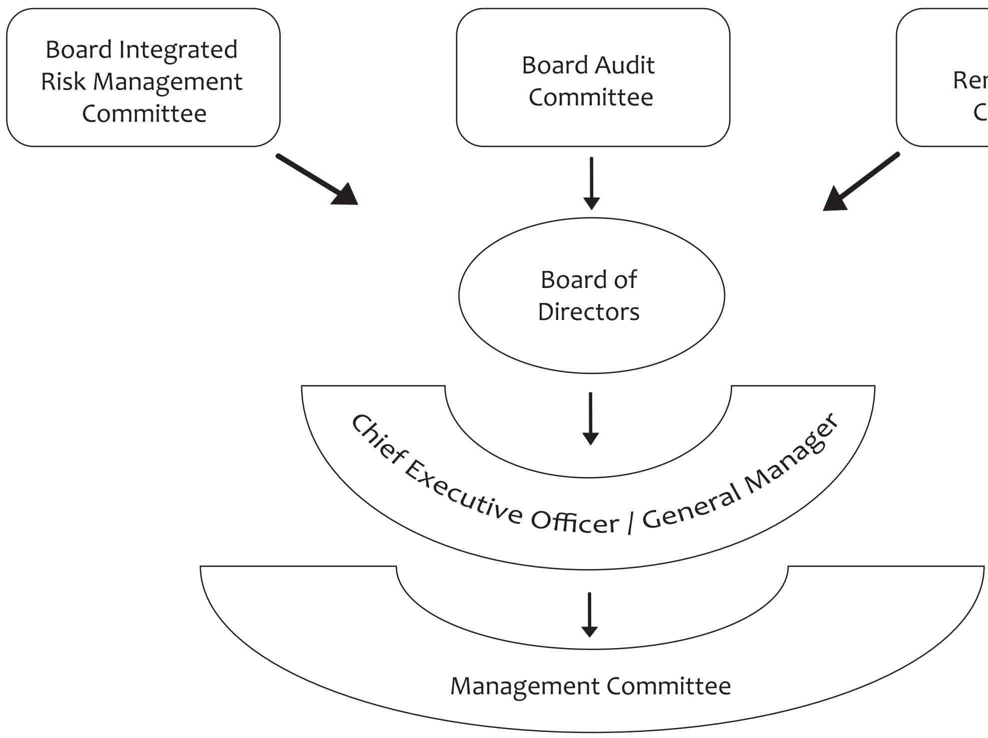
For the purpose of assisting the Board to carry out its functions and to ensure that there is an independent oversight of Internal Control and Risk Management, the Board has delegated certain responsibilities to Board Committees that are comprised of Independent Non-Executive Directors. The Chairman of each Board Committee reports to the Board on matters discussed at Committee Meetings. Each Board committee has agreed terms of reference approved by the Board.

The Chairman is responsible for the overall operation and governance of the Board. It is the responsibility of the Chairman to ensure effective communication with shareholders and other stakeholders. The Chief Executive has the responsibility for recommending the company's strategy to the Board, for implementing the strategy approved by the Board, and implementing operational decisions and managing the day to day business.

Non-Executive Directors, are independent of Management and their role is to effectively and constructively challenge Management and monitor the success of the management in delivering agreed strategy within the framework set by the Board.

Senior Independent Director's role is to provide a sounding Board for the Chairman and provide support for the Chairman in the delivery of his objectives. He also serves as a trusted intermediary for the Directors when necessary. The Senior Independent Director is also expected to work with the Chairman and other Directors to maintain the stability of the Board.

Corporate Governance Framework



Abans Finance PLC is Listed on the "Diri Savi Board" of the Colombo Stock Exchange (CSE) and is required to comply with the provisions of the Code of Best Practice on Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. It is mandatory that the company complies with the Rule 7.10 of the continuing listing requirements of the CSE as well.

Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka in terms of Finance Business Act No. 42 of 2011 makes it mandatory for the company to comply with the provisions of this Direction.

The annual Corporate Governance Report of the company will be of three parts as follows :

Part A - Statement on compliance with the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL).

Part B - Code of Best Practice on Corporate Governance issued jointly by the Securities Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka. (ICASL)

Part C – Rule 7.10 of the Continuing Listing Requirements of the Colombo Stock Exchange (CSE).

PART A

Statement on compliance with the Corporate Governance Direction issued by the Central Bank of Sri Lanka (CBSL).

Section			**Corporate Governance Direction – CBSL**	**Status & Extent of Compliance**
2.			**The Responsibilities of the Board of Directors**	
	1)		The Board of Directors shall strengthen the safety and soundness of the finance company by–	
		a)	Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	Complied with. The Board approved 3 year Strategic Plan 2012-2014 is currently being implemented. Annual Budget for the year was also approved. The Board reviews performance with the budget and the Strategic Plan. Appropriate measures are taken for further improvement. The Strategic Plan 2013-14 to 2015-16 is expected to be finalized during the first half of 2013/14.
		b)	Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	The Board approved overall business strategy is being implemented with the expansion of business that is concentrated around the Branch and Customer Centre network. Risk policy and risk management procedures are being strengthened with the assistance of the Integrated Risk Management Committee (IRMC).

		c)	Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied with. The Integrated Risk Management Committee (IRMC), Credit Committee and the Assets & Liabilities Committee take appropriate measures to mitigate all relevant risks with the approval of the Board.
		d)	Approving a policy of communication with all stakeholders, including depositors, creditors, share- holders and borrowers;	The company maintains an appropriate communication policy for this purpose.
		e)	Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	Complied with. The Audit Committee with the assistance of the Chief Internal Officer and the Audit Sub Committee carries out a continuous monitoring process to strengthen internal control and Management Information systems. The committee makes relevant recommendations for the approval by the Board.
		f)	Identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with. The Board of Directors has identified Key Management Personnel who are in a position to influence and exercise control over policy, direct activities and for the risk management process.
		g)	Defining the areas of authority and key responsibilities for the Board and for the key management personnel	Complied with. The Board has delegated authority to key management personnel by means of an approved delegated authority document with respective definitions.
		h)	Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;	Complied with. The Board approved policies and decisions that are relevant to key management personnel are duly communicated and they are invited for meetings of the Board for discussion pertaining to areas of responsibility to assess progress.
		i)	Periodically assessing the effectiveness of its governance practices, including: (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary;	The Board assesses periodically its effectiveness and Directors' own governance practices to strengthen governance and to avoid conflicts of interest.
		j)	Ensuring that the finance company has an appropriate succession plan for key management personnel;	Complied with. The company maintains a well-defined succession plan in respect of Key Management Personnel.

Corporate Governance Report Contd....

		k)	Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	Complied with - Key Management Personnel play a dominant role in the company's business operations and contribute constructively at Board Sub Committee meetings and at Management Committee level. They are invited to the deliberations of the Board to make contributions and to review business related issues.
		l)	Understanding the regulatory environment;	Complied with - The company continues with the maintenance of an effective communication relationship with the Department of Supervision of Non-Bank Financial Institutions through the Compliance Officer and the CEO. The CEO and the Compliance Officer ensure that the Directors are updated with changes in the regulatory environment.
		m)	Exercising due diligence in the hiring and oversight of external auditors.	Complied with - The Audit Committee plays a key role in this connection with the approval of the Board.
		2)	The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer in line with paragraph 7 of this Direction.	Complied with - The Chairman of the company is Non-Executive and provides leadership to the Board. The CEO carries out the day to day operations of the company's operations.
		3)	There Shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant directors to discharge the duties to the finance company.	The Board of Directors has determined a procedure to enable Directors to seek independent professional advice, where necessary for the effective discharge of duties to the company.
		4)	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied with.
		5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied with - The Board maintains a clearly defined schedule of matters reserved for it and has not delegated its authority to committees of the Board or to key management personnel that will dilute the authority of the Board.
		6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	The company continues to function as a going concern and circumstances have not arisen to comply with this requirement.

		7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied with.
		8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	The Board of Directors will introduce an appropriate scheme for this purpose.
3)			**Meetings of the Board**	
		1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied with. The Board meets at least once a month and conducts additional meetings where necessary. All approvals from the Board are obtained through the circulation of written papers.
		2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied with. The Directors are provided with a Schedule of monthly meetings at the commencement of each financial year. They have the facility to submit proposals of their choice in the Agenda for regular meetings for the promotion of business and management of risk.
		3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	The Management submits Board Papers for regular meetings to company's Secretaries who circulate Board papers with the Agenda at least seven days prior to each meeting giving adequate time to submit any proposals. In the event Special Meetings are held, the company takes appropriate measures to ensure that reasonable notice is given for that purpose.
		4)	A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied with. The Articles of Association of the company and the Corporate Governance Direction provides the requirements for this purpose and the Directors are fully conversant with the requisite information. Details of Attendance of Directors at meetings are given in Page 42.
		5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with. The company has appointed a firm of Secretaries & Lawyers as the company Secretaries in compliance with the Companies Act No. 7 of 2007 and Directions issued in terms of the Finance Business Act No. 42 of 2011.
		6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied with. The Secretaries of the company prepare the Agenda in consultation with the Chairman.

Corporate Governance Report Contd....

		7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with. The Directors of the company have access to advice and services from the Company Secretaries for all matters relating to Laws, Directions, Rules and Regulations that are applicable to procedures of the Board.
		8)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied with. All Directors have access to Minutes of the Board that are maintained by the Secretaries of the Company.
		9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.	Complied with. The Minutes of the meetings are recorded in a comprehensive manner and include; (a) data and information used by the Board for discussion in a summary form; (b) the matters considered by the Board; (c) details of constructive discussions and the issues of contention or dissent that illustrate as to whether the Board was carrying out its duties prudently and with due care; (d) any explanations & confirmations provided by Key Management Personnel that indicate compliance with Laws, Regulations and Strategies of the Board; (e) the extent of risks the company is exposed and the Board's knowledge and understanding of such risks and an overview of risk mitigation measures adopted; and (f) Board resolutions passed and key decisions taken.
4)			**Composition of the Board**	
		1)	Subject to the transitional provisions contained herein, the number of directors on the Board shall not less than 5 and not more than 13.	Complied with. The Number of Directors throughout the year was 6.
		2)	Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds the position of chief executive officer or executive director shall not exceed nine years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied with. No Director of the company has served a period that exceeds nine years.
		3)	Subject to the transitional provisions contained herein, an employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.	Complied with. The company has not made any appointments that come within this category.

		4)	With effect from three years from the date of this Direction, the number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors. A Non –executive director shall not be considered independent if such director:	Complied with. During the year, the Board consisted of six Directors out of whom two Directors were Independent Non-Executive Directors.
		a)	Has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company;	Complied with.
		b)	Has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in paragraph 9 hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet;	Complied with.
		c)	Has been employed by the finance company during the two year period immediately preceding the appointment as director;	Complied with.
		d)	Has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company.	Complied with.
		e)	Represents a shareholder, debtor, or such other similar stakeholder of the finance company;	Complied with.
		f)	Is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization: (i)which has a transaction with the finance company as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or (ii)in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company ;or (iii)in which any of the directors of the finance company has a transaction as defined in paragraph 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds , as shown in its last audited balance sheet of the finance company.	Complied with.

Corporate Governance Report Contd....

		5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied with. The Company did not have Alternate Directors to represent independent Non-Executive Directors during or as at end of the Financial Year.
		6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied with. The Non-Executive Directors have requisite skills and experience to bring an objective judgement in relation to strategy, performance and resources.
		7)	With effect from three years from the date of this Direction, a meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied with The company conducts meetings of the Board in compliance with the provisions of this Direction.
		8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied with.
		9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	The Board maintains an accepted procedure which is transparent.
		10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	There were no appointments of Directors to fill casual vacancies during the year.
		11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	There were no changes in the Board of Directors during the year that required disclosure.
5)			**Criteria to assess the fitness and propriety of directors**	
		1)	Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a director of a finance company.	Complied with. The Board did not consist of any Director who has reached the age of 70 during the year.

		2)	A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied with - All Directors of the company came within the required.
6)			**Delegation of Functions**	
		1)	The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with - The delegation of any matters to Board Sub Committee, CEO or Key Management Personnel has only been done without reducing the ability of the Board to discharge its functions. All Board Committees, CEO or Key Management Personnel can only make recommendations on matters that will be subject to the approval of the Board.
		2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied with - The Board reviews the delegation process periodically and maintains a well-defined delegated authority procedure.
7)			**The Chairman and the Chief Executive Officer**	
		1)	The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from January 1, 2009.	Complied with - The role of the Chairman and the CEO are performed by two separate persons.
		2)	The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied with - The Chairman is a Non Executive Director but not independent. Mr. V.K. Choksy, an independent Non-Executive Director, functioned as the senior Director.
		3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.	The Chairman and Chief Executive Officer do not have any relationship between them. Any relationships Directors have are disclosed in the Corporate Governance Report.

Corporate Governance Report Contd....

		4)	The chairman shall: (a)provide leadership to the Board; (b)ensure that the Board works effectively and discharges its responsibilities; and (c)ensure that all key issues are discussed by the Board in a timely manner.	Complied with. The Chairman ensures that key issues are deliberated by the Board in a timely manner and ensures that the Board works effectively and discharges its responsibilities.
		5)	The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.	Complied with. The Agenda is prepared by the Company Secretaries in consultation with the Chairman.
		6)	The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied with. Due notice is given with related papers to all Directors.
		7)	The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied with. The Chairman ensures that a full and active contribution is made by each Director and acts in the best interests of the company.
		8)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied with. Inclusion of Non-Executive Directors on Board Committees facilitates an effective contribution from them.
		9)	Subject to the transitional provisions contained herein, the chairman, shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with. The Chairman does not engage in any activities involving the direct supervision of Key Management Personnel or any other Executive duties.
		10)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. The AGM is used as the forum to communicate with the shareholders. The representations of institutional investors on the Board facilitates this process favourabaly. Further, the representation of the Institutional investors on the Board strengthens this aspect.
		11)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business	Complied with. Managing Director / CEO functions as the apex Executive in charge.
8)			**Board appointed Committees**	
	1)		Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	The Board has appointed the Integrated Risk Management Committee (IRMC) and the Audit Committee. The Chairmen of the committees report to the Board, findings and recommendations for consideration and approval. The IRMC submits a Risk Assessment Report to the Board within seven days of each meeting.

	2)		**Audit Committee** The following shall apply in relation to the Audit Committee:	
		a)	The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	The Chairman of the Audit Committee possesses requisite qualifications and experience. He is an Independent Non-Executive Director. He has functioned as a Senior Partner of a Firm of Chartered Accountants.
		b)	The Board members appointed to the committee shall be non-executive directors.	The Audit Committee comprises of two Directors who are Independent Non-Executive Directors.
		c)	The committee shall make recommendations on matters in connection with: (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guide lines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	The Committee makes recommendations to the Board in compliance with the requirements under this Direction.
		d)	The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied with. The Committee has taken appropriate measures to ensure and monitor External Auditors' independence and objectivity. Relevant measures have also been taken to ensure the effectiveness of the Audit process.
		e)	The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider: (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and	Appropriate measures are being taken to comply with this section.

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			(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.	
		f)	The committee shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved.	The Audit Committee continues to examine the key features highlighted in this section to ensure compliance.
		g)	The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	The Committee reviews relevant areas applicable to this section for the purpose of compliance.
		h)	The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	The committee has ensured the prevalence of an environment within which the External Auditor and the Audit Committee discuss appropriate issues in the absence of Key Management Personnel.
		i)	The committee shall review the external auditor's management letter and the management's response there to.	Complied with.
		j)	The committee shall take the following steps with regard to the internal audit function of the finance company: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Audit Committee reviews the adequacy of the scope, functions and resources of the Chief Internal Auditor on a continuous basis. The existence of an Audit Sub Committee headed by the Chief Internal Auditor and regular meetings for the discussion of Internal Audit reports are conducted. The findings and recommendations are then submitted as an Audit Sub Committee Report to the Board Audit Committee by the Chief Internal Auditor. The Committee also reviews and appraises the performance of the Internal Audit Division.

			(ii)Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied with.
			(iii)Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	Complied with.
			(iv)Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with.
			(v)Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;	Complied with.
			(vi)Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied with.
		k)	The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied with - Chief Internal Auditor submits all reports to the Board Committee together with Audit Sub Committee Report that covers all these requirements.
		l)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the External Auditors without the Executive Directors being present.	Complied with - Representatives of External Auditors, Chief Internal Auditor, Head of Finance and other key management personnel attend meetings on invitation. The Committee continues to meet with External Auditors in the absence of Executive Directors at its discretion in compliance with this section.
		m)	The committee shall have; (i) Explicit authority to investigate in to any matter within its terms of reference; (ii) The Resources which it needs to do so; (iii) Full access to information; and (iv) Authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with.

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		n)	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with. The committee holds monthly meetings for which due notice is given with adequate time and information. The company Secretaries function as Secretaries to the Committee and record conclusions.
		o)	The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied with. The Board Audit Committee Report and the Report on Corporate Governance disclose the required information.
		p)	The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	M/s Varners International (Pvt) Ltd., the Company Secretaries record and keep detailed minutes of the meetings.
		q)	The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	The Committee is in the process of finalizing a well-defined procedure to comply with this Section.
	3)		**Integrated Risk Management Committee**	
			The following shall apply in relation to the Integrated Risk Management Committee:	
		a)	The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	The integrated Risk Management Committee (IRMC) consists of 2 Non-Executive Directors and the Managing Director. Key Management Personnel handling the subject of Credit, Market, Liquidity, Operational & Strategic Risks have been co-opted to the committee.
		b)	The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	The Committee assesses all risks as defined making use of the information submitted by the Key Management Personnel and the recommendations made by the Assets & Liabilities Committee (ALCO) and the Credit Committee making use of requisite financial / risk indicators.

		c)	The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	The Committee reviews on a continuous basis the adequacy and effectiveness of the ALCO to address defined risks.
		d)	The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	The committee monitors risk related issues continuously and specific risk levels have been identified for corrective action.
		e)	The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	The Committee meets once in three months and considers all aspects of risk management including Business Continuity Plans (BCP) related issues.
		f)	The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	The Committee takes appropriate action, where necessary in compliance with this section.
		g)	The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	The committee submits a Risk Assessment Report to the Board within seven days of each meeting for its consideration.
		h)	The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.	A well-defined compliance function is in place and a Compliance Officer from the key management personnel has been selected for the purpose of reporting the level of compliance to the committee, periodically.
9)			**Related party transactions**	
	1)		The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other directions that shall repeal and replace the said directions from time to time.	
	2)		The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a) A subsidiary of the finance company; b)Any associate company of the finance company; c)A director of the finance company;	Complied with.

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			d) A key management personnel of the finance company; e) A relative of a director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g)A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest.	
	3)		The transactions with a related party that are covered in this Direction shall be the following: a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	Complied with.
	4)		The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, "more favourable treatment" shall mean:	Complied with.
		a)	Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more.	Complied with.
		b)	Charging of a lower rate of interest than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty;	Complied with.
		c)	Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;	Complied with.
		d)	Providing or obtaining services to or from a related-party without a proper evaluation procedure;	Complied with.
		e)	Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.	Complied with.

10)			Disclosures	
	1)		The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with.
	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.	Complied with.
		b)	A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with - Statement on directors responsibility and the report of the Board of Directors contain the extent of compliance.
		c)	The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	Will be complied with effect from financial year 2013/2014.
		d)	Details of directors, including names, transactions with the finance company.	Complied with.
		e)	Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied with.
		f)	Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	In the ordinary course of the business the comapny has not conducted any lending transactions with the related parties which comes under this definition.
		g)	The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied with.
		h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied with - Statement of directors responsibility for financial reporting includes relevant information.

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		i)	A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Not Applicable Circumctances have not arisen for the company to make disclosure.
		j)	The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports published after January 1, 2011.	Will be complied with from 2013/2014 financial year.

PART B

Abans Finance PLC's level of compliance of the principles under the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL) are tabulated below.

Code	Description	Level of Compliance
A. Directors		
A.1.	The Board – to be headed by an effective Board to direct, lead and control the company.	Complied with – The Board consists of one Executive and five Non-Executive Directors who are professionals in the fields of Finance, Law, Marketing and other fields.
A.1.1	Regular Board Meetings	Complied with – Regular Board meetings are held monthly and special Board meetings are convened where necessary. Details of Board meetings and Board Sub Committee Meetings are included in this report.
A.1.2	Board responsibilities	Complied with – The Board of Directors has taken appropriate measures to ensure safety and soundness of the Company in compliance with the Companies Act, Finance Business Act and Directions issued therein.
A.1.3	Access to independent Professional Advice	There is an accepted procedure to enable Directors to seek Independent professional advice at the company's expense as and when such advice is required.
A.1.4	Advice and services of the Company Secretaries	Complied with – The Directors are provided with the advice and services by the company's Secretaries, a Professional Secretarial Firm to ensure that procedures at Board level and all relevant rules and regulations are followed.
A.1.5	Independent Judgment of Directors	Complied with – Directors have the facility to bring forward their independent judgment at Board proceedings and assist in the formulation of strategy and Direction of the company.
A.1.6	Dedication of Adequate time and effort by the Board and Board Committees	Complied with – Directors have devoted sufficient time for Board meetings and Board Committee Meetings during the year.

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A.7	Training of Directors	Directors have the opportunity to obtain relevant training, where necessary.
Chairman and CEO		
A.2	Chairman and CEO have clear division of responsibilities to ensure a balance power and authority, so that no one individual has unfettered powers of decisions.	Complied with – The roles of the Chairman and the CEO are played by two different individuals.
A.2.1	Justification to combine the posts of Chairman and CEO	Not applicable
Chairman's Role		
A.3.1	Role of the Chairman	Complied with – The role of the Chairman is to provide leadership to the Board and to ensure that Board Members discharge their responsibilities effectively to make a contribution to the Board's affairs. Agenda for meetings and matters to be taken up at Board Meetings are duly scheduled.
Financial Acumen		
A.4	Ensure the availability of financial acumen to guide the Board on matters on Finance	Complied with – The Board comprises sufficient number of Directors who have financial acumen and knowledge to provide a contribution on matters related with the Board on Finance. Evidence is available from the profile of Directors given in the Annual Report.
Board Balance		
A.5.1 A.5.2	Board Balance	Complied with – The Board comprises of five Non-Executive Directors and one Executive Director. Two of the five Non-Executive Directors are Independent Directors that ensures Board Balance.
A.5.3 - A.5.5	Board to determine annually as to the independence or Non independence of Non-executive Directors	Complied with – The determination of independence and Non-Independence of the Non-Executive Directors has been assessed based on the declarations made by the Directors.
A.5.6 A.5.7	Appointment of Senior Independent Non-executive Director	Complied with – Mr. V.K. Choksy, Attorney-at-Law functions as Senior Independent Non-Executive Director who makes himself available for confidential discussions.

A.5.8	Meetings only with Non- executive Directors	Complied with.
A.5.9	Recording of concerns of Directors in Board Minutes where they cannot be unanimously resolved	Complied with – All concerns raised by Directors at Board Meetings and the final unanimous decisions are recorded in the Minutes of meetings of Board
Supply of information		
A.6.1	Supply of Information	Complied with – The Board of Directors is provided with timely and adequate information that is circulated to Directors within the prescribed period. Special meetings of the Board are conducted with reasonable notice and with the provision of relevant information. 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	Obligation of Management to provide appropriate and timely information to the Board.	Complied with.
Appointments to the Board		
A.7.1 A.7.2	Procedure for appointment of New Directors; Role of Nomination Committee and procedure for appointment of New Directors and details of newly appointed Directors.	Complied with – The Board of Directors follows a well –defined procedure for the appointment of Directors.
A.7.3	Details of new Directors to be disclosed when appointed including their profiles, nature of expertise in relevant functional areas; the names of companies in which the Director holds directorships or memberships in Board committees; and whether such Director can be considered independent.	Complied with – There were no new appointments to the Board during the year. Profiles of Directors are given on pages 3 and 4 of this Annual Report.
Re-election		
A.8.1 A.8.2	Re-election of Directors	Complied with – The Directors are re-elected in terms of the Articles of Association of the company.

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Appraisal of Board Performance		
A.9.1 - A.9.3	Appraisal of Board Performance	The Board is in the process of introducing an appropriate basis for the assessment of performance of each Director and for the appraisal of the Board's performance in accordance with the Corporate Governance Direction issued by the Central Bank of Sri Lanka.
Disclosure of Information in respect of Directors		
A.10.1	Disclosure of Information in respect of Directors.	Complied with – Disclosures have been made in this Annual Report pertaining to Directors under the following : (a) Profiles of Directors (b) Report of the Board of Directors (c) Notes to the Financial Statements on related party transactions. (d) Attendance at Board and Board Committee Meetings.
Requirement for Board to at least annually assess the performance of the CEO		
A.11.1 A.11.2	Appraisal of Chief Executive Officer.	The Board carries out the appraisal of performance of the Managing Director/ CEO annually.
B. Directors Remuneration		
B.1 Remuneration Procedure		
B.1.1	Establishment of a Remuneration Committee	Complied with – Part C of this report provides the extent of Compliance Under Rule 7.10.5.
B.1.2	Remuneration Committee to comprise of only Non-executive Directors	Complied with – The Remuneration Committee comprises of Chairman, One Non-Executive Director and the Senior Director.
B.1.3	Membership to be disclosed	Complied with – Disclosed in the Board Remuneration Committee Report.
B.1.4	Board to determine remuneration of Non-executive Directors	Complied with.

B.1.5	Consultation with Chairman for remuneration proposals and access to professional advice	Complied with – The Chairman is included as a member of the Remuneration Committee and consultations take place with him in relation to revisions to compensation packages and where necessary to obtain independent advice.
Level and make up of Remuneration		
B.2.1 B.2.9	-Level and make up of remuneration of Executive Directors including performance related elements in pay structure. -Remuneration packages to be in line with industry practices -Executive share option -Non-executive Directors' remuneration	Complied with – The remuneration of the Executive Director is reviewed periodically. A performance based element is included in the remuneration package. The company does not have a share option scheme. Non-Executive. The Committee also reviews remunaration of independent Non-Executive directors.
Disclosure of Remuneration		
B.3.1	Annual Report to give details of the Remuneration Committee, statement of remuneration policy and aggregate remuneration payable to Executive and Non-executive Directors	Complied with – A statement on Remuneration policy and details of the Remuneration Committee are given in the Board Remuneration Committee. Notes to the Financial Statements disclose details of aggregate remuneration paid to Executive and Non-Executive Directors.
C. Relations with Shareholders		
C.1	Constructive use of Annual General Meeting and Conduct of General Meetings-	Complied with.
C.1.1	Counting of proxy votes	Complied with.
C.1.2	Separate resolution to be proposed for each item	Complied with.
C.1.3	Heads of Board Sub-committees to be available to answer queries	Complied with.
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other papers as per statute	Complied with - The provisions of the Companies Act No. 7 of 2007, Rules of the CSE and the Company's Articles of Association.

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C.1.5	Summary of procedures governing voting at General meetings to be informed	Complied with – Requisite instructions are given in the Notice of Annual General Meeting and the Proxy Form on the voting procedure.
Major Transactions		
C.2.1	Disclosure to shareholders of all material facts concerning any proposed transaction involving acquisition, sale or disposition of greater than half of the net value of the company's assets or of its subsidiary.	The company did not enter into or proposed to have any major transaction that requires disclosure under this section.
D. Accountability and Audit		
Financial Reporting		
D.1.1	Proper disclosure of interim and other price-sensitive and statutorily mandated reports to regulators.	Complied with.
D.1.2	Should contain the following declarations made by the Directors; • The Company has not engaged in any activities, which contravene laws and regulations; • Declaration of all material interests in contracts; • Equitable treatment of shareholders; • Company is a going concern with supporting assumptions or qualifications as necessary; and • Effectiveness of internal controls.	Complied with – Declarations to this effect are given in the Annual Report of the Board of Directors on the affairs of the company, Audit Committee Report and Notes to the Audited Accounts.
D.1.3	Annual Report to set out Statement of Directors' responsibilities for preparation & presentation of Financial Statements.	Complied with.
D.1.4	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues. • Industry structure and developments; • Opportunities and threats; • Risks and concerns; • Internal control systems and their adequacy; • Social and environment protection activities carried out by the Company; • Financial Performance; • Material developments in human resources/industrial relations; and • Prospects for the future.	Management Discussion and Analysis Report has comprehensive information.

D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications.	Complied with - Reference has been made in the Report of the Board of Directors on the State of Affairs of the company.
D.1.6	Remedial action at Extra-ordinary General Meeting if net assets fall below 50% of value of shareholders' funds.	There were no circumstances that had arisen in order to comply with this requirement.
Internal Control		
D.2.1	Annual review of effectiveness of systems of Internal control.	Complied with - The Audit Committee Report contains sufficient information on the effectiveness of the internal control systems.
D.2.2	Internal audit functions.	Complied with - The Group Chief Internal Auditor functions as the Internal Auditor and reports to the Board Audit Committee.
Audit Committee		
D.3.1 - D.3.4	Audit Committee composition, terms of reference, duties and responsibilities and disclosure requirements.	Complied with - Reports of the Audit Committee and the Corporate Governance contain requisite information.
Code of Business Conduct and Ethics		
D.4.1	Disclosure whether the Company has a Code of Business Conduct & Ethics for Directors and members of the senior management team with an affirmative statement of the Chairman. Should also disclose an affirmative declaration that they have abided in such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code.	A code of conduct for all levels of employees is place. Steps will be taken in due course to incorporate some of the provisions that comes under this section.
Corporate Governance Disclosures		
D.5.1	Disclosure of extent to which the Company has complied with principles and provisions of the SEC/ICASL Corporate Governance Code.	Complied with.

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E. Institutional Investors		
Institutional Investors – Shareholder Voting		
E.1.1	Regular dialogue to be maintained with shareholders and the Chairman to communicate shareholders' view to the Board.	Complied with - The Annual General Meeting and Extra Ordinary General Meetings are used by the Board to communicate and to have an effective dialogue with the Institutional Shareholders. The major Institutional Shareholder/s is/are represented on the Board.
Evaluation of Governance Disclosures		
E.2	Due weight to be given to Board structure and composition by institutional shareholders	Complied with.
F. Other Investors-Investing/Divesting Decision and Shareholder Voting		
F.1	Encourage individual shareholder participation at General Meetings.	Complied with - Individual Ordinary Shareholders are encouraged to participate at General Meetings that is visible from attendance at meetings.

PART C

Statement of Compliance on Rule 7.10 of the Continuing Listing Requirements of the Colombo Stock Exchange (CSE) on Corporate Governance.

Code	Description	Level of Compliance
7.10.1	**Board of Directors.** The requirement for at least 2 Non-Executive Directors or 1/3rd of the Board whichever is higher.	Complied with – The Board comprised 6 Directors throughout the year out of which 5 Directors were Non-Executive. The status as at 31st March 2013 was the same.
7.10.2	**Independent Directors.** Two or at least one-third of Non-executive Directors to be independent against specified criteria.	Complied with – The Board consists of 2 Independent Non-Executive Directors.
7.10.3 7.10.4	Disclosures Relating to Directors. Criteria for Independence	Complied with – The Board has determined the criteria for independence of the Directors in accordance with the declarations received from the Independent Non-Executive Directors as at 31st March 2013. Profile of each Director is given under profiles of the Directors in this Annual Report.

Code	Description	Level of Compliance
7.10.5	**Remuneration Committee Composition,** Chairman to be Non-executive, functions of the Remuneration Committee and Statement of Remuneration Policy.	Complied with – The Remuneration Committee comprises of Mr. V.K. Choksy an Independent Non-Executive Director / Senior Director who functions as the Chairman. The Chairman (Non-Executive) and one other Non-Executive Director are the other members. The Committee determines and recommends the remuneration of Directors, CEO and the Key Management Personnel and the Remuneration Policy of the company. The report of the Board Remuneration Committee provides more details.
7.10.6	**Audit Committee Composition,** Chairman to be independent Non-executive with membership from accounting body; functions, ensuring internal control, independence of auditors.	Complied with – Audit Committee comprises of two Non-Executive Directors who are Independent. The Committee is Chaired by Mr. T. Someswaran a Fellow Member of the Institute of Chartered Accountants. The Managing Director/CEO, General Manager, Head of Finance, Chief Internal Auditor and the Representatives of the External Auditors attend meetings of the committee by invitation. The Committee functions within a defined criteria. The report of the Board Audit Committee provides more information.

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Directors' Attendance at Meetings

Details pertaining to Directors' Attendance of Meetings are tabulated below.

Names	Main Board		Audit Committee		Integrated Risk Management Committee		Remuneration Committee	
	Held	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
Mr. Rusi Pestonjee (Chairman)	12	11					02	02
Mr. Kithsiri Wanigasekara	12	12	12	12	4	4		
Dr. Saroshi Dubash	12	10			4	4	02	02
Mr. Channa Pathirana	12	09			4	3		
Mr. V.K. Choksy	12	12	12	12			02	02
Mr.T. Someswaran	12	10	12	08				

Risk Management Report

The company provides a range of financial services and encounters numerous risks in its day to day operations. The Integrated Risk Management Committee (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.

The Board of Directors is the ultimate authority on the business strategy, the risk appetite and delegated authority levels to the CEO, GM and Management level committees to hold them accountable. IRMC is entrusted with the responsibility by the Board to have in place a well structured and effective IRMC policy framework.

The Corporate Management and the assigned Risk Manager assists in providing Management Information to the IRMC to address specific Risks with quantitative and qualitative Risk measures that are supported by Risk indicators. The Risk related framework is carried out with the aid of the Credit Committee and the Asset and Liabilities Committee (ALCO). These Committees monitor defined Risks on a continuous basis and assume responsibility for the effective implementation of decisions related to Risk Management. The Board places heavy emphasis on the regulatory concerns and relevant changes were made during the year to address such issues.

RISK MANAGEMENT FRAMEWORK

The Board appointed IRMC is based on the Finance companies (Corporate Governance) Direction No. 3 of 2008. The IRMC assumes the responsibility to identify Risks related to Credit, Market, Operations, Liquidity, Strategy and recommends to the Board specific action to be initiated to mitigate these risks. The IRMC meets at least once in three months and submits a Risk Assessment Report to the Board of Directors within seven days of each meeting. The Credit Committee and the ALCO are the key Management Committees that meet monthly and provide complete, timely, relevant and accurate information with a critical analysis of qualitative and quantitative measures.

Risk Type	
Credit Risk →	Risks associated with the failure of customers to meet contractual obligations on re-payment and arises mainly from the loans and advances portfolio.
Market Risk →	The reduction in earnings or capital due to volatility of loan book position or inability to hedge the loan book.
Liquidity Risk →	The failure to maintain capital ratios to support business activity and meet regulatory requirments and failure to meet liqudity obligations required to support normal business activity and to meet liqudity requirments.
Operational Risk →	Losses or costs resulting from human factors, inadequate or failed internal processes and systems or external events.

CREDIT RISK

Credit Risk is associated with the failure of customers to meet contractual obligations on re-payment and arises mainly from the Loans and Advances portfolio. The Credit Risk Management is the responsibility of the Credit Committee with the delegated authority limits given by the Board. The company carries out the Credit Risk Management process based on the following criteria.

- Credit Policy Guidelines given in the Credit Manual which was reviewed in 2012
- Credit Procedures that are well defined and assigned to the Credit Committee.
- Lending Guidelines approved by the Board that are reviewed periodically.

The IRMC considers Credit Committee recommendations on credit disbursements and pays specific attention to key regulatory issues such as Single Borrower Limit, group lending limits and related party transactions in addition to other considerations. Further, exposure of credit to numerous sectors is another key element that is addressed in the credit Risk Management process. The Credit Risk Management has as its priority, the maintenance of the Asset quality of the company's credit portfolios with particular attention to accepted industry norms.

Risk Management Report Contd....

Market Risk

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 and equity prices in relation to our company. In view of the fact that the company deals in Financial Products, namely; Loans, Hire Purchase, Finance Leases, Deposits, Dealing Securities and Borrowings for the facilitation of its business transactions. In the area of Market Risk, Interest Rate Risk plays a critical role that necessitates the proper management for the mitigation of interest rate risk.

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 risk related aspects in this area, ALCO takes into account the proper maintenance of the interest spread and net interest margin for the company that includes branch wise and product wise analysis. The company considers IRR as a major component of the Market Risk and has a continuous Assessment and monitoring process in this direction.

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 to re-pricing of both the assets and the liabilities. Further, ensuring that such assets and liabilities come within relevant time buckets in relation to periodical contractual changes also play an important role.

The company through ALCO ensures that favourable results are achieved to avoid re-pricing risk and yield curve risk. The proper re-pricing of Assets and Liabilities and the prevention of mismatches on a continuous basis assists the company to mitigate risks in this area.

Liquidity Risk Management

The company considers the potential vulnerability in the event of not being able to fund increases in assets and to meet contractual financial obligations as and when they fall due. The company which engages in finance business assesses on a continuous basis how vulnerable it is to liquidity and solvency related issues that arise mainly due to mismatches in its assets and liabilities. The objective in liquidity risk management is to ensure that sufficient funding is available at all times irrespective of cyclical fluctuations in the market.

The company analyses periodically liquidity requirements with the assistance of the ALCO in order to ensure a satisfactory liquidity status at all times. The ALCO meets at least once a month and is responsible for managing and controlling the liquidity status of the company. The deliberations of the ALCO consider numerous aspects applicable to the liquidity process including the means with which it is to encounter any liquidity stress situations. The process ensures making available contingency funding to meet in an eventuality. In managing liquidity, the ALCO also takes all reasonable steps to mitigate any losses that may arise in maintaining additional liquid funds. ALCO is responsible for the monitoring of liquidity risk and for the establishment of tolerance levels for liquidity.

Operational Risk Management

Operational risk has been identified as a key category of risk within the financial services sector. Managing operational risk is an element that ensures a sound risk management process. Operational risk arises as result of inadequate or failed internal processes, people, and systems and due to external events.

The company has as its objective of having in place an effective operational risk management procedure that will minimize impact of losses that may arise in the ordinary course of business and to reduce or avoid scale of unexpected losses.

The review of the systems and processes on a regular basis assists to mitigate risks that will ultimately enhance the company's financial performance. The company places heavy emphasis to have in place a robust internal control system as a key component in the Operational Risk Management arena.

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.

In the area of IT related risks, the company is at present finalizing the Information Systems Security Policy (ISSP) in compliance with regulatory requirements. Another priority in this direction is the finalization of the Business Continuity Plan (BCP) which includes disaster recovery procedures.

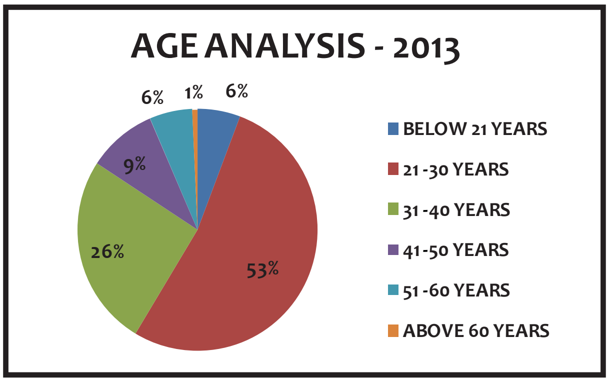
The company's Integrated Risk Management Committee and the Audit Committee have given due consideration to this key ingredients to ensure safety and soundness.

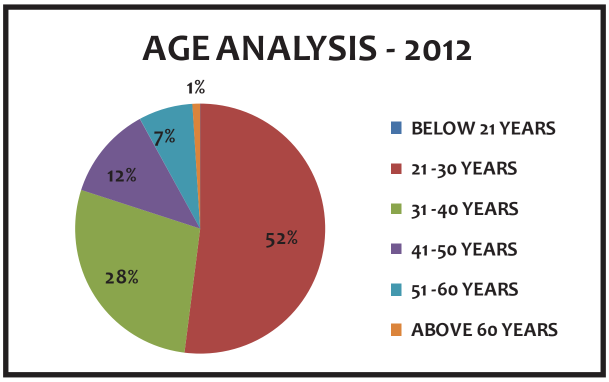
The company is also vulnerable to Reputational Risk, Legal Risk and Strategic Risk in addition to compliance and Regulatory Risk. The Integrated Risk Management Committee, Audit Committee with the assistance of other Management Committees continue to make recommendations to the Board of Directors based on findings, suggestions and appropriate requirements that ultimately strengthens the company's risk management process.

Human Resources

Abans Finance PLC recognizes that its people are its most valuable asset. Abans Finance PLC values this principle and recognizes the advantages of team work and acknowledges that such team must be knowledgeable, innovative, dedicated, and with the ability to analyze any business related situation, identify all areas that need improvement for the application of correct solutions.

The creation of realistic and practical business solutions especially in management or marketing areas, building on core competencies and the maintenance of competitive advantage over our competitors has always been the essential pre-requisites for sustainable growth at Abans Finance PLC.

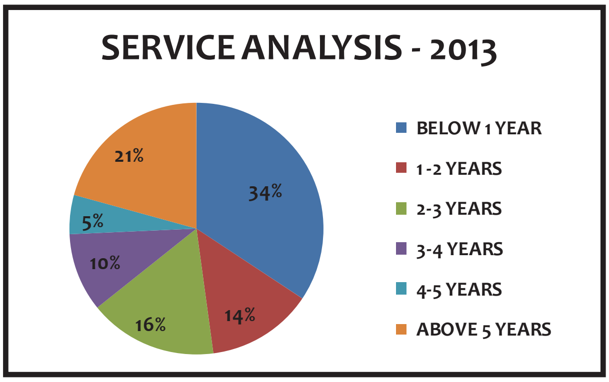


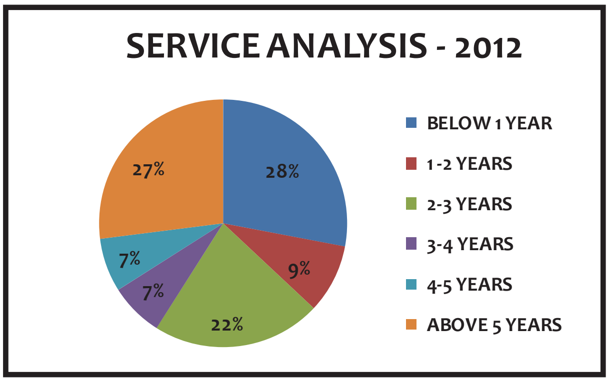


Our relatively young employees ,majority of whom fall within the age category of 30 years or younger, are given insights to the company's structure, management practices, skill requirements, abilities, needs, values, policies, procedures and above all, performance.

We also mindful of the fact that the management must also recognize knowledge and inner motivation in line with our mission, so that our staff members are inspired and motivated by our precepts and practices.

We share and work together for the development of communication skills, the understanding and organization of corporate strategy and strategic management and in providing opportunities for career prospects. This has enabled the company to retain trained staff within the company, majority of whom have been with the company for a longer period of time.



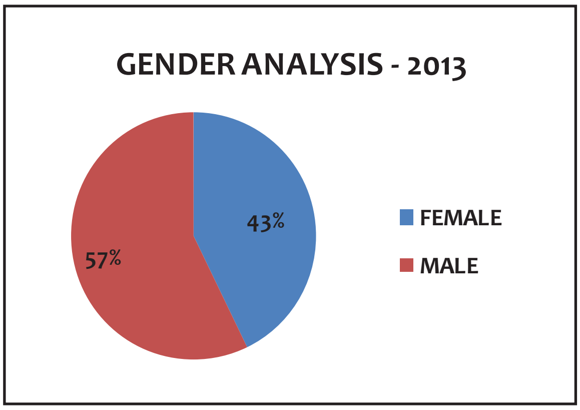


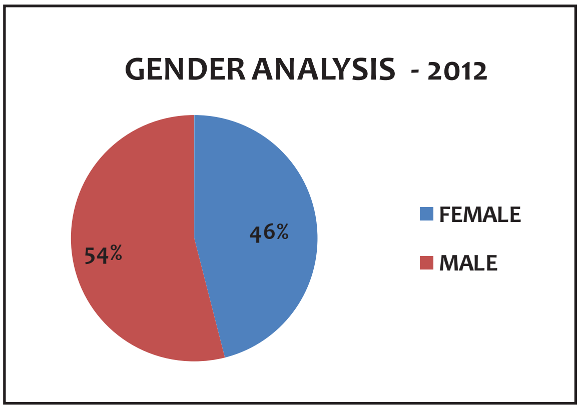
This has always been an intrinsic part of our company culture as we will continue to transform value, norms and approaches, persist in our programs of knowledge management, to reach the highest stages of Organizational development. We encourage our team to be part of every process of change and to see that negative aspects of such changes are also minimized.

The company regularly invests a considerable sum in training and developing human resources that provide the company a competitive advantage. We also recognize our obligations to nurture young talents and assisting them to reach an acceptable standard in performance.

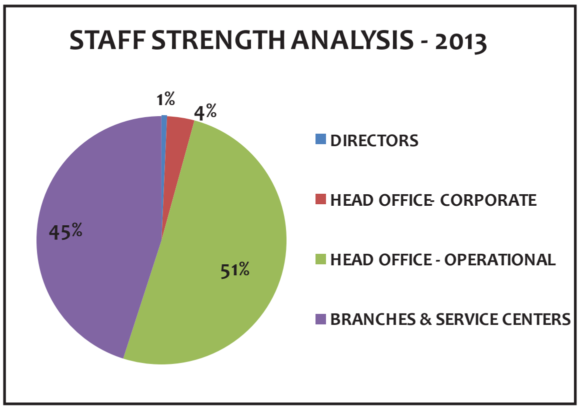
The training initiative identifies individuals in their respective job roles and other specific requirements as well as their grades of employment and where necessary provide them with support to meet the individual development requirements. We encourage employees to pursue studies to obtain academic and professional qualifications that in turn will also act as a catalyst in the development of the organization.

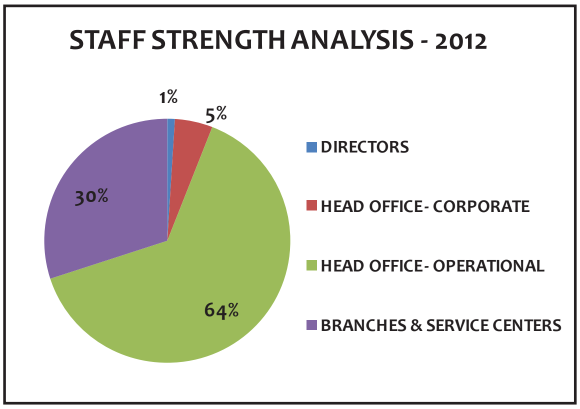
The appropriate training, provided mainly outside the institution, with the exposure of various levels of staff to training programs, workshops and seminars further assisted us to guide, direct, stimulate and motivate our team members to a considerable extent that will ultimately reap the benefits for the institution mainly in the longer term. Such staff learning experiences is also a key indicator in the identification of leadership potential and managerial excellence.





Abans Finance PLC does not discriminate with regard to gender when remunerating employees. Basic salaries are dependent on the respective grade of the employees and performance, with no gender-based differentiation.





The staff strength of the company remained at 140.

Abans Finance PLC follows a policy of continuous improvement in respect of the working lives of its employees. In addition Abans Finance PLC has taken further steps to enhance facilities and benefits afforded to its staff as indicated below-

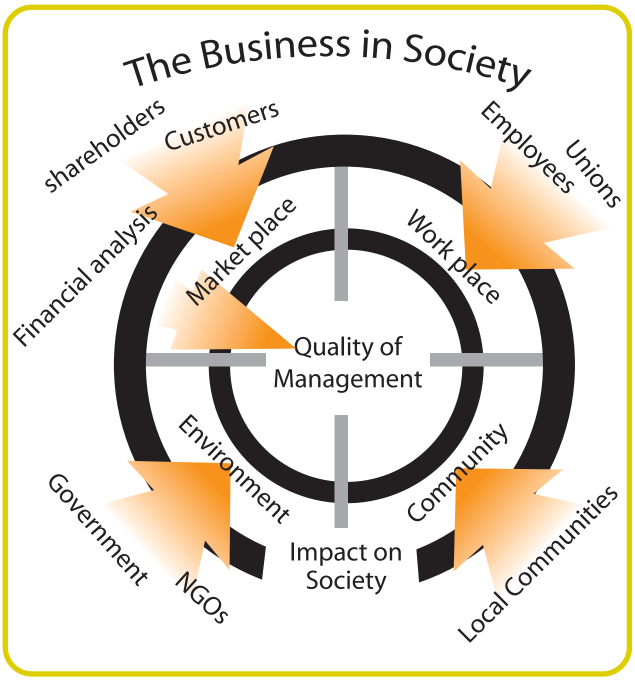
1. Performance related incentives
2. Reimbursement of travelling expenses for business related activities
3. Contribution to Provident Fund, Trust Fund and Gratuity
4. Medical and Hospitalization benefits
5. Reimbursement of selected professional association subscriptions and honoraria

Corporate Social Responsibility

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of its workforce, their families, the local community and society at large.

The purpose of business is to generate maximum returns for its stakeholders. Therefore shouldn't the business pursue all activities that enhance profitability and increase the value of the business for the owners and shareholders?

We believe that a business should behave ethically in achieving the above purpose, and that it is not right just to operate within the letters of the law. Businesses should also try and serve their local community and help its employees lead better lives. They should examine every decision they make based on profitability, long term business value and social responsibility.



Companies are required to answer to two aspects of their operations.

1. The quality of their management - in terms of people and processes (the inner circle).

2. The nature and quantity of their impact on society as a whole. (the outer circle)

Stakeholders are taking an increasing interest in the activities of companies. Most look to the outer circle - what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or how it treats and develops its workforce.

Employees

By constantly training members of staff and wherever possible promoting from within the organization has driven the employees to work with passion & purpose. We at Abans Finance believe that recognizing the true well being of our employees will lead to a healthier and therefore happier workforce.

Staff Outing

The much awaited day was spent in fun and frolic at Purple Sun Holiday Resort, Avissawella on 10th November'12. The day was filled with fun activities and included musical chairs, tug o' war, Dancing competitions, Pool events and numerous fun events. The kids were entertained by the many activities organized for them. Staff members from different departments, branches spread far & wide, were able to mingle and spend an unforgettable day.

Company staff also participated at the various Sports activities organized by the Finance Houses Association (FHA) and events organized by other financial organizations .Two members from Abans Finance emerged as first and second runners up at the beauty pageant organized by the Finance Houses Association in 2012.

Corporate Social Responsibility Contd....

Customers

We are ever grateful to our loyal customers for their-continued support and will strive to continuously upgrade service and satisfaction levels. To many, Abans Finance was their first business partner, the institution they took their initial loan from, and we take pride in seeing them graduate as successful businessmen today, while continuing to place their trust in us.

Shareholders

The Shareholders expect their company to grow steadily, and the company has met their aspirations by performing to their expectations, and adhering to transparent and comprehensive financial reporting and good governance practices.

Society

As an individual company and a group company under the Abans group of companies we lay emphasis in being a responsible corporate citizen. Among the activities the company has embarked upon over the last year are, painting and renovating a ward at Cancer Hospital Maharagama, Organizing Blood donating campaigns, Donating medicinal supplies to the Cancer Hospital and many other such community projects.

As a CSR Project the company trains and builds up the skills of university graduates and under graduates with the aim of enhancing their carrier prospects.

Company has also provided job opportunities to many young school leavers in its Head Office and Branches, scattered through out the country, and have been training & nurturing them in order for them to assume greater responsibilities in coming years.

Going Green

By reducing waste and promoting recycling at every opportunity, overheads will be reduced and in the longer term lead to better shareholder value. It is staggering how much resources including energy are wasted by companies. Having a regular energy audit and investing long term to reduce demand can only serve to make the business more efficient.

Social responsibility becomes an integral part of the wealth creation process - which if managed properly, should enhance the competitiveness of business and maximise the value of wealth creation to society.

Abans Finance PLC is committed whole heartedly to this exercise.

Momentous Events During 2012/13

A training Program for Staff in progress

Commencing Operations on 1st January 2013 & After Sinhala Tamil New Year.

Raffle Draw Organized by the Welfare Society

Members of Abans Finance staff Donating Blood At the Cancer Hospital

Abans finance Staff at the Finance Houses Association (FHA) sports Carnival

Donation of Medicinal Supplies to the Maharagama Cancer Hospital

Region wise awareness programme to Staff on implications of International Financial Accounting Standards (IFRS)

Momentous Events During 2012/13 Contd....

Painting the Children's ward at the Cancer Hospital Maharagama.

Staff Training Programme

Abans Finance Team were worthy winners of the Six a side Cricket Tournament

Enjoying the events at the staff outing in Avissawella

Abans Finance was one of the Group Companies which joined in the walk Organized by the Abans Group in Support of the Sri Lankan T20 World Cup campaign.

The Road To Recognition

The picture shows Mr. Chandima Bandara receiving the "Certificate of Compliance" from Mr. Nishantha Fernando, a Past President of CA Sri Lanka. In the centre is Mr. Aruna Alwis, CEO (CA Sri Lanka)

Head of Finance Mr. Chandima Bandara, Manager Accounts, Mr. M. Suthakar with other members of the Annual Report Team

The Annual Report of Abans Finance PLC for the year 2011/12 was recognized by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) at the Annual Report Awards Ceremony 2012 held on 5th December 2012 at the "Waters Edge", Colombo. The Company was awarded a **"A Certificate of Compliance"** in the Finance Company category. Abans Finance PLC received this recognition for the second consecutive year. The efforts made by the Board of Directors and the Corporate Management to ensure accountability and transparency in financial reporting have paved the way for the company to achieve this rare distinction.

Certificate 2010/11

CA

Annual Report Awards 2011

Certificate of Compliance
Finance Companies Sector

Presented by
The Institute of Chartered Accountants of Sri Lanka
at the

Chartered Accountants Annual Report
Awards - 2011
to

Abans Finance PLC

(Awarded this 9th day of December 2011 in Colombo)

President
CA Sri Lanka

Chairman
Annual Report Awards Committee

Certificate 2011/12

CA

Annual Report Awards 2012

Finance Companies
Certificate of Compliance

Presented by
The Institute of Chartered Accountants of Sri Lanka
at the

Chartered Accountants Annual Report
Awards - 2012
to

Abans Finance PLC

(Awarded this 5th day December 2012 in Colombo)

President
The Institute of Chartered Accountants of Sri Lanka

Chairman
Annual Report Awards Committee

Financial Reports

	Page No.

Report of the Board of Directors

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 2013 of the company and the Report of the Auditors' on the Financial Statements in conformity with requirements of the Companies Act No. 7 of 2007, Finance Business Act No. 42 of 2011 and the Directions, Guidelines and Rules issued under the Act.

Abans Finance PLC is licensed by the monetary Board of the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011. The company was incorporated as a public limited liability company under the Companies Act No. 17 of 1982 which 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 voting shares of the company are quoted on the "Dirisavi Board " of the Colombo Stock Exchange with effect from 27th June 2011. The registered office is at No. 498, Galle Road, Colombo 3. The company conducts business operations with the Head Office at No 400, Galle Road, Colombo 3 in addition to nine fully fledged branches and five customer centres located in 8 Provinces.

The report of the Directors provides the information as required by the companies Act No. 7 of 2007, Finance Companies (Corporate Governance) Direction No. 3 of 2008 and the Continuing Listing Requirements of the Colombo Stock Exchange. The company conducts business operations maintaining the highest level of ethical standards expected from a Licensed Finance company and a listed entity.

REVIEW OF PERFORMANCE FOR 2012/13 AND FUTURE DEVELOPMENT PLANS

The Chairman's Review, Managing Director's Review and the "Management Discussion and Analysis" included in the Annual Report of the company provides a comprehensive analysis on the financial performance, position of the company, the state of affairs together with important events that took place during the year under review and future development plans.

PRINCIPAL ACTIVITIES OF THE COMPANY

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 Time Deposits, Savings Deposits, Finance Leasing of Motor Vehicles, Provision of Hire Purchase Facilities on Motor Vehicles, Mortgage Loans, Real Estate and Capital Market Operations.

FINANCIAL STATEMENTS OF THE COMPANY

The financial statements of the company are duly certified by the Head of Finance, approved by the Board of Directors and signed by the Chairman and the Managing Director and was authorized for issue on 18th June 2013.

DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of financial statements of the company, which reflect a true and fair view of the state of its affairs. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 06 to 53 have been prepared in compliance with requirements of Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995 and the Companies Act No. 7 of 2007. In addition to the above, these financial statements also comply with the requirements of the Finance Business Act No. 42 of 2011 and the listing rules of the Colombo Stock Exchange.

AUDITORS' REPORT

The Company's Auditors M/s Ernst & Young performed the Audit of the Financial Statements for the year ended 31st March 2013 and the Auditors' Report issued thereon is given on page 01 of the Annual Report.

ACCOUNTING POLICIES AND CHANGES DURING THE YEAR.

For all periods up to and including the year ended 31st March 2012, the company prepared its financial statements in accordance with SLASs effective up to 31st March 2012. These financial statements for the year ended 31st March 2013 are the first the company has prepared in accordance with SLFRS effective for the periods beginning on or after 1st April 2012. (Please refer note 5 of the Audited Accounts for an explanation of the transition).

DIRECTORS' REMUNERATION AND OTHER BENEFITS

Details of Directors' Remuneration and other benefits are given in Note 12 to the Audited Accounts.

PROFIT APPROPRIATIONS

A summary of the financial results of the company for the years ended 31st March 2013 and 2011/12 is given below:

Rs.	2012/2013	2011/2012
Profit before Taxation from Operations	58,001,378	77,804,764
Provision for Income Tax	17,867,778	32,130,568
Profit for the Year	40,133,600	45,674,196
Transfer to Statutory Reserve Fund	8,027,000	10,681,600
Transfer to Investment Fund Reserve	6,890,290	7,833,381
Retained Profit Brought Forward from the Previous Year	(6,316,722)	(33,475,938)
Retained Earnings Carried Forward	18,899,588	(6,316,722)

PROPERTY, PLANT AND EQUIPMENT

Capital Expenditure incurred on Property, Plant and Equipment amounted to Rs. 3,088,944 in 2012/13 (Rs. 7,997,761- 2011-12). Details applicable to the expenditure are given in Note 27 to the Accounts. The fair value of Property, Plant and Equipment that has been incorporated into the accounts based on deemed cost option as recommended by SLFRS are given under Note 5.1 (e) to the Audited Accounts as given in Page 87 The company has re-categorised computer software cost under intangible assets. Details pertaining to intangible assets are given in Note 5.1 (f) in page 87.

DIRECTORS

i. Names of the Directors who held office as at 31st March 2013 are given below:

Name of Director	**Status as at 31st March 2013**
Mr. Rusi Pestonjee, Chairman	Non-Executive
Mr. Kithsiri Wanigasekara, Managing Director	Executive
Dr. S. Dubash	Non-Executive
Mr. Channa Pathirana	Non-Executive
Mr. V.K. Choksy, Senior Director	Independent Non-Executive
Mr. T. Someswaran	Independent Non-Executive

There were no changes in the Directorate during the year under review.

Report of the Board of Directors Contd....

ii. Re-election of Directors

All Directors have submitted Declarations and Affidavits in terms of 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. The Non-Executive Directors have submitted Declarations in confirmation of their independent / non independent status in compliance with Rule 7.10.2 and 7.10.4 of the Continuing Listing Requirements of the Colombo Stock Exchange.

iii. Retirement of Directors

Mr. T. Someswaran, Independent Non-Executive Director and the Chairman of the Audit Committee will retire with effect from 3rd August 2013 in compliance with Finance Companies (Corporate Governance) Direction No. 3 of 2008.

iv. Meetings of the Board of Directors & Board Sub Committees

Details of Directors' meetings and Board Sub Committee Meetings are given in page 42.

v. Board Sub Committees

The Board appointed Sub Committees in terms of Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka to Licensed Finance Companies and in accordance with the Code of Best Practice issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities & Exchange Commission of Sri Lanka and the Continuing Listing Requirements of the Colombo Stock Exchange consist as follows:

Audit Committee	-	**T. Someswaran – Chairman Independent Non Executive Director** **V.K. Choksy – Senior Independent Non Executive Director**
Integrated Risk Management Committee	-	**Dr. Saroshi Dubash – Chairperson** **Channa Pathirana – Non Executive Director** **Kithsiri Wanigasekara – Managing Director / CEO** **M. K. Nambiyarooran – General Manager** **Chandima Bandara – Head of Finance** **Chaminda Sugathadasa – Head of Branches** **Aruna Somasiri – Head of Credit & Recoveries** **Mahadevan Suthakar – Manager Accounts** **Manura Rajakaruna – Manager IT** **Ms.Mahika Rajakaruna – Manager Corporate Affairs**
Remuneration Committee	-	**V.K. Choksy – Chairman** **Rusi Pestonjee** **Dr. Saroshi Dubash**

Report of the Board of Directors Contd....

DISCLOSURE OF DIRECTORS INTEREST IN SHARES

Directors	As at 31-03-2012	As at 31-03-2013
Mr. R. Pestonjee	106,801	106,801
Dr. S. Dubash	133,334	133,334
Mr. K. Wanigasekara	Nil	Nil
Mr. V.K. Choksy	Nil	Nil
Mr. C.D. Pathirana	Nil	Nil
Mr. T. Someswaran	Nil	Nil

DIRECTORS' INTEREST IN CONTRACTS

Directors' interest in contracts are disclosed in Note 46.1 to the Audited Accounts.

STATUTORY PAYMENTS

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

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No event of material significance that require adjustments to the financial statements has occurred subsequent to the Statement of Financial Position.

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 has expressed their willingness to continue in office and a Resolution to re-appoint them as Auditors and authorizing 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 subject to the engagement of a new Engagement Partner.

RISK MANAGEMENT

The Board ensures the prevalence of a Sound Risk Management framework within the company with the assistance of the Integrated Risk Management Committee (IRMC) which reviews on a regular basis the risk exposure of the company. Details of risk related procedures that were being implemented by the company are given in Note 39 to the Audited Accounts.

SYSTEM OF INTERNAL CONTROL

The Board of Directors ensures that an effective and robust internal control procedure is in place in order to safeguard the company's assets. The Board appointed Audit Committee reviews the adequacy and integrity of the internal control systems relating to compliance and risk management. The Audit Committee is satisfied that the prevalent Internal Control Procedures are satisfactory.

CORPORATE GOVERNANCE

The Board of Directors places heavy emphasis in maintaining an effective Corporate Governance framework and practices within the company. This ensures transparency and accountability in the operations.

OUTSTANDING LITIGATION

The Directors confirm that pending litigations against the company that will have any material impact on the financial position of the company.

GOING CONCERN

The Directors of the company having considered the financial position, operational performance, regulatory and other factors are of the view that the company has adequate resources to continue its operations in the foreseeable future. The Financial Statements of the company have been prepared on a going concern basis.

Report of the Board of Directors Contd....

Notice of Meeting

The 7th Annual General Meeting of the Company will be held at the Organisation of Professional Association of Sri Lanka, No. 275/75, Prof. Stanley Wijesundara Mawatha, Colombo 7 on 30th September 2013 at 3.00 p.m. The Notice of Meeting is given on Pages 131 to 132 of the Annual Report.

For an on Behalf of the Board of Directors.

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

30th July 2013

CEO's and CFO's Responsibility for Financial Reporting

The Financial Statements of Abans Finance PLC for the year ended 31 March 2013 are prepared and presented in compliance with 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 the Directions, Determinations and Guidelines issued by the Central Bank of Sri Lanka and Listing Rules of the Colombo Stock Exchange.

The Accounting Policies used in the preparation of the Financial Statements are appropriate and are consistently applied by the Company. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. Significant accounting policies have been changed to comply with the new Sri Lanka Accounting Standard issued by the Institute of Chartered Accountant of Sri Lanka, which became effective from 1st January 2012. Transition to the new Accounting Standards from the previous Accounting Standards and related adjustment has been presented on pages 85 to 91 of this Annual Report.

Significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Audit Committee. The Board of Directors and the Management of the Company accept the responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in 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 control 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 reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Company were audited by Messrs Ernst & Young, Chartered Accountants, the independent External Auditors and their report is given on page 65 of the Annual Report.

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 Board Audit Committee Report on Pages 61 to 62 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, Messrs Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors.

The Company has taken appropriate action to implement New Sri Lanka Accounting Standards with effective from 1st January 2012 and all the processes are in place to address the requirements of the new Sri Lanka Accounting Standards.
We confirm to the best of our knowledge;

(a) The Company has complied with all applicable laws, regulations and prudential requirements and there is no material non-compliance,

(b) There are no material litigations that are pending against the Company,

(c) All taxes, duties, levies and all statutory payments by 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 or where relevant provided for.

R.M.C.K.Bandara
Chief Financial Officer
30th July 2013

K.B.Wanigasekara
Chief Executive Officer

Directors' Responsibility for Financial Reporting

The responsibilities of the Directors of Abans Finance PLC in relation to the preparation of Financial Statements in accordance with the provisions of the Companies Act No. 7 of 2007 are set out in the following statement. The Financial Statements consists of the Statement of Financial Position as at 31st March 2013, the Income Statement, Statement of Changes in Equity, Cash Flow Statement for the year ended 31st March 2013 and the notes thereto.

The Directors are responsible for ensuring that the company prepares the financial statements that give a true and fair view of the state of affairs of the company as at the Statement of Financial Position date and the profit of the company for the financial year ended 31st March 2013 and place them before a General Meeting. The financial statements comprise the Statement of Financial Position as at 31st March 2013, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cashflows for the year then ended and notes thereto.

The Directors confirm that the Financial Statements of the company give a true and fair view on;

a. The state of affairs of the company as at Statement of Financial Position date and

b. The profit of the company for the year ended on the Statement of Financial Position date.

The Directors are responsible to oversee and ensure to keep proper accounting records which correctly record and explain the company's transactions with reasonable accuracy at any time and to enable the Directors to prepare financial statements, in accordance with the provisions of the Companies Act No. 7 of 2007 and to ensure that financial statements to be readily and properly audited.

The Directors are required to ensure that;

a. The appropriate accounting policies have been selected and applied in a consistent manner and material departures if any have been disclosed

b. Make judgements and estimates that are reasonable and prudent

c. All applicable accounting standards are followed as relevant in preparing these financial statements.

The Directors are also required to ensure that the company has adequate resources to continue in operations to justify the application of the **"Going Concern"** concept in preparing these financial statements.

The financial statements prepared and presented in the report are consistent with the underlying books of accounts and are in conformity with the requirements of Sri Lanka Accounting Standards, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, Companies Act No. 7 of 2007, Finance Business Act No. 42 of 2011 and the Continuing Listing Rules issued by the Colombo Stock Exchange.

The Directors have taken adequate precautions on inspecting financial reporting system through Audit Committee Meetings and granting approval for issuing of interim financial results.

The Directors have also instituted effective and comprehensive system of internal controls. This comprises, internal check, internal audit and the whole system of financial and other controls required to carry on Finance Business in an orderly manner, safeguard assets, prevent and detect frauds and other irregularities and secure as far as practicable the accuracy and reliability of the records. The details of such reviews carried out during 2012/13 are given in Report of the Directors, Board Audit Committee Report and the Board Integrated Risk Management Committee Report to this Annual Report.

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

The Auditors M/s Ernst & Young, Chartered Accountants were given access to all accounting records and other documents of the company to undertake the inspections they considered appropriate to form their opinion on the financial statements.

The Directors of the company are of the view that they have discharged their responsibilities 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 1

30th July 2013

Board Audit Committee Report

The Composition of the Board Audit Committee

The Audit Committee was established in terms of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission of Sri Lanka and the Corporate Governance Direction No. 03 of 2008 issued to Finance Companies by the Central Bank of Sri Lanka in terms of the Finance Business Act No. 42 of 2011.

The Board of Directors has appointed the Audit Committee that comprised of the following two Non-Executive Directors:

Mr. T. Someswaran – Chairman
Mr. V.K. Choksy - Member

Mr. T. Someswaran, Chairman of the committee is an Independent Non-Executive Director who is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He is also a former Senior Partner of one of the leading firm of Chartered Accountants.

Mr. V.K. Choksy, an Independent Non-Executive Director and the Senior Director of the company functions as the other member of the committee.

M/s Varners International (Pvt) Ltd, (Corporate Secretaries) act as Secretaries to the Audit Committee.

Terms of Reference

1. The committee shall make recommendations on matters in connection with
   a. the appointment of the External Auditor for audit services to be provided in compliance with relevant statutes;
   b. The implementation of Central Bank Guidelines issued to Auditors from time to time.
   c. The application of relevant Accounting Standards;
   d. The Service Period, Audit Fees and any other related issues.
2. Review and monitor the External Auditors' independency and objectivity and the effectiveness of the Audit Process with applicable standards.
3. Develop and implement policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services under relevant statutes.
4. Analyse and review the risks faced by the company and to oversee efficiency and effectiveness of Internal Control and procedures in place to mitigate the risks.
5. Examine any matters, issues in relation to finance and operations.
6. Monitor all Internal and External Audit Programs and review Internal Audit Reports, Management letter issued by the External Auditors and follow up their findings and recommendations.
7. Review the accounting policies adopted, compliance with statutory requirements, etc.
8. Review the Interim Financial Statements and the company's Annual Report and Accounts before submission to the Board of Directors.

Meetings

The committee held 12 monthly meetings during the year ended 31st March 2013. The attendance of the committee members at the meetings is given in the Corporate Governance Report. Representatives of the External Auditors, M/s Ernst & Young attended meetings by invitation. The Managing Director /CEO, General Manager, Head of Finance, Head of Credit & Recoveries, Head of Branches and Manager - Information Technology also attended meetings by invitation. The Chief Internal Auditor of the Abans Group of Companies who functions as the Internal Auditor, assisted the committee at meetings.

Summary of Activities

Internal Audit

The Audit Committee reviewed the Internal Audit function carried out by the Chief Internal Auditor and examined Internal Audit Reports submitted and made recommendations for corrective action, where necessary. Further, the committee reviewed the progress of the Internal Audit Program for the year 2012/13 and also reviewed and monitored the effectiveness of the Internal Audit function and the performance of the Internal Auditors.

Board Audit Committee Report Contd....

Internal Controls

The committee examined the effectiveness of the company's Internal Controls over financial reporting and other controls applicable to core areas namely, Acceptance of Deposits, Granting of Credit, Recoveries, Compliance and Risks applicable to the operations of the company.

External Audit

The committee met with the representatives of the External Auditors, M/s Ernst & Young and discussed findings reported in their Management Letter for the year 2011/12. In addition to this, the scope, audit approach, methodology and procedures proposed to be adopted to carry out the Internal Audit for the year 2012/13 with the requirements to adopt Sri Lanka Accounting Standards with effect from 1st January 2012.

LKAS/SLFRS

The committee assisted the Board with the review and recommendation of the framework and policies required for the adoption of LKAS/SLFRS for which external services were obtained.

Regulatory Compliance

The committee examined the extent of compliance by the company with requisite statutory requirements with specific attention to the Finance Business Act No. 42 of 2011 and the Directions, Guidelines and Rules issued by the regulator.

Mr. T. Someswaran
Chairman
Audit Committee

30th July 2013

Board Remuneration Committee Report

The Board Remuneration committee comprises as follows :

Mr. V.K. Choksy	-	Chairman (Independent Non-Executive Director - Senior Director)
Mr. Rusi Pestonjee	-	Non-Executive Director
Dr. Saroshi Dubash	-	Non-Executive Director

The committee met on two occasions during the year under review and all members attended the meetings. Managing Director / CEO and General Manager attended on invitation.

The Role of the Committee

The Committee is entrusted with the responsibility to evaluate, assess, decide and recommend to the Board of Directors on any matters that may affect the remuneration structure of the company including the following :

a. The determination of the remuneration of Managing Director / CEO and the Independent Non-Executive Directors while ensuring that no Director is involved in setting his / her own remuneration.

b. The determination of remuneration and other benefits of Key Management Personnel and the establishment of performance parameters.

c. To introduce policies and parameters of the remuneration structure for all staff members of the company and monitor the implementation thereof.

d. 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 in par or above the industry norms and align remuneration to market rates to ensure the retention of the Key Management Personnel.

e. The evaluation of the performance of the Managing Director / CEO and the Key Management Personnel against the targets and goals.

f. For the evaluation and recommendation on the promotion of the Management grade staff.

g. For the approval of Annual Increments, Bonuses and Incentives.

On conclusion of Committee Meetings, the Chairman of the committee reports to the Board, its findings and recommendations on matters related to remuneration.

V. K. Choksy
Chairman
Remuneration Committee

30th July 2013

Board Integrated Risk Management Committee Report

The Board Integrated Risk Management Committee (IRMC) has been constituted in terms of the Finance Companies (Corporate Governance) Direction No. 3 of 2008. The Committee comprised the following:

Dr. S. Dubash	- Chairperson (Non-Executive Director)
Mr. Channa Pathirana	- Non-Executive Director
Mr. Kithsiri Wanigasekara	- Managing Director/ CEO

The following key management personnel have been co-opted to the committee:

Mr. M.K. Nambiyarooran	- General Manager
Mr. Chandima Bandara	- Head of Finance
Mr. Chaminda Sugathadasa	- Head of Branches
Mr. Aruna Somasiri	- Head of Credit & Recoveries
Mr. Mahadevan Suthakar	- Manager Accounts
Mr. Manura Rajakaruna	- Manager IT
Ms. Mahika Rajakaruna	- Manager Corporate Affairs

The Committee meets at least once in three months and the following meetings were held during the year :

1. 26th June 2012
2. 27th September 2012
3. 28th December 2012
4. 19th March 2013

The Committee considered Credit, Market, Liquidity, Operational and Strategic Risks that affect the company. It reviewed the adequacy and effectiveness of Management Level Committees, mainly Credit Committee and the Assets & Liability Committee (ALCO). The consideration of the recommendations made by the Credit Committee and the ALCO for the mitigation of risks attached to business operations was one of the key responsibilities of the committee.

The IRMC assessed the adequacy of the Credit Risk Management process and made a critical analysis of the single borrower limit and the concentration of credit in specific areas to improve the Asset Quality of the company. In relation to Market Risk, specific attention was drawn for the maintenance and improvement of requisite Net Interest Margins with the appropriate pricing of the company's Advances Portfolio. The committee assessed the ALCO recommendations on Liquidity Risk with particular attention to any mismatch in the Assets – Liabilities that may affect the liquidity status of the company at specific intervals and took appropriate measures for the effective management of liquidity.

The Committee submitted a Risk Assessment Report to the Board of Directors within seven days, where appropriate, with the intention of obtaining the views and directions of the Board in relation to mitigation of risks. It also monitored the compliance function for the assessment of company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies in respect of business operations. The committee also ensured that the compliance function is carried out by the Compliance Officer in an effective manner, periodically.

The IRMC also reviewed the effectiveness of the company's IT system and made recommendations to the Board with regard to requisite upgrading of the system, where necessary and for the implementation of an effective control mechanism in the IT operations. The committee assessed the contents of the Information Systems Security Policy (ISSP) document to be introduced in accordance with the directives issued by the Regulator and paid due attention for the utilisation of all types of Licensed Software in accordance with Intellectual Property Rights Act No. 36 of 2003 and made recommendations for the full compliance by the company in this direction.

Dr. S. Dubash
Chairperson
Integrated Risk Management Committee

30th July 2013

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ABANS FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Abans Finance PLC, which comprise the statement of financial position as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 March 2013 and the financial statements give a true and fair view of the Company's financial position as at 31 March 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

18 June 2013
Colombo

Statement of Comprehensive Income

Year ended 31 March 2013

	Notes	2013 Rs.	2012 Rs.
Income	6	570,344,914	456,093,900
Interest Income	6.1	541,111,997	434,997,143
Interest Expenses	6.3	(328,177,272)	(221,598,714)
Net Interest Income		212,934,725	213,398,429
Fee and Commission Income		24,513,497	19,240,537
Fee and Commission Expenses		(7,055,624)	(3,855,418)
Net Fee and Commission Income	7	17,457,873	15,385,119
Net Gain/(Loss) From Trading	8	449,377	(2,869,874)
Other Operating Income (net)	9	4,270,043	4,726,094
Total Operating Income		235,112,018	230,639,768
Impairment (Charges) / Reversal for loans and other losses	10	(5,143,119)	(2,649,110)
Net Operating Income		229,968,899	227,990,658
Operating Expenses			
Personnel Costs	11	(70,509,068)	(58,603,261)
Other Operating Expenses	12	(93,872,626)	(83,203,335)
Operating Profit before Value Added Tax on Financial Services		65,587,205	86,184,062
Value Added Tax on Financial Services		(7,585,827)	(8,379,298)
Profit before Taxation from Operations		58,001,378	77,804,764
Provision for Income Taxation	13	(17,867,778)	(32,130,568)
Profit for the Year		40,133,600	45,674,196
Other Comprehensive Income		-	-
Other Comprehensive Income for the Year, Net of Tax		-	-
Total Comprehensive Income for the Year		40,133,600	45,674,196
Earnings Per Share (Rs)	14	1.08	1.23

Accounting Policies and Notes from pages 70 to 117 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March 2013

	Notes	2013 Rs.	2012 Rs.	2011 Rs.
Assets				
Cash and Bank Balances	15	33,802,530	24,020,124	12,497,605
Placements with Banks	16	125,140,325	25,480,046	65,103,633
Securities Purchased under Repurchase Agreement	17	-	15,362,989	65,861,000
Financial Assets - Held for Trading	18	8,336,546	8,085,928	11,716,200
Loans and Advances	19	836,056,102	973,335,065	773,016,923
Lease Rentals Receivable & Stock Out on Hire	20	1,549,447,291	1,236,193,230	901,333,337
Financial Investments - Available for Sale	21	80,400	80,400	80,400
Financial Investments - Held to Maturity	22	168,522,407	193,296,445	90,901,970
Other Financial Assets	23	15,933,472	14,918,388	19,317,346
Real Estate and Vehicle Stock	24	133,841,502	144,617,200	135,883,066
Other Non Financial Assets	25	25,467,071	25,988,314	17,160,176
Tax Recoverable		-	6,602,175	6,468,996
Intangible Assets	26	12,268,902	10,410,217	12,900,571
Property, Plant & Equipment	27	16,608,243	19,253,353	16,984,244
Deferred Tax Assets	28	-	81,683	20,557,523
Total Assets		2,925,504,791	2,697,725,557	2,149,782,990
Liabilities				
Due to Banks	29	359,435,796	383,057,225	153,893,325
Due to Customers	30	1,765,882,547	1,672,108,739	1,519,571,106
Debt Instruments Issued and Other Borrowed Funds	31	174,325,059	99,374,620	24,999,996
Other Financial Liabilities	32	168,376,894	134,244,124	85,763,706
Other Non Financial Liabilities	33	1,459,519	1,132,893	1,517,933
Retirement Benefit Liability	34	5,833,972	3,716,167	5,619,332
Current Tax Liabilities		3,376,089	-	-
Deferred Tax Liability	28	2,589,526	-	-
Total Liabilities		2,481,279,402	2,293,633,768	1,791,365,398
Shareholders' Funds				
Stated Capital	35	382,373,630	382,373,630	382,373,630
Statutory Reserve	36	28,228,500	20,201,500	9,519,900
Investment Fund	36	14,723,671	7,833,381	-
Retained Earnings		18,899,588	(6,316,722)	(33,475,938)
Total Shareholders' Funds		444,225,389	404,091,789	358,417,592
Total Liabilities and Shareholders' Funds		2,925,504,791	2,697,725,557	2,149,782,990
Commitments and Contingencies		-	-	-

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

……………………………..
Chief Financial Officer

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

……………………………………… ………………………………………
Chairman Managing Director

Accounting Policies and Notes from pages 70 to 117 form an integral part of these Financial Statements.

18 June 2013 - Colombo

Statement of Changes In Equity

Year ended 31 March 2013

	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Rs.	Investment Fund Reserve Rs.	Total Rs.
Balance as at 1 April 2011	382,373,630	(33,475,938)	9,519,900	-	358,417,593
Net profit for the year	-	45,674,196	-	-	45,674,196
Other comprehensive income net of tax	-	-	-	-	-
Transfer to / (from) during the year	-	(18,514,981)	10,681,600	7,833,381	-
Balance as at 31 March 2012	382,373,630	(6,316,722)	20,201,500	7,833,381	404,091,789
Net profit for the year	-	40,133,600	-	-	40,133,600
Other comprehensive income net of tax	-	-	-	-	-
Transfer to / (from) during the year	-	(14,917,290)	8,027,000	6,890,290	-
Balances as at 31 March 2013	382,373,630	18,899,588	28,228,500	14,723,671	444,225,389

Accounting Policies and Notes from pages 70 to 117 form an integral part of these Financial Statements.

Statement of Cash Flows
Year Ended 31 March 2013

Cash Flows From / (Used in) Operating Activities	Note	2013 Rs.	2012 Rs.
Profit before Income Tax Expense		58,001,378	77,804,764
Adjustments for			
Depreciation	27	5,571,555	5,714,825
Amortization of Intangible Assets	26	2,850,401	2,591,334
Impairment Provision	10	5,143,119	2,649,110
Diminution/(Appreciation) in Value of Investments		(250,618)	3,630,272
Loss/(Profit) on Disposal of Property & Equipment		2,677	(246)
Provision/(reversal) for Defined Benefit Plans	11	2,484,442	(1,053,414)
Dividend Received		(195,425)	-
Operating Profit before Working Capital Changes		73,607,529	91,336,645
(Increase)/Decrease in Real Estate Stock		10,775,698	(8,734,134)
(Increase)/Decrease in Loans and Advances		136,316,656	(203,216,612)
(Increase)/Decrease in Lease Rentals Receivable & Stock out on Hire		(316,729,951)	(323,241,530)
(Increase)/Decrease in Other Financial Assets		(1,720,006)	(6,970,045)
(Increase)/Decrease in Other Non Financial Assets		521,243	(9,094,498)
Increase/(Decrease) in Amounts Due to Customers		93,773,808	152,537,633
Increase/(Decrease) in Other Financial Liabilities		34,132,770	48,480,418
Increase/(Decrease) in Other Non Financial Liabilities		326,626	(385,040)
Cash Generated from Operations		31,004,373	(259,287,163)
Retirement Benefit Liabilities Paid	11	(366,638)	(849,750)
Taxes Paid		(5,218,304)	(11,521,548)
Net Cash From/(Used in) Operating Activities		25,419,431	(271,658,461)
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	27	(3,088,944)	(7,997,761)
Acquisition of Intangible Assets	26	(4,709,086)	(100,980)
Proceeds from Sales of Property , Plant & Equipment		159,821	14,072
Cash flow from/(used in) Fixed Deposits		15,982,531	4,254,107
Sale/(Purchase) of Financial Investments- Held to Maturity		4,598,192	2,465,461
Securities Sold under Re-Purchase Agreements	17	15,362,989	50,498,011
Dividend Received		195,425	-
Net Cash Flows from/(Used in) Investing Activities		28,500,929	49,132,910
Cash Flows from / (Used in) Financing Activities			
Borrowings		13,915,966	142,097,567
Cash Flow from Debt Instruments Issued and Other Borrowings	31	74,950,439	74,374,624
Net Cash Flows from/(Used in) Financing Activities		88,866,405	216,472,191
Net Increase in Cash and Cash Equivalents		142,786,764	(6,053,360)
Cash and Cash Equivalents at the beginning of the year		37,146,177	43,199,537
Cash and Cash Equivalents at the end of the year	15.1	179,932,941	37,146,177

Accounting Policies and Notes from pages 70 to 117 form an integral part of these Financial Statements.

Notes to the Financial Statements
Year Ended 31 March 2013

CORPORATE INFORMATION

1.1 General

Abans Finance PLC is a public limited liability company incorporated and domiciled in Sri Lanka. 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. 400, Galle Road, Colombo 03.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were Acceptance of Deposits, Granting Lease facilities, Hire Purchase, Mortgage Loans and other Credit Facilities, Real Estate Development and related Services.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent and ultimate parent company is Abans Ltd.

1.4 Date of Authorization for Issue

The Financial Statements of Abans Finance PLC for the year ended 31 March 2013 was authorized for issue in accordance with a resolution of the Board of Directors on 18 June 2013.

1.5 Directors' Responsibility Statement

The Board of Directors takes the responsibility 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 31st March 2013 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.

For all periods up to and including the year ended 31 March 2012, the Company prepared its financial statements in accordance with SLASs effective up to 31 March 2012.

These financial statements for the year ended 31 March 2013 are the first the Company has prepared in accordance with SLFRS effective for the periods beginning on or after 01 April 2012. (Refer Note 5 for an explanation of the transition).

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except for the Financial Investments held for trading in the Statement of Financial position, all of which are measured at fair value.

2.3 Presentation of Fnancial Statements

The items in the statement of financial position of the company are presented broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in the Note no 40.

2.4 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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

2.5 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, except those which had to be changed as a result of application of the new SLFRS.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, 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 judgments, 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. Judgments

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

I. Taxation

The Company is subject to income taxes and other taxes including VAT on financial services. Significant judgement was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the Financial Statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements.

The Company recognized assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income, deferred and tax amounts in the period in which the determination is made.

II. Useful life-time of the Property, Plant and equipment

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

B. 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. Further more, 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.

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. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profits will be available against which such tax losses can be set off. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

IV. 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 judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the 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).

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and balance with banks.

For the purpose of the Statement of Cash Flow, cash and cash equivalents consist of cash and short term deposits 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 recognized 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 recognized 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.

Currently, the Company has recorded its non- quoted equity investments classified as available for sale financial instruments at cost.

(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 (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairement (Charges) / Reversal for loans and other losses'.

If the company was to sell or reclassify more than an insignificant amount of held to maturity invest ments 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 EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment are recognised in the income statement in "Impairement (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.

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 EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the 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 EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. 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:

  o The company has transferred substantially all the risks and rewards of the asset.
  Or
  o 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 bank 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 and Lease Rental Receivable from 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 receivable 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:

- known 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 downgrading 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 their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the 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 customers and Lease Rental Receivable from 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 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 experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

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 this 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 to cover 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.

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 EIR and is recognized in profit or loss. Interest on impaired assets continue to be recognized 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 EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

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, gold, 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 trans ferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

4.2.8 Repurchase agreement

Securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within 'Financial liabilities held for trading' and measured at fair value with any gains or losses included in 'Net trading income'.

4.2.9 Other Financial Assets

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

4.2.10 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.

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 on cost or valuation of the Property & Equipment other than freehold land. 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.

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.

Amortization
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.

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 leases

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 fulfilment 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 'other operating 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 legislations.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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 the equity and not in the income statement.

4.5.3 VAT on Financial Services

VAT on Financial Services is calculated in accordance with VAT Act No. 14 of 2002 and subsequent amendment thereto.

4.6 Financial Liabilities

Initial recognition and measurement

Financial liabilities within the scope of LKAS 39 are classified as Borrowings and Trade and Other Payables. The company determines the classification of its financial liabilities at initial recognition.

The Company classifies financial liabilities in to financial liabilities at other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities.

The Company recognizes financial liabilities in the Statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Other Financial Liabilities

Other financial liabilities including Due to customers (Deposits), Due to Banks, Debt issued and other borrowed funds and Other Financial Liabilities are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the EIR method.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

- **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 shares.

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

4.7 Provisions

Provisions are recognized 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 recognized 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 No 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 recognized in full as income or expenses in the year in which it arose itself.

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

Past Service Costs are recognized 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 recognized 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 EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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 EIR 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 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 Cash Flow Statement

The Cash flow statement 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 overdrafts and Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

4.11 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the financial statements are set out below. The Company will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimable as at the date of publication of these financial statements.

(i) SLFRS 9 -Financial Instruments: Classification and Measurement
SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 -Fair Value Measurement
SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 provides guidance on all fair value measurements under SLFRS.

SLFRS 9 will be effective for financial periods beginning on or after 01 January 2015 whilst SLFRS 13 will be effective for financial periods beginning on or after 01 January 2014.

In addition to the above, following standards have also been issued and will be effective from 01 January 2014.

SLFRS 10 - Consolidated Financial Statements

SLFRS 11 - Joint Arrangements

SLFRS 12 - Disclosure of Interests in Other Entities

5. FIRST- TIME ADOPTION OF LKAS AND SLFRSs

These financial statements, for the year ended 31st March 2013, are the first the company has prepared in accordance with SLFRSs. For periods up to an including the year ended 31st March 2012, the Company has prepared in accordance with local generally accepted accounting practice (Sri Lanka Accounting Standards).

Accordingly, the company has prepared financial statements which comply with SLFRSs applicable for periods ending on or after 31st March 2013, together with comparative period data as at and for the year ended 31st March 2012, as described in accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at 1st April 2011, the Company's date of transition to SLFRSs. This note explains the principal adjustments made by the Company in restating its Local GAAP statement of financial position as at 1st April 2011 and previously published Local GAAP financial statements as at and for the year ended 31st March 2012.

5.1 Notes to the Reconciliation of Equity as at 1st April 2011 and 31st March 2012

Note A

Impairment adjustment on Loans & Advances and Lease Rental Receivable & Stock out on Hire

Under previous SLAS, Company has calculated the Bad Debts provision on Accommodations in compliance with the Finance Companies Direction No. 3 of 2006 (Provision for Bad and Doubtful Debts). Specific Loan Loss provision was made based on the arrears time period and / or after considering the collateral values. Further interest due on Non Performing Loans held in suspense account call 'Interest in Suspense' and recognized to Income Statement on cash basis incompliance with SLAS 33 (Revenue Recognition and Disclosure in the Financial Statements of Finance Companies). However as per the SLFRS, Allowances for Impairment on Accommodations has been computed based on the requirements of LKAS 39.

The previously recognised loan loss provision amounting to Rs. 141.97 Mn and Interest in suspense of Rs. 74.05 Mn were reversed and impairment provision of Rs. 217.32 Mn was recognised as at April 1, 2011, (the date of transition) after making necessary adjustments to retained earnings.

As at 31 March 2012 the impairment provision was Rs. 178.22 Mn was recognized against the loan loss provision of 104.40 Mn and Interest in Suspense of Rs. 65.4 Mn which was previously recognised based on previous SLAS. The movement between the impairment balances of two years (after netting off the write off of Rs. 41.73 Mn) Rs. 2.64 Mn was recognised in the Statement of Comprehensive Income Statement as an impairment charge.

Note B

Staff Loans Measured at Fair Value

Under previous SLAS, staff loans were recorded at cost less repayments, net of loan loss provision, if any. Under SLFRS, the Company measured staff loans granted below the market interest rate at their fair value, calculated based on the market interest rate of similar products. The fair value of such loans as at April 1, 2011 was Rs. 19.26 Mn and their previous SLAS carrying amount was Rs. 23.64 Mn. The difference between the fair value and previous SLAS carrying amount has been deducted from Loans and Advances and recognized as pre-paid staff cost in Other Non Financial Assets.

As at 31 March 2012 the fair value of staff loan was Rs. 15.67 Mn and their previous SLAS carrying amount was Rs. 20.47 Mn . The difference between the fair value and SLAS carrying amount has been deducted from Loans and Advances and recognized as pre-paid staff cost in Other Non Financial Assets. A charge on staff loan fair value adjustment, amortization of pre-paid staff cost of Rs. 1.22 Mn was adjusted to Personnel cost. Further additional Interest income on Staff Loan of Rs. 1.22 Mn was recognized under interest income based on effective interest rate.

Note C

Fair Value of Refundable Deposits

Under previous SLAS, refundable deposits were measured at cost. Under SLFRS, it is required to measure initially at fair value and subsequently at amortized cost. Company used its average cost of funds as the discount factor to measure the fair value. The fair value of such loans as at April 1, 2011 was Rs. 5.47 Mn. and their previous SLAS carrying amount was Rs. 7.93 Mn. The difference between the fair value and previous SLAS carrying amount has been deducted from Other Financial Assets and recognized as pre-paid refundable deposit in Other Non Financial Assets.

As at 31 March 2012 the amortized cost of refundable deposits was Rs. 8.21 Mn. and their previous SLAS carrying amount was Rs. 10.0 Mn. The difference between the amortized cost and previous SLAS carrying amount has been deducted from Other Financial Assets and recognized as pre-paid refundable deposit in Other Non Financial Assets. A charge on refundable deposit fair value adjustment, amortization of pre-paid refundable deposit of Rs. 1.24 Mn was adjusted to Other Operating Expenses on Straight Line basis. Further additional Interest income on Refundable Deposit of Rs. 0.95 Mn was recognized under interest income on effective interest rate basis.

Note D

Financial Investment held for trading

Under previous SLAS, the Company recognised its Dealing securities at cost or market value, whichever is lower. Under SLFRS, the Company has designated such investments as Financial Investments – Held for Trading at fair value. Such investments include equity investment of listed entities. The difference between previous SLAS carrying amount and SLFRS fair value of Rs. 5,527/= on the date of transition has been recognized against retained earnings.

Note E

Property, Plant & Equipment

The company has elected to measure fully depreciated Motor Vehicle included in property, plant and equipment at depreciated cost in accordance with SLFRSs as deemed cost at the date of transition to SLFRS. At the date of transition to SLFRS, an increase of Rs 1.52 Mn. (31 March 2012 — Rs.1.38 Mn) was recognised in property, plant and equipment. This amount has been recognised against retained earnings. An additional depreciation of Rs. 0.13 Mn has been recognized under other operating expenses for the year ended 31st March 2012.

Note F

Intangible Assets

The company has elected to measure fully amortized Computer Software at depreciated cost in accordance with SLFRSs as deemed cost at the date of transition to SLFRS. At the date of transition to SLFRS, an increase of Rs 11.5 Mn (31 March 2012 - Rs. 9.71Mn.) was recognised in intangible assets. This amount has been recognised against retained earnings. An additional amortization of Rs. 1.79 Mn. has been recognized under other operating expenses for the year ended 31st March 2012.

Company has reclassified certain application software from property plant and equipment to intangible asset at the date of transition.

Note G

Deferred Tax

Under SLFRS additional deferred tax liability of Rs. 4.56 Mn. has been recognized at the date of transition (31st March 2012 - Rs. 3.1 Mn.) to incorporate the increase in carrying value of Property, Plant and Equipments and Intangible Assets. This amount has been recognized against retained earnings. As at 31st March 2012 an amount of Rs. 1.45 Mn was reversed to income tax expenses.

Notes to the Financial Statements
Year Ended 31 March 2013

Note H

Recognition of Interest on EIR basis (Due to Customers)

Under the previous SLAS, the company recognized the interest expenses on Due to Customers (Public Deposits) on straight line basis. On adoption of new SLFRS, the interest expenses on the amount Due to Customers (Public Deposits) are recognized based on effective interest rate basis. These adjustments net impact was a reversal of Rs. 0.60 Mn. at the transition date and it was adjusted to Retained Earnings and Due to Customers. As at March 31, 2012 the net reversal was Rs. 0.06 Mn. and reversed to interest expenses and Due to Customers.

Note I

Retained earnings - The transition from SLASs to SLFRSs has the following impact on the retained earnings

	31-Mar-12	31-Mar-11
Retained Earnings reported as per previous SLAS	**(6,366,214)**	**(41,258,855)**
Reversal of Bad Debts Provision	104,399,815	141,974,593
Reversal of Interest in Suspense	65,498,683	74,046,407
Impairment provision for Loan and Other Losses	(178,217,660)	(217,318,308)
Amortization of pre-paid Staff Cost	(1,223,515)	-
Additional Interest Income on Staff Loan based on EIR	1,223,515	-
Amortization of pre-paid Refundable Deposits	(1,242,389)	-
Interest Income on Refundable Deposits based on EIR	947,688	-
Fair Value adjustment of Investments Held for Trading	-	5,527
Impact on re-measurement of Motor Vehicle as deemed cost	1,385,672	1,524,239
Impact on re-measurement of Intangible Assets as deemed cost	9,716,541	11,508,548
Impact from Deferred Tax adjustment	(3,108,619)	(4,561,473)
Impact on Interest Expenses on EIR basis - Due to Customers	669,759	603,383
Retained Earnings under new SLFRSs	**(6,316,723)**	**(33,475,937)**

FIRST-TIME ADOPTION OF LKAS AND SLFRSs

5.2 Reconciliation of Equity as at 01 April 2011 (Date of transition to SLFRS)

Previous Classification	Note	SLAS Rs.	Reclassifications Rs.	Remeasurements Rs.	SLFRS/LKAS Rs.	New Classificaion
ASSETS						
Cash and amounts due from banks		12,497,605		-	12,497,605	Cash and Bank Balances
Placements with Banks		64,446,969	656,664	-	65,103,633	Placement with banks
			65,861,000	-	65,861,000	Repurchase Agreement
Dealing Securities	D	11,710,673		5,527	11,716,200	Financial Investments - Held for Trading
Loans and Advances	A, B	788,823,034	811,916	(16,618,027)	773,016,923	Loans and Advances
Lease rentals receivable & Stock out on hire	A	895,253,101	(4,757,573)	10,837,809	901,333,337	Lease rentals receivable & Stock out on hire
Investment Securities		80,400		-	80,400	Financial Investments - Available for Sale
Investments held to Maturity		154,636,199	(63,734,229)	-	90,901,970	Financial Investments - Held to Maturity
Other Debtors, Deposits and Prepayments	C	35,216,135	(13,480,716)	(2,418,073)	19,317,346	Other Financial Assets
Real Estate & Vehicle Stock		135,883,066	-	-	135,883,066	Real Estate & Vehicle Stock
	B, C	-	10,259,186	6,900,990	17,160,176	Other Non Financial Assets
Tax Recoverable		6,468,996	-	-	6,468,996	Tax Recoverable
	F	-	1,392,023	11,508,548	12,900,571	Intangible Assets
Property, Plant & Equipment	E	16,852,026	(1,392,014)	1,524,232	16,984,244	Property, Plant & Equipment
Deferred Taxation	G	25,118,995	-	(4,561,472)	20,557,523	Deferred tax assets
TOTAL ASSETS		2,146,987,199			2,149,782,990	
LIABILITIES						
Borrowings		178,568,205	(24,674,880)	-	153,893,325	Due to Banks
Deposits from Customers	H	1,486,357,557	33,816,933	(603,384)	1,519,571,106	Due to Customers
		-	24,999,996	-	24,999,996	Debt Instruments Issued and Other borrowed funds
Other Liabilities		131,426,762	(45,663,057)	-	85,763,705	Other Financial Liabilities
		-	1,517,933	-	1,517,933	Other Non Financial Liabilities
		-	5,619,332	-	5,619,332	Retirement Benefit Liability
Total Liabilities		1,796,352,524			1,791,365,397	
SHAREHOLDERS' FUNDS						
Stated Capital		382,373,630			382,373,630	Stated Capital
Reserve Fund		9,519,900			9,519,900	Statutary reserve
Investment Fund		-			-	
Retained Earnings	I	(41,258,855)		7,782,918	(33,475,937)	Retained Earnings
Total Equity		350,634,675			358,417,593	
TOTAL EQUITY AND LIABILITIES		2,146,987,199			2,149,782,990	

Notes to the Financial Statements
Year Ended 31 March 2013

FIRST-TIME ADOPTION OF LKAS AND SLFRSs

5.3 Reconciliation of Equity as at 31 March 2012

Previous Classification	Note	SLAS Rs.	Reclassifications Rs.	Remeasurements Rs.	SLFRS/LKAS Rs.	New Classificaion
ASSETS						
Cash and amounts due from banks		24,020,124		-	24,020,124	Cash and Bank Balances
Placements with Banks		24,346,356	1,133,690	-	25,480,046	Placement With Banks
			15,362,989	-	15,362,989	Repurchase Agreements
Dealing Securities		8,085,928		-	8,085,928	Financial Investments - Held for Trading
Loans and Advances	A, B	985,293,071		(11,958,006)	973,335,065	Loans and Advances
Lease rentals receivable & Stock out on hire	A	1,237,789,597	(3,779,077)	2,182,710	1,236,193,230	Lease rentals receivable & Stock out on hire
Investment Securities		80,400		-	80,400	Financial Investments - Available for Sale
Investments held to Maturity		207,005,224	(13,708,779)	-	193,296,445	Financial Investments - Held to Maturity
Other Debtors, Deposits and Prepayments	C	42,533,174	(22,206,142)	(5,408,644)	14,918,388	Other financial assets
Real Estate & Vehicle Stock		144,617,200		-	144,617,200	Real Estate & Vehicle Stock
	B, C		19,418,240	6,570,075	25,988,315	Other Non Financial Assets
Tax Recoverable		6,602,175		-	6,602,175	Tax Recoverable
	F		693,676	9,716,541	10,410,217	Intangible Assets
Property, Plant & Equipment	E	18,561,357	(693,679)	1,385,675	19,253,353	Property, Plant & Equipment
Deferred Taxation	G	3,190,302		(3,108,619)	81,683	Deferred tax assets
TOTAL ASSETS		2,702,124,907			2,697,725,557	
LIABILITIES						
Borrowings		480,550,471	(97,493,246)	-	383,057,225	Due to Banks
Deposits from Customers	H	1,633,434,319	39,344,179	(669,759)	1,672,108,739	Due to Customers
			99,374,620	-	99,374,620	Debt Instruments Issued and Other borrowed funds
Other Liabilities		184,097,820	(49,853,696)	-	134,244,124	Other Financial Liabilities
			1,132,893	-	1,132,893	Other Non Financial Liabilities
			3,716,168	-	3,716,168	Retirement Benefit Liability
Total Liabilities		2,298,082,610			2,293,633,769	
SHAREHOLDERS' FUNDS						
Stated Capital		382,373,630			382,373,630	Stated Capital
Reserve Fund		20,201,500			20,201,500	Statutory Reserve Fund
Investment Fund		7,833,381			7,833,381	Investment Fund Reserve
Retained Earnings	I	(6,366,214)		49,491	(6,316,723)	Retained Earnings
Total Equity		404,042,297			404,091,788	
TOTAL EQUITY AND LIABILITIES		2,702,124,907			2,697,725,557	

5. FIRST- TIME ADOPTION OF LKAS AND SLFRSs (Contd.)

5.4 Reconciliation of Income Statement for the year ended 31 March 2012

	Note	SLAS Rs.	Reclassifications Rs.	Remeasurements Rs.	SLFRS/LKAS Rs.	
Income		**462,637,961**				
Interest Income	A,B,C	441,373,663		(6,376,521)	434,997,143	Interest Income
Interest Expense	H	(221,665,092)		66,378	(221,598,714)	Interest Expense
Net Interest Income		**219,708,571**			**213,398,429**	**Net Interest Income**
			19,240,537		19,240,537	Fee and Commission Income
			(3,855,417)		(3,855,417)	Fee and Commission Expenses
Other Income		21,264,298	(21,264,298)			
					15,385,120	**Net Fee and Commission Income**
		240,972,869				
	D		(2,864,346)	(5,527)	(2,869,873)	Net gain/(loss) from trading
			4,726,094		4,726,094	Other Operating Income (net)
					230,639,769	**Total Operating Income**
Less : Operating Expenses						**Less : Operating Expenses**
Staff Cost	B	(65,399,971)	8,020,226	(1,223,515)	(58,603,261)	Personnel Costs
General & Administration Expences	C,E,F	(76,027,577)	(4,002,795)	(3,172,963)	(83,203,336)	Other Operating Expenses
Provision for Bad & Doubtful Debts	A	(4,174,981)		1,525,870	(2,649,111)	Impairment (Charges) / Reversal for loans and other losses
Profit Before VAT on Financial Services & Income Tax		**95,370,340**			**86,184,062**	**Profits from Operations**
Less :Value Added Tax on Financial Services		(8,379,298)		-	(8,379,298)	Less :Value Added Tax on Financial Services
Profit Before Income Tax		**86,991,042**			**77,804,764**	**Profit Before Taxation**
Less :Provision for Income Taxation	G	(33,583,421)		1,452,853	(32,130,568)	Less :Provision for Income Taxation
Profit for the Period		**53,407,621**			**45,674,196**	**Profit for the Period**

Notes to the Financial Statements

Year Ended 31 March 2013

		2013 Rs.	2012 Rs.
6.	**INCOME**		
	Interest Income	541,111,997	434,997,143
	Fee & Commission Income	24,513,497	19,240,537
	Net Gain / (Loss) from Trading	449,377	(2,869,874)
	Other Operating Income	4,270,043	4,726,094
		570,344,914	456,093,900
6.1	**INTEREST INCOME**		
	Loans and Advances	209,834,053	195,565,796
	Lease Rentals Receivable & Stock Out on Hire	299,326,270	218,948,680
	Financial Investments - Held to Maturity & Repurchase Agreements (6.2)	20,598,710	14,550,333
	Other Financial Assets	1,187,992	947,688
	Placement with Bank	10,164,972	4,984,646
	Total Interest Income	541,111,997	434,997,143
6.2	**Net Interest Income from Sri Lanka Government Securities**		
	Interest Income	20,598,710	14,550,333
	Less: Interest Expense	-	(157,555)
	Net Interest Income	20,598,710	14,392,778
6.3	**Interest Expenses**		
	Due to Banks	56,172,484	24,101,942
	Due to Customers	242,519,157	180,914,190
	Debt Instruments Issued and Other Borrowed Funds	28,568,987	15,222,322
	Other Financial Liabilities	916,644	1,360,260
	Total Interest Expenses	328,177,272	221,598,714
	Net Interest Income	212,934,725	213,398,429

Notional Tax Credit for With Holding 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.2,059,877/- (2012 - Rs.1,437,527/-).

		2013 Rs.	2012 Rs.
7.	**FEE AND COMMISSION INCOME**		
	Credit Related Fees and Commissions	3,930,624	3,256,435
	Service Charge	13,786,407	8,455,989
	Transfer Fees	6,324,779	7,283,100
	Other Fees	471,687	245,013
	Total Fee and Commission Income	24,513,497	19,240,537
7.1	**Fee and Commission Expenses**		
	Brokerage Fees	7,055,624	3,855,418
	Total Fee and Commission Expenses	7,055,624	3,855,418
	Net Fee and Commission Income	17,457,873	15,385,119

		2013 Rs.	2012 Rs.
8.	**NET GAIN/(LOSS) FROM TRADING**		
	Dividend Income from Financial Investments - Held for Trading	198,758	152,801
	Appreciation / (Depreciation) in Market Value of Financial Investments - Held for Trading	250,619	(3,528,787)
	Profit / (Loss) on Sale of Financial Investments - Held for Trading	-	506,112
		449,377	(2,869,874)

9. OTHER OPERATING INCOME

	2013 Rs.	2012 Rs.
Profit/(Loss) on Disposal of Property & Equipment	(2,677)	246
Bad Debt Recoveries	1,262,622	1,093,331
Others	3,010,098	3,632,517
Total Other Operating Income	4,270,043	4,726,094

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

	2013 Rs.	2012 Rs.
Loans and Advances	962,307	2,898,470
Lease Rentals Receivable & Stock Out on Hire	3,475,890	(11,618,363)
Other financial Assets	704,922	11,369,003
	5,143,119	2,649,110

11. PERSONNEL COSTS

	2013 Rs.	2012 Rs.
Salaries and Bonus	53,459,131	44,964,328
Employer's Contribution to EPF	5,487,316	4,546,214
Employer's Contribution to ETF	1,371,829	1,136,553
Gratuity Charge/ (Reversals) for the Year	2,484,442	(1,053,414)
Other Allowances & Staff Related Expenses	7,706,350	9,009,580
	70,509,068	58,603,261

12. OTHER OPERATING EXPENSES

	2013 Rs.	2012 Rs.
Directors' Emoluments	9,743,131	9,548,338
Auditors Remunaration - Audit	649,150	506,460
- Non Audit	1,000,000	275,000
Depreciation of Property, Plant & Equipment	5,571,554	5,714,825
Amortization of Intangible Assets	2,850,401	2,591,334
Professional & Legal Expenses	2,823,118	6,839,871
Office Administration & Establishment Expenses	49,165,748	39,455,941
Advertising & Business Promotion Expenses	10,551,982	8,348,955
Others	11,517,542	9,922,611
	93,872,626	83,203,335

13. TAXATION

13.1 The major components of income tax expense for the years ended 31st March are as follows.

Income Statement	2013 Rs.	2012 Rs.
Current Income Tax		
Income Tax for the Year	15,196,569	11,860,775
Under/ (Over) Provision of Current Taxes in respect of Previous Years/ SLFRS Adjustments	-	(206,047)
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 28)	2,671,209	20,475,840
	17,867,778	32,130,568

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 2013 and 2012 are as follows.

	2013 Rs.	2012 Rs.
Accounting Profit Before Income Taxation	58,001,378	77,804,764
Income Tax Expense at the statutory income tax rate of 28%	16,240,386	21,785,334
Tax Effect of Non Deductible Expenses	69,589,107	55,052,682
Tax Effect of Other Allowable Credits	(68,118,430)	(63,971,602)
Tax Effect of Exempt Income	(55,652)	(184,496)
Tax Effect of Tax Losses Claimed	-	(821,143)
Adjustments of Taxes in Respect of Prior Years	(2,458,842)	-
Under/(Over) Provision of current taxes in respect of previous years	-	(206,047)
Charge/(Reversal) for Deferred Tax	2,671,210	20,475,840
	17,867,779	32,130,568
Effective Tax Rate	31%	41%

14. 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 31st March	2013	2012
Profit/ (Loss) attributable to Ordinary Shareholders for Basic Earnings Per Share	40,133,600	45,674,196
Weighted Average Number of Ordinary Shares	37,000,000	37,000,000
Basic Earnings Per Ordinary Share (Rs.)	1.08	1.23

15. CASH AND BANK BALANCES

	2013 Rs.	2012 Rs.	2011 Rs.
Cash in Hand	3,612,000	3,749,199	4,267,686
Balances with Banks	30,190,530	20,270,925	8,229,919
	33,802,530	24,020,124	12,497,605

15.1 Cash and Cash Equivalents in the Cash Flow Statement

	2013 Rs.	2012 Rs.	2011 Rs.
Cash and Bank Balances	33,802,530	24,020,124	12,497,605
Bank Overdrafts	(129,229,173)	(166,766,568)	(79,700,234)
Treasury Bills and Repurchase Agreements	150,258,137	170,433,984	65,574,048
Placement with Banks	125,101,448	9,458,638	44,828,118
Total Cash and Cash Equivalents for the purpose of Cash Flow Statements	179,932,942	37,146,178	43,199,537

16. PLACEMENT WITH BANK

	2013 Rs.	2012 Rs.	2011 Rs.
Fixed Deposit Investment	125,140,325	25,480,046	65,103,633
	125,140,325	25,480,046	65,103,633

17. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENT

	2013 Rs.	2012 Rs.	2011 Rs.
Repurchase Agreements	-	15,362,989	65,861,000
	-	15,362,989	65,861,000

18. FINANCIAL ASSETS - HELD FOR TRADING

	2013 Rs.	2012 Rs.	2011 Rs.
Quoted equities (Note 18.1)	8,336,546	8,085,928	11,716,200
	8,336,546	8,085,928	11,716,200

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

18.1 DEALING SECURITIES

	2013			2012			2011		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs	Market Value Rs
Quoted Shares									
Plantations									
Elpitiya Plantations PLC	20,000	839,296	344,000	20,000	839,296	370,000	20,000	839,296	670,000
Maskeliya Plantations PLC	10,000	323,271	121,000	10,000	323,271	171,000	10,000	323,271	281,000
Metropolitan Resource Holdings PLC	6,000	289,140	135,000	6,000	289,140	114,000	6,000	289,140	195,000
Watawala Plantations PLC	5,000	160,178	56,000	5,000	160,178	50,000	5,000	160,178	125,000
	41,000	**1,611,885**	**656,000**	**41,000**	**1,611,885**	**705,000**	**41,000**	**1,611,885**	**1,271,000**
Hotels & Travels									
Hotel Sigiriya PLC	2,000	177,795	158,000	2,000	177,795	143,200	2,000	177,795	152,200
Mahaweli Reach Hotels PLC	9,400	365,104	185,180	9,400	365,104	236,880	9,400	365,104	319,600
Renuka City Hotel PLC	200	73,828	48,000	200	73,828	43,780	-	-	-
Aitken Spence Hotel Holdings PLC	7,000	767,853	518,000	7,000	767,853	490,000	7,000	767,853	686,000
	18,600	**1,384,580**	**909,180**	**18,600**	**1,384,580**	**913,860**	**18,400**	**1,310,752**	**1,157,800**
Chemicals and pharmaceuticals									
Haycarb PLC	4,000	806,502	704,000	4,000	806,502	640,000	4,000	806,502	621,600
	4,000	**806,502**	**704,000**	**4,000**	**806,502**	**640,000**	**4,000**	**806,502**	**621,600**
Diversified Holdings									
Carson Cumberbatch PLC	500	352,909	220,000	500	352,909	232,500	500	352,909	317,400
John Keells Holdings PLC	3,333	752,460	823,551	3,333	752,460	686,598	2,500	752,460	714,000
Aitken Spence PLC	1,000	190,106	119,600	1,000	190,106	112,700	1,000	190,106	162,300
	4,833	**1,295,475**	**1,163,151**	**4,833**	**1,295,475**	**1,031,798**	**4,000**	**1,295,475**	**1,193,700**
Power & Energy									
Lanka IOC PLC	20,000	404,484	408,000	20,000	404,484	388,000	20,000	404,484	352,000
Chevron Lubricants Lanka PLC	2,000	364,540	434,000	2,000	364,540	363,800	2,000	364,540	320,000
Hydro power lanka Holding PLC	10,000	146,624	57,000	10,000	146,624	72,000	-	-	-
	32,000	**915,648**	**899,000**	**32,000**	**915,648**	**823,800**	**22,000**	**769,024**	**672,000**
Banking & Finance									
Sampath Bank PLC	3,140	900,979	709,326	3,069	900,979	551,806	3,000	896,819	864,900
Seylan Bank PLC	26,666	1,237,332	959,976	26,666	1,237,332	769,154	20,000	1,008,180	786,000
Central Finance Company PLC	-	-	-	-	-	-	500	472,736	636,850
Lanka Ventures PLC	5,000	130,954	56,000	5,000	130,954	55,000	5,000	130,955	110,500
Commercial Bank Of Ceylon PLC	2,062	184,866	199,808	2,020	184,866	202,000	1,000	184,867	165,600
Lanka Orix Leasing Company PLC	1,000	140,759	57,000	1,000	140,759	54,000	1,000	140,759	119,600
Merchant Bank Of Sri Lanka PLC	5,000	276,310	80,500	5,000	276,310	146,500	5,000	276,311	231,000
Pan Asia Banking Corporation PLC	2,000	59,567	38,000	2,000	59,567	47,000	1,000	59,567	51,300
Singer Finance (Lanka) Ltd	15,000	740,705	189,000	15,000	740,705	243,000	15,000	740,705	547,500
	59,868	**3,671,472**	**2,289,610**	**59,755**	**3,671,472**	**2,068,460**	**51,500**	**3,910,899**	**3,513,250**

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

18.1 DEALING SECURITIES

Telecommunication									
Dialog Axiata PLC	20,000	234,598	182,000	20,000	234,598	142,000	20,000	234,598	210,000
Sri Lanka Telecom PLC	5,100	291,377	221,850	5,100	291,377	236,130	5,100	291,377	290,700
	25,100	**525,975**	**403,850**	**25,100**	**525,975**	**378,130**	**25,100**	**525,975**	**500,700**
Oil Palm									
The Bukit Darah PLC	500	707,840	352,700	500	707,840	428,900	500	707,840	586,700
	500	**707,840**	**352,700**	**500**	**707,840**	**428,900**	**500**	**707,840**	**586,700**
Manufacturing									
Abans Electricals PLC	-	-	-	-	-	-	1,900	466,841	490,390
ACL Cables PLC	-	-	-	-	-	-	4,000	374,968	376,000
Lanka Ceramic PLC	900	109,211	58,500	900	109,211	64,080	900	109,211	131,760
Piramal Glass Ceylon PLC	-	-	-	-	-	-	25,000	235,105	277,500
Kelani Cables PLC	1,000	129,308	64,100	1,000	129,308	67,000	1,000	129,307	95,300
Royal Ceramics Lanka PLC	1,000	152,581	99,500	1,000	152,581	115,000	1,000	152,581	157,000
Tokyo Cement Company (Lanka) PLC	6,000	268,473	105,000	6,000	268,473	162,000	5,000	226,003	220,000
	8,900	**659,573**	**327,100**	**8,900**	**659,573**	**408,080**	**38,800**	**1,694,016**	**1,747,950**
Footwear & Textile									
Ceylon Leather Products PLC	1,000	110,221	62,000	1,000	110,221	91,900	1,000	110,221	90,000
	1,000	**110,221**	**62,000**	**1,000**	**110,221**	**91,900**	**1,000**	**110,221**	**90,000**
Construction & Engineering									
Lankem Developments PLC	-	-	-	-	-	-	5,000	280,068	361,500
Colombo Dock Yard	1,050	262,912	224,805	1,050	262,912	230,000	-	-	-
	1,050	**262,912**	**224,805**	**1,050**	**262,912**	**230,000**	**5,000**	**280,068**	**361,500**
Beverage Food & Tobacco									
Distilleries PLC	500	91,513	83,250	500	91,513	72,500	-	-	-
Kothmale Holdings PLC	3,000	158,964	107,700	3,000	158,964	118,500	-	-	-
	3,500	**250,477**	**190,950**	**3,500**	**250,477**	**191,000**	-	-	-
Stores Supplies									
Hunters PLC	500	718,609	154,200	500	718,609	175,000	-	-	-
	500	**718,609**	**154,200**	**500**	**718,609**	**175,000**	-	-	-
Total	**200,851**	**12,921,169**	**8,336,546**	**198,738**	**12,921,169**	**8,085,928**	**211,300**	**13,022,657**	**11,716,200**

19. LOANS AND ADVANCES

	2013 Rs.	2012 Rs.	2011 Rs.
Real Estate Loan	7,423,442	7,358,086	16,183,082
Mortgage Loan	416,595,440	337,190,270	239,637,997
Vehicle Loan	26,596,133	10,433,525	3,277,103
Personal Loan	102,698,907	374,983,765	428,756,516
Loan Against Fixed Deposits	67,637,522	52,129,096	23,550,092
Staff Loan	15,559,897	15,674,652	19,255,175
Revolving Loan	226,908,071	201,966,673	67,576,762
Pledge Loan	-	-	5,739,907
	863,419,411	999,736,067	803,976,634
Less : Allowance for Impairment Losses (Note 19.1)	(27,363,309)	(26,401,002)	(30,959,711)
Net loans and advances	836,056,102	973,335,065	773,016,923

19.1 Allowance for Impairment Losses

	2013 Rs.	2012 Rs.
Balance at the beginning of the year	26,401,002	30,959,711
Charge / (Reversal) for the year	962,307	2,898,470
Amounts Written Off	-	(7,457,179)
Balance at the end of the year	27,363,309	26,401,002
Individual Impairment	2,804,019	13,575,348
Collective Impairment	24,559,290	12,825,654
	27,363,309	26,401,002
Gross amount of loans individually determined to be impaired, before deducting the individually assessed	82,801,387	43,183,947

20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE

	2013 Rs.	2012 Rs.	2011 Rs.
Gross Rentals Receivables			
- Lease Rentals	1,010,969,906	671,306,917	415,749,278
- Amounts Receivable from Hirers	1,225,535,782	1,116,040,703	937,867,868
	2,236,505,688	1,787,347,620	1,353,617,146
Less: Unearned Income	(577,896,503)	(406,144,759)	(284,440,494)
Net Rentals Receivables	1,658,609,185	1,381,202,861	1,069,176,652
Less : Allowance for Impairment Losses (Note 20.1)	(107,697,669)	(140,467,159)	(162,178,703)
Less : Rental received in advance	(398,512)	(763,391)	(907,040)
Less: VAT Suspense	(1,065,713)	(3,779,081)	(4,757,572)
Total net rentals receivable (Note 20.2, 20.3 & 20.4)	1,549,447,291	1,236,193,230	901,333,337

Lease & hirers receivables include receivables amounting to Rs.724,607,829/- that have been assigned under a securitization funding arrangement.

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

20.1 Allowance for Impairment Losses

	2013 Rs.	2012 Rs.
Balance at the beginning of the year	140,467,159	162,178,703
Charge / (Reversal) for the year	3,475,890	(11,618,363)
Amounts written off	(36,245,380)	(10,093,181)
Balance at the end of the year	107,697,669	140,467,159
Individual Impairment	7,309,005	9,789,059
Collective Impairment	100,388,664	130,678,100
	107,697,669	140,467,159
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance.	27,286,225	20,997,511

20.2 As at 31st March 2013

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross rentals receivables				
- Lease Rentals	396,451,494	614,435,299	83,113	1,010,969,906
- Amounts Receivable from Hirers	558,175,863	667,359,919	-	1,225,535,782
	954,627,357	1,281,795,218	83,113	2,236,505,688
Less: Unearned Income	(291,806,485)	(286,089,044)	(974)	(577,896,503)
Net rentals Receivables	662,820,872	995,706,174	82,139	1,658,609,185
Less : Allowance for Impairment Losses				(107,697,669)
Less : Rental received in advance				(398,512)
Less: VAT Suspense				(1,065,713)
Total Net Rentals Receivable				1,549,447,291

20.3 As at 31st March 2012

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross Rentals Receivables				
- Lease Rentals	281,233,967	389,062,240	1,010,710	671,306,917
- Amounts Receivable from Hirers	496,777,211	619,263,492	-	1,116,040,703
	778,011,178	1,008,325,732	1,010,710	1,787,347,620
Less: Unearned Income	(198,242,896)	(207,864,084)	(37,779)	(406,144,759)
Net Rentals Receivables	579,768,282	800,461,648	972,931	1,381,202,861
Less : Allowance for Impairment Losses				(140,467,159)
Less : Rental received in advance				(763,391)
Less: VAT Suspense				(3,779,081)
Total Net Rentals Receivable				1,236,193,230

20.4 As at 01st April 2011

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
Gross Rentals Receivables				
- Lease Rentals	220,389,515	193,984,767	1,374,996	415,749,278
- Amounts Receivable from Hirers	462,972,608	474,285,256	718,158	937,976,022
	683,362,123	668,270,023	2,093,154	1,353,725,300
Less: Unearned Income	(154,148,201)	(130,292,293)	(108,155)	(284,548,648)
Net Rentals Receivables	529,213,922	537,977,730	1,984,999	1,069,176,652
Less : Allowance for Impairment Losses				(162,178,703)
Less : Rental received in advance				(907,040)
Less: VAT Suspense				(4,757,572)
Total Net Rentals Receivable				901,333,337

21. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2013 Rs.	2012 Rs.	2011 Rs.
Unquoted equities			
Credit Information Bureau of Sri Lanka			
100 Ordinary Shares of Rs. 80.40 each	80,400	80,400	80,400
	80,400	80,400	80,400

22. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2013 Rs.	2012 Rs.	2011 Rs.
Government of Sri Lanka Treasury Bills	150,258,138	187,211,348	90,901,970
Government of Sri Lanka Treasury Bonds	18,264,269	6,085,097	-
	168,522,407	193,296,445	90,901,970

23. OTHER FINANCIAL ASSETS

	2013 Rs.	2012 Rs.	2011 Rs.
Other Receivables	13,738,432	14,081,651	31,712,828
Deposit	9,806,786	8,568,244	7,874,421
Amount Due from Related Parties	196,671	3,617,992	3,909,990
	23,741,889	26,267,887	43,497,239
Less : Allowance for Impairment Losses (Collective) (Note 23.1)	(7,808,417)	(11,349,499)	(24,179,893)
	15,933,472	14,918,388	19,317,346

	2013 Rs.	2012 Rs.
23.1 Balance at the beginning of the year	11,349,499	24,179,893
Charge / (Reversal) for the year	704,922	11,369,003
Amounts written off	(4,246,004)	(24,199,397)
Balance at the end of the year	7,808,417	11,349,499

Notes to the Financial Statements

Year Ended 31 March 2013

24. REAL ESTATE & VEHICLE STOCK

	2013 Rs.	2012 Rs.	2011 Rs.
Vehicle Stock	-	5,068,520	-
Real Estate Stocks	133,841,502	139,548,680	135,883,066
	133,841,502	144,617,200	135,883,066

25. OTHER NON FINANCIAL ASSETS

	2013 Rs.	2012 Rs.	2011 Rs.
Advances	1,876,555	3,545,635	3,567,274
Pre-paid Staff Cost	4,428,906	4,790,518	4,387,345
Other Receivable	15,687,159	13,153,714	5,847,528
Pre- paid Rent Deposit	701,481	1,779,555	2,513,645
Pre-paid Expenses	2,772,970	2,718,892	844,384
	25,467,071	25,988,314	17,160,176

26. INTANGIBLE ASSETS

Computer Software

	Total Rs.
Cost:	
As at 1 April 2011	25,801,142
Additions	100,980
Disposals	-
As at 31 March 2012	25,902,122
Additions	4,709,086
Disposals	-
As at 31 March 2013	30,611,208
Amortization and Impairment:	
As at 1 April 2011	12,900,571
Amortization Charge for the Year	2,591,334
Disposals	-
As at 31 March 2012	15,491,905
Disposals	-
Amortization Charge for the Year	2,850,401
As at 31 March 2013	18,342,306
Net Book Value:	
As at 1 April 2011	12,900,571
As at 31 March 2012	10,410,217
As at 31 March 2013	12,268,902

Nature and Amortization Method

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

27. PROPERTY, PLANT AND EQUIPMENT

27.1 Gross Carrying Amounts

	Balance As at 01.04.2012 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2013 Rs.
Cost				
Freehold Assets				
Furniture & Fittings	19,109,594	1,132,203	(40,204)	20,201,593
Office Equipment	7,674,820	552,890	(23,895)	8,203,815
Motor Vehicles	3,510,613	-	(185,000)	3,325,613
Computer Equipment	9,480,216	1,403,851	-	10,884,067
Total Value of Depreciable Assets	39,775,243	3,088,944	(249,099)	42,615,088

27.2 Depreciation

	Balance As at 01.04.2012 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance As at 31.03.2013 Rs.
Depreciation				
Freehold Assets				
Furniture & Fittings	9,157,967	2,844,012	(20,694)	11,981,285
Office Equipment	2,689,246	998,673	(11,948)	3,675,971
Motor Vehicles	1,951,504	458,098	(53,958)	2,355,644
Computer Equipment	6,723,173	1,270,772	-	7,993,945
Total Depriciation	20,521,890	5,571,555	(86,600)	26,006,845

27.3 Gross Carrying Amounts

	Balance As at 01.04.2011 Rs.	Additions Rs.	Disposals Rs.	Balance As at 31.03.2012 Rs.
Cost				
Freehold Assets				
Furniture & Fittings	14,697,614	4,411,980	-	19,109,594
Office Equipment	5,863,660	1,827,150	(15,990)	7,674,820
Motor Vehicles	3,325,613	185,000	-	3,510,613
Computer Equipment	7,906,585	1,573,631	-	9,480,216
Total Value of Depreciable Assets	31,793,472	7,997,761	(15,990)	39,775,243

27.4 Depreciation

	Balance As at 01.04.2011 Rs.	Charge for the Year Rs.	Disposals Rs.	Balance As at 31.03.2012 Rs.
Depreciation				
Freehold Assets				
Furniture & Fittings	6,176,657	2,981,310	-	9,157,967
Office Equipment	1,981,035	710,376	(2,165)	2,689,246
Motor Vehicles	1,523,809	427,695	-	1,951,504
Computer Equipment	5,127,727	1,595,446	-	6,723,173
Total Depriciation	14,809,228	5,714,827	(2,165)	20,521,890

27. PROPERTY, PLANT AND EQUIPMENT (Contd.)

27.5 Net Book Values

	2013 Rs.	2012 Rs.	2011 Rs.
At Cost			
Furniture & Fittings	8,220,308	9,951,627	8,520,957
Office Equipment	4,527,844	4,985,574	3,882,625
Motor Vehicles	969,969	1,559,109	1,801,804
Computer Equipment	2,890,122	2,757,043	2,778,858
Total Carrying Amount of Property, Plant & Equipment	16,608,243	19,253,353	16,984,244

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

	2013	2012	2011
Furniture & Fittings	3 - 8 Years	3 - 8 Years	3 - 8 Years
Office Equipment	8 Years	8 Years	8 Years
Motor Vehicles	8 Years	8 Years	8 Years
Computer Equipment	4 years	4 years	4 years

27.7 During the Financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs.3,088,944/- (2012 - Rs. 7,997,761/-).

27.8 Cost of fully depreciated assets of the company as at 31 March 2013 is Rs. 9,056,569/- (2012 Rs. 6,352,905/-).

28. DEFERRED TAXATION

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

	Statement of Financial Position			Statement of Comprehensive Income	
	2013 Rs.	2012 Rs.	2011 Rs.	2013 Rs.	2012 Rs.
Deferred Tax Liability					
Capital Allowances for tax purposes	15,171,506	7,964,438	13,513,572	7,207,068	(5,549,134)
	15,171,506	7,964,438	13,513,572	7,207,068	(5,549,134)
Deferred Tax Assets					
Defined Benefit Plans	(1,633,512)	(1,040,527)	(1,966,766)	(592,985)	926,239
Provision for Bad and Doubtful Debt	(3,908,340)	(4,470,107)	(27,705,542)	561,767	23,235,435
Brought Forward Tax Losses	(7,040,128)	(2,535,487)	(4,398,787)	(4,504,641)	1,863,300
	(12,581,980)	(8,046,121)	(34,071,095)	(4,535,859)	26,024,974
Deferred Income Tax Charge/(Reversal)				2,671,209	20,475,840
Net Deferred Tax Liability/ (Asset)	2,589,526	(81,683)	(20,557,523)		

29. DUE TO BANKS

	2013 Rs.	2012 Rs.	2011 Rs.
Bank Overdrafts	129,229,173	166,766,568	79,700,236
Securitized Borrowings and Other Bank Facilities (Note 29.2, 29.3)	230,206,623	216,290,657	74,193,089
Total	359,435,796	383,057,225	153,893,325

29.1 DUE TO BANKS

	2013 Amount repayable within 1 year Rs.	2013 Amount repayable after 1 year Rs.	2013 Total Rs.	2012 Amount repayable within 1 year Rs.	2012 Amount repayable after 1 year Rs.	2012 Total Rs.	2011 Total Rs.
Securitized Borrowings and Other Bank Facilities	74,973,110	155,233,513	230,206,623	53,486,929	162,803,727	216,290,657	74,193,089
	74,973,110	155,233,513	230,206,623	53,486,929	162,803,727	216,290,657	74,193,089

29.2 Securitized Borrowings and Other Bank Facilities

	As at 01.04.2012 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2013 Rs.	Period	Security
Direct Bank Borrowings								
Term Loans								
Bank of Ceylon	64,381,592	-	9,572,368	(20,037,240)	(9,608,805)	44,307,915	48 Months	Lease & Hire
Union Bank	82,119,065	-	11,887,795	(21,532,892)	(11,920,104)	60,553,864	48 Months	Purchase
Sampath Bank	69,790,000	50,000,000	13,896,185	(22,624,000)	(13,896,185)	97,166,000	50 Months	Lease & Hire
Peoples Bank	-	40,000,000	5,763,957	(12,222,221)	(5,362,892)	28,178,844	36 Months	Purchase
	216,290,657	90,000,000	41,120,305	(76,416,353)	(40,787,986)	230,206,623		

29.3 Securitized Borrowings and Other Bank Facilities

	As at 01.04.2011 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Interest Rs.	As at 31.03.2012 Rs.	Period	Security
Direct Bank Borrowings								
Term Loans								
Bank of Ceylon	24,073,226	50,000,000	2,530,862	(9,620,008)	(2,602,488)	64,381,592	48 Months	Lease & Hire
Union Bank	50,119,863	50,000,000	10,250,482	(17,880,935)	(10,370,345)	82,119,065	48 Months	Purchase
Sampath Bank	-	75,000,000	3,095,472	(5,210,000)	(3,095,472)	69,790,000	48 Months	portfolio
	74,193,089	175,000,000	15,876,816	(32,710,943)	(16,068,305)	216,290,657		

Notes to the Financial Statements

Year Ended 31 March 2013

30. DUE TO CUSTOMERS

	2013 Rs.	2012 Rs.	2011 Rs.
Fixed Deposits	1,751,158,518	1,466,962,234	1,133,110,163
Savings Deposits	14,724,029	205,146,505	386,460,943
	1,765,882,547	1,672,108,739	1,519,571,106

31. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS

	2013 Rs.	2012 Rs.	2011 Rs.
Commercial Papers	174,325,059	99,374,620	24,999,996
	174,325,059	99,374,620	24,999,996

32. OTHER FINANCIAL LIABILITIES

	2013 Rs.	2012 Rs.	2011 Rs.
Trade - Related Parties (32.1)	43,068,946	27,297	667,660
Non Trade Payables - Related Parties (32.2)	13,805,589	35,638,820	21,488,448
Trade - Other Parties	76,729,539	52,789,319	35,131,953
Accrued Expenses	34,772,820	45,788,688	28,475,645
	168,376,894	134,244,124	85,763,706

32.1 Trade Payables to Related Parties

	Relationship	2013 Rs.	2012 Rs.	2011 Rs.
Abans Retail (Pvt) Ltd	Affiliate Company	166,787	27,297	667,660
Abans Auto (Pvt) Ltd	Affiliate Company	42,902,159	-	-
		43,068,946	27,297	667,660

32.2 Non Trade Payables to Related Parties

	Relationship	2013 Rs.	2012 Rs.	2011 Rs.
Abans Retail (Pvt) Ltd	Affiliate Company	1,255,969	-	-
Abans (Pvt) Ltd	Ultimate Parent Company	12,224,763	35,638,820	21,488,448
Abans Graphics (Pvt) Ltd	Affiliate Company	324,857	-	-
		13,805,589	35,638,820	21,488,448

33. OTHER NON FINANCIAL LIABILITIES

	2013 Rs.	2012 Rs.	2011 Rs.
VAT on Financial Services Payable	617,780	860,892	1,084,336
Others	841,739	272,001	433,597
	1,459,519	1,132,893	1,517,933

34. RETIREMENT BENEFIT OBLIGATIONS

Retirement Benefit Obligations - Gratuity

	2013 Rs.	2012 Rs.	2011 Rs.
Balance at the beginning of the year	3,716,168	5,619,332	2,659,537
Current service cost	1,305,594	900,159	1,571,598
Payments made during the year	(366,638)	(849,750)	-
Interest charge for the year	408,778	561,932	245,616
(Gain)/ Loss arising from changes in the assumption	770,070	(2,515,506)	1,142,581
Balance at the end of the year	5,833,972	3,716,167	5,619,332

34.1 Expenses on Defined Benefit Plan

	2013 Rs.	2012 Rs.
Current Service Cost for the year	1,305,594	900,159
Interest cost for the year	408,778	561,933
(Gain)/ Loss arising from changes in the assumption	770,070	(2,515,506)
	2,484,442	(1,053,414)

34.2 Assumptions

	2013	2012	2011
Discount Rate	11%	11%	10%
Salary Increment Rate	10.50%	10.50%	10%
Staff Turnover	25%	25%	34%
Retirement Age	55 years	60 years	60 years

35. STATED CAPITAL

35.1 Issued and Fully Paid-Ordinary

	2013		2012		2011	
	No. of Shares	Rs.	No. of Shares	Rs.	No. of Shares	Rs.
Full Paid Ordinary Shares	37,000,000	382,373,630	37,000,000	382,373,630	37,000,000	382,373,630

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.

35.3 Retained Earnings

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.

36. RESERVES

	Statutory Reserve Rs.	Investment Fund Reserve Rs.	Total Rs.
As at 01 April 2011	9,519,900	-	9,519,900
Transfers to/(from) during the year	10,681,600	7,833,381	18,514,981
As at 31 March 2012	20,201,500	7,833,381	28,034,881
Transfers to/(from) during the year	8,027,000	6,890,290	14,917,290
As at 31 March 2013	28,228,500	14,723,671	42,952,171

36.1 Statutory Reserve is a capital reserve which contains profits transferred as required by Section 3(b)(ii) of Central Bank Direction No. 1 of 2003.

36. RESERVES (Contd.)

36.2 Investment Fund Reserve

As per the guidelines issued to Finance Companies as proposed by 2011 Budget, the company shall transfer following to build a permanent fund.

(i) 8% of the profits calculated for the payment of VAT on Financial Services as Specified in the VAT Act for payment of VAT.
(ii) 5% of the profits before tax calculated for payment of Income Tax purposes on dates specified in section 113 of the Inland Revenue Act for the self assessment payment of tax.

	2013 Rs.	2012 Rs.	2011 Rs.
At the beginning of the year	7,833,381	-	-
Profit transferred during the year	6,890,290	7,833,381	-
	14,723,671	7,833,381	-

36.3 Utilization of Investment Fund Account (IFA)

	2013 Rs.	2012 Rs.
Balance available for utilization	1,860,099	-
Total transfers to IFA	6,890,290	7,833,381
Total approved loans granted	-	-
Total Investments in Government Securities	(11,746,980)	(5,973,282)
(Over utilization) /Balance available for utilization as at 31 March	(2,996,591)	1,860,099

36.4 Investments in Government Securities

	Face Value	Year of Maturity	Cost of Investment	Outstanding (Rs.)
(i) Treasury Bonds over 5 years				
Treasury Bonds	22,770,700	2018 -2022	17,720,263	18,264,269
Total Investments in Government Securities	22,770,700		17,720,263	18,264,269

37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

37.1 As at 31st March 2013

	HFT at Fair Value Rs.	HTM at Amortized Cost Rs.	L&R at Amortized Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	33,802,530	-	33,802,530
Financial Investments - Held for Trading	8,336,546	-	-	-	8,336,546
Loans and Advances	-	-	836,056,102	-	836,056,102
Lease rentals receivable & Stock out on hire	-	-	1,549,447,291	-	1,549,447,291
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	168,522,407	-	-	168,522,407
Other financial assets	-	-	15,933,472	-	15,933,472
Total Financial Assets	8,336,546	168,522,407	2,435,239,395	80,400	2,612,178,748

	OFL Rs.	Total Rs.
Liabilities		
Due to Banks	359,435,795	359,435,795
Due to Customers	1,765,882,547	1,765,882,547
Debt Instruments Issued and Other borrowed funds	174,325,058	174,325,058
Other Financial Liabilities	168,376,898	168,376,898
Total Financial Liabilities	2,468,020,298	2,468,020,298

37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (Contd.)

37.2 As at 31 March 2012

	HFT at Fair Value Rs.	HTM at Amortized Cost Rs.	L&R at Amortized Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	24,020,124	-	24,020,124
Financial Investments - Held for Trading	8,085,928	-	-	-	8,085,928
Loans and Advances	-	-	973,335,065	-	973,335,065
Lease rentals receivable & Stock out on hire	-	-	1,236,193,234	-	1,236,193,234
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	193,296,449	-	-	193,296,449
Other financial assets	-	-	14,918,387	-	14,918,387
Total Financial Assets	8,085,928	193,296,449	2,248,466,810	80,400	2,449,929,586

	OFL Rs.	Total Rs.
Liabilities		
Due to Banks	383,057,225	383,057,225
Due to Customers	1,672,108,740	1,672,108,740
Debt Instruments Issued and Other borrowed funds	99,374,620	99,374,620
Other Financial Liabilities	134,244,122	134,244,122
Total Financial Liabilities	2,288,784,708	2,288,784,708

37.3 As at 31st March 2011

	HFT at Fair Value Rs.	HTM at Amortized Cost Rs.	L&R at Amortized Cost Rs.	AFS at Fair Value Rs.	Total Rs.
Assets					
Cash and Bank Balances	-	-	12,497,607	-	12,497,607
Financial Investments - Held for Trading	11,716,200	-	-	-	11,716,200
Loans and Advances	-	-	773,016,914	-	773,016,914
Lease rentals receivable & Stock out on hire	-	-	901,333,329	-	901,333,329
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	90,901,970	-	-	90,901,970
Other financial assets	-	-	19,317,365	-	19,317,365
Total Financial Assets	11,716,200	90,901,970	1,706,165,215	80,400	1,808,863,785

	OFL Rs.	Total Rs.
Liabilities		
Due to Banks	153,893,325	153,893,325
Due to Customers	1,519,571,106	1,519,571,106
Debt Instruments Issued and Other borrowed funds	24,999,996	24,999,996
Other Financial Liabilities	85,763,705	85,763,705
Total Financial Liabilities	1,784,228,132	1,784,228,132

HFT - Held for Trading
HTM - Held-to-Maturity
L & R - Loans and Receivables
AFS - Available for Sale
OFL - Other Financial Liabilities

Notes to the Financial Statements
Year Ended 31 March 2013

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is the comparison, by class, of the carrying amounts and fair values of the company's financial instruments that are not carried at fair value in the financial statements.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets	Rs'000	Rs'000	Rs'000	Rs'000
Cash and Bank Balances	33,802,530	33,802,530	24,020,124	24,020,124
Placement With Banks	125,140,325	125,140,325	25,480,046	25,480,046
Repurchase Agreements	-	-	15,362,989	15,362,989
Loans and Advances	836,056,102	828,548,424	973,335,065	973,031,671
Lease rentals receivable & Stock out on hire	1,549,447,292	1,549,404,728	1,236,193,234	1,188,429,832
Financial Investments - Held to Maturity	168,522,407	168,548,059	193,296,449	192,545,370
Other financial assets	15,933,472	15,933,472	14,918,387	14,918,387
	2,728,902,127	2,721,377,537	2,482,606,293	2,433,788,420
Financial Liabilities				
Due to Banks	359,435,795	359,435,795	383,057,224	383,057,224
Due to Customers	1,765,882,547	1,745,763,897	1,672,108,739	1,661,373,859
Debt Instruments Issued and Other borrowed funds	174,325,059	174,325,058	99,374,620	99,374,620
Other Financial Liabilities	168,376,898	168,376,898	134,244,122	134,244,122
	2,468,020,299	2,447,901,648	2,288,784,705	2,278,049,825

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

Assets & Liabilities for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity, it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to savings deposits since it does not have specific maturity.

Long term deposits accepted from customers for which periodical interest is paid and loans and advances granted to customers with a variable rate are also considered to be carried at fair value in the books.

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 the tenor of 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.

38.1 Determination of Fair Value and Fair Value Hierarchy

The Company uses the qouted (unadjusted) prices in active markets for determining and disclosing the fair value of held for trading investments (Level 1).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

	2013	2012
	Level 1	Level 1
	Rs.	Rs.
Assets		
Financial Assets - Held for Trading	8,336,547	8,085,928
Total Assets	8,336,547	8,085,928

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 fulfils 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 3 Directors such as Chief Executive Officer and two Non Executive Directors. General Manager, Head of Finance, Head of Credit, Head of Recoveries, Head of Branches and Manager – Risk Management also co-opted to committee.

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. RISK MANAGEMENT DISCLOSURES (Contd...)

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.

39.5 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

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 utilization, 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).

The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Company’s overall policy.

39. **RISK MANAGEMENT DISCLOSURES (Contd.)**

39.4.2 **Credit Quality by Class of Financial Assets**

As at 31st March

	Neither Past Due Nor Impaired	Past Due Not Impaired	Individually Impaired	Total 2013
Assets				
Cash and Bank Balances	33,802,530	-	-	33,802,530
Placement With Banks	125,140,325	-	-	125,140,325
Repurchase Agreements	-	-	-	-
Financial Investments - Held for Trading	8,336,546	-	-	8,336,546
Loans and Advances	415,412,307	365,205,717	82,801,387	863,419,411
Lease rentals receivable & Stock out on hire	644,630,484	985,123,186	27,391,290	1,657,144,960
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	168,522,407	-	-	168,522,407
Other financial assets	15,933,472	-	-	15,933,472
Total	1,411,858,471	1,350,328,903	110,192,677	2,872,380,051

39.4.2.1 Aging Analysis of past due(i.e. facilities in arrears of 1 day and above) but not impaired loans by class of financial assets.

	Past Due but Not Impaired				
	0 to 30 days 2013	31 to 60 days 2013	61 to 90days 2013	More than 91 days 2013	Total
Loans and Advances	128,527,969	148,124,293	59,381,302	29,172,153	365,205,717
Lease rentals receivable & Stock out on hire	382,892,866	365,043,984	150,352,619	86,833,717	985,123,186
	511,420,835	513,168,277	209,733,921	116,005,870	1,350,328,903

39.4.3 **Analysis of Risk Concentration**

The following table shows the risk concentration by sector for the Financial Assets components of the Statement of Financial Position.

Purpose wise Breakdown	Cash and Bank Balances	Placement With Banks	Financial Investments - Held for Trading	Loans and Advances **	Lease rentals receivable & Stock out on hire **	Financial Investments - Available for Sale	Financial Investments - Held to Maturity	Other financial assets	Total Financial Assets
Agriculture	-	-	656,000	28,343,130	57,602,771	-	-	-	86,601,901
Manufacturing	-	-	1,832,050	50,690,751	89,566,202	-	-	-	142,089,003
Construction	-	-	224,805	25,815,374	110,688,997	-	-	-	136,729,176
Financial Services	33,802,530	125,140,325	2,289,610	39,333,059	10,441,157	80,400	-	-	211,087,081
Trading	-	-	154,200	118,335,775	157,594,899	-	-	-	276,084,874
Government	-	-	-	-	-	-	168,522,407	-	168,522,407
Hotels	-	-	909,180	31,034,834	9,011,675	-	-	-	40,955,689
Services	-	-	403,850	215,887,694	1,210,239,000	-	-	-	1,426,530,544
Others	-	-	1,866,851	353,978,794	12,000,259	-	-	15,933,475	383,779,379
Total	33,802,530	125,140,325	8,336,546	863,419,411	1,657,144,960	80,400	168,522,407	15,933,475	2,872,380,054

39. **RISK MANAGEMENT DISCLOSURES (Contd.)**

39.5.1 **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. Due to the nature of operations of the company, the impact of interest rate risk is mainly on the earnings of the company rather than the market value of portfolios. 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;

- Repricing risk arising from a fixed rate borrowing portfolio where
- 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 minimizing 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.

INTEREST RATE SENSITIVITY

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the company's Income Statement & Equity.

Rs. Million

Borrowings/ Advance	Increase (Decrease) in basis points	Sensitivity of Profit or Loss	Sensitivity of Equity
	2013	2013	2013
Long Term Loans linked to AWPLR -LKR	+100/ (-100)	(2.41)/ 2.41	(3.25)/ 3.25

The base ratio consider in the Interest Rate Sensitivity Analysis is the AWPLR. Since 43.12 % of total borrowings (excluding Due to Customers) are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity.

39. RISK MANAGEMENT DISCLOSURES (Contd.)

39.5.2 INTEREST RATE RISK

INTEREST RATE RISK EXPOSURE ON NON TRADING FINANCIAL ASSETS & LIABILITIES

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 caterorized by the earlier of contractual repricing or maturity dates.

	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non interest bearing	Total as at 31/03/2013
ASSETS	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cash and Bank Balances	-	-	-	-	-	33,802,530	33,802,530
Placement with Banks	125,101,446	38,877	-	-	-	-	125,140,323
Loans and Advances	655,192,854	36,960,267	129,204,709	14,698,271	-	-	836,056,101
Lease rentals receivable & Stock out on hire	226,525,816	359,562,015	802,441,525	160,835,793	82,138	-	1,549,447,287
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	150,503,958	150,826	-	17,867,621	-	168,522,405
Other financial assets	-	-	-	-	-	15,933,471	15,933,471
TOTAL ASSETS	1,006,820,116	547,065,117	931,797,060	175,534,064	17,949,759	49,816,401	2,728,982,517
							2,728,982,517
LIABILITIES							
							-
Due to Banks	359,435,795	-	-	-	-	-	359,435,795
Due to Customers	563,019,988	824,500,602	256,906,384	121,455,573	-	-	1,765,882,547
Debt Instruments Issued and Other borrowed funds	87,871,878	86,453,180	-	-	-	-	174,325,058
Other Financial Liabilities	-	-	-	-	-	168,376,898	168,376,898
TOTAL LIABILITIES	1,010,327,661	910,953,782	256,906,384	121,455,573	-	168,376,898	2,468,020,298
TOTAL INTEREST SENSITIVITY GAP	(3,507,545)	(363,888,665)	674,890,676	54,078,491	17,949,759	(118,560,497)	260,962,219

39. RISK MANAGEMENT DISCLOSURES (Contd.)

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 Managment Committee (ALCO) analyses and monitors liquidity risk, 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.

39.6.1 STATUTORY LIQUID ASSET RATIO

As per the requirements of Finance companies (Liquid Assets) Direction No.1 of 2009, 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. Further Company has to maintain liquid assets in the form of Sri Lanka Government Securities not less than 7.5% of average its month end total deposit liabilities of twelve months of the provious financial year.

Maximum	18.78%
Minimum	15.37%
Average	16.83%
Closing	17.99%

39.6.2 CONTRACTUAL MATURITIES OF UNDISCOUNTED CASH FLOWS OF FINANCIAL ASSETS & FINANCIAL LIABILITIES

The table below analyses the company's internal interest rate risk exposure on non- trading financial assets & liabilities. The company's assets & liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

	On Demand	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2013
ASSETS							
Cash and Bank Balances	33,802,530	-	-	-	-	-	33,802,530
Placement With Banks		127,205,428	41,833	-	-	-	127,247,261
Financial Investments - Held for Trading	8,336,547	-	-	-	-	-	8,336,547
Loans and Advances		330,168,525	201,041,817	428,975,111	121,533,056	2,051,417	1,083,769,926
Lease rentals receivable & Stock out on hire	-	312,474,995	566,485,036	1,063,891,266	185,093,801	83,113	2,128,028,210
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	151,066,569	-	-	-	22,770,700	173,837,269
Other financial assets	-	15,933,472	-	-	-	-	15,933,472
Total Financial Assets	42,139,077	936,848,988	767,568,686	1,492,866,377	306,626,857	24,985,630	3,571,035,616
LIABILITIES & EQUITY							
Due to Banks	129,630,238	31,108,282	88,320,433	150,812,362	10,675,000	-	410,546,315
Due to Customers	-	615,378,892	901,176,294	280,797,785	132,750,519	-	1,930,103,490
Debt Instruments Issued and Other borrowed funds	-	89,695,056	92,202,551	-	-	-	181,897,607
Other Financial Liabilities	-	168,376,898	-	-	-	-	168,376,898
Total Financial Liabilities	129,630,238	904,559,128	1,081,699,278	431,610,147	143,425,519	-	2,690,924,310
	(87,491,161)	32,289,860	(314,130,592)	1,061,256,230	163,201,338	24,985,630	880,111,306

39.7 OPEARTIONAL 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)

An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the Balance Sheet date to the respective contractual maturity dates are given below.

	On Demand Rs'000	Less than 3 Months Rs'000	03 - 12 Months Rs'000	01-03 Years Rs'000	01-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/03/2013 Rs'000
ASSETS							
Cash and Bank Balances	33,802,530	-	-	-	-	-	33,802,530
Placement With Banks	-	125,101,446	38,877	-	-	-	125,140,323
Financial Investments - Held for Trading	8,336,547	-	-	-	-	-	8,336,547
Loans and Advances	-	298,522,570	121,060,953	314,632,984	99,788,178	2,051,416	836,056,101
Lease rentals receivable & Stock out on hire	-	226,525,817	359,562,016	802,441,526	160,835,794	82,139	1,549,447,291
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	150,503,958	150,827	-	-	17,867,621	168,522,406
Other financial assets	-	15,933,472	-	-	-	-	15,933,472
Real Estate & Vehicle Stock	-	-	-	56,292,073	77,549,428	-	133,841,502
Other Non Financial Assets	-	9,779,913	15,432,572	-	-	-	25,212,485
Tax Recoverable	-	-	-	-	-	-	-
Intangible Assets	-	-	-	-	-	12,268,901	12,268,901
Property, Plant & Equipment	-	-	-	8,220,308	7,417,966	969,970	16,608,245
Deferred tax assets	-	-	-	3,190,302	-	-	3,190,302
Total Assets	42,139,077	826,367,176	496,245,245	1,184,777,193	345,591,366	33,320,448	2,928,440,505
Liabilities							
Due to Banks	129,630,238	22,543,977	67,430,809	129,830,771	10,000,000	-	359,435,795
Due to Customers	-	563,019,989	824,500,602	256,906,384	121,455,573	-	1,765,882,548
Debt Instruments Issued and Other borrowed funds	-	87,871,878	86,453,181	-	-	-	174,325,059
Other Financial Liabilities	-	168,376,898	-	-	-	-	168,376,898
Other Non Financial Liabilities	-	1,459,521	-	-	-	-	1,459,521
Retirement Benefit Liability	-	-	-	-	-	5,833,972	5,833,972
Current tax liabilities	-	8,894,739	-	-	-	-	8,894,739
	129,630,238	852,167,002	978,384,592	386,737,155	131,455,573	5,833,972	2,484,208,531

41. COMMITMENTS AND CONTINGENCIES

There were no material contingent liabilities outstanding as at the reporting date.

The Company has no commitments for acquisition of Property, Plant & Equipment incidental to the ordinary course of business.

42. POST BALANCE SHEET EVENTS

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

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 maximize shareholders' value.

44. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged 2013 Rs.	2012 Rs.	2011 Rs.	Included Under
Lease & Hire Purchase Receivables	Bank Overdraft	313,366,667	288,701,571	187,591,429	Lease Rental Receivables and Stock Out on Hire
Lease & Hire Purchase Receivables	Term Loan	411,241,162	378,163,725	138,299,225	Lease Rental Receivables and Stock Out on Hire
Real Estate -Panadura Land	Bank Overdraft	37,307,266	37,307,266	37,307,266	Real Estate
		761,915,095	704,172,562	363,197,920	

45. FINANCIAL REPORTING BY SEGMENT

	Leasing		Hire Purchase		Term Loans		Others		Total	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Interest Income	111,508,193	67,939,785	187,818,078	151,008,894	211,022,044	196,513,483	30,763,682	19,534,980	541,111,997	434,997,142
Fee Based Income & Others	9,752,738	6,003,979	8,228,542	8,919,004	6,532,217	4,317,555	692,198	-	25,205,695	19,240,538
Unallocated Income	-	-	-	-	-	-	-	-	4,027,222	4,726,094
Total Revenue	121,260,931	73,943,764	196,046,620	159,927,898	217,554,261	200,831,038	31,455,880	19,534,980	570,344,914	458,963,774
Interest Expenses	(72,062,603)	(37,709,692)	(102,763,782)	(70,720,389)	(107,684,465)	(79,761,002)	(45,666,422)	(33,407,633)	(328,177,272)	(221,598,716)
Fee Based Expenses & Others	(2,008,305)	-	(2,863,913)	-	(2,183,406)	(494,418)	-	(6,230,873)	(7,055,624)	(6,725,291)
Impairment	(7,305,670)	(17,798,186)	(416,224)	6,970,915	2,578,775	8,178,160	-	-	(5,143,119)	(2,649,111)
Net Operating Income	39,884,353	18,435,886	90,002,701	96,178,424	110,265,165	128,753,778	(14,210,542)	(20,103,526)	229,968,899	227,990,656
Unallocated Expenses									(171,967,521)	(150,185,892)
Profits/ (Loss) before Tax									58,001,378	77,804,764
Income Tax Expenses									(17,867,778)	(32,130,568)
Net Profit /(Loss) for the period									40,133,600	45,674,196
Segment Assets	693,616,175	466,862,716	856,896,829	773,109,595	836,056,101	973,335,064	435,921,180	386,923,012	2,822,490,286	2,600,230,387
Unallocated Assets	-	-	-	-	-	-	-	-	103,014,505	97,495,170
Total Assets	693,616,175	466,862,716	856,896,829	773,109,595	836,056,101	973,335,064	435,921,180	386,923,012	2,925,504,791	2,697,725,557
Unallocated Liabilities									2,925,504,791	2,697,725,557
Total Liabilities									2,925,504,791	2,697,725,557

Notes to the Financial Statements

Year Ended 31 March 2013

46. RELATED PARTY TRANSACTIONS

Details of related party transactions which the company had during the year is as follows,

46.1 Transactions with Key Managerial Personnel

Key Managerial Personnel include members of the Board of Directors, Chief Executive Officer and Chief Operating Officer of the Company.

Compensation to Key Managerial Personnel	**2013**	**2012**	**2011**
	Rs.	**Rs.**	**Rs.**
Short Term Employee Benefits	9,743,131	9,548,338	5,170,000

Other transactions with Key Managerial Personnel	**2013**	**2012**	**2011**
	Rs.	**Rs.**	**Rs.**
Fixed Deposits/Promissory Notes accepted during the year	Nil	5,500,000	77,000,000
Fixed Deposits/Promissory Notes held at the beginning of the year	13,920,987	8,420,987	8,278,405

46.2 Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Managerial Personnel or their close member of family, or shareholders who have either control, significant influences or joint control over entity.

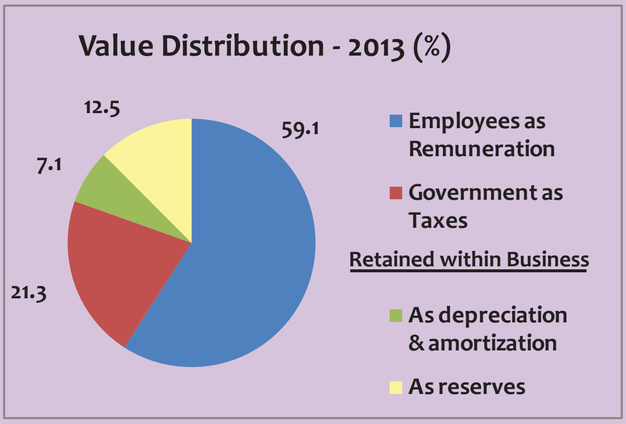
	Abans Limited Parent Company		**Other Related Parties ****		**Total**	
	2013	**2012**	**2013**	**2012**	**2013 Value**	**2012 Value**
Nature of Transaction	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Fixed Deposits Accepted during the year	-	-	7,521,619	15,500,000	7,521,619	15,500,000
Fixed Deposits held at the end of the year	-	-	27,903,318	31,218,876	27,903,318	31,218,876
As at 1st April	(35,638,820)	(21,488,449)	3,617,992	3,909,991	(32,020,828)	(17,578,458)
Purchase of Articles Consumer Credit Granting	-	-	(21,134,438)	(28,729,035)	(21,134,438)	(28,729,035)
Purchase of Motor Bikes - Lease Granting	-	-	(157,721,782)	-	(157,721,782)	-
Printing Expenses	-	-	(1,230,520)	(673,101)	(1,230,520)	(673,101)
Receivable on Repossessed Consumer Durable Items	-	1,900,000	18,882	299,153	18,882	2,199,153
Purchase of Fixed Assets	-	(598,060)	-	-	-	(598,060)
Rent Income Recognized & Expense Recoveries	(2,129,425)	2,065,967	2,350,758	2,166,568	221,333	4,232,534
Rent Expense Paid	-	-	(1,320,000)	(617,143)	(1,320,000)	(617,143)
Funds Transferred from the Company	36,175,548	110,943,801	-	-	36,175,548	110,943,801
Funds Transferred to the Company	(10,926,144)	(126,202,705)	-	-	(10,926,144)	(126,202,705)
Settlements Paid/(Received)	294,078	(2,259,374)	130,966,009	27,261,558	131,260,087	25,002,184
As at 31st March	(12,224,763)	(35,638,820)	(44,453,099)	3,617,992	(56,677,862)	(32,020,829)

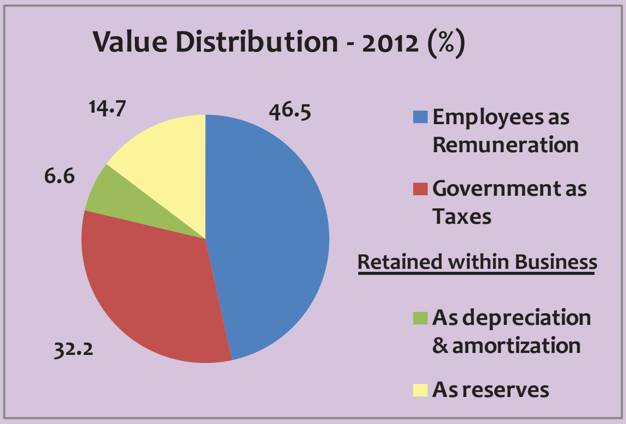
**Other Related Parties include the following companies
Abans Graphics (Pvt) Ltd
Abans Marketing (Pvt) Ltd
Crown City Developers (Pvt) Ltd
Abans Retail (Pvt) Ltd

"Other Related Parties are companies controlled / jointly controlled / significantly influenced by Key Management Personnel.

Value Added Statement

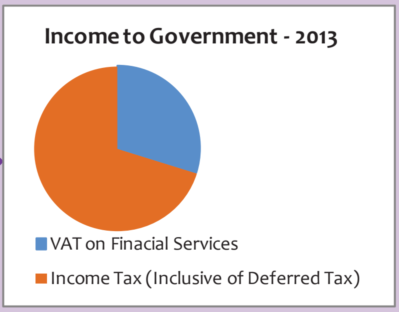
For the year ended 31 March	2013 Rs. 000's	%	2012 Rs. 000's	%
Value Added				
Income earned by providing Financial Services	569,896		458,964	
Cost of Services	(445,900)		(327,511)	
Value added by financial services	**123,996**		**131,453**	
Net gain / (loss) from trading	449		(2,870)	
Impairment	(5,143)		(2,649)	
Total	**119,302**		**125,934**	
Value Allocated				
Employees as Remuneration	70,509	59.1	58,603	46.5
Government as Taxes	25,454	21.3	40,510	32.2
Shareholders as Dividends	-	-	-	-
Retained within the Business				
- As depreciation & amortization	8,422	7.1	8,306	6.6
- As reserves	14,917	12.5	18,515	14.7
Total	**119,302**	**100.0**	**125,934**	**100.0**

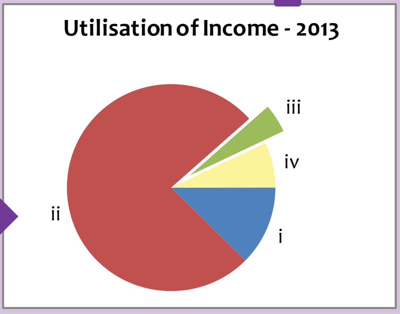


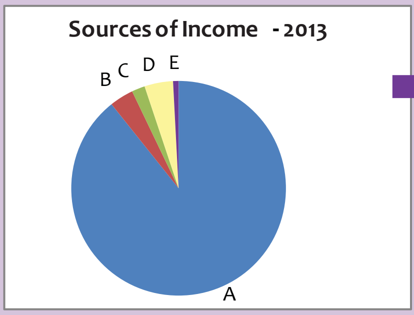


Sources & Utilisation of Income

For the year ended 31st March	2013 Rs. 000's	%	2012 Rs. 000's	%
Sources of Income				
Loans & Advances	509,160	89.3	414,514	90.9
Government Securities	20,599	3.6	14,550	3.2
Other Financial Assets	11,353	2.0	5,932	1.3
Fee & Commission	24,513	4.3	19,241	4.2
Others	4,720	0.8	1,857	0.4
Total	**570,345**	**100.0**	**456,094**	**100.0**
Utilisation of Income				
To Employees				
Personnel Expenses	70,509	12.4	58,603	12.8
To Suppliers				
Interest Paid	328,177	57.5	221,599	48.6
Other Expenses	92,506	16.2	78,753	17.3
Depreciation & amortization	8,422	1.5	8,306	1.8
Provision for Credit Losses	5,143	0.9	2,649	0.6
To Government				
VAT on Finacial Services	7,586	1.3	8,379	1.8
Income Tax (Inclusive of Deferred Tax)	17,868	3.1	32,131	7.0
To Shareholders				
Dividends	-	-	-	-
Retained Profit	40,134	7.0	45,674	10.0
Total	**570,345**	**100.0**	**456,094**	**100.0**







A. Loans & Advances
B. Government Securities
C. Other Financial Assets
D. Fee & Commission
E. Others

i. Employees
ii. Suppliers
iii. Government
iv. Shareholders

Analysis of Advances

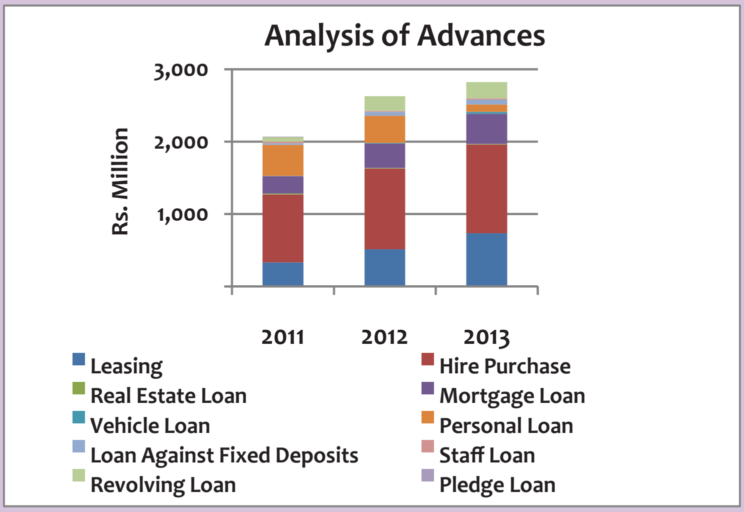
Rs. ('000')

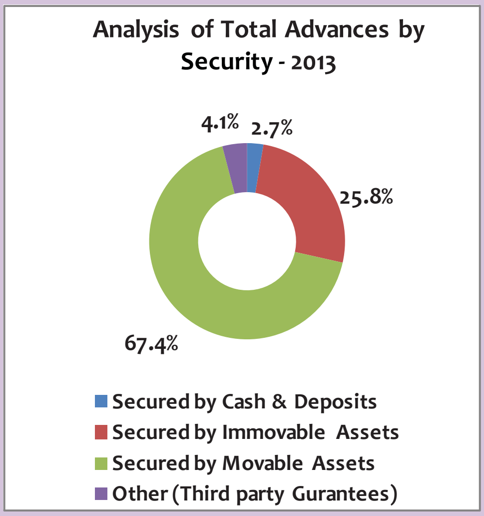
Product wise Advances (Gross)

	2011	2012	2013
Leasing	329,852	512,150	734,839
Hire Purchase	733,660	864,510	922,306
Real Estate Loan	16,183	7,358	7,423
Mortgage Loan	239,638	337,190	416,595
Vehicle Loan	3,277	10,434	26,596
Personal Loan	428,757	374,984	102,699
Loan Against Fixed Deposits	23,550	52,129	67,638
Staff Loan	19,255	15,675	15,560
Revolving Loan	67,577	201,967	226,908
Pledge Loan	5,740		
	1,867,489	**2,376,396**	**2,520,564**

Total Advances by Security (Gross)

	2011	2012	2013
Secured by Cash & Deposits	401,021	357,807	67,638
Secured by Immovable Assets	323,398	546,515	650,927
Secured by Movable Assets	1,091,784	1,402,769	1,699,301
Other (Third party Gurantees)	51,286	69,306	102,699
	1,867,489	**2,376,396**	**2,520,564**

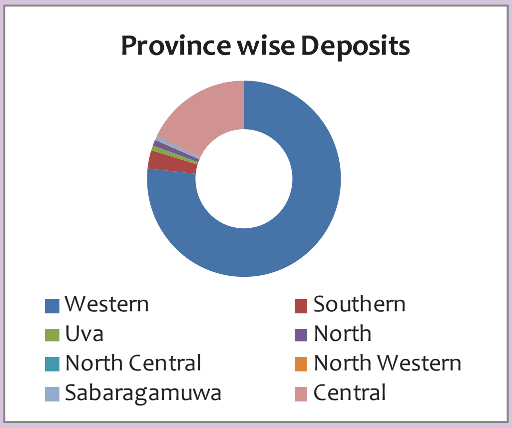


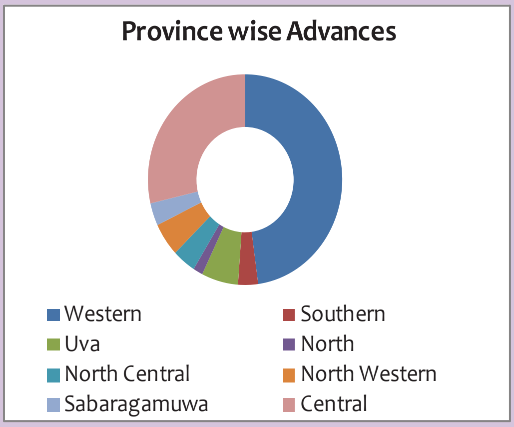


Province wise Analysis of Deposits and Advances

As at 31st March 2013

Province	Advances Rs. ('000')	%	Deposits Rs. ('000')	%
Western	1,206,655	47.8%	1,354,183	76.7%
Southern	83,703	3.3%	53,967	3.1%
Uva	153,989	6.1%	14,422	0.8%
North	40,460	1.6%	16,906	1.0%
North Central	98,266	3.9%	1,154	0.1%
North Western	129,322	5.1%	1,603	0.1%
Sabaragamuwa	87,748	3.5%	10,450	0.6%
Central	721,885	28.6%	313,198	17.7%
	2,522,029	**100.0%**	**1,765,883**	**100.0%**





Investor Information

1. Stock Exchange

The Company's Ordinary Shares were listed with the "Dirisavi Board" of the Colombo Stock Exchange (CSE) with effect from 27th June 2011.

The audited statement of Comprehensive Income Statement for the year ended 31st March 2013 and the audited statement of Financial Position of the company as at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Number of Ordinary Shareholders as at 31st March 2013 : 529 (as at 31.03.2012 - 462)

Stated Capital of the Company solely represents Voting Ordinary Shares.

Resident				Non-Resident				Total	%
No. of Shares held	No. of Shareholders	No. of Shareholders	%	No. of Shareholders	No. of Shareholders	No. of Shares	%		
1- 1,000	403	108,142	0.29	1- 1,000	-	-	-	108,142	0.29
1,001-5,000	78	191,463	0.52	1,001-5,000	2	4,000	0.01	195,463	0.53
5,001-10,000	18	137,534	0.37	5,001-10,000	1	8,000	0.02	145,534	0.39
10,001-50,000	8	163,100	0.44	10,001-50,000	-	-	-	163,100	0.44
50,001-100,000	5	433,267	1.17	50,001-100,000	-	-	-	433,267	1.17
100,001-500,000	11	3,559,835	9.63	100,001-500,000	-	-	-	3,559,835	9.62
500,001-1,000,000	2	1,199,292	3.24	500,001-1,000,000	-	-	-	1,199,292	3.24
Over 1,000,000	1	31,195,367	84.31	Over 1,000,000	-	-	-	31,195,367	84.32
TOTAL	**526**	**36,988,000**	**99.97**		**3**	**12,000**	**0.03**	**37,000,000**	**100.00**

There were 459 resident shareholders as at 31st March 2012.

	31st March 2012			31st March 2013		
	No of Shareholders	No of Shares	%	No of Sharehloders	No of Shares	%
Individuals	450	5,588,193	15.10	510	5,564,240	15.04
Institutions	12	31,411,807	84.90	19	31,435,760	84.96
	462	**37,000,000**	**100.00**	**529**	**37,000,000**	**100.00**

3. Twenty Largest Shareholders as at 31st March 2013

NAME OF THE SHAREHOLDER	31st March 2013		31st March 2012	
	NO.OF SHARES	(%)	NO.OF SHARES	(%)
ABANS (PVT) LIMITED	31,195,367	84.31	31,195,367	84.31
MR. P N PESTONJEE	679,560	1.84	674,899	1.82
MR. B PESTONJEE	519,732	1.40	533,334	1.44
MR. P K PESTONJEE	370,100	1.00	370,000	1.00
MR. D S KARUNAKARAN	370,000	1.00	370,000	1.00
MISS. C V SUMANADASA	370,000	1.00	370,000	1.00
MR. K KUNENTHIRAN	370,000	1.00	370,000	1.00
MRS. H G S CHANDRAKANTHI	370,000	1.00	370,000	1.00
MR. A H A JAYASINGHE	370,000	1.00	370,000	1.00
MR. N N PERERA	370,000	1.00	370,000	1.00
MRS. M V I F FERNANDO	370,000	1.00	370,000	1.00
MISS. I N JALALDEEN	366,400	0.99	366,400	0.99
DR. S DUBASH	133,334	0.36	133,334	0.36
MR. R PESTONJEE	106,801	0.29	106,801	0.29
A B COLD STORAGE (PRIVATE) LIMITED	100,000	0.27	100,000	0.27
CLEANTECH PVT LTD	100,000	0.27	100,000	0.27
AB SECURITAS (PRIVATE) LIMITED	100,000	0.27	100,000	0.27
MRS. ABAN PESTONJEE	66,667	0.18	66,667	0.18
MR. S G SALGADO	66,600	0.18	66,600	0.18
MR. G C GOONETILLEKE	30,000	0.08	30,000	0.08
	36,424,561	98.44	36,433,402	98.47
OTHERS	575,439	1.56	566,598	1.53
TOTAL	**37,000,000**	**100.00**	**37,000,000**	**100.00**

Public Holding - 10.72%

4. Market Price

	2012/13	2011/12
Highest Market Price (Rs.)	37.80	116.20
Lowest Market Price (Rs.)	26.20	37.00
Price as at 31st March	29.00	40.30

5. Dividend

The directors have not recommended a dividend for the year under review.

Eight Years Summary

STATEMENT OF FINANCIAL POSITION
As at 31st March

Assets	* 2013	* 2012	* 2011	2010	2009	2008	2007	2006
Cash and Bank Balances	33,802,530	24,020,124	12,497,605	7,771,603	4,525,613	13,739,953	1,725,904	2,132,191
Placements with Banks	125,140,325	25,480,046	65,103,633	42,401,609	15,000,000	8,500,000	-	-
Investment in Government Securities	168,522,407	208,659,434	156,762,970	65,878,767	73,315,520	55,093,236	-	15,500,000
Investment in Dealing Securities	8,336,546	8,085,928	11,716,200	-	-	-	-	-
Loans and Advances	836,056,102	973,335,065	773,016,923	324,568,604	194,209,439	140,794,501	45,256,723	-
Lease Rentals Receivable & Stock Out on Hire	1,549,447,291	1,236,193,230	901,333,337	777,541,018	1,012,680,534	747,511,231	498,283,954	50,828,896
Investment Securities	80,400	80,400	80,400	80,400	80,400	80,400	80,400	-
Real Estate and Vehicle Stock	133,841,502	144,617,200	135,883,066	136,058,707	133,343,132	131,738,766	8,202,436	-
Other Assets	41,400,543	40,906,702	36,477,522	79,322,350	55,775,411	46,752,731	27,130,810	29,725,954
Tax Recoverable	-	6,602,175	6,468,996	13,345,635	10,727,880	-	-	-
Intangible Assets	12,268,902	10,410,217	12,900,571	-	-	-	-	-
Property, Plant & Equipment	16,608,243	19,253,353	16,984,244	18,682,524	27,976,307	25,741,470	23,953,967	22,698,535
Deferred Tax Assets	-	81,683	20,557,523	32,969,828	-	-	-	-
Total Assets	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**	**1,169,952,288**	**604,634,194**	**120,885,576**
Liabilities								
Due to Banks & Other Financial Institutions	359,435,796	383,057,225	153,893,325	92,607,209	340,489,122	163,159,067	39,122,549	-
Due to Customers	1,765,882,547	1,672,108,739	1,519,571,106	1,009,533,058	591,000,333	396,825,828	-	-
Debt Instruments Issued and Other Borrowings	174,325,059	99,374,620	24,999,996	-	136,714,790	107,389,187	83,724,207	-
Other Liabilities	169,836,413	135,377,017	87,281,639	85,686,066	79,202,217	76,906,007	78,237,303	6,728,211
Retirement Benefit Liability	5,833,972	3,716,167	5,619,332	2,659,537	2,589,813	1,038,000	553,000	-
Current Tax Liabilities	3,376,089	-	-	-	-	14,573,005	4,361,619	-
Deferred Tax Liability	2,589,526	-	-	-	4,773,242	3,952,104	2,524,250	1,816,250
Total Liabilities	**2,481,279,402**	**2,293,633,768**	**1,791,365,398**	**1,190,485,870**	**1,154,769,517**	**763,843,198**	**208,522,928**	**8,544,461**
Shareholders' Funds								
Stated Capital	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	382,373,630	109,000,070
Statutory Reserve	28,228,500	20,201,500	9,519,900	1,020,000	1,020,000	1,020,000	520,000	-
Investment Fund	14,723,671	7,833,381	-	-	-	-	-	-
Retained Earnings	18,899,588	(6,316,722)	(33,475,938)	(75,258,455)	(10,528,911)	22,715,460	13,217,636	3,341,045
Total Shareholders' Funds	**444,225,389**	**404,091,789**	**358,417,592**	**308,135,175**	**372,864,719**	**406,109,090**	**396,111,266**	**112,341,115**
Total Liabilities and Shareholders' Funds	**2,925,504,791**	**2,697,725,557**	**2,149,782,990**	**1,498,621,045**	**1,527,634,236**	**1,169,952,288**	**604,634,194**	**120,885,576**

*** Figures as per SLFRS/LKAS**

INCOME STATEMENT Year ended 31st March	* 2013	* 2012	2011	2010	2009	2008	2007	2006
Income	**570,344,914**	**456,093,900**	**396,244,898**	**287,674,710**	**354,520,565**	**205,558,532**	**76,546,200**	**7,688,624**
Interest Income	541,111,997	434,997,143	369,635,871	269,854,363	338,696,974	184,543,497	68,574,205	7,688,210
Interest Expense	(328,177,272)	(221,598,714)	(181,474,454)	(191,575,112)	(230,983,120)	(73,383,478)	(7,371,583)	-
Net Interest Income	**212,934,725**	**213,398,429**	**188,161,417**	**78,279,251**	**107,713,854**	**111,160,019**	**61,202,622**	**7,688,210**
Fee and Commission Income	24,513,497	19,240,537						
Fee and Commission Expenses	(7,055,624)	(3,855,418)						
Net Fee and Commission Income	**17,457,873**	**15,385,119**						
Net Gain / (Loss) from Trading	449,377	(2,869,874)	-	-	-	-	-	-
Other Operating Income (Net)	4,270,043	4,726,094	26,609,027	17,820,347	15,823,591	21,015,035	7,971,995	414
Total Operating Income	**235,112,018**	**230,639,768**	**214,770,444**	**96,099,598**	**123,537,445**	**132,175,054**	**69,174,617**	**7,688,624**
Impairment (Charge) / Reversal	(5,143,119)	(2,649,110)	(19,220,718)	(95,177,038)	(31,333,036)	(13,939,427)	(326,633)	-
Net Operating Income	**229,968,899**	**227,990,658**	**195,549,726**	**922,560**	**92,204,409**	**118,235,627**	**68,847,984**	**7,688,624**
Less: Operating Expenses								
Personnel Cost	(70,509,068)	(58,603,261)	(53,341,872)	(36,157,265)	(40,850,660)	(28,824,745)	(13,784,793)	(832,604)
Other Operating Expenses	(93,872,626)	(83,203,335)	(70,204,434)	(67,224,035)	(71,503,989)	(52,934,767)	(33,096,306)	(1,618,437)
Operating Profit before VAT on FS	65,587,205	86,184,062	72,003,420	(102,458,740)	(20,150,240)	36,476,115	21,966,885	5,237,583
Value Added Tax on Financial Services	(7,585,827)	(8,379,298)	(8,935,538)	-	(1,192,032)	(6,825,205)	(6,269,391)	(80,288)
Profit before Taxation from Operations	58,001,378	77,804,764	63,067,882	(102,458,740)	(21,342,272)	29,650,910	15,697,494	5,157,295
Income Tax Expenses	(17,867,778)	(32,130,568)	(20,568,382)	37,729,196	(2,306,621)	(19,653,086)	(5,300,903)	(1,816,250)
Profit for the year	40,133,600	45,674,196	42,499,500	(64,729,544)	(23,648,893)	9,997,824	10,396,591	3,341,045

*** Figures as per SLFRS/LKAS**

Branch Network

Branches	ADDRESS	DIRECT NO	FAX NO/ E- MAIL	CONTACT PERSON
01. HEAD OFFICE	No. 400, Galle Rd, Colombo 03.	011 2375531-3	011 2375517 finance@abansgroup.com	M. K. Nambiyarooran
02. ANURADHAPURA	No. 561/12, Maithreepala Senanayake Mw, Anuradhapura.	025 3856947	025 2234557 afslapr@abansgroup.com	Danushka Bandara
03. BADULLA	No. 45, Cococwatte Rd, Badulla.	055 3357730 0552228180	055 2222101 afslbdu@abansgroup.com	P.H.H. Kumara
04. DAMBULLA	Sujatha Bld, Kurunegala Junction, Dambulla.	066 3669876 066 3925777	066 2285000 afsldam@abansgroup.com	M Jamis Jayathilake
05. GALLE	No.711/1, Velsen square, Off Olcott Mw, Galle.	091 3907720 091 2235888	091 2227122 afslgal@abansgroup.com	Ranjith Kalyananda
06 .GAMPAHA	No.2B, Holy Cross Rd., Gampaha.	033 3438602	033 2234970 afslgam@abansgroup.com	Sameera De Silva
07.KANDY CITY CENTER	L1-17 Kandy City Center, No 5, Dalada Veediya Kandy	081 2220744	081 2220745 afslkcc@abansgroup.com	B.W.S.R Gunawardana
08. KURUNEGALA	No. 19, Baudhhaloka Mw, Kurunegala.	037 3877888 037 3616655	037 2222611 afslkrg@abansgroup.com	R.W.M. Jayantha Wijewardana
09. RATHNAPURA	No. 139/1,Zeena Building, Main Street, Rathnapura.	045 3457777	045 2226873 afslrtp@abansgroup.com	H. W. D. A. Sujeewa Kumara
10. CHUNNAKAM	No. 160 1/1 1/2 K K S Rd, Chunnakam	021 3207686	021 2217022 afslchu@abansgroup.com	N. Sooriyanathan
CUSTOMER SERVICE CENTERS				
01.JA-ELA	No. 17 Negambo Rd,Ja-ela	011 3144338	011 2240228	M.L.G.K. Karunarahna
02.KIRIBATHGOGA	No. 246 C, Kandy Rd,Kiribathgoda, Kelaniya.	011 3144342	011 2918925	B.M.K.I. Balasooriya
03.MORATUWA	No. 120, Galle Rd, Moratuwa.	011 3052200	011 2649077	M.S.C.M. Fernando
04.PILIYANDALA	No. 28,Swarnapla Mawatha, Piliyandala.	011 3034200	011 2604639	R. M. N. H. Wickramarathna
05. KANDY	1st Floor,Arpico Bld,123 D. S Senanayaka Veediya, Kandy.	081 3827710 081 3842720	081 2205675 afslkdy@abansgroup.com	B.W.S.R Gunawardana

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.

Amortization

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.

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 utilized 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 recognized financial assets 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 Method

It's a method of calculating the amortized cost of a financial asset or financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

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 amortize 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 Instruments

Any contract that gives rise to a financial assets of one entity and financial liability or equity instrument of another entity.

H

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.

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 Capitalization

Number of ordinary shares in issues multiplied by the market value of a share as at the year end.

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 counterparty 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.

Prudence

Inclusion of a degree of caution in the exercise of judgment 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 earning 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 SEVENTH ANNUAL GENERAL MEETING OF ABANS FINANCE PLC will be held on Monday 30th September 2013 at 3.00 p.m. at the Organisation of Professional Associations of Sri Lanka, No. 275/75, Prof. S. Wijesundara Mawatha, Colombo 7 for the following Purposes;

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the company and the Statement of Audited Accounts for the year ended 31st March 2013 with the Report of the Auditors thereon.

2. To re-appoint Messrs. Ernst & Young, Chartered Accountants as the Auditors of the company for the ensuing year and to authorize the Directors to determine their remuneration.

BY ORDER OF THE BOARD

Varners International (Pvt) Ltd.,
Company Secretaries of Abans Finance PLC,
Level 14, West Tower,
Echelon Square,
World Trade Centre,
Colombo 1.

14th August 2013

Notice of Meeting Contd...

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 registered office of the company at No. 498, Galle Road, Colombo 3, or at the office of the Secretaries at Level 14, West Tower, World Trade Centre, Echelon Square, Colombo 1, not ess 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. R. Pestonjee	of Colombo or failing him
Mrs. S. Dubash	of Colombo or failing her
Mr. K.B. Wanigasekara	of Colombo or failing him
Mr. C.D. Pathirana	of Colombo or failing him
Mr. V.K. Choksy	of Colombo or failing him

….………………………………………………………of……………………………………………………………………………

(National Identity Card No……………………………………………) 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 Monday 30th of September 2013 AT 3.00 P.M. and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

		For	Against
01.	To receive and adopt the Report of the Directors and the Audited Financial Statement for the year ended 31st March 2013 and the Report of the Auditors thereon.	....	....
02.	To re-appoint Messrs. Ernst & Young, the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.	....	....

Signed this……………………………day of ……………………2013

…………………………………………….
Signature of Shareholder

(Please delete the inappropriate words)*

Instructions on 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 Dorm of proxy to the Registered Office of the Company at No. 498, Galle Road, Colombo 3 or at the office of the Secretaries at Level 14, West Tower, World Trade Centre, Echelon Square, Colombo 1 after crossing out one or the other of the alternate words indicated by the asterisks on the body of the Form. The Form of Proxy shall be lodged with the Company or the Secretaries not less than Forty Eight hours before the time appointed for holding the meeting.

3. If the Form of Proxy is singed by an Attorney, the relative Power of Attorney should accompany the completed Form of Proxy for registration, if a Power of Attorney has not been registered with the Company.

4. If the Shareholder is a Company or a body corporate, the Form of Proxy should be under its Common Seal in accordance with its Articles of Association or Constitution.

5. If there is any doubt as to the manner in which the Proxy should vote by reason of the manner in which instructions in 2 above have been carried out, the proxy holder will vote as she / he thinks fit.

Form of Attendance

I/We *hereby record my / our* presence at the Sixth Annual General Meeting of Abans Finance PLC on 30th September 2013 at 3.00 pm at the Organization of Professional Association of Sri Lanka at No.275/75, Prof. Stanley Wijesundara Mawatha, Colombo 07.

Full Name of Share Holder	
National Identity Card Number	
Address	
Name of Proxy holder (If applicable)	
National Identity Card Number of Proxy holder	
Address of Proxy holder	
Number of shares held	

** Please delete what is inapplicable*

....
Signature of Shareholder Date

Note :

(i) Shareholders are requested to bring this Form of Attendance when attending the Meeting and hand it over at the entrance to the meeting hall.

(ii) Shareholders appointing proxies (other than the Directors of the Company) to attend the Meeting are requested to indicate the National Identity Card Number of the Proxy holder on the Form of Proxy.

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 15 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
498, Galle Road, Colombo 3

Head Office
400, Galle Road, Colombo 3. Tel. 011 2375531-3
E-mail – finance@abansgroup.com

Auditors

M/s Ernst & Young

Chartered Accountants,

201, De Saram Place,

P.O.Box 101,

Colombo10

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. KithsiriWanigasekara

Managing Director

Dr. S. Dubash

Non-Executive Director

Mr. C. D Pathirana

Non-Executive Director

Mr. V.K. Choksy

Senior Director

Independent Non-Executive Director

Mr. T. Someswaran

Independent Non-Executive Director

ABANS FINANCE PLC

No.400, Galle Road, Colombo - 03.
Tel : 011 - 2375531 - 3, Fax: 011 2375517