

# STEPPING UP



**ABANS FINANCE PLC**

**ANNUAL REPORT 2013 - 2014**

**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.

## *Stepping Up....*

*Shaping up new markets by giving customized financial solutions is a key to success through many complexities in the financial business.*

*Believing on this and while weighing options that the Company could compete by way of its return, we succeeded in cultivating an innovative "Business Model" to provide high margin on capital employed.*

*Concentrating on Such a focused market enabled us to step up in the market in both ways of margin driven and volume driven strategies while providing a cushion through expected increase in capital to build up a safe and stable level.*

*We are stepping up to a new direction and will continue to follow our growth plan holding the hand of a strong Group to connect more closer to the public while reaping the success of new beginnings.*

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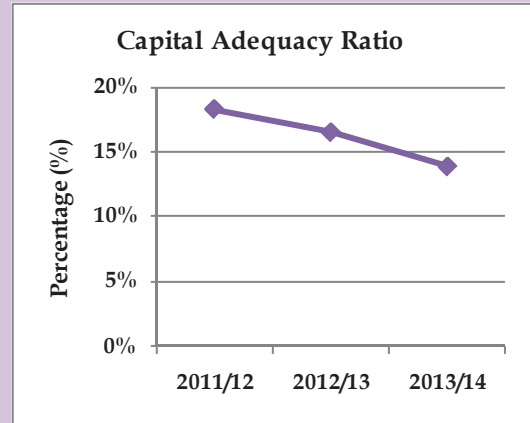
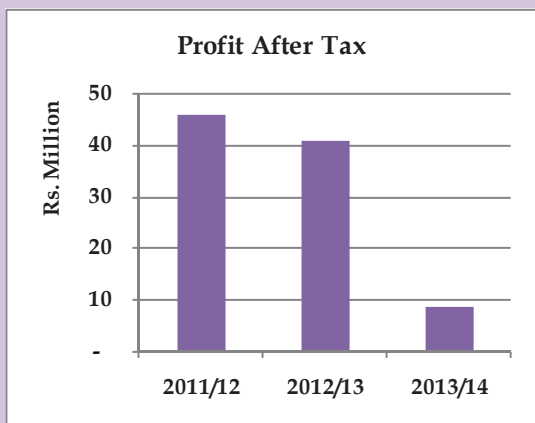
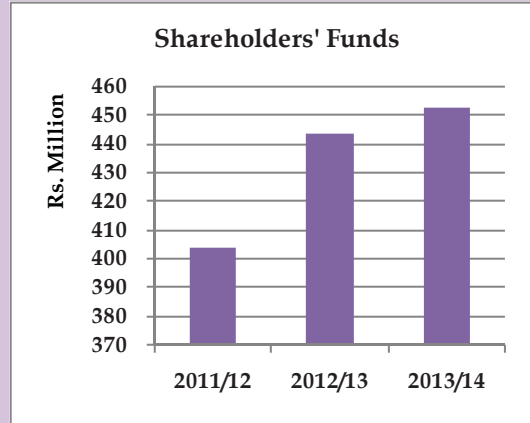
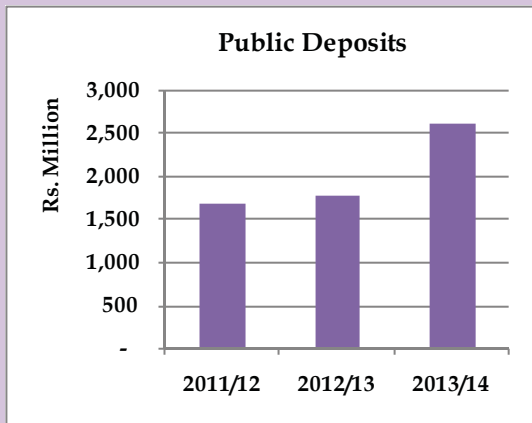
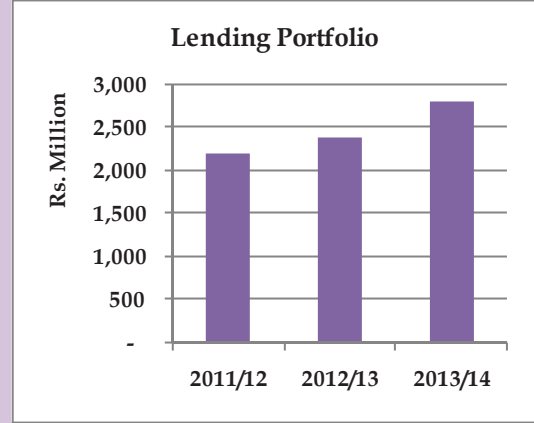
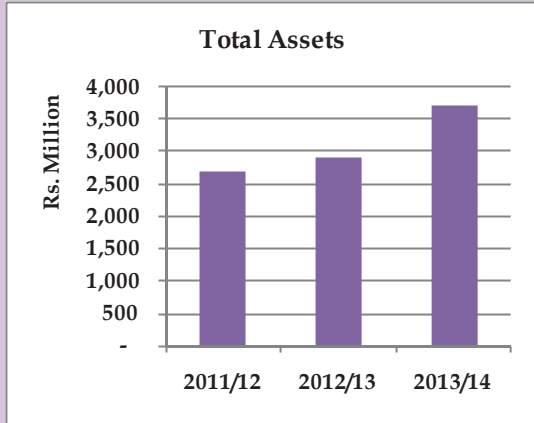
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Form of Attendance - **Enclosed**

## FINANCIAL HIGHLIGHTS

	2013/14	2012/13	Change
<b>Financial Performance (Rs. '000)</b>			
Income	751,979	570,345	31.85%
Net Interest Income	301,305	212,935	41.50%
Net Fee and Commission Income	25,791	17,458	47.73%
Total Operating Income	342,307	235,112	45.59%
Profit before Taxation	25,368	58,771	(56.84)%
Taxation	20,328	25,669	(20.81)%
Profit for the Year	8,695	40,688	(78.63)%
<b>Financial Position (Rs. '000)</b>			
Total Assets	3,707,340	2,925,505	26.72%
Lending Portfolio (Gross)	3,030,961	2,520,564	20.25%
Public Deposits	2,600,120	1,765,883	47.24%
Borrowings	385,536	533,761	(27.77)%
Shareholders' Funds	452,895	444,225	1.95%
<b>Profitability</b>			
Return on Assets (%)	0.26%	1.45%	(119) bps
Return on Equity (%)	1.94%	9.59%	(765) bps
Net Interest Margin (%)	9.09%	7.57%	152 bps
Cost to Income Ratio (%)	57.71%	69.59%	(1,188) bps
<b>Investor Information</b>			
Earnings Per Share (Rs.)	0.24	1.10	(78.18)%
Price to Earnings Ratio (Times)	122.50	26.36	-
Net Assets Value Per Share (Rs.)	12.24	12.01	1.92 %
Market Value Per Share (Rs.)	29.40	29.00	-
Market Capitalization (Rs. Mn)	1,088	1,073	1.40 %
<b>Regulatory Ratios</b>			
Capital Adequacy			
- Core Capital Ratio (%) (Minimum - 5%)	13.93	16.60	(267) bps
- Total Risk Weighted Capital Ratio (%) (Minimum - 10%)	13.93	16.60	(267) bps
Statutory Liquid Asset Ratio (%)	20.69	17.51	318 bps
Capital Funds to Total Deposit Liabilities (%) (Minimum - 10%)	17.42	25.16	(774) bps

FINANCIAL HIGHLIGHTS (CONTD....)





## CHAIRMAN'S MESSAGE

I welcome you to the Eighth Annual General Meeting of Abans Finance PLC and to present you the Annual Report for the year ended 31 March 2014.

In the year under review, we have proved that we are in the right markets with the right strategies in place to deliver consistent results and Abans Finance PLC has reached new heights in terms of performance.

### THE GLOBAL ECONOMY

The global economy posted a growth of 3% in 2013 driven by a recovery in the advanced economies and continued strong performances of developing and emerging economies.

Asia Pacific economies continued to outperform their western counterparts recording a growth of 6.6% despite slower than expected growth in two largest economies, China growing at 7.4% and India growing at 4.4%.

International Monetary Fund (IMF) has projected global growth to strengthen to 3.6% in 2014 and to 3.9% in 2015. Emerging markets are expected to grow at around 4.6% marginally down from 5.0% in 2014 whilst the advanced economies are expected to grow at 2.2% higher than the 1.3% achieved in 2013.

### THE SRI LANKAN ECONOMY

The Sri Lankan economy surged ahead in 2013 achieving a real GDP growth of 7.3% compared with the 6.3% achieved in 2012.

Economic conditions in Sri Lanka have positioned the country for a spurt of growth, the lower interest rates and low inflation combined with high level of liquidity in the money market and a stable exchange rate have created conducive conditions for business.

Despite continued easing of interest rates private sector credit recorded a sluggish growth of 7.5% in 2013 compared to the 17.6% growth in 2012. The Central Bank cites the lag impact of previous tight monetary policy measures and a steep decline in gold-backed advances to the private sector by commercial banks as reasons for this slowdown.

The Central bank also cut the Statutory Reserve Ratio by 200 basis points with effect from 1 July 2013 highlighting the need to reduce the spread between deposit and lending rates of Financial institutions.

### FINANCIAL SERVICES INDUSTRY

The Central Bank of Sri Lanka in its policy for 2014 has announced plans to consolidate the overcrowded financial services sector with a view of creating stronger Financial Institutions that can help sustain the country's growth. We welcome the move as a strong Financial Services Sector will be a barometer of a robust economy.

We believe that this would meet the economic objectives of further stabilising the financial system and increasing the size and depth of these institutions thereby building the capacity to cater the future expansion of economic activity and thus consolidate the industry as a whole.

Responding to the Regulatory requirement, we are also exploring the possibility of acquiring or merging with a good quality institution in terms with CBSL's guideline in due course.

Abans Finance PLC has the capacity to face any threat or capitalize on any new opportunities that may arise in the immediate future. We will continue to develop our human resource base with new skills and competencies. We will also continue to invest in strengthening the internal structures, systems, controls and processes. These changes will equip the Company to face the new operating environment that will emerge in the wake of the national financial sector consolidation.

### ABANS FINANCE PLC

The year was challenging for the Finance and Leasing industry as the industry was affected not only by the sluggish vehicle market but also by a sharp increase in Non-Performing Loans (NPLs).

The increasing cost of living with regard to certain items, sometimes not necessarily captured by conservative method of computation, resulted in a heavy toll in terms of decline in the expected demand for leasing and hire purchase facilities.

Amidst numerous challenges Abans Finance PLC reported a turnover of Rs. 751 Mn. a strong improvement over the previous year which was mainly due to our concentration on a "niche market". Our Total Operating Income increased by 45% to Rs. 342 Mn which was based on the top line growth coupled with strong core business operations.

The Leasing and Hire purchase portfolios increased by Rs. 524 Mn to Rs. 2.073 Bn as at 31 March 2014.

The Return on Assets and Return on Equity of Abans Finance PLC stood at 0.26% and 1.94% respectively in 2013/14.

Finance Companies were directly impacted by the sharp fall in gold prices and the downturn in the leasing market that saw a rising trend of defaults in gold loans and leasing and hire purchase portfolio. According to Central Bank data, exposure to Non Performing Accommodations (NPAs) relative to Total Accommodation outstanding increased to 6.7% by end of 2013 from 5% in 2012 in Licensed Finance and Leasing industry.

## CHAIRMAN'S MESSAGE

NPL ratio (Gross) of Abans Finance PLC which has no exposure to gold loans was 11.79% (as per SLAS) of Total Advances along with risk adjusted Impairment Charges of Rs. 115 Mn up from the previous year's Rs. 5 Mn stemming from ageing of the portfolio compared to previous year.

### THE WAY FORWARD

Operating on identified profitable "niche markets" by giving customized financial solutions has always been a key to success through many complexities in the financial business. Believing on this and weighing options that the Company could compete by way of its return, we succeeded in cultivating an innovative "Business Model" to provide high yield.

Concentrating on such a focused market enabled us to step up in the market in both ways of margin driven and volume driven strategies while providing a cushion through expected increase in fund base to build up a safe and stable level.

We are stepping up on this new direction and will continue to follow our growth plan holding the hand of a strong Group to connect more closely to the public while reaping the success of new beginnings.

### COMPLIANCE FOR GREATER GOVERNANCE

Over the last few years we have instituted robust Risk Management Framework and strong governance structures with a view of strengthening our Company's internal controls. Our Corporate Governance structure is in compliance with the Direction on Corporate Governance (Finance Companies Direction No 03 of 2008 and subsequent amendments thereto) and with '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.

These mechanisms allow us to manage the business with more transparency and accountability. They also facilitate best practices in succession planning and leadership development ensuring that the Company nurtures a pipeline of leaders for the future.

## A NOTE OF GRATITUDE

It is my duty to thank my fellow members of the Board of Directors for their support and guidance during the year.

I also wish to acknowledge with the yeoman service provided by Dr. (Mrs.) S. Dubash who has been a Director since inception and also the outgoing Chairman of the Audit Committee Mr. Thirunavukarasu Someswaran in maintaining the balanced growth during the past years. I also welcome Mr. Ajith S. Ratnayake who joined the Board as the incoming Chairman of the Audit Committee. He brings with him a wealth of experience in Finance and Accounting.

I extend my appreciation to the management and staff for their role played in improving the performance. My sincere thanks go out to other stakeholders in business namely the customers, bankers and other business partners for the support provided.

I also thank the Governor of the Central Bank and the Director and Officers of the Department of Supervision of Non-Banking Financial Institutions, for their continued support, regulatory guidance and advice.

Finally, I thank our Shareholders for their co-operation and the trust placed in our Company.



**Rusi Pestonjee**  
Chairman

22 July 2014

## MANAGING DIRECTOR'S REVIEW

### OVERVIEW

The Non Bank Financial Institutions (NBFI) sector performed below expectations during 2013/14 with a decline in profitability and Return on Assets. Growth in Total Assets and Advances was also below that of the previous year. NBFIs were required to provide heavy impairment charges as a result of a general increase in dues.

### PERFORMANCE

As stated in the last review, we had a completely different approach that assisted us to grow our Total Assets by 26.7% as against the industry average of 16.5%. Total Assets of the Company stood at Rs. 3,707.3Mn as at end of the year. The 'Hero' brand with the assistance of the Abans Group network proved our ability to propel the business forward in this area with the Hero Leasing portfolio reaching nearly Rs.1Bn (aprox) as at 31 March 2014.

Interest Income grew by 27.2% as against the growth of 18.0% in Interest Expense. The reshaped product portfolio ensured a growth of 41.5% in Net Interest Income (NII). Total Advances grew by 18.04% in comparison to the industry average of 12.1%. Public Deposits registered a significant growth of 47.2 % (industry average -31.0%) and reached Rs.2, 600.1Mn as at 31 March 2014. The growth in Lending Portfolio led by Hero Leasing with premium returns improved the Net Interest Margin. Cost to Income ratio also improved to a satisfactory level.

The achievements made in these areas were affected by the high level of Impairment Charges made in the Financial Statements in compliance with Financial Reporting Standards. The comparatively high level of arrears on the portfolio of lending particularly, related to non Hero businesses that required increased amounts of impairment made a negative impact on the profitability. This trend was visible industry wide in 2013/14.

### OUTLOOK

Hero two wheeler products continue to gather momentum in the market with an increase in the share of the market. We are taking appropriate measures to capitalize on these opportunities to enhance our portfolio of investments in this segment. We receive an array of value added services from the Hero Showroom network of the Abans Group. The potential for growth is enormous and we have already put in place our infrastructure to propel the business forward. We are confident that the opportunities available within the Abans Group will stand in good stead for the development of businesses which will be led once again by the Hero Leasing product. We have plans to build non Hero portfolios as part of the risk

mitigation process when the Hero Leasing portfolio reaches the optimum size, so that we will continue to maintain a diversified Lending Portfolio. NBFIs will continue to face challenges on the recovery of dues on Lending Portfolios with an upward trend in Impairment Charges. The Company will place heavy emphasis in this area to reduce the impact to an absolute minimum.

### APPRECIATION

I place on record my appreciation and grateful thanks to the Chairman Mr. Rusi Pestonjee, Senior Director Mr. V. K. Choksy and Non-Executive Director Mr. Channa Pathirana, for the advice and guidance during the year under review. I am grateful to Dr. (Mrs.) S. Dubash and Mr. T Someswaran who retired in April 2014 and August 2013 respectively, for their contribution and for the services rendered. Mr. Ajith S. Ratnayake, who joined the Board in May 2014 deserve my thanks for the role he plays as the new Chairman of the Audit Committee. M/s Ernst & Young, the External Auditors and the Chief Internal Auditor provided valuable advice and guidance during the year to whom I offer my gratitude. It is my duty to place on record my thanks to our stakeholders who have placed confidence in the Company. Finally, I thank the General Manager, other Key Management Personnel and the staff at all levels for their contribution.



**Kithsiri Wanigasekara**  
Managing Director/CEO

22 July 2014



## BUSINESS MODEL

### ORGANIZATIONAL PROFILE

#### About Us

Abans Finance PLC is a member of the prestigious Abans Group, a household name in Sri Lanka. Abans Group recognizing the potential for financial services in the country and the available resources at their disposal, decided to establish Abans Finance PLC. Abans Finance PLC was incorporated on 8 April 2005 under the Companies Act No.17 of 1982 and was re-registered in terms of the new Companies Act No. 7 of 2007 on 15 June 2009.

Abans Finance PLC commenced business initially as a Registered Finance Leasing Establishment under the Finance Leasing Act No. 56 of 2000 on 19 April 2006. Abans Finance PLC obtained the Finance Company license in terms of the Finance Companies Act of No. 78 of 1988 with an initial Stated Capital of Rs. 382 Mn on 27 August 2007 and the Company was listed on the Colombo Stock Exchange in 2011.

The Company currently operates with ten Branches and five Service Centres whilst developing and implementing strategies of reaching customers with focused financial solutions backed by the strong network of the Group spread over the country. Going along with the mission, our activities will grow by providing dynamic solutions and financial support by maximizing the synergies of the Abans Group preserving the public confidence and trust in order to step up the brand value and position ourselves in the market.

#### Group Structure

Abans Finance PLC is a member of Abans Group, and is a subsidiary of Abans PLC (previously Abans (Pvt) Ltd.) which holds 89.26 percent of the shares of Abans Finance PLC. Accordingly, the Company's Parent and Ultimate Parent Company is Abans PLC.

### OPERATING ENVIRONMENT

#### Global Economic Performance

Regardless of good signs of increased economic activity towards latter part of the year, the global economy posted a growth of 3 percent in 2013 as against 3.2 percent in 2012. Based on the International Monetary Fund (IMF) "World Economic Outlook", the growth in advanced economics was down to 1.3 percent compared to 1.4 percent in 2012 and emerging and developing economies recorded a decline to 4.7 percent compared to 5.0 percent in 2012.

However, the IMF projection has set the growth forecast for world economy in year 2014 at 3.6 percent and 3.9 percent in 2015. Forecasts for the emerging and developing economies reflect a stronger growth of 5.0

percent in 2014 in comparison to 4.7 percent in 2013. Growth of United States is projected to be at 2.8 percent in 2014 up from 1.9 percent in 2013. Reversing the protracted recession, the Euro area is forecasted to go into positive territory with 1.2 percent growth as compared to the contraction of 0.5 percent in 2013. The growth momentum in China is expected to recede with the growth level set at 7.5 percent in 2014 as compared to 7.7 percent in 2013. However, India is expected to maintain its buoyancy and the forecast is set at 5.4 percent up from 4.4 percent in 2013

#### Sri Lankan Economic Performance

Sri Lankan economy in the year 2013 rebounded with a GDP growth of 7.3 percent in comparison to the growth of 6.3 percent recorded in 2012, which is supported with the contribution from all three major sectors. The growth was well above the average growth of both advanced economies as well as emerging and developing economies. Further, the growth is comparable to China and India.

The inflation was maintained at a single digit level for the fifth successive year at 4.7 percent based on year on year average and 6.9 percent based on annual average in 2013 compared to 9.2 percent and 7.6 respectively in 2012. The unemployment remained low at 4.4 percent in 2013 in comparison to 4.0 percent in 2012. The exchange rate policy in 2013 remained flexible with minimum interventions from Central Bank of Sri Lanka (CBSL) and Sri Lankan Rupee was depreciated against the Sterling and Euro whilst appreciated against Indian Rupee and Japanese Yen.

Overall policy Interest Rates were reduced by 100 basis points during May and October 2013 equally on top of 25 basis points reduction in December 2012. Accordingly, the Repurchase and Reverse Repurchase Rates stood at 6.5% and 8.5% respectively in 2013. Further, Statutory Reserve Ratio (SRR) was also reduced by 200 basis points with effect from July 2013 to be in line with the rates of emerging economies. Reduction in the Policy Rates, excess liquidity supported with reduction in SRR facilitated the downward adjustment in the market interest rates during 2013.

Going forward, the Sri Lankan economy is expected to continue its growth momentum in medium term supported by increased investments and improved macro-economic stability. Expectation on decline in the inflation to mid single digit supported by Monetary Policy decisions and improved domestic supply conditions will strengthen the price stability.

## BUSINESS MODEL

### Non Bank Financial Institutions (NBFI) Sector Performance

NBFI sector comprises of Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) and accounted for 7 percent of financial sector on account of Total Assets. The sector consisted of 48 LFCs and 10 SLCs with a branch network of 1,060 (2012 - 972 branches).

The NBFI sector faced challenges during 2013 with respect to deceleration in assets growth, deterioration in assets quality and decline in profitability and the earnings. The Central Bank of Sri Lanka has taken measures to strengthen the ability of the Sector to manage and absorb risks. Financial Sector Consolidation is the key measure taken to strengthen the financial system stability whilst facilitating the expansion of economic activity.

The growth in terms of Assets has declined to 20 percent during 2013 in comparison to 22 percent in 2012. The Accommodations growth too declined in 2013 to 17 percent compared to 21 percent in 2012 which resulted in the growth of liquid assets. Statutory Liquid Assets has accounted to a surplus of Rs 18 Bn. compared to regulatory minimum requirement of Rs. 39 Mn. resulted an increase of its composition to 8 percent in 2013, compared to 6 percent in 2012. The following table represents the product wise Accommodations growth in 2013.

#### Composition of Assets of the NBFI Sector

Item	2013 Rs. Bn	2012 Rs. Bn	Change (%)
Total Assets	717.6	596.6	20.3
Total Accommodations	553.1	471.7	17.3
- Leasing	249.1	214.9	15.9
- Hire Purchase	122.2	123.0	-0.7
- Other Loans	181.8	133.8	35.9
Liquid Assets	57.4	35.8	60.4

Source: Annual Report 2013, Central Bank of Sri Lanka

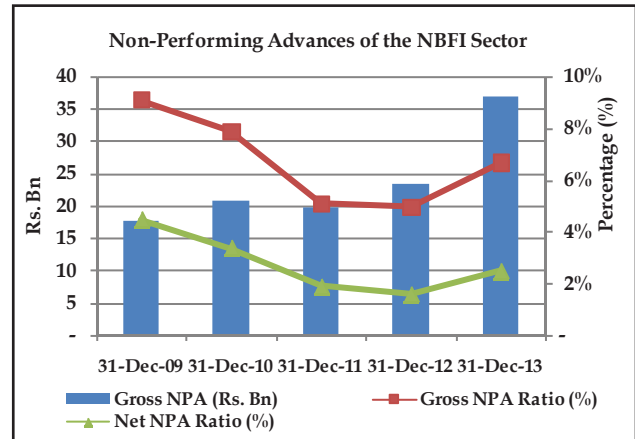
Public deposits remained as the key funding source and posted a marginal drop in growth to 33 percent in 2013 compared to 37 percent in 2012. The growth in 2013 in borrowings and the capital funds recorded at 9.3 percent and 2.6 percent respectively.

#### Composition of Liabilities of the NBFI Sector

Item	2013 Rs. Bn	2012 Rs. Bn	Change (%)
Public Deposits	337.3	254.1	32.7
Borrowings	192.3	176.0	9.3
Capital Funds	97.4	94.9	2.6

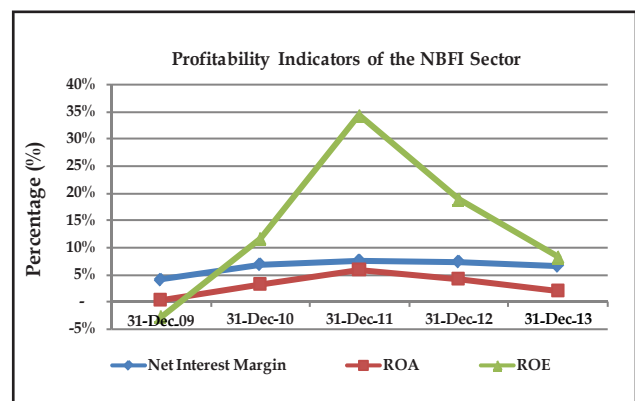
Source: Annual Report 2013, Central Bank of Sri Lanka

Given the challenges within the business environment together with the decline in gold prices resulted in deterioration of Assets quality and Non Performing Advances (NPA) ratio which was registered at 6.7 percent in 2013, in comparison to 5 percent in 2012. Non Performing Advances in absolute terms increased to Rs. 37 Bn. in 2013 in comparison to Rs. 23 Bn. in 2012.



Source: Annual Report 2013, Central Bank of Sri Lanka

Growth in the Capital Funds too recorded a less growth of 10 percent in 2013 in comparison with the growth of 27 percent in 2012, mainly due to the decline in internal rate of capital generation. Decline in the profitability has resulted a decline in Equity to Total Assets ratio from 13.6 percent by 2013 in comparison to 15.9 percent in 2012. However, Capital Adequacy ratios remained within the regulatory limits. The Total Capital Adequacy ratio as a percentage of Risk Weighted Assets decreased to 15 percent by the end of 2013 from 16 percent at the end of 2012 whereas, Core Capital ratio as a percentage of Risk Weighted Assets decreased to 13 percent by the end of 2013 from 15 percent at the end of 2012.



Source: Annual Report 2013, Central Bank of Sri Lanka

The NBFI sector is expected to move towards the Financial Sector Consolidation programme to strengthen its growth, sustainable margins and credit quality which will not only enhance stability of the sector but also contribute more towards nation's development.

## BUSINESS MODEL

### STAKEHOLDERS

#### Stakeholder Identification

Our stakeholders are persons or entities who may significantly influence on our activities or decisions whose influence may affect our ability to create value in short, medium and long run. In the context of the primary stakeholders, the Company identified Shareholders, Customers, Employees, Business Partners, Government Institutions & Regulators and Society & environment.

#### Stakeholder Engagement

Abans Finance engages with stakeholders in an ongoing basis to exchange the views to facilitate successful delivery services and maintain relationships. Concerns raised by stakeholders are attended as and when the concerns are raised. The Company interacts with the stakeholders on regular intervals in order to improve the operations based on the feedback.

### MANAGEMENT APPROACH

#### Material Economic Aspects

Economic performance facilitates the Company in business growth and profitability which will benefit not only the organization but also to the customers, society and the nation as a whole. Therefore, the management considers the stable growth supported with reasonable margins as a major aspect. Abans Finance focuses on the market presences which is a critical factor to serves the rural areas. Further, our operations exercise an indirect impact on the communities where we operate.

#### Material Environment Aspects

Every business encounters the challenges of reduction of natural resources which in turn the business have to focuses on moving towards alternative resources, reducing waste, recycling and reusing the materials. The Company insists on social responsibility amongst employees for effective and efficient use of materials and energy.

#### Material Social Aspects

##### Employees

Abans Finance recognizes the human capital and depends on them to deliver the most possible service to customers. Therefore, the Company has taken every action to motivate the human resources by means of monetarily and non- monetarily. The Company complies with the labour legislations and promotes

reorganization and rewarding system, equal opportunity, free from discrimination & harassment and training and education opportunities in order to retain the human assets.

##### Society

The Company's branch and Service Center network supports to serve better to the community. Further the Company's engagement in Corporate Social Responsibility activities, ethical behavior in conducting business and compliance with the laws and regulations while engage in business activities, facilitate engaging with the society.

##### Customers

The Company maintains a transparent mechanism when offering financial products and services to its customers. We ensure that the communications to the customers carries accurate information to educate our customers. Further, the Company places high importance on customer privacy and maintains secure systems that ensures the customer information is kept with due care.

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

### INTERNAL CAPITAL FORMATION

Internal capital constitutes Financial Capital and Institutional Capital. These capitals are formed through the value created by the Company's finance business through financial intermediation and transactions with stakeholders.

### FINANCIAL CAPITAL

The Company has concluded another year of its operations with satisfactory growth in the key financial indicators of performance. Eventhough the Company has reported lower profits, the business volumes such as growth in the Loans and Advances portfolio and the growth in Public Deposits and the Assets growth have recorded significant improvements. Further, Abans Finance grew in investing in Human Capital, Technology, implementation of new products and quality of the services offered. A well defined risk based strategy together with timely decisions are the key success factors in this regard.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Income	751,979	570,345	31.85
Net Interest Income	301,305	212,935	41.50
Total Operating Income	342,307	235,112	45.59
Profit Before Taxation	25,368	58,771	(56.84)
Profit After Taxation	8,695	40,688	(78.63)
Total Assets	3,707,340	2,925,505	26.72
Loans and Advances to Customers (Gross)	3,030,961	2,520,564	20.25
Due to Customers	2,600,120	1,765,883	47.24

The Audited Financial Statement of the Company, prepared in compliance with Sri Lanka Financial Reporting Standards (SLFRSs) are given on pages 83 to 129.

### Profitability

The key financial information of the Company are summarized below;

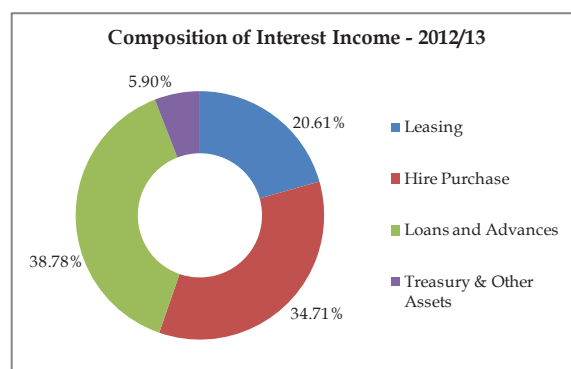
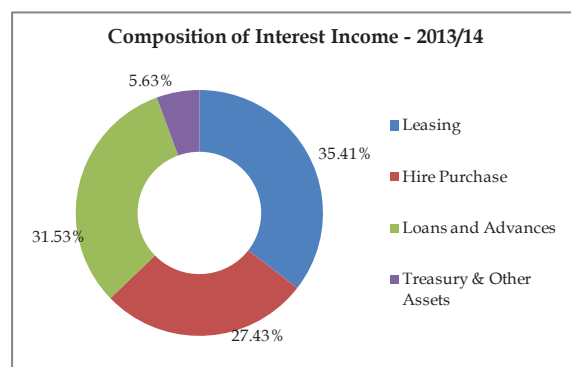
INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Net Interest Income	301,305	212,935	41.50
Net Fee and Commission Income	25,791	17,458	47.73
Net Gain from Trading	273	449	(39.33)
Other Operating Income (net)	14,939	4,270	249.86
Total Operating Income	342,307	235,112	45.59
Impairment Charges	(115,722)	(5,143)	2,150.03
Operating Expenses	(197,562)	(163,612)	20.75
Profit before tax and VAT on Financial Services	29,024	66,357	(56.26)
Profit after tax	8,695	40,688	(78.63)

### Net Interest Income

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Interest Income	688,523	541,112	27.24
Interest Expenses	(387,219)	(328,177)	17.99
<b>Net Interest Income</b>	<b>301,305</b>	<b>212,935</b>	<b>41.50</b>

Interest Income of the Company rose by 27.24% to a healthy level of Rs. 688.5 Mn and accounted for 91.56% (94.87% - 12/13) of the Total Income compared to Rs. 541.1 Mn recorded in 2012/13. Growth in Interest Income is supported with the high growth achieved in the Interest Income on Leasing which registered a 118.65% Interest on Leasing accounted for of 35.41% of Total Interest Income. The Company's strategy on enhancing Hero Leasing portfolio which was successfully achieved during the year under review contributed to enhance its margins dramatically.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Leasing	243,812	111,508	118.65
Hire Purchase	188,856	187,818	0.55
Loans and Advances	217,077	209,834	3.45
Treasury & Other Assets	38,778	31,952	21.36
<b>Total Interest Income</b>	<b>688,523</b>	<b>541,112</b>	<b>27.24</b>



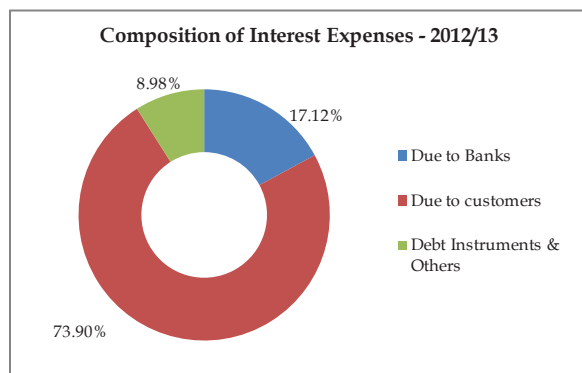
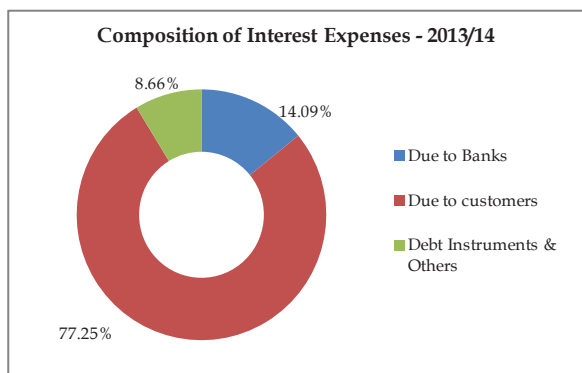
Interest Expenses of the Company rose by 17.99% during 2013/14 compared to high growth of 48.10% recorded in 2012/13. Despite the high growth achieved in the Public Deposits, the Company was able to maintain its cost of funds proportionately compared to last year, which supported with the overall downward trend in the market interest rates.



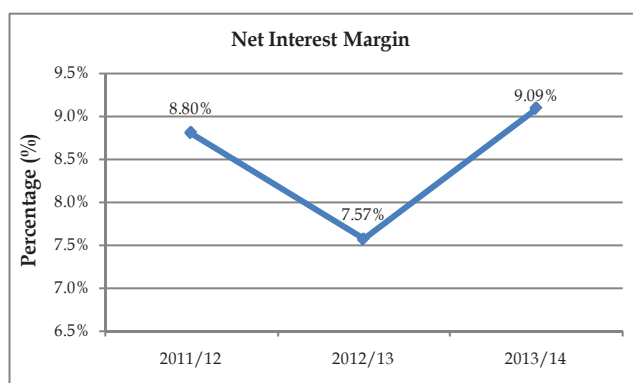
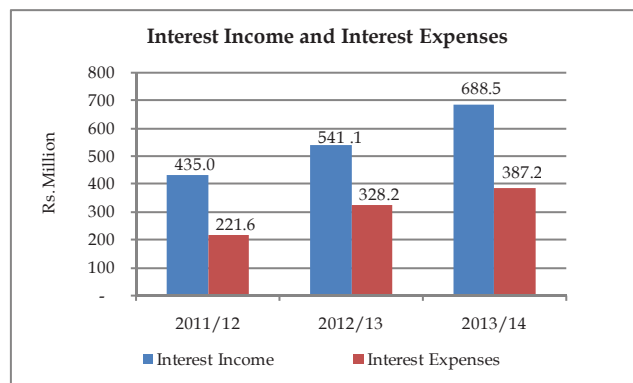
## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

Further, the increase in the significance of Interest Expenses on public deposits from 73.90% in 2012/13 to 77.25% in 2013/14 indicates that the Public Deposits have become a main funding source of the Company.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Due to Banks	54,542	56,172	(2.90)
Due to Customers	299,134	242,519	23.34
Debt Instruments & Others	33,543	29,486	13.76
<b>Total Interest Expenses</b>	<b>387,219</b>	<b>328,177</b>	<b>17.99</b>



High growth in the Interest Income accompanied with the moderate growth in Interest Expenses supported the Company to make a significant growth in the Net Interest Income. Net Interest Income rose by 41.50% to a healthy Rs. 301.3 Mn and accounted for 88.02% of Total Operating Income compared to Rs. 212.9 Mn recorded in 2012/13 which marked as 90.57% of the Total Operating Income. Net Interest Margin of the Company is recorded at 9.09% compared to 7.57% in 2012/13.

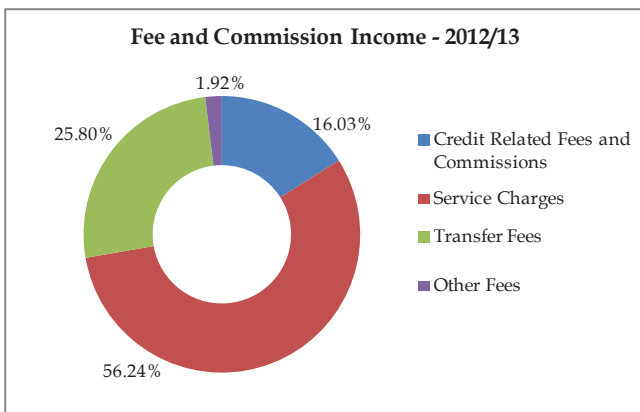
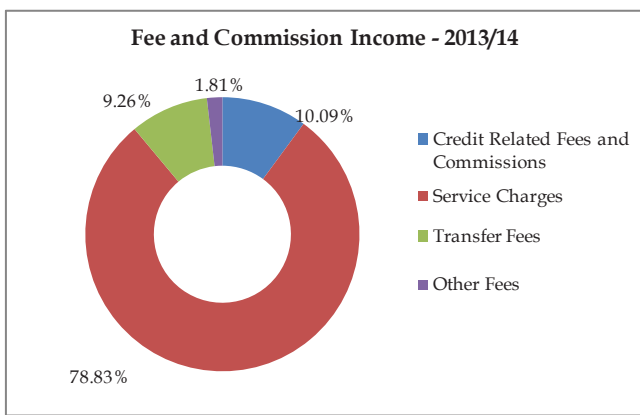
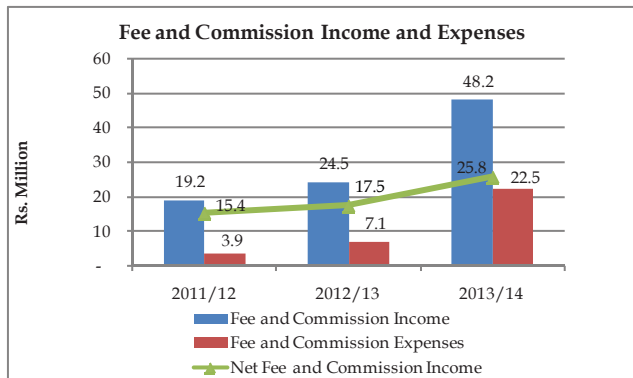


### Net Fee and Commission Income

Fee and Commission Income comprises of credit related Fees and Commissions, Service Charges received and other fees. Fee and Commission Income rose by 96.81% compared to 27.41% during 2012/13 mainly as a result of increased Hero Leasing business. Service charges recorded as the main source of Fee and Commission income which accounted for 78.83% of the total Fee and Commission Income. Meanwhile, Fee and Commission Expenses have also recorded its highest growth of 218.23% during the year under review compared to 83.01% during 2012/13. Fee and Commission Expenses includes the Brokerage Fees paid for the inducement of business. The increase in the Brokerage Fees during the year 2013/14 is evidenced by the high growth in the volume of Hero Leasing during the year under review.

INDICATOR	2013/14 (RS.'000)	2012/13 (RS.'000)	CHANGE %
Fee and Commission Income	48,244	24,513	96.81
Fee and Commission Expenses	22,453	7,056	218.23
<b>Net Fee and Commission Income</b>	<b>25,791</b>	<b>17,458</b>	<b>47.73</b>

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

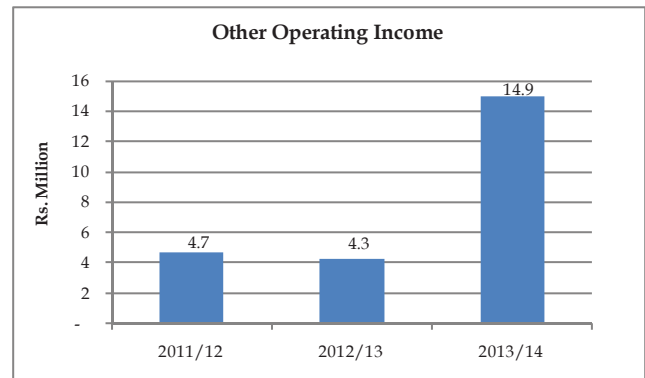


### Net Trading Income

Net Trading Income comprises of income earned from Trading Securities portfolio which are in the form of Dividend Income, Gain or Loss in marking to market of the portfolio and profits realized through disposal of securities. The Company has not focused much on securities trading business and thus the income earned from trading is negligible.

### Other Operating Income

Other Operating Income of Rs. 14.9 Mn in 2013/14 consisted of Bad Debts Recovery, Rent Income from Sublease and Others. The Company has recorded a growth of 249.86% of other operating income in 2013/14 compared to the negative growth of 9.65% in 2012/13, which is mainly supported by the recoveries from written off debts.

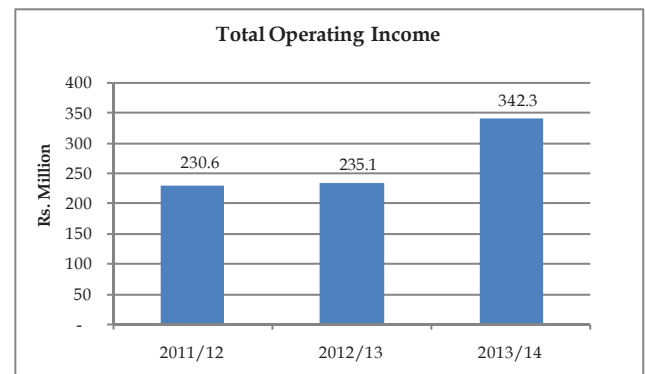


### Total Operating Income

The Company's Total Operating Income includes Net Interest Income, Net Fee and Commission Income, Net Trading Income and Other Operating Income as summarized below;

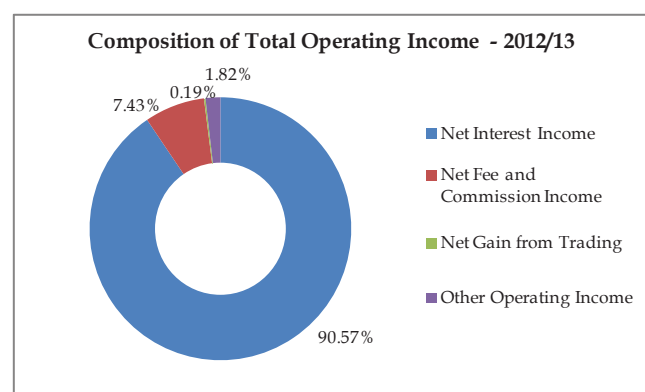
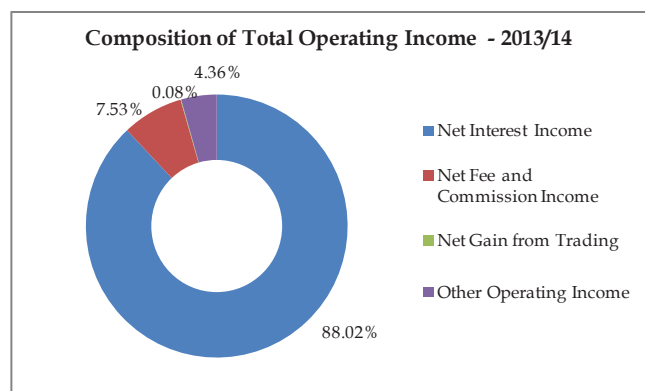
INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Net Interest Income	301,305	212,935	41.50
Net Fee and Commission Income	25,791	17,458	43.73
Net Trading Income	273	449	(39.19)
Other Operating Income	14,939	4,270	249.85
<b>Total Operating Income</b>	<b>342,307</b>	<b>235,112</b>	<b>45.59</b>

The Company has recorded a 45.59% growth of Total Operating Income during 2013/14 compared to that of 1.94% in 2012/13 which is mainly due to the growth in Interest Income & Fee based Income from growing Hero Leasing business



## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

Net Interest Income is the main contributor to Total Operating Income which is accounted 88.02% in 2013/14 compared to 90.57% in 2012/13 which sufficiently elaborates the Company's focus on financial intermediation.



### Impairment Charges for Loans and Other Losses

Impairment Charges for Loans and Other Losses were Rs. 115.7 Mn. in 2013/14 compared to 5.1 Mn. in 2012/13. This was the highest recorded charge against profitability revealing the impact of increased stress levels within the industry for loan recoveries.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Loans and Advances	40,965	962	4,158.31
Lease and Stock out on Hire	44,338	3,476	1,175.55
Other Losses	30,419	705	4,214.75
<b>Total Impairment Charges</b>	<b>115,722</b>	<b>5,143</b>	<b>2,150.09</b>

Impairment Charges on Other Financial Assets increased significantly due to the strategy followed by the Company to dispose the repossessed vehicles even at a loss to prevent deterioration of the value of the Assets and considering the time value of money. Impairment Charges on Accommodations increased

due to continuous adverse age movements of Hire Purchases, Leases and Other Lending over Property Mortgages. Further, failures of business of few corporate customers too affected not only on their cash flows but also on the assets quality and the Impairment Charges of the Company.

The Impairment Provisions are calculated based on credit risk assessment of Accommodations both on an Individual basis (for individually significant loans) and a collective basis in compliance with the Sri Lanka Financial Reporting Standards (SLFRS). An analysis of Individual vs. Collective Impairment Provision for Advances and Other Financial Assets as at the reporting date is as follows;

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
<b>LOANS AND ADVANCES</b>			
- Individual	11,239	2,804	300.83
- Collective	51,958	24,559	111.56
<b>Total</b>	<b>63,197</b>	<b>27,363</b>	<b>130.95</b>
<b>LEASES AND STOCK OUT ON HIRE</b>			
- Individual	17,112	7,309	134.12
- Collective	134,815	100,389	34.29
<b>Total</b>	<b>151,926</b>	<b>107,698</b>	<b>41.07</b>
<b>OTHER FINANCIAL ASSETS</b>			
- Collective	38,228	7,808	389.57
<b>Total</b>	<b>38,228</b>	<b>7,808</b>	<b>389.57</b>
<b>Total Impairment Provision</b>	<b>253,351</b>	<b>142,869</b>	<b>77.33</b>

However, the Company is confident about the recoverability of underperforming Accommodations in the medium term since they are well collateralized. Further, the Company's present strategy on diversifying the portfolio will lead to a downward trend in the impairment charges in the future.

### Total Operating Expenses

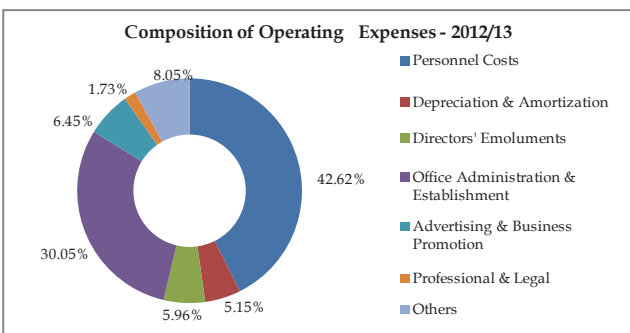
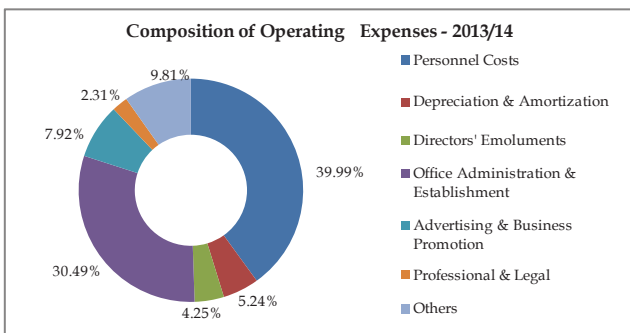
Total Operating Expenses recorded a rise of Rs. 33.9 Mn. from Rs. 163.6 Mn in 2012/13 to Rs. 197.5 Mn in 2013/14 which marked an increase of 20.75%. However, this is in line with the business growth recorded during the year 2013/14 and the Total Operating Income growth of 45.59%. The following table demonstrates a category wise analysis of Total Operating Expenses;

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Personnel Costs	78,999	69,739	13.28
Depreciation & Amortization	10,348	8,422	22.87
Directors' Emoluments	8,388	9,743	(13.91)
Office Administration & Establishment	60,238	49,166	22.52
Advertising & Business Promotion	15,656	10,552	48.37
Professional & Legal	4,557	2,823	61.43
Others	19,375	13,167	47.15
<b>Total Operating Expenses</b>	<b>197,562</b>	<b>163,612</b>	<b>20.75</b>

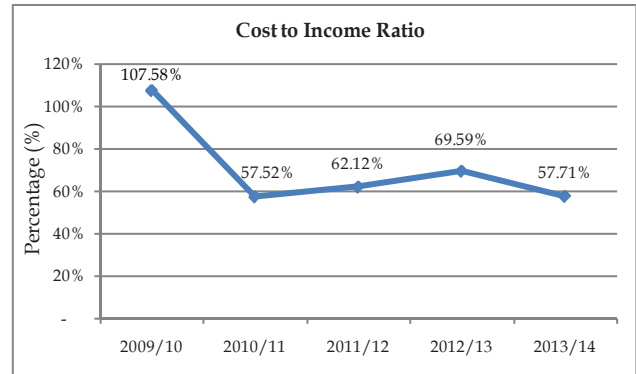
The Company continued to invest in staff, infrastructure developments, and promotional activities during the year with the increase in operations which in turn resulted in an increase in Operational Expenses.

The Staff Cost and Office Administration and Establishment Expenses are the main contributors to the Other Operating Expenses which accounted to 39.99% and 30.49% respectively out of total operating expenses in 2013/14.



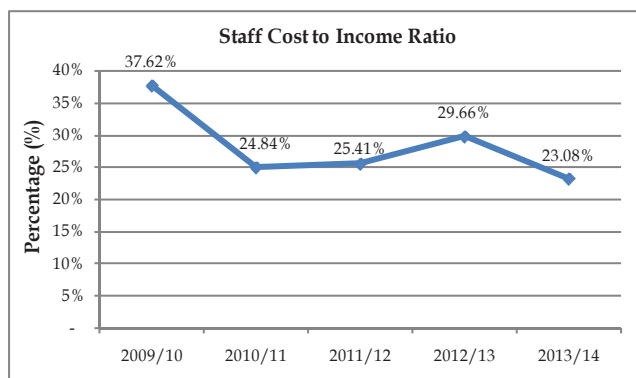
### Cost to Income Ratio

The Cost to Income ratio reveals the efficiency of the Company in minimizing costs whilst increasing income. The efficiency of Abans Finance on controlling the cost while enhancing the income is evidenced from the reduction on Cost to Income ratio.



The Company has succeeded in reducing the Cost to Income ratio by 11.87% from 69.59% in 2012/13 to 57.71% in 2013/14. This is mainly due to the high growth in Income in every aspect with Hero Leasing. Relatively high yield gaining from Hero Leasing will continuously support the Company in achieving its target levels on Cost to Income Ratio.

On the other hand Staff Cost to Income ratio also declined which shows that the human resources are utilized more effectively during the year under review than the previous years. Staff Cost to Income ratio stood at 23.08% in 2013/14 when compared to 29.66% in 2012/13.



### Operating Profit and Taxation

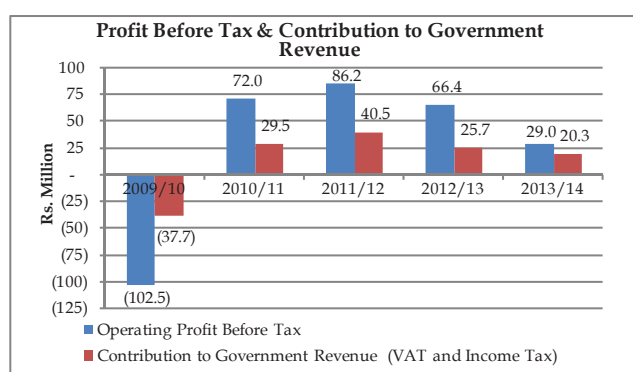
Operating Profit before Income Tax & VAT on Financial Services for the year 2013/14 stood at 29.02 Mn. compared to Rs. 66.36 Mn. in 2012/13. The Impairment Charges for the year 2013/14 eroded the achievement in the growth of Total Operating Income.



## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Operating Profit before VAT on FS	29,024	66,357	(56.26)
VAT on Financial Services	(3,656)	(7,586)	(51.81)
Provision for Income Tax	(16,673)	(18,083)	(7.80)
Profit for the year	8,695	40,688	(78.63)

During the year under review, Income Tax of the Company recorded Rs. 16.6 Mn compared to previous year's Rs. 18.0 Mn. while value Added Tax on Financial Services declined to 3.6 Mn. in 2013/14 compared to 7.5 Mn in 2012/13.

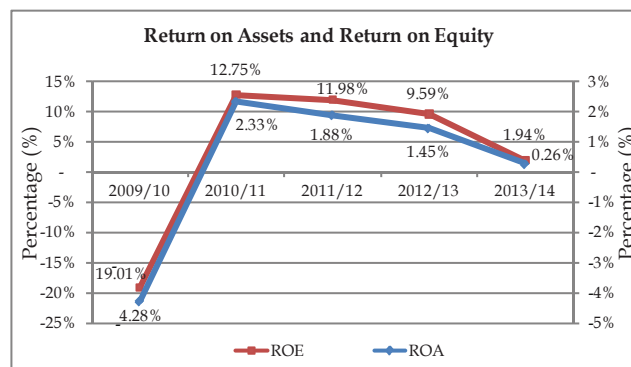


### Overall Profitability, ROA and ROE

Overall Profitability of the Company has declined during the year under review due to the challenging environment. Profit after Tax of the Company has declined by 78.63% during the year under review. The decline in the market value of the vehicles, ageing of lending portfolio and the non performing transfers of the facilities increased the level of charges on Impairment. However, the Company is confident that the concentrated efforts taken on recoveries during latter part of the financial year will improve the assets quality during the year 2014/15.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Profit before tax	25,368	58,771	(56.84)
Profit after Tax	8,695	40,688	(78.63)
Total Comprehensive Income	8,670	40,134	(78.40)

The Return on Equity (ROE) (after tax basis) in 2013/14 stood at 1.94% compared to 9.59% in 2012/13 while the Return on Assets (ROA) (after tax basis) in 2013/14 stood at 0.26% compared to 1.45% in 2012/13. The decline on overall profitability had an impact on ROE as well as ROA of the Company.



### Assets and Liabilities

A summary of the Assets and Liabilities portfolio of the Company is given below;

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Total Assets	3,707,340	2,925,505	26.72
Lease and Stock Out on Hire (Gross)	2,225,515	1,657,145	34.30
Loans and Advances (Gross)	805,447	863,419	(6.71)
Public Deposits	2,600,120	1,765,883	47.24
Borrowings	385,536	533,761	(27.77)

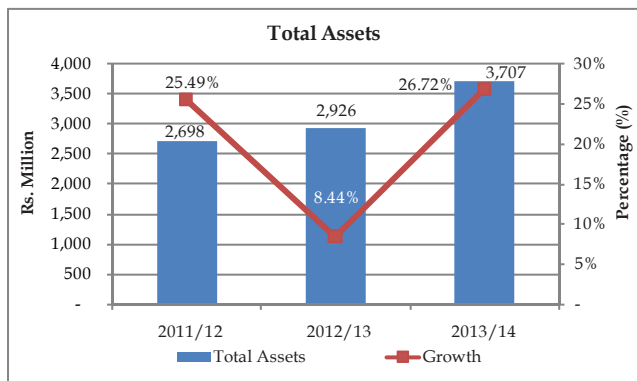
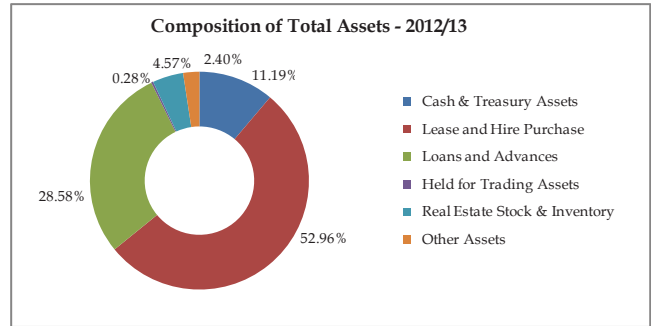
The Company recorded a higher growth (above the industry average) of 26.72% in Total Assets compared to the growth of 8.44% in 2012/13. Growth in the Public Deposits was at 47.24% against the growth of 5.61% in 2012/13, which marked as the highest growth achieved during the recent years.

### Total Assets

The Company's Total Assets grew by 26.72% in 2013/14, compared to the 20.3% average growth rate of the NBFI sector. This growth was supported by a 18.04% growth in Total Accommodations (Net) and a 85.72% growth in Cash and Treasury Assets. The growth in Accommodations is mainly supported by the growth in the Hero Leasing segment. The Company has taken a strategic decision to grow in the niche market of two wheelers and with the support of Hero product the Company was able to achieve its targets during the year.

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Cash & Treasury Assets	608,181	327,465	85.72
Lease and Hire Purchase	2,073,588	1,549,447	33.83
Loans and Advances	742,250	836,056	(11.22)
Financial Assets Held for Trading	7,050	8,337	(15.43)
Real Estate Stock	130,861	133,842	(2.23)
Other Assets	145,410	70,358	106.67
<b>Total Assets</b>	<b>3,707,340</b>	<b>2,925,505</b>	<b>26.72</b>

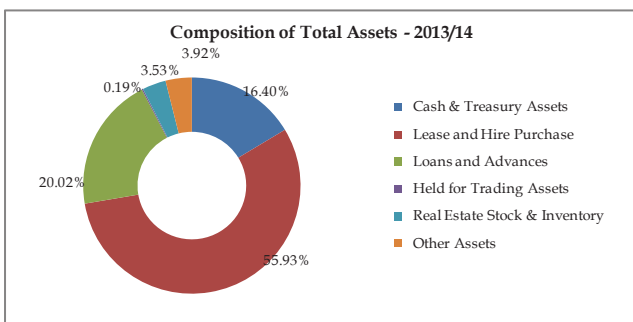
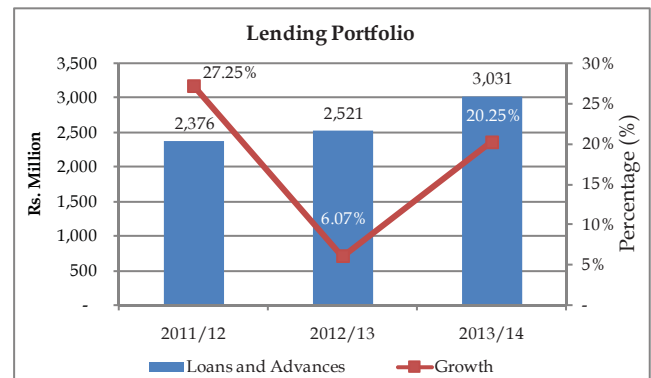


### Lending Portfolio

Gross Accommodations of the Company as at the end of 2013/14 stood at Rs. 3,030 Mn. as against Rs. 2,520 Mn at the end of 2012/13, which recorded a growth of 20.25% in 2013/14 compared to the growth of 6.07% in 2012/13. The Company's growth in Lending Portfolio is above the industry average of 17.3%.

The Cash and Treasury Assets which stood at 327.4 Mn at the end of 2012/13 has increased up to 608.1 Mn in 2013/14, mainly due to the risk averse Credit policy applied during the year.

Total Accommodations accounted for 75.95% of the Total Assets as at the end of 2013/14 compared to 81.54% in 2012/13. The decline in the significance of Accommodations to Total Assets is due to the negative growth in the Loans and Advances and Hire Purchase portfolio which resulted in an increase in the Cash and Treasury Assets.

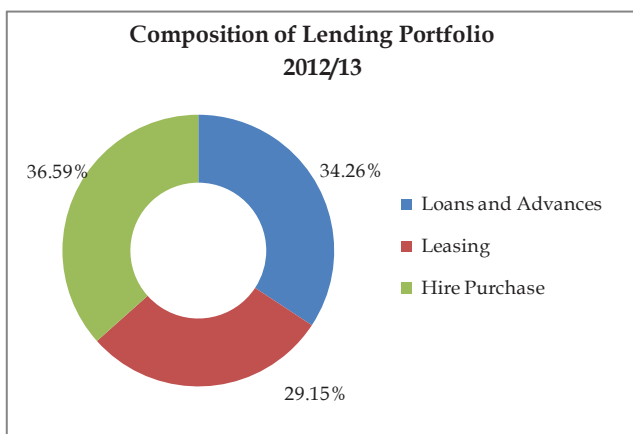
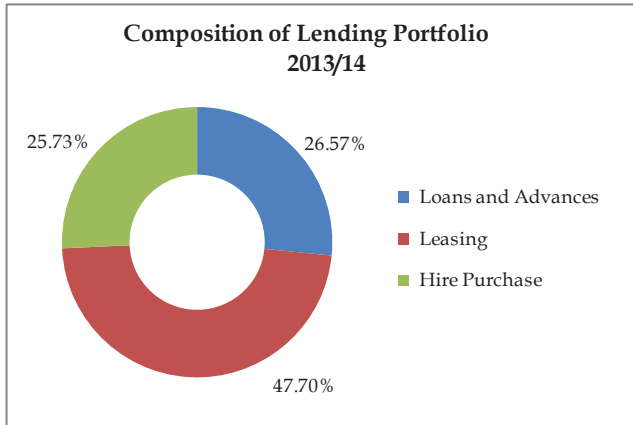


The Company has achieved a high growth in the Leasing segment while a negative growth is registered in Hire Purchase and Loans and Advances during the year under review.

INDICATOR	2013/14 (RS. '000)	2012/13 (RS. '000)	CHANGE %
Leasing	1,445,793	734,839	96.75
Hire Purchase	779,722	922,306	(15.46)
Loans and Advances	805,447	863,419	(6.71)
<b>Total Accommodations (Gross)</b>	<b>3,030,961</b>	<b>2,520,564</b>	<b>20.25</b>

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

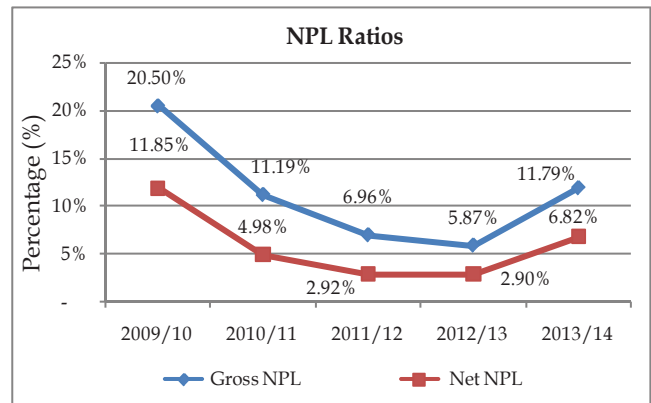
The strategic decision taken by the management during the last year to grow Hero Leasing, product boosted the growth in the Leasing segment. This growth in two wheeler Leasing products supported to the growth in the Total Operating Income through increased Net Interest Income and Net Fee and Commission Income. Further, this has positively impacted the Net Interest Margin and Cost to Income Ratio of the Company during the year under review.



### Assets Quality

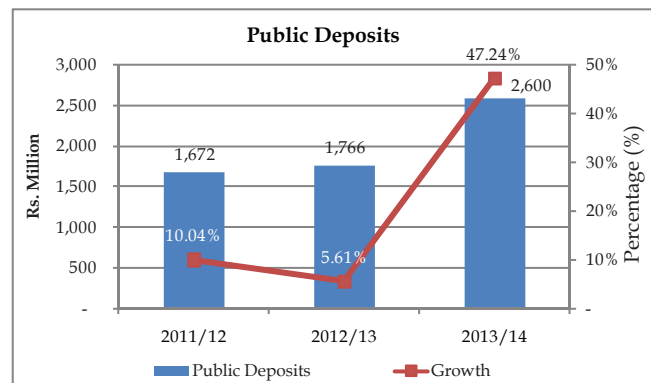
The challenges in the business environment have resulted the sector facing difficulties in maintaining the Assets Quality. Non Performing Loans (NPL) Ratio of the NBFIs sector has raised up to 6.7% in 2013 (December) from 5% in 2012 (December).

The Company also, had the impact on the Assets Quality which has resulted in very high Impairment Charges during the year. The gross portfolio of Non Performing Accommodations of the Company rose from 5.87% in 2012/13 to 11.79% during the year under review.



### Public Deposits

The Company's Public Deposits grew significantly by 47.27% and reached Rs. 2,600 Mn. during the year under review compared to the growth of 5.61% in 2012/13. The industry average growth rate stood at 32.7%



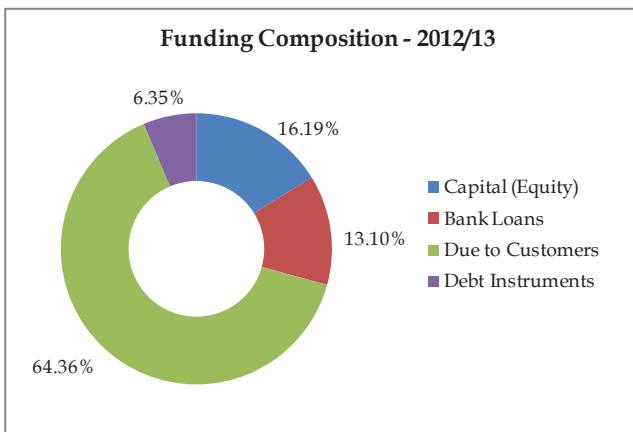
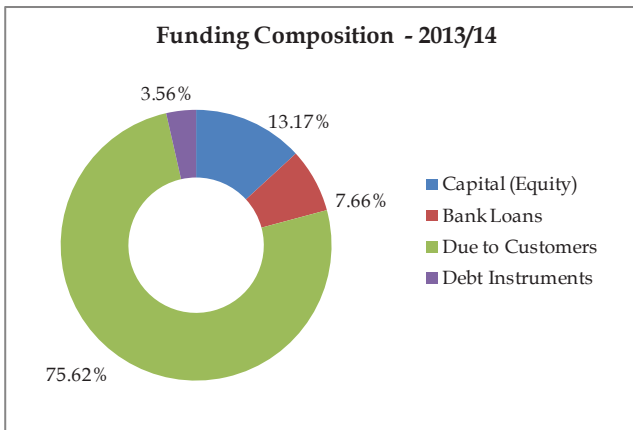
### Borrowings

Total Borrowings from Banks and Debt instruments declined to Rs. 385.5 Mn. as at end of 2013/14 from Rs. 533.7 Mn. in 2012/13. High growth in Public Deposits has contributed to the decline in Borrowings during the year.

### Funding Composition

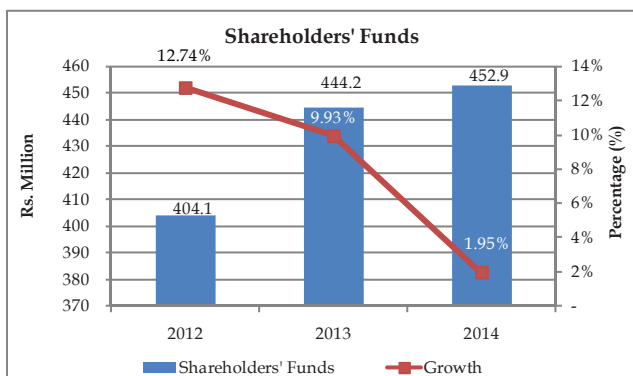
Funding composition of the Company includes Equity Capital, Public Deposits, Bank Loans and Debt Securities. This composition has been changed slightly due to rise in Public Deposits. Public Deposits represents 75.62% of the Total Fund base of the Company while remaining as the key funding source.

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE



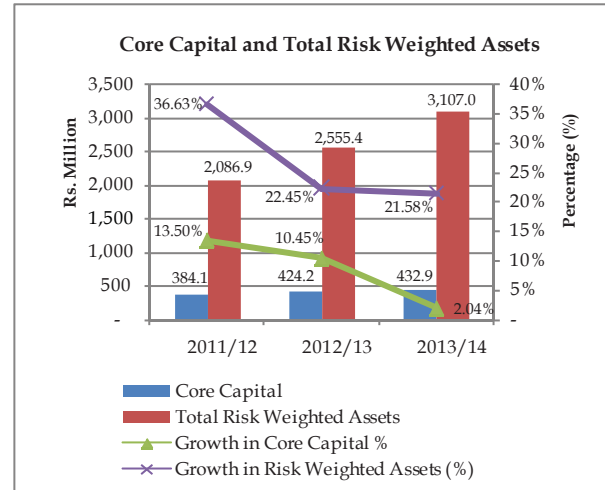
### Shareholders' Funds

The Total Shareholders' Funds increased by 1.95% to reach Rs. 458.8 Mn from 444.2 Mn registered as at the end of 2012/13. Decline in the Profitability due to high Impairment Charges had an impact on the growth of Total Shareholders' Fund.

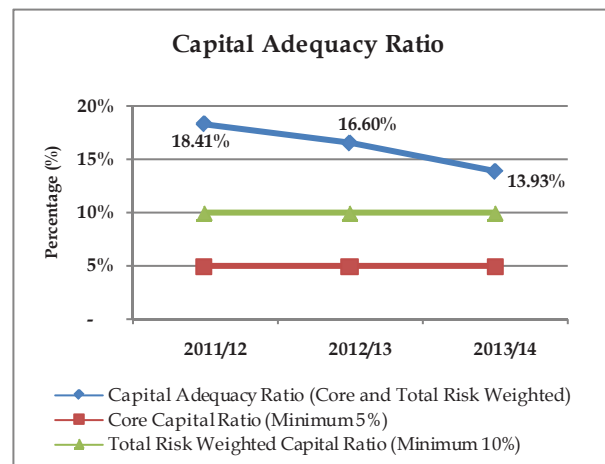


### Capital Adequacy

The high growth in the Risk Weighted Assets and the low growth in the Capital Base has resulted in a decline in the Capital Adequacy Ratios. However, the Company was able to maintain Core Capital and Total Risk Weighted Capital Ratios well above the statutory limits of 5% and 10% respectively.



The Company's Core Capital Ratio and the Total Risk Weighted Capital Ratio stood at 13.93% as at 31 March 2014 as against 16.60% as at 31 March 2013.



The following table represents a detailed analysis on Capital Adequacy,



## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

Assets	Risk Weight %	As At 31 March 2014		As At 31 March 2013	
		Assets Total (Rs. '000)	Risk weighted Assets (Rs. '000)	Assets Total (Rs. '000)	Risk weighted Assets (Rs. '000)
Cash & Current Accounts with Banks	0%	97,470	-	33,803	-
Sri Lanka Government Treasury Securities	0%	326,072	-	168,522	-
Deposits with Banks	20%	135,202	27,040	125,140	25,028
Loans against Fixed Deposits	0%	68,619	-	67,638	-
Other Accommodations	100%	2,747,220	2,747,220	2,317,866	2,317,866
Other Assets	100%	332,757	332,757	212,536	212,536
<b>Total / Risk Weighted Assets</b>		<b>3,707,340</b>	<b>3,107,017</b>	<b>2,925,505</b>	<b>2,555,430</b>

Constituents of Capital	31.03.2014 (Rs. '000)	31.03.2013 (Rs. '000)
Paid-up Ordinary Shares (Cash)	350,000	350,000
Share Premium	12,374	12,374
Statutory Reserve Fund	29,968	28,229
Published Retained Profits	22,099	18,900
General and Other Reserves	18,454	14,722
<b>Tier I : Core Capital</b>	<b>432,895</b>	<b>424,225</b>
Tier 2 : Supplementary Capital	-	-
<b>Capital Base</b>	<b>432,895</b>	<b>424,225</b>

Capital Adequacy Ratio	31.03.2014	31.03.2013
Core Capital Ratio (Minimum 5%)	13.93%	16.60%
Total Risk Weighted Capital Ratio (Minimum 10%)	13.93%	16.60%

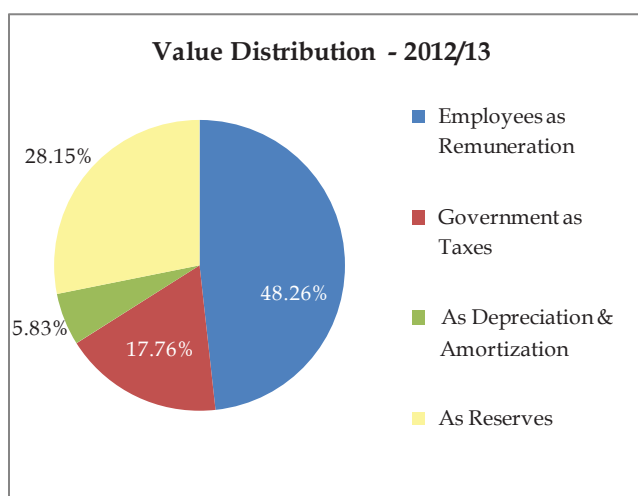
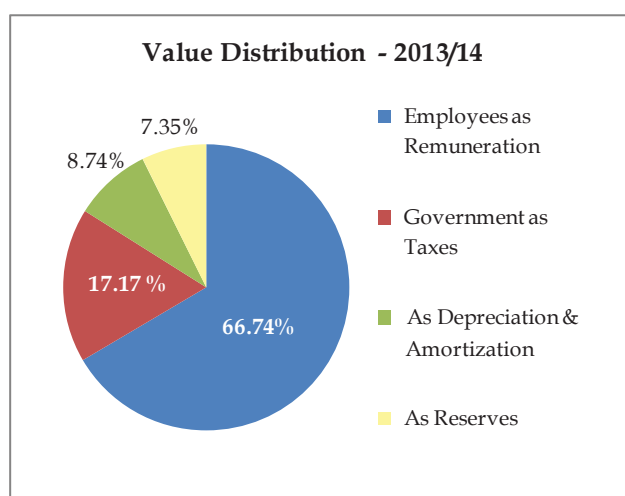
## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

### Economic Value Generated and Distributed

The Company continued to create value for itself for growth and to meet any unforeseen event. The created value will be distributed among multiple stakeholders while part of it will be retained within the business for future growth. The value created and distributed during the year under review and for previous year is depicted as follows;

### Value Addition and Distribution

For the year ended 31 March	2014 Rs. '000	%	2013 Rs. '000	%
<b>Value Added</b>				
Income earned by providing Financial Services	751,706		569,896	
Cost of Services	(517,887)		(420,684)	
<b>Value added by Financial Services</b>	<b>233,819</b>		<b>149,212</b>	
Net Gain / (Loss) from Trading	273		449	
Impairment Charges	(115,722)		(5,143)	
<b>Total Value Added</b>	<b>118,370</b>		<b>144,518</b>	
<b>Value Allocated</b>				
Employees as Remuneration	78,999	66.8	69,739	48.2
Government as Taxes	20,328	17.2	25,669	17.8
Shareholders as Dividends	-	-	-	-
Retained within the Business				
- As Depreciation & Amortization	10,348	8.7	8,422	5.8
- As Reserves	8,695	7.3	40,688	28.2
<b>Total Value Allocated</b>	<b>118,370</b>	<b>100.0</b>	<b>144,518</b>	<b>100.0</b>

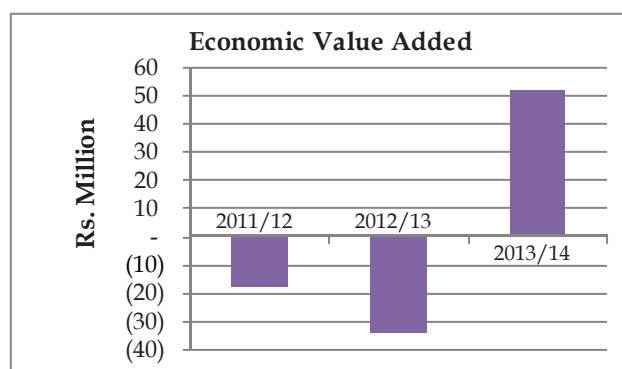


## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

### Economic Value Added (EVA)

One of the main objectives of the Company is to maximize Shareholders' wealth through economic value creation. The output achieved during the year under review and for the previous two years are as follows;

For the year Ended 31 March	2014	2013	2012
	Rs. '000	Rs. '000	Rs. '000
Shareholder's Funds	452,895	444,225	404,092
Accumulated Provision for Impairment Charges	253,351	142,869	178,218
	706,246	587,094	582,310
<b>Profit Attributable to:</b>			
Shareholders	8,695	40,688	45,674
Add: Impairment Provision	115,722	5,143	2,649
	124,417	45,831	48,323
Economic Cost % (Average Treasury Bill Rate +2% Risk Premium)	10.29%	13.69%	11.31%
Economic Cost	72,673	80,373	65,859
<b>Economic Value Addition</b>	<b>51,744</b>	<b>(34,542)</b>	<b>(17,536)</b>



## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

### Sources and Utilization of Income

Following table demonstrates the income sources of the Company and how the income has been utilized for the year under review and for the previous year;

For the year ended 31 March	2014 Rs. '000	%	2013 Rs. '000	%
<b>Sources of Income</b>				
Loans & Advances	649,745	86.4	509,160	89.3
Government Securities	19,401	2.6	20,599	3.6
Other Financial Assets	19,377	2.6	11,353	2.0
Fee & Commission Income	48,244	6.4	24,513	4.3
Others	15,212	2.0	4,719	0.8
<b>Total</b>	<b>751,979</b>	<b>100.0</b>	<b>570,344</b>	<b>100.0</b>
<b>Utilisation of Income</b>				
<b>To Employees</b>				
Personnel Expenses	78,999	10.4	69,739	12.3
<b>To Suppliers</b>				
Interest Paid	387,219	51.5	328,177	57.5
Other Expenses	130,668	17.4	92,506	16.2
Depreciation & Amortization	10,348	1.4	8,422	1.5
Provision for Credit Losses	115,722	15.4	5,143	0.9
<b>To Government</b>				
VAT on Financial Services	3,656	0.5	7,586	1.3
Income Tax (Inclusive of Deferred Tax)	16,672	2.2	18,083	3.2
<b>To Shareholders</b>				
Dividends	-	-	-	-
Retained Profit	8,695	1.2	40,688	7.1
<b>Total</b>	<b>751,979</b>	<b>100.0</b>	<b>570,344</b>	<b>100.0</b>

## MANAGEMENT DISCUSSION AND ANALYSIS DERIVING VALUE

### INSTITUTIONAL CAPITAL

Institutional Capital entails non-financial aspects such as organizational knowledge, brand value, corporate culture, systems, procedures, business ethics, etc. Unlike the Financial Capital, a value cannot be placed on these components.

#### Organizational Knowledge

Abans Finance, a member of Abans Group is playing an innovative role in fulfilling of its customers' needs. In 2006, the Company entered into NBFi sector as a Leasing Company and upgraded to a Finance Company in 2007 and registered with the Monetary Board of Central Bank of Sri Lanka as a Licensed Finance Company. The Company is growing towards becoming a universal financial service provider, based on past experience, new thinking and synergies available within the Abans Group.

#### Brand Value

Abans Finance is creating a reputation day by day while providing highest quality financial services for nearly nine years. We recognize the importance of brand and constantly evolved catering to the needs of its customer base with the support of the large conglomerate, Abans. Customer satisfaction surveys are also conducted on a continuous basis to improve quality with the support of its feedback.

#### Information Technology

Information Technology plays a vital role in the expansion of the business. During the year several improvements were effected with the support of information technology to achieve process efficiencies for large scale operations. The Company adopts technology to make information more accessible for the decision making process.

During the year under review, the Company has upgraded its data base from Work Group to Enterprise enabling to enhance its concurrent users. Further, the Company is continuously developing its management Information System for accurate and timely decision making.

To address contingencies, the Company is currently finalizing its Business Continuity Plan and Disaster Recovery Plan. Further, an Information System Security Policy is in place and during the year under review, the Company has improved its back up and security policies. The Company has succeeded in systemizing its' Service Centers during the year under review and currently all the Branches and the Services Centers are equipped with the latest technology.

### Business Ethics and Integrity

Development of an ethical culture is of highest importance to Abans Finance. The Company pays close attention to implement right ethical decisions in its day to day operations with the active participation, understanding and commitment from all our employees.

#### Operations

Abans Finance operates with the resources optimization principles of shared and centralized services. The functionalities of Credit Administration and Disbursement, Services and Procurement, Payments, Payroll and Human Resources Finance and Treasury functions are centralized. Credit Approvals, Deposits mobilization and some other functions are decentralized through delegated authority, while Head Office monitors and controls it.

#### Corporate Culture

Abans Finance promotes team culture, where every member is contributing towards realizing the overall vision of the Company. Each individual and each team is respected, rewarded and recognized for the competence, capabilities and knowledge he or she exhibits and the delivery of results. An effective incentive scheme is in place for recognition of staff who perform exceptionally.



## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### EXTERNAL CAPITAL FORMATION

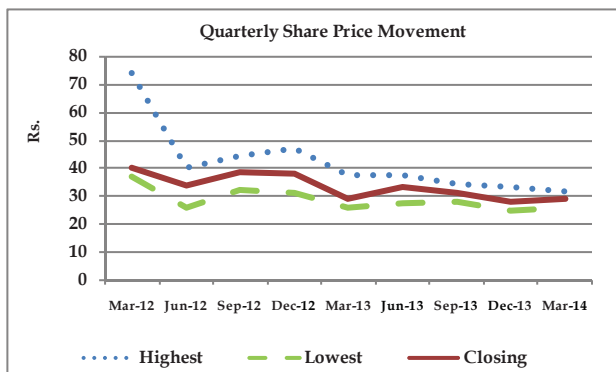
External Capital of Abans Finance includes Investor Capital, Customer Capital, Employee Capital, Social and Environment Capital. These capitals are formed through value created by the Company through its business activities for the benefits of the stakeholders.

### INVESTOR CAPITAL

The Stated Capital of Abans Finance as at 31 March 2014 was Rs. 382.4 Mn which comprises of Rs. 370 Mn as Share Capital and Rs. 12.4 Mn of Share Premium which represented by 37 Mn fully Paid up Ordinary Shares. These Ordinary Shares were listed with the Colombo Stock Exchange w.e.f. 27 June 2011. The Market Value of shares as at 31 March, 2014 stood at Rs. 29.40 and the market capitalization stood at Rs. 1,087.8 Mn. The market price remained reasonably stable throughout the year.

	2014	2013
Highest Market Price (Rs.)	38.00	47.00
Lowest Market Price (Rs.)	25.10	26.00
Price as at 31 March (Rs.)	29.40	29.00

The highest and the lowest values recorded during the year under review were Rs. 38 and Rs. 25.10 respectively.



### Earnings

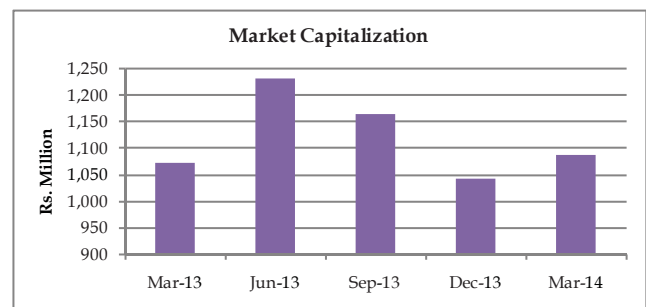
The basic Earnings per Share for the period declined by 78.18% to Rs. 0.24 from Rs. 1.10 in the year 2012/13. The profit after Tax of the Company has declined during the year as discussed earlier and as a result, Earnings per Share has declined, and the growth of the Shareholders' Fund was affected. The price-earnings ratio (P/E Ratio) stood at 122.50 times at the end of the financial year under review compared to 26.36 times as at the end of the last year.

### Dividend

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

### Market Capitalization

As at 31 March 2014, the Market Capitalization of Abans Finance increased by 1.38% to Rs. 1,087.8 Mn. compared to Rs. 1,073 Mn. as at 31 March 2013. A quarterly analysis of Market Capitalization is as follows,



### Net Asset Value per Share

As at the end of the financial year under review, the net assets value per share stood at 12.24 compared to 12.01 in previous year.

### Public Holdings

The percentage of shares held by the public as at 31 March 2014 was at 10.04%.

### Major Share Holders

Twenty largest Shareholders as at the end of the year under review and the previous year are as follows;

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

Name of the Shareholder	31 March 2014		31 March 2013	
	No. of Shares	(%)	No. of Shares	(%)
Abans PLC	33,025,006	89.26	31,195,367	84.31
Mr. P N Pestonjee	679,000	1.84	679,560	1.84
Mr. B Pestonjee	-	-	519,732	1.40
Mr. P K Pestonjee	370,100	1.00	370,100	1.00
Mr. D S Karunakaran	-	-	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
Mr. N N Perera	-	-	370,000	1.00
Mrs. M V I F Fernando	-	-	370,000	1.00
Miss. I N Jalaldeen	-	-	366,400	0.99
Mrs. 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 (Pvt) Ltd.	100,000	0.27	100,000	0.27
Cleantech (Pvt) Ltd.	100,000	0.27	100,000	0.27
AB Securitas (Pvt) Ltd.	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
Mr. G C Goonethilleke	34,044	0.09	30,000	0.08
Mr. A W A Kumaradasa	91,063	0.25	-	-
Mrs. K S Rodrigo	90,000	0.24	-	-
Mrs. S F Zubair	77,871	0.21	-	-
Mrs. H I Salgado	66,600	0.18	-	-
Paramadamma Buddhist Institute	51,208	0.14	-	-
Dr. K Poologasundram	25,000	0.07	-	-
Dr. S. A. Leelananda	20,000	0.05	-	-
	<b>36,246,694</b>	<b>97.96</b>	<b>36,424,561</b>	<b>98.44</b>
<b>Others</b>	753,306	2.04	575,439	1.56
<b>Total</b>	<b>37,000,000</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>

### Distribution of Shareholdings

Distribution of Shareholdings as at the end of the financial year under review and the previous year are as follows;

No. of Shares held	As at 31.03.2014				As at 31.03.2013			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No .	%	No .	%	No .	%	No .	%
1- 1,000	484	74.35	113,231	0.31	403	76.18	108,142	0.29
1,001-5,000	110	16.90	279,986	0.76	80	15.12	195,463	0.53
5,001-10,000	28	4.30	214,514	0.58	19	3.59	145,534	0.39
10,001-50,000	12	1.84	231,419	0.63	8	1.51	163,100	0.44
50,001-100,000	9	1.38	743,409	2.01	5	0.95	433,267	1.17
100,001-500,000	6	0.92	1,713,435	4.63	11	2.08	3,559,835	9.62
500,001-1,000,000	1	0.15	679,000	1.84	2	0.38	1,199,292	3.24
Over 1,000,000	1	0.15	33,025,006	89.26	1	0.19	31,195,367	84.31
<b>Total</b>	<b>651</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>	<b>529</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### Individual / Institutional Shareholdings

An analysis on Individual / Institutional Shareholdings as at end of the year under review and the previous year are as follow;

Shareholding	As at 31.03.2014				As at 31.03.2013			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No .	%	No .	%	No .	%	No .	%
Individual	637	97.85	3,592,967	9.71	510	96.41	5,564,240	15.04
Institutional	14	2.15	33,407,033	90.29	19	3.59	31,435,760	84.96
	<b>651</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>	<b>529</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>

### Resident / Non-Resident Shareholdings

An analysis on Resident / Non-Resident Shareholdings as at end of the year under review and the previous year are as follow,

Shareholding	As at 31.03.2014				As at 31.03.2013			
	No. of Shareholders		No. of Shares		No. of Shareholders		No. of Shares	
	No .	%	No .	%	No .	%	No .	%
Resident	649	99.69	36,989,800	99.97	526	99.43	36,988,000	99.97
Non- Resident	2	0.31	10,200	0.03	3	0.57	12,000	0.03
	<b>651</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>	<b>529</b>	<b>100.00</b>	<b>37,000,000</b>	<b>100.00</b>

### Directors' Shareholdings as at 31 March 2014

Directors' Shareholdings as at end of the year under review and as at the end of the previous year are disclosed under Report of the Board of Directors on page 77.

### Communications with Shareholders

The Company gives considerable importance for the maintenance of superior relationships with the Shareholders. The Company uses the Annual General Meeting as a formal opportunity for effective communication between the Company and Shareholders. Hence all the Shareholders are encouraged to actively participate in the Company's AGM. The Chairman of the Company and Chairmen of the Board-Sub Committees and External Auditor

normally attend the Annual General Meeting and are available to answer questions.

The Company website, [www.abansfinance.lk](http://www.abansfinance.lk) functions as an additional channel for communication with shareholders and other stakeholders. Further, Corporate Disclosures and other news releases / price sensitive information are communicated firstly to Colombo Stock Exchange to maintain information equity.

### Compliance Report in Terms of Section 7.6 - Contents of the Annual Report in Terms of the Listing Rules of the Colombo Stock Exchange

The table below summarizes the Company's degree of compliance with section 7.2 of the Listing Rules issued by Colombo Stock Exchange;

Rule No.	Disclosure Requirements	Section Reference	Page No.
7.6 (i)	Names of persons, who during the financial year were Directors of the Entity.	Report of the Board of Directors.	76
7.6 (ii)	Principal activities of the entity and its subsidiaries during the year and any changes therein.	Company does not have any Subsidiary. Refer Notes to the Financial Statements - Note 1.2 .	87

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

Rule No.	Disclosure Requirements	Section Reference	Page No.
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting share and the percentage of such shares held.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	25
7.6 (iv)	The Public Holding percentage.	Management Discussion and Analysis – External Capital Formation – Investor Capital.	24
7.6 (v)	A Statement of each Director’s holding and Chief Executive Officer’s holding in shares of the Entity at the beginning and end of the financial year.	Report of the Board of Directors.	77
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity.	Risk Management Report.	69 - 73
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity.	Management Discussion and Analysis – External Capital Formation – Employee Capital, Social and Environment Capital.	28 - 31 & 35
7.6 (viii)	Extents, locations, valuations and the number of buildings of the Entity’s land holdings and investment properties.	Company does not have any Land / Land & Building and Investment properties.	N/A
7.6 (ix)	Number of shares representing the Entity’s Stated Capital.	Notes to the Financial Statements -Note 35	112
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Management Discussion and Analysis – External Capital Formation – Investor Capital (Page 25).	25
7.6 (xi)	Ratios and Market Price Information · Dividend per share · Dividend pay out	Company have not declared any dividend for the year under review and hence it is not applicable	N/A
	· Net asset value per share · Market Value per share	Management Discussion and Analysis – External Capital Formation – Investor Capital.	24
7.6 (xii)	Significant changes in the Entity’s or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Not Applicable	N/A
7.6 (xiii)	Details of funds raised through Public Issues, Right Issues and Private Placement during the year.	The Company has not raised funds through public/right issues and private placements during the year under review.	N/A
7.6 (xiv)	Information in respect of Employee Share Option / Purchase Scheme	The Company does not have an Employee Share Option / Purchase Scheme.	N/A
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of Rules 7.10.3, 7.10.5 c and 7.10.6.c of section 7 of the Rules.	Corporate Governance Report (Section – Three) and this report satisfies the requirements .	61 - 63 & 27
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the Total Assets whichever is lower.	The Company does not have major transactions with its related parties . However, Note No. 46 discloses the transactions with related parties.	129

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### EMPLOYEE CAPITAL

Human Resources management is centralized across the Abans Group. Within the centralized structure, HR division of Abans Finance is headed by the Manager – HR and reports to General Manager and/or Managing Director together with Deputy General Manager (Abans Group).

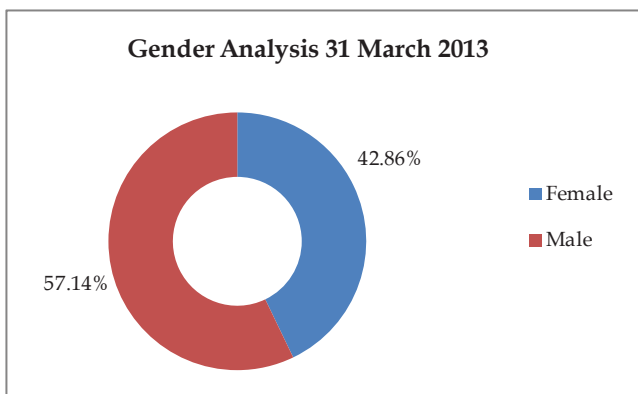
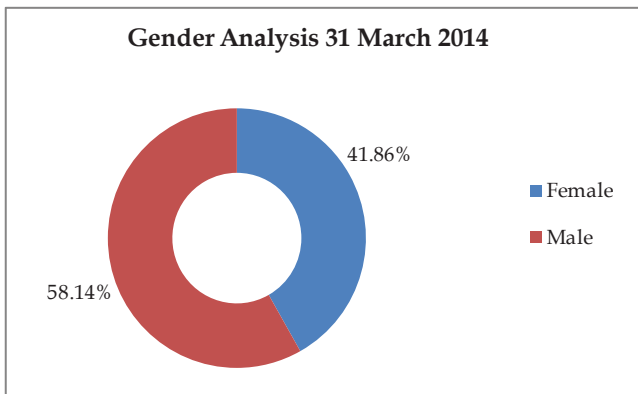
#### Employee Strength

Abans Finance has a team of 172 highly motivated employees (as at the end of 2013/14) who are focused towards the success of Abans Finance and we build them while providing equal opportunities to fulfill their career aspirations through training, skill development, motivation and creating a sense of team spirit. Abans Finance ensures that no employee is subject to any sort of discrimination based on gender.

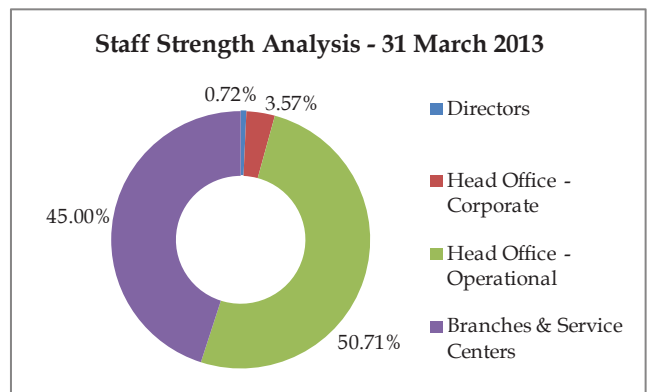
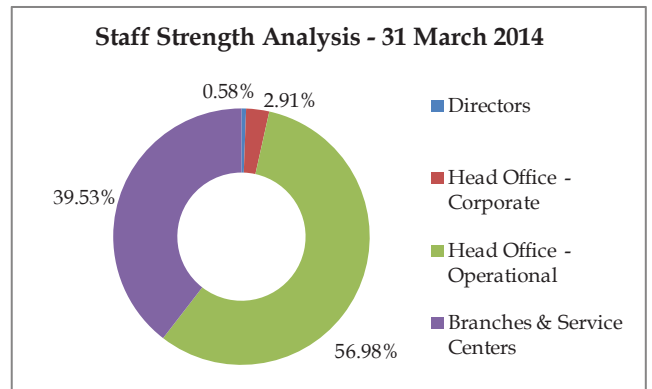
Province	Number of Employees			Composition (%)		
	31 March 2014			31 March 2014		
	Male	Female	Total	Male	Female	Total
Northern	2	1	3	1.16	0.58	1.74
North Western	5	2	7	2.91	1.16	4.07
North Central	7	2	9	4.07	1.16	5.23
Central	14	7	21	8.14	4.07	12.21
Western	51	51	102	29.65	29.65	59.30
Uva	6	1	7	3.49	0.58	4.07
Sabaragamuwa	7	3	10	4.07	1.74	5.81
Southern	6	5	11	3.49	2.91	6.40
Eastern	2	-	2	1.16	-	1.16
	100	72	172	58.14	41.86	100.00

#### Workforce by Grade and Gender

Grade	Number of Employees			Composition (%)		
	31 March 2014			31 March 2014		
	Male	Female	Total	Male	Female	Total
Senior Management	5	-	5	2.91	-	2.91
Management	16	3	19	9.30	1.74	11.04
Executive	43	39	82	25.00	22.67	47.67
Trainee Executive	30	25	55	17.44	14.53	31.98
Other	6	5	11	3.49	2.91	6.40
	100	72	172	58.14	41.86	100.00



The following table demonstrates the workforce by geographic region and gender;



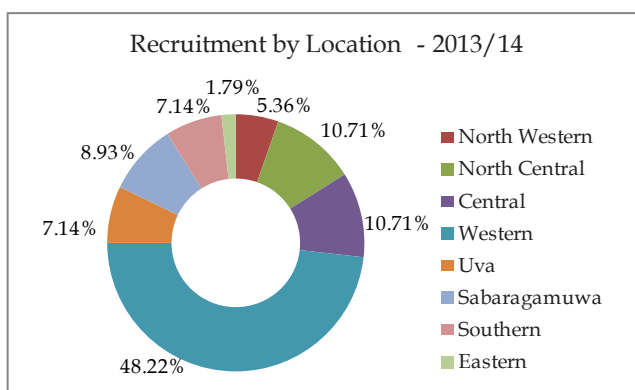
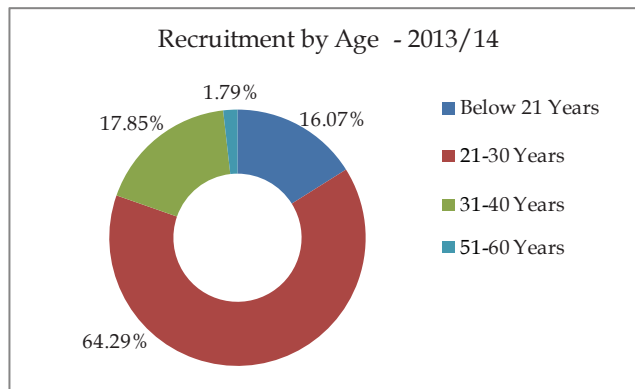
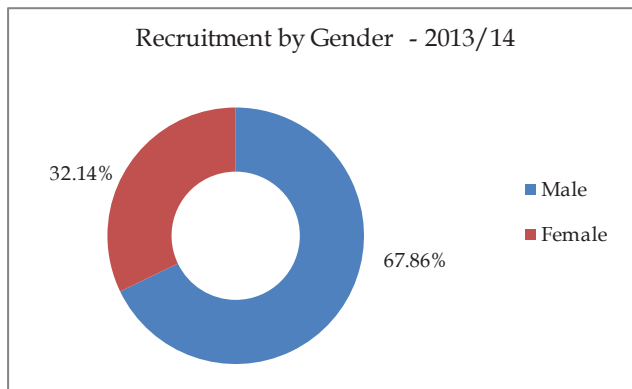


## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

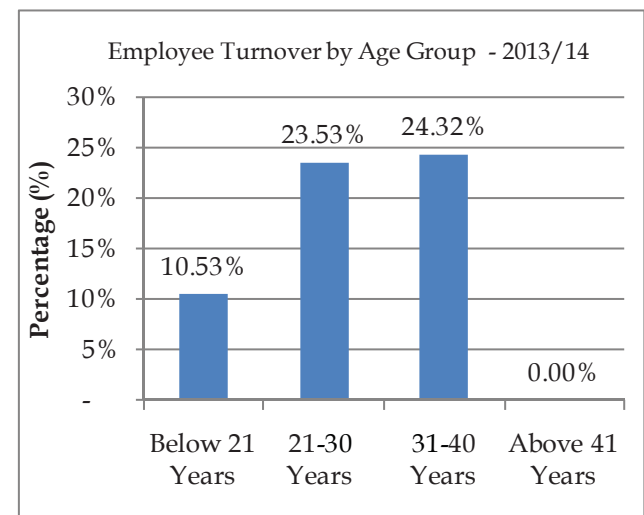
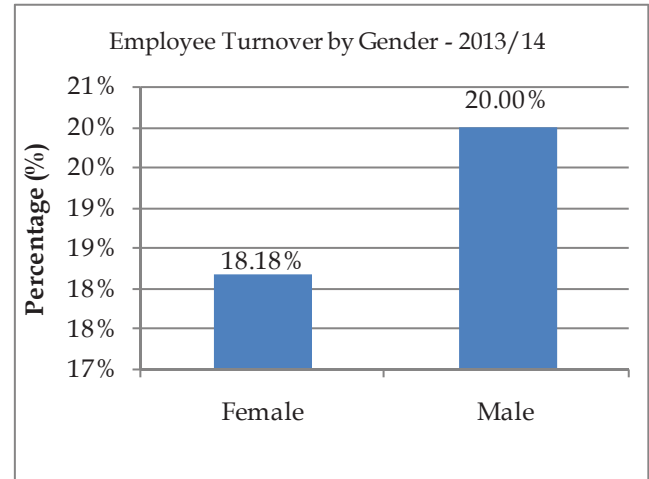
### Recruitment and Retention

Our main priority is staff career development, duly supported by training (on the job and off the job), development and succession planning, and whenever the need arises we recruit from outside. A transparent procedure is in place for all staff recruitment and we adopt best industry practices for retaining staff. We offer an attractive remuneration package, regular employee engagement, training and development, career paths, diversity and equal opportunity, maternity leave and retirement benefits as factors influencing retention.

The Company recruited a total of 56 staff during the year under review which can be analyzed as follows;



A total of 30 staff left the Company during the year under review and staff turnover ratio stood at 19.23% in 2013/14 compared to 20.23% in 2012/13. The Employee Turnover can be analyzed as follows;



Abans Finance retention strategy focuses on remuneration, reward and recognition, benefits and effective labour relations. The compensation offered by Abans Finance is either on par or above the NBF sector. Permanent employees are entitled to various benefits in addition to their remuneration. These benefits include;

- Performance related incentives
- Vehicle and fuel allowance for middle and top management.
- Reimbursement of fuel and other expenses on business promotions
- Contribution to EPF, ETF, and Gratuity payment upon completion of 5 years (on termination)
- Staff loans at concessionary rates
- Medical Benefits - OPD claims, Personal accident cover etc.
- Reimbursement of professional membership fees.

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### Work Life Balance

Work Life Balance is one of the important practices of human resource for employee well being and performance. The Company encourages the staff to be more aware in balancing their work-life. A well balanced work environment is arranged including a flexible leave system to encourage the independence required to balance work responsibilities with their personal lives.

### Defined Benefit Plans

The Company contributes to EPF and ETF and details are as follows;

- Contribution to EPF - Contributed by employee 8%
- Contributed by employer 12%

Contribution to ETF by the employer 3%

The Company provides for Gratuity for permanent employees who have completed five years of services based on the legislations applicable in Sri Lanka. In order to ascertain the liability arising from this, the Company obtains an actuarial valuation carried out by Actuarial Management services (Pvt) Ltd, a professional Actuary. According to the actuarial valuation, the gratuity liability as at 31 March 2014 was Rs. 7,411,816/-

### Continuous Learning

Training and developing our pool of employees are a key aspect in developing performance oriented culture that keep the Company ahead of competition. During the year under review, the Company invested Rs. 984,600 (2012/13 - Rs. 411,262/-) to provide a total of 1,484 man-hours of training (2012/13 - 586 man-hours) across all categories of staff.

Employee training needs are identified through analysis of individual training requirement (during staff appraisal), discussions with department heads and line managers and the directions from the Corporate Management and Board of Directors. Depending on the needs, employees are provided with suitable training through internal programmes (arranged within the Company) such as, orientation programmes for new recruits, job rotation and on the job training and external programmes (organized by professional bodies).

The key areas covered for the training (Internal and External programmes) are as follows;

Subject	No. of Training Programmes in 2013/14
Accountancy	2
Banking & Finance	7
Contemporary Issues	8
Credit, Documentation and Recoveries	8
Information Technology	3
Marketing	1
Risk Management, Compliance and Corporate Governance	13
Taxation	3
Treasury Management	3
Others	5
<b>Total</b>	<b>53</b>

The following table summarizes the training programmes conducted during 2013/14 and in 2012/13;

Category	2013/14	2012/13
No. of Programmes	53	34
No. of Participants	111	60
Man Hours of Training	1,484	586
Total Training Cost (Rs)	984,600	411,262

## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### Staff Outing

With the support of the Abans Finance Welfare Society and the HR Department staff went on a days outing to Palm Village, Uswetakeiyawa on 11 January 2014. The day was filled with fun activities such as musical chairs, tug o' war, dancing competitions, pool events and other numerous fun events.



## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### CUSTOMER CAPITAL

Abans Finance PLC is a member of the prestigious Abans Group, a household name in Sri Lanka. Abans Finance PLC was incorporated on 8 April 2005 under the Companies Act No.17 of 1982 and was re-registered in terms of the new Companies Act No. 7 of 2007 on 15 June 2009. The Company's principal lines of business include acceptance of Time and Savings Deposits, Finance Leasing, Hire Purchase, Mortgage Loans, Real Estate Development and Capital Market Operations. Currently, Abans Finance PLC operates with ten fully fledged Branches and five Customer Service Centers.

Abans Finance has a diverse customer base consisting of individuals and corporates. The Company offers tailor-made financial services of the highest quality and satisfies diverse needs of our customers. The Company has enhanced its customer base substantially during the year under review.

An analysis of the customer base of the Company as at end of year under review and previous year are as follows;

	Segment	31 March 2014		31 March 2013	
		No. of Customers		No. of Customers	
		Individual	Corporate	Individual	Corporate
Lending Products	Leasing	6,736	61	2,103	41
	Hire Purchase	2,090	24	3,716	30
	Loans	1,353	10	1,333	13
	<b>Subtotal</b>	<b>10,179</b>	<b>95</b>	<b>7,152</b>	<b>84</b>
Deposits Products	Fixed Deposits	1,700	18	1,400	18
	Savings	1,538	4	1,451	4
	<b>Subtotal</b>	<b>3,238</b>	<b>22</b>	<b>2,851</b>	<b>22</b>
<b>Total</b>		<b>13,417</b>	<b>117</b>	<b>10,003</b>	<b>106</b>

### Product Portfolio

Abans Finance operates with a diversified portfolio and the Company's principal activities consist of the following;



Acceptance of Deposits



Granting Lease Facilities



Granting Hire Purchase



Granting Mortgage Loans



Granting Personal Loans



Real Estate Development



Other Loans



## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### Leases & Hire Purchases

The Company provides special packages with flexible payment schemes to suit customer requirements including the following;

- Leasing of brand new and reconditioned vehicles
- Hire purchasing of registered vehicles
- Easy payment for home appliances & office equipment
- Leasing of Plant and Machinery

To create a niche market in leasing, the Company has strategically focused on providing leasing facilities for motor bikes and the Company added a new segment of business during the latter part of year 2012, namely the "Hero Leasing" product as part of its Finance Leasing portfolio.

### Hero Leasing

Within a limited period of time from the introduction of the new product, Abans Finance has been able to penetrate the market in respect of this product. The Company is confident that with the additional features applicable to the product through an additional premium coupled with the utilization of the Hero two wheeler network of Abans Group, the Company can further strengthen this product, significantly in the future.

### Loans

The Company offers a range of loan products to cater to various customer needs. Abans Finance's principal loan facilities include the following;

- Personal Loans
- Mortgage Loans
- Real Estate Loans
- Revolving Loans
- Vehicle Loans
- Other Loans



*Re-location of Galle Branch*

### Deposits

The Company promotes Fixed and Savings Deposits as its major funding sources. A significant increase in the Deposits base has been discussed earlier. The Company offers Fixed Deposits with flexible maturity periods such as one month, three months, six months, twelve months, thirteen months, eighteen months, twenty four months, thirty six months, forty eight months and sixty months. Interest on Fixed Deposits is offered on monthly basis and maturity basis depending on the customer requirements.

### Customer Satisfaction

The Company continuously monitors and provides solutions on customer complaints, queries and customer requests. Abans Finance encourages its customers to provide feedback and suggestions on the service provided to them. All customer feedback and complains received are forwarded to relevant departments for immediate solutions.

### Branch Re-location

During the year under review the company has re-located two of its branches to prominent locations.



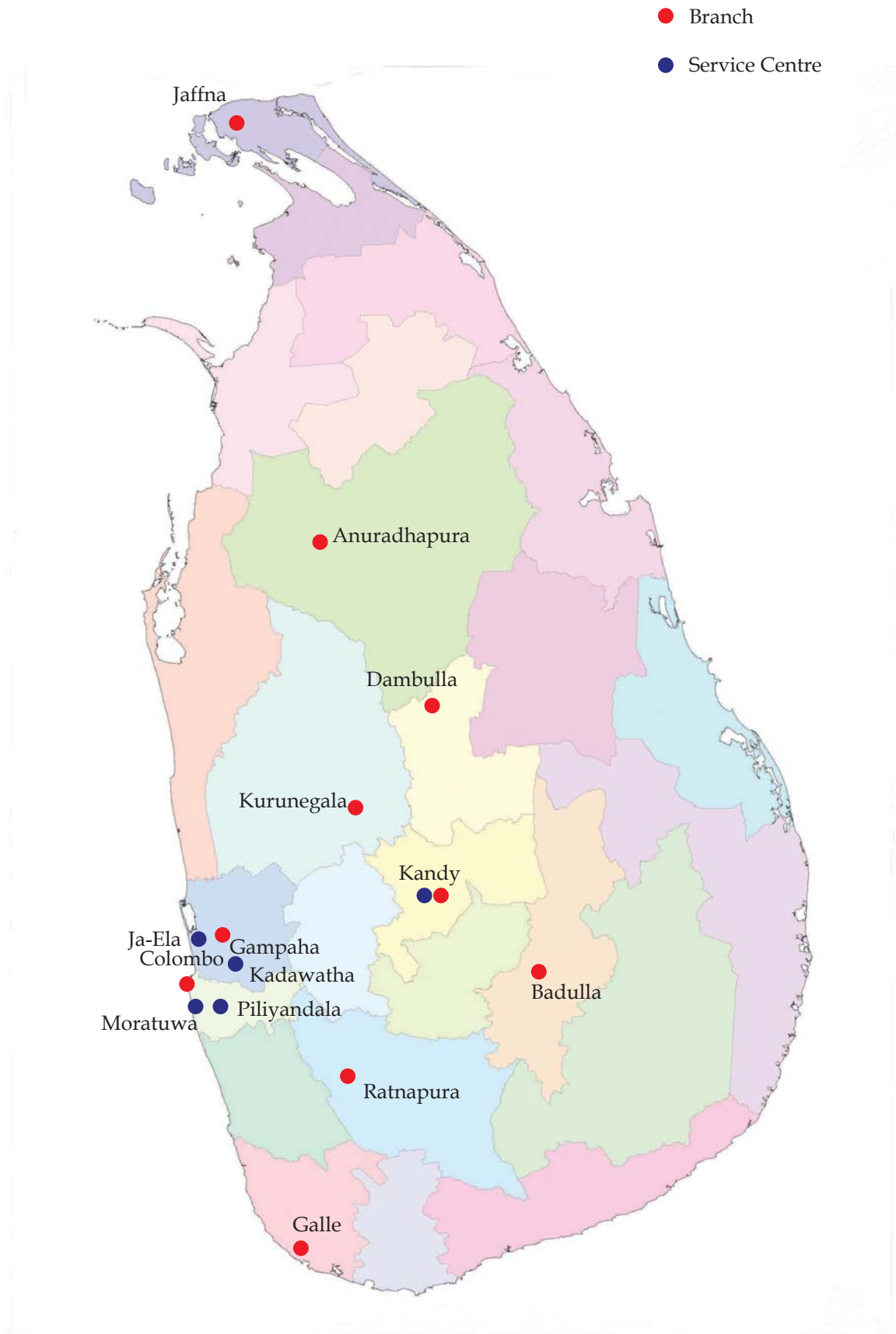
*Re-location of Jaffna Branch*

### Branch Network

The Company has a wide spread business network located island wide. During its nine years in operations, Abans Finance has expanded its operations to ten (10) Branches and five (5) Customer Service Centers.



## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE



## MANAGEMENT DISCUSSION AND ANALYSIS DELIVERING VALUE

### SOCIAL AND ENVIRONMENTAL CAPITAL

Social responsibility is an ethical ideology or theory that an entity, be it an organization or individual, has an obligation to act to benefit society at large. Social responsibility is a duty every individual or organization has to perform so as to maintain a balance between the economy and the eco system.

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.

A trade-off always exists between economic development, in the material sense, and the welfare of the society and the environment. Social responsibility means sustaining the equilibrium between the above two.

We at Abans Finance PLC primarily engage in providing financial services that makes a positive impact towards the needs of our customers. Simultaneously, we make a favorable contribution on account of creation of employment, assistance for healthcare, education and preservation of the environment in the localities where we mark our presence.

We provide our customers value added products backed by service excellence. Our employees are the drivers of our business agenda to whom we provide a unique working environment with an array of prospects and benefits with equal opportunity. We create value for our investors and play an important role in the National Economic front by serving the rural communities as a responsible corporate citizen.

#### Employees

Our greatest asset is our committed and young team who has with stood the storms of economic recession which prevailed in the formative years of the Company, and came out unscathed. It is indeed creditable, how this young & energetic team had molded into a professional winning team. The Company is privileged to have such loyal and committed staff, to guide the destinies of the Company towards excellence.

#### Customers

We are ever grateful to our loyal customers for their continued support and will strive to continuously upgrade service and satisfaction levels. In many cases, 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 a responsible corporate citizen the Company will strive to play its part, in the economic prosperity of the community, and some of the key activities engaged are providing training and development opportunities to young school leavers and under graduates, who are trained in all aspects of financial management. These trainings have empowered these students to move into different business organizations on a permanent basis.

Abans Finance has also trained scores of university graduates and exposed them to the requirement of the private sector so as to enhance their career prospects. The Company as part of its obligations has identified the voids in practical training and has assisted them to fulfill their aspirations in training, while giving priority to them, as and when job opportunities arise within the Company.

## BOARD OF DIRECTORS

### **MR. RUSI PESTONJEE** **CHAIRMAN-NON EXECUTIVE DIRECTOR**

He was alternate to the chairperson until 31 December 2011. Appointed a Director and Chairman with effect from 1 January 2012. A member of the Remuneration Committee and the Chairman of the Nomination Committee of the company. A Director of Abans PLC. (formally Abans (pvt) Ltd). He is an alumnus of the executive management programmes at the Indian School of Business, focusing on strategy and managing family businesses. He is a member of the Sri Lanka Institute of Directors. He supports relationship building with key international partners and has been instrumental in implementing several new strategic growth initiatives.

He also holds various directorships within Abans Group of Companies.

### **MR. KITHSIRI WANIGASEKARA** **MANAGING DIRECTOR / CHIEF EXECUTIVE OFFICER**

Appointed to the Board on 1 June 2009. He became Managing Director / Chief Executive Officer with effect from 1 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 the Chairman and the 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 Larger Category at the Sri Lankan Entrepreneur of the year 2005 contest organized by the Federation of Chamber 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. (MRS.) SAROSHI DUBASH** **NON -EXECUTIVE DIRECTOR -** **UP TO 8 APRIL 2014**

Appointed to the Board on 8 April 2005. The Chairperson of the Integrated Risk Management Committee (IRMC) and a member of the Remuneration Committee until the retirement. She also holds directorships in Abans PLC, Abans Electricals PLC, Abans Construction (Pvt) Ltd, Abans Tours (Pvt) Ltd, Abans Investments (Pvt) Ltd, Abans Graphics (Pvt) Ltd, Abans Marketing (Pvt) Ltd, Abans Retail (Pvt) Ltd, Crown City Developers (Pvt) Ltd, P.N.P Logistics (Pvt) Ltd, AB Technologies (Pvt) Ltd, Abans Development (Pvt) Ltd, Abans Auto (Pvt) Ltd and Abans Office Automation (Pvt) Ltd. Within the group, she is mainly 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 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 PLC. Channel and spearheading other e-commerce initiatives, most recent of which is BuyAbans.com the online retail arm of Abans. 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 26 November 2007. The Chairman of the Integrated Risk Management Committee (IRMC) w.e.f. 29 April 2014. A Deputy Director of Abans PLC., authorized distributor for LG electronics in Sri Lanka since 2002. Heads the Hero Motor Cycle retail operation of the Abans Group. Counts 23 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 the Chartered Institute of Marketing (UK).

## BOARD OF DIRECTORS

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

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

### **MR. THIRUNAVUKARSU SOMESWARAN** **INDEPENDENT NON- EXECUTIVE DIRECTOR** **-UP TO 3 AUGUST 2013**

Appointed to the Board on 10 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, Sunrise Senior (Pvt) Ltd., and ECSAT.

### **MR. AJITH S. RATNAYAKE** **FCA, FCMA (UK), ACCA, CMA, FCMI, FCMA, CGMA** **INDEPENDENT NON EXECUTIVE DIRECTOR -** **WITH EFFECT FROM 16 MAY 2014**

Appointed to the Board on 16 May 2014. The Chairman of the Audit Committee with effect from 16 May 2014. Mr. Ajith S. Ratnayake is the founder Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), where he served for fifteen years. He was responsible for setting up its monitoring process for financial reporting and auditing of public interest entities in Sri Lanka and building its technical capacity.

As the Director General of SLAASMB, he served in the Advisory Council of the International Forum of Audit Regulators (IFIAR), Consultative Advisory Committees of the International Auditing and Assurance Standards Board (IAASB) and the Ethics Standards Board for Accountants (IESBA), Intergovernmental Group of Experts on International Standards on Accounting and Reporting (ISAR) serviced by the United Nations Conference on Trade and Development (UNCTAD), and in the working group on Commercial Forests of the International Valuations Standards Council (IVSC).

Prior to setting up SLAASMB, Mr. Ratnayake served in a number of private sector enterprises in Sri Lanka and in multinational companies abroad in diverse positions, including as CEO and CFO. In his last assignment before SLAASMB, he headed the setting up of the Finance Division of a joint venture Vodafone(UK)established in Fiji.

## CHAIRMAN'S STATEMENT ON CORPORATE GOVERNANCE

Dear Stakeholder,

It is my pleasure to present the Corporate Governance Report on behalf of the members of the Board of Abans Finance PLC for the year ended 31 March 2014. We believe that a robust governance structure is vital for effective management of the Company. In setting our governance structure, we have followed standards of good practice on how companies should be directed and controlled as set out in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC), section 7.10 of the Continuing Listing Rules of the Colombo Stock Exchange (CSE), the Direction No. 03 of 2008 on Corporate Governance for Licensed Finance Companies issued by the Central Bank of Sri Lanka and amendments thereto.

At Abans Finance PLC, we believe that building a good "Corporate Culture" is the vital to establish good governance practices. We are confident that such a culture will enhance the success of the business and realise long-term shareholder value by enhancing the trust of our depositors whilst safeguarding the interest of our stakeholders. The Company is committed to high standards of corporate governance and business integrity, which are essential to maintaining the trust of its investors and other stakeholders.

Authority is delegated to various Sub-Committees that are constituted with written Terms of Reference and chaired by Non-Executive Directors or independent Non-Executive directors as required by regulations. The Chairman has primary responsibility for providing leadership to the Board and the Chief Executive Officer has executive responsibility for the operations and results of the Company and making proposals to the Board for the strategic development of the Company. There is a clear and documented division of accountability and responsibility for the roles of Chairman and Chief Executive Officer.

The External Auditors carried out an agreed upon procedure in respect of the Company's compliance with the Corporate Governance Direction No. 03 of 2008 issued by Central Bank of Sri Lanka and amendments thereto. The Examiners of the Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka also carried out its statutory examination in September 2013. The Board reviewed and took appropriate steps to implement their recommendations.

Looking ahead, we assure that we will continue to make further improvements to our corporate governance practices, controls and promote high values in Abans Finance PLC.

I wish to extend my appreciation to the members of the Board who have been supportive and committed in their efforts in implementing a good governance culture within the Company. Their contributions at meetings of the Board as well as at the Sub-Committees of the Board to sustain transparent governance practices have been immense.

Finally, I wish to draw your attention to the Report on Corporate Governance on pages 39 to 63 to the Annual Report which provides details of the governance framework of the Company.



**Rusi Pestonjee**

Chairman / Non-Executive Director

22 July 2014



## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE FRAMEWORK

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

The Company operates with an effective Corporate Governance Framework. The framework has been designed based on the provisions of the Finance Companies (Corporate Governance) Direction No.3 of 2008 as amended, Code of Best Practice 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. The Company continues to review systems and procedures to keep up to date with stipulated Corporate Governance practices.

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

#### Board Structure and Composition

The Board comprised five Directors as at the end of March 2014, of whom four were Non-Executive Directors. The Board consisted of one Independent Director with the retirement of Mr. T. Someswaran-with effect from 3 August, 2013, until the appointment of Mr. Ajith S. Ratnayake, with effect from 16 May 2014. The Board comprises of individuals with appropriate skills, expertise and qualities. The Directors provide the Company the knowledge, experience and the skills for effective performance of the Board. The Directors allocate sufficient time and discharge their responsibilities for matters connected with the functioning of the Board.

#### Board Committees

The Board has appointed an Audit Committee, an Integrated Risk Management Committee (IRMC), a Remuneration Committee and a Nomination Committee to which certain functions of the Board have been delegated. However, the delegation does not result in the dilution of the authority of the Board

since the Committees make recommendations for approval of the Board on matters related to these areas. The functioning of Management Committees namely, Credit Committee, Asset and Liability Committee (ALCO) and IT Steering Committee assisted the Board in the above areas.

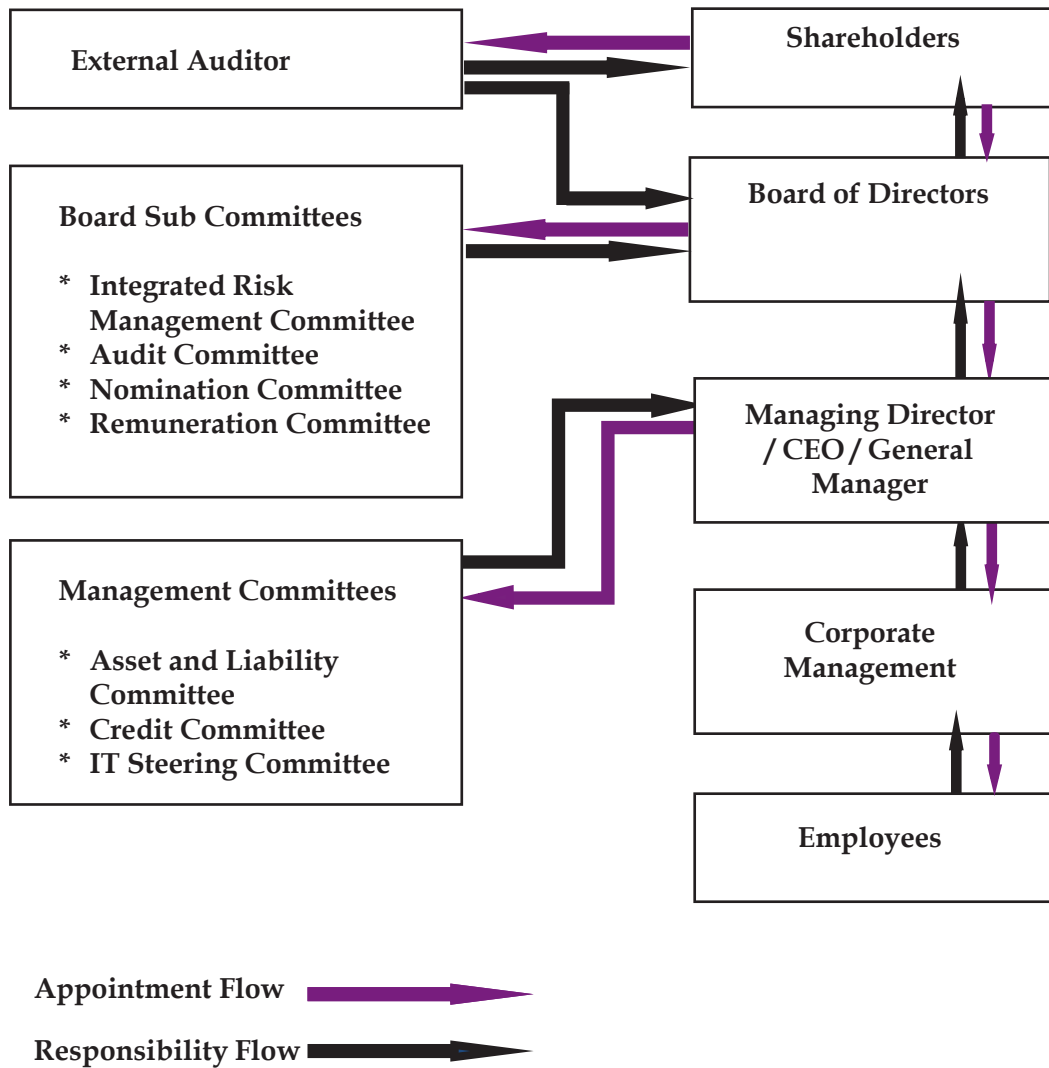
#### Board Balance and Independence

The Chairman leads the Board and ensures effective participation of directors in a manner that ensures effective discharge of the Board's responsibilities. The Chairman also ensures that all key issues are discussed at Board Meetings in a timely manner. The role of the Chairman and the CEO are distinct and separate with a clear division of responsibilities. The Non Executive Directors contribute effectively with independent and objective judgment of the Board's deliberations and decisions. The CEO provides the leadership and environment within the Company to implement the Board's policies and the achievement of Company's objectives. He is accountable for the performance of the Company and implementation of its plans.

Abans Finance continuously reviews and identifies ways to improve the Board's effectiveness in implementing good governance practices. The strategy of the Company is to establish itself as the most trusted non-bank financial solution provider which relies on a foundation of good Corporate Governance.

The diagram below illustrates the organization structure as it relates to governance.

## CORPORATE GOVERNANCE REPORT



## CORPORATE GOVERNANCE REPORT

### SECTION ONE : FINANCE COMPANIES DIRECTION NO 03 OF 2008 (AND SUBSEQUENT AMENDMENTS THERETO) ON CORPORATE GOVERNANCE FOR LICENSED FINANCE COMPANIES IN SRI LANKA

The Central Bank of Sri Lanka has issued Finance Companies (Corporate Governance) Direction No 03 of 2008 and subsequent amendments thereto, to be complied with effect from 01 January 2009 in order to improve and sustain the Corporate Governance processes and practices of the Licensed Finance Companies in Sri Lanka.

The above Direction comprises of ten fundamental principles, namely the Responsibilities of the Board,

Meetings of the Board, Composition of the Board, Criteria to assess the fitness and propriety of Directors, Management functions delegated by the Board, The Chairman and the Chief Executive Officer, Board appointed committees, Related party transactions, Disclosures and Transitional provision.

Statement of Compliance of Abans Finance PLC with the Corporate Governance Direction issued by the Central Bank of Sri Lanka is as follows;

Section	Rule	Degree of Compliance
<b>2. THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS</b>		
2 (1)	Strengthening the safety and soundness of the Company	
	(a) Approve, Oversee and communicate the strategic objectives and corporate values	Corporate values and Strategic Objective have been approved by the Board and the Company has now taken initiatives to communicate throughout the Company.
	(b) Approve the overall business strategy, including the overall risk policy and risk management	Finalization of the Strategic Plan for 2014-15 to 2017-18 is currently at the final stage and the Board reviews performance on a regular basis  The Board approves the overall business strategy. The expansion of the business 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 and managing risk	The Board has appointed an Integrated Risk Management Committee (IRMC) in 2012 to which the function of risk management has been delegated. IRMC is supported by Assets and Liabilities Committee (ALCO) and Credit Committee (CC).  IRMC meets at least once in three months to assess risks related to credit, market, operations and liquidity. The Committee submits a Risk Assessment Report to the Board within seven days of each meeting.
	d) Communication policy with all stakeholders	A Board approved Communication Policy is in place that includes stakeholders such as depositors, creditors, shareholders and borrowers. The Company has also taken action to communicate the financial information such as Bi-Annual Financial Statements and Audited Financial Statement by

**CORPORATE GOVERNANCE REPORT**

Section	Rule	Degree of Compliance
		publishing in three News Papers. The Company has displayed the Audited Statement of Comprehensive Income, Statement of Financial Position and the Independent Auditor's Report at the Head Office and at all Branches / Service Centres in addition to the submission of the Annual Report to Shareholders of the Company
	(e) Integrity of the Internal Control System and Management Information System.	<p>Board reviews the adequacy and the integrity of the Company's internal control system by way of internal audit reports submitted by the Internal Auditors of the Company to the Board Audit Committee. Summary of the Board Audit Committee minutes (BAC) have been submitted to the main Board. The Board has drawn specific attention to the areas related to the Management Information Systems of the Company.</p> <p>A comprehensive exercise that entails reviewing of all aspects of management information systems of the Company has to be carried out by the Board.</p>
	(f) Identifying and designating Key Management Personnel.	The Board has identified the General Manager, Head of Credit and Recoveries, Head of Deposits, Head of Branches, Head of Finance / Chief Financial Officer, Manager -Risk & Compliance / Compliance Officer, Manager - IT and Manager - Corporate Affairs as Key Management Personnel in addition to Managing Director / CEO and the other members of the Board.
	(g) Authority and responsibilities of the Board and Key Management Personnel.	Article 28 of the Company's Articles of Association contains provisions pertaining to the authority of the Board of Directors. The Company has to initiate actions to define authority and key responsibilities for the Board of Directors.
	(h) Oversight of affairs of the Company by Key Management Personnel.	The Board has exercised appropriate oversight of the affairs of the Company by KMPs. KMPs are being invited to Board meetings consistently for discussions on operational issues and strategic plans.
	(i) Assess effectiveness of own governance practices	<p>As per Article 26(5), Board has the power to make decisions on selection, nomination and election of Directors. Further, the Company has a Nomination Committee as a board Sub-Committee for this purpose.</p> <p>Article 29 also addresses the provisions on management of conflict of interest of Directors. A formal self-evaluation process needs to be implemented in order to determine the weaknesses of the Directors' own governance practices.</p>
	(j) Succession plan for Key Management Personnel.	There is a board approved succession plan in place for the CEO (MD) and for the other KMPs other than the Chairman of the Board.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	(k) Regular meetings with the Key Management Personnel.	Key Management Personnel are being regularly called for Board meetings as and when the need arises to explain matters relating to their area of responsibility.
	(l) Regulatory environment.	A summary of returns submitted to the CBSL has been tabled at the Board for its review. Further, the directions issued by Central Bank of Sri Lanka from time to time have been discussed at the Board Meetings.
	m) Hiring and oversight of External Auditors	Article 40 (4) of the Company's Articles of Association reveals that there is a process for hiring of external auditors at the AGM.  Oversight of External Auditors is carried out by the Audit Committee and the charter of the Audit Committee addresses the same.
2 (2)	Appointment of the Chairman and the Chief Executive Officer and define and approve functions and responsibilities.	The Board has appointed the Chairman (Mr. R. Pestonjee) and the Chief Executive Officer (CEO) (Mr. K. B. Wanigasekara). Functions and responsibilities of the Chairman and the CEO are in place.
2 (3)	Directors' ability to seek independent professional advice.	At present, the Board seeks professional advice whenever necessary. A board approved procedure to enable the Directors to seek independent professional advice has been approved during the year 2014/15.
2 (4)	Dealing with conflict of interests.	Section 38 (4) of the Articles of Association on "Restrictions on Voting", evidences the procedure for a Director to abstain from voting on any Board resolution and for him not to be counted in the quorum. No such instances occurred during the year.
2 (5)	Formal schedule of matters specifically reserved for the Board Decision	Board approved formal schedule of matters specifically reserved to the Board has been approved during the year 2014/15.
2 (6)	Situation of insolvency issue.	Circumstances have not arisen during the year that requires compliance in this regard.
2 (7)	Publish corporate governance report in the Annual Report.	Annual corporate governance report has been published in the Annual Report 2013/2014 on pages 38 to 63.
2 (8)	Annual self-assessment by the Directors	The Board reviews the performance of each Director annually. A formal scheme of annual self assessment of Directors will be introduced.
<b>3. MEETINGS OF THE BOARD</b>		
3 (1)	Regular Board meetings and circulation of written or electronic resolutions	The Board has conducted twelve meetings during the year. The consent of the Board is usually obtained at the meetings with due notice given with Board papers. Approvals obtained through circulation have been avoided as far as possible.



## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
3 (2)	Arrangements for Directors to include matters and proposals in the agenda.	A formal procedure has been introduced in 2014/15 to enable all Directors to include matters and proposals in the agenda for regular Board meetings.
3 (3)	Notice of meetings.	An Annual calendar of Board meetings has been issued at the beginning of the year. The Directors are given prior notice of at least seven days for regular Board Meetings. There were no special meetings held during the period.
3 (4)	Directors Non-Attendance at Board meetings	As per Board approved attendance schedule, such a situation has not arisen during the year. There were no alternate Directors appointed.
3 (5)	Appointment of a Company Secretary to handle the secretariat services to the Board	The Board has appointed Varner's International (Pvt.) Ltd., Level 14, World Trade Centre (West Tower), Colombo - 01 as Secretaries to the Company.
3 (6)	Preparation of agenda for a Board meeting by the Company Secretary.	The Agenda is prepared by the Company's Secretaries, Varners International (Pvt.) Ltd. and circulated to the Board.
3 (7)	Directors access to advice and services of the Company Secretary	When circumstances arise, advice is obtained from the Company Secretary at the Board meetings. A formal process has been introduced during 2014/15 to enable all Directors to have access and to obtain advice and services of the Company Secretary.
3 (8)	Maintenance of Board minutes.	The Company Secretary maintains the minutes of Board Meetings. The Board Minutes are circulated to the Directors via mail and printed copies are enclosed with the Agenda of the next meeting together with the Board papers. The Company Secretary may provide certified copies of the Minutes at any time at the request of any Director of the Company. A formal process will be introduced to promote better governance.
3 (9)	Minutes to have sufficient details and serve as a reference for regulators and supervisory authorities.	Minutes of the meetings are recorded in sufficient detail, where ever possible. The process has to be strengthened further in order to comply fully with the provisions of this section.
<b>4. COMPOSITION OF THE BOARD</b>		
4 (1)	The number of Directors	The Board comprised of six members up to August 2013. With the retirement of Mr.T.Someswaran, w.e.f. 3 August 2013 the number of Directors has been reduced to five members for the rest of the financial year.
4 (2)	Period of service of a Director	No Director exceeded nine years of service with the Company during the year under review. Dr. (Mrs.) S. Dubash, who reached nine years of services on 8 April 2014 was ceased to be a Director in accordance with this Direction.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
4 (3)	Board balance	The Board consisted of six members up to 3 August, 2013 out of which only CEO / MD was identified as an Executive Director. With the retirement of Mr. T. Someswaran, the number of members of the Board was reduced to five.
4 (4)	Independent Non-Executive Directors and the criteria for independency.	The Board consisted of two Independent Non-Executive Directors up to 3 August, 2013 and was reduced to one with the retirement of Mr. T. Someswaran. Further, the Board appointed Mr. Ajith S. Ratnayake as an Independent Non-Executive Director, w.e.f. 16 May 2014. All the Independent Non-Executive Directors have complied with the criteria for independency as set out in the Direction.
4 (5)	Appointment of Alternate Directors	No such situation has arisen during the financial year ended 31 March 2014.
4 (6)	Skills and experience of Non-Executive Directors.	The Directors are eminent persons with the required knowledge, expertise and experience to bring an independent judgment and their profiles are given on pages 36 & 37 to the Annual Report.
4 (7)	More than half the quorum of Non-Executive Directors in Board meetings.	As per the Article 34(1) of the Article of Association of the Company the quorum required to transact any business is the presence of more than 50% of Non - Executive Directors. All Board meetings held during the financial year were duly constituted as required by the Direction.
4 (8)	Expressly identification of the Independent Non-Executive Directors in corporate communications and disclose the details of Directors.	The Company has disclosed this information in the Report of the Board of Directors (Page 76) and the Directors' Profile (Pages 36 & 37).
4 (9)	Procedure for the appointment of new Directors and for the orderly succession of appointments to the Board.	Article 26 of Articles of Association provides the procedure for appointment and removal of Directors. Further, on behalf of the Board, the Nomination Committee deals with the requirements of this Direction. However, the Company needs to focus on appointments to the Board.
4 (10)	Directors appointed to fill a casual vacancy to be re-elected at first general meeting after their appointment.	The Company's Article 26 (5) evidences that there is a procedure to fill a casual vacancy subject to election by Shareholders at the subsequent AGM. No such instance has occurred during the year.
4 (11)	Communication of reasons for removal or resignation of Directors.	The Board announces such situations to the Shareholders at the AGM. Directors' resignations and the reasons for such resignation are duly informed to the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE).
<b>5. CRITERIA TO ASSESS THE FITNESS AND THE PROPRIETARY OF DIRECTORS</b>		
5 (1)	The age of a Director shall not exceed Seventy years.	Mr. T. Someswaran, who reached the age of seventy has been retired from the Board w.e.f. 3 August 2014 in compliance with this direction. All the other Directors are below the age of seventy years as at 31 March 2014.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
5 (2)	Directors shall not hold office as a Director of more than twenty Companies / Societies / Corporate bodies including Associate and Subsidiary Companies.	No Director held directorships of more than twenty Companies /Entities/ Institutions inclusive of Subsidiaries or Associate Companies as at 31 March 2014
<b>6. DELEGATION OF FUNCTIONS</b>		
6 (1)	Delegation of work to the Management.	The Board is empowered by the Articles 28 to delegate its powers to a Committee of Directors or to a Director or employee upon such terms and conditions and with such restrictions as the Board may think fit. However, all delegations are made in a manner that it would not hinder the Board's ability to discharge its functions.
6 (2)	Periodical evaluations of the delegation process.	The delegated powers are reviewed periodically by the Board to ensure that they remain relevant to the needs of the Company.
<b>7. THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER</b>		
7 (1)	Division of responsibilities of the Chairman and Chief Executive Officer	Roles of Chairman and CEO are separated and held by two individuals appointed by the Board.
7 (2)	Chairman preferably an Independent Non-Executive Director and if not appoint a Senior Director.	Chairman is a Non-Executive Director of the Company.  Since the Chairman is not an Independent Non-Executive Director, the board has designated an Independent Non-Executive Director as the Senior Director and the Terms of Reference have been documented. The designation of the Senior Director has been disclosed by the Company in the Annual Report (Page 37).
7 (3)	Disclosure of the identity of the Chairman and the Chief Executive Officer and any relationship with the Board Members	The Chairman has no financial or any other relationship with the CEO. Further, the Chairman has no relationship with any of the directors except for one Non-Executive Director, who is his sister (Dr. (Mrs.) S. Dubash).  No other Directors have financial or other material relationships with other Directors which will impair their respective roles.
7 (4)	Chairman to; (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner	Functions and Responsibilities of the Chairman approved by the board includes the requirements stipulated.  The board needs to have a formal scheme of self- assessment of Directors annually, which covers the given criteria and maintains records of such assessments.
7 (5)	Responsibility of the agenda lies with the Chairman or may be delegated to the Company Secretary.	Company's secretary prepares the agenda for Board meetings and the Chairman approves the same.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
7 (6)	Ensure that all Directors are properly briefed on issues and receive adequate information in a timely manner.	The Chairman ensures, that all Directors are properly briefed on issues arising at Board Meetings by submission of the agenda and board papers with sufficient time prior to the meetings. Further, minutes of previous month's Board meeting are distributed to the Board members and tabled at the next board meeting for review and approval.
7 (7)	Encourage all Directors to actively contribute and ensure they act in the best interest of the Company.	All Directors are actively participating in the Board's affairs. A formal scheme of self - assessment of Directors will strengthen the requirements further.
7 (8)	Facilitate effective contribution of Non-Executive Directors and relationships between Executive and Non-Executive Directors.	All the Directors including both Executive and Non-Executive work together in the best interest of the Company. However, formal scheme of self - assessment of Directors will support to evaluate the contribution.
7 (9)	Chairman refrain from direct supervision of Key Management Personnel or executive duties.	The Chairman does not directly involve in the supervision of Key Management Personnel or any other executive duties.
7 (10)	Maintain effective communication with Shareholders.	AGM of the Company is the main forum where the Board maintains effective communication with shareholders and further, the Board approved Communication Policy evidences the Company's process in this regard.
7 (11)	Chief Executive Officer functions as the apex Executive-in-Charge of the day-to-day operations and businesses.	As per the functions & responsibilities of the CEO, he is the apex Executive-in Charge of the day-to-day management of the Company's operations and business.
<b>8. BOARD APPOINTED COMMITTEES</b>		
8 (1)	Establishing Board Committees, their functions and reporting.	The following Board Sub-Committees have been appointed by the Board and each such Committee is required to report to the Board, (a) Audit Committee (b) Integrated Risk Management Committee (c) Remuneration Committee (d) Nomination Committee The Company has presented a Report on the performance, duties and functions of each Board Sub-Committees in pages 64 to 68 to the Annual Report.
8 (2)	Audit Committee	
	(a) The Chairman to be a Non-Executive Director with relevant qualifications and experience	Mr. T. Someswaran, the Chairman of the Audit Committee was an Independent Non Executive Director and a Fellow Member of Institute of Chartered Accountants of Sri Lanka, who ceased to be a Director with effect from 3 August 2013. Mr. Ajith S. Rathnayake, has been appointed as the Chairman of the Audit Committee with effect from 16 May 2014.
	(b) All members of the Committee to be Non-Executive Directors	All the members of the Audit Committee are Non-Executive Directors.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	<p>(c) Functions of the Committee includes;</p> <p>(i) The appointment of the External Auditors</p> <p>(ii) The implementation of the Central Bank Guidelines.</p> <p>(iii) The application of the relevant Accounting Standards; and</p> <p>(iv) The service period, audit fee and any resignation or dismissal of the Auditor;</p>	<p>Audit Committee has recommended the appointment of External Auditors for audit services. Audit Committee needs to discuss the implementation of guidelines issued by Central Bank of Sri Lanka. Audit Committee evaluates the Accounting Standards in consultation with the Chief Financial Officer and the External Auditors. Audit Committee ensures that rotations of Engagement Partner, Auditors remuneration, appointment, re-appointment or removal of External Auditors are in line with the regulatory requirements.</p>
	<p>d) Review and monitor the External Auditors' independence, objectivity and effectiveness of the audit processes.</p>	<p>Auditors Report on the Financial Statements of the Company indicates the independency of the External Auditors. To safeguard the objectivity and independence of the External Auditor, the Audit Committee reviews the nature and the scope taking account of the regulations and guidelines.</p>
	<p>(e) Develop and implement a policy on the engagement of an External Auditor to provide non-audit services while considering;</p> <p>(i) skills and experience of the Auditor</p> <p>(ii) threat to the independence</p> <p>(iii) fee for the non-audit services and independency</p>	<p>Audit Committee evaluates the level of obtaining non-audit services from External Auditors. However, the Company is in the process of finalizing a comprehensive policy on the engagement of an External Auditor in providing non-audit services.</p>
	<p>(f) Determines the nature and the scope of the External Audit.</p>	<p>Audit Committee has taken steps to determine the nature and the scope of the External Audit.</p>
	<p>(g) Review the financial information of the Company.</p>	<p>Interim Financial Statements and the Audited Financial Statements are discussed at the Audit Committee. A detailed discussion focused on major judgmental areas, changes in accounting policies, significant audit adjustments has been carried out by the Audit Committee.</p>
	<p>(h) Meeting of External Auditors to discuss issues and problems of Interim and Final audits in the absence of Key Management Personnel (if necessary)</p>	<p>Audit Committee has met the External Auditors twice, without the presence of the MD / CEO and other Key Management Personnel.</p>
	<p>(i) Reviewing of the External Auditors' Management Letter and the response thereto.</p>	<p>Audit Committee has reviewed the Management Letter issued by the External Auditors with the responses of the Management.</p>
	<p>(j) Review of the Internal Audit Function,</p> <ul style="list-style-type: none"> <li>- Review scope, function and resources</li> <li>- Review of Internal Audit Program</li> <li>- Review of Internal Audit Department</li> </ul>	<p>Internal Audit Charter and procedure manual describe and define the scope and function of the Internal Audit Department.</p> <p>Audit Committee has taken actions to review the Internal Audit Program.</p> <p>Committee has taken actions to review and carryout a performance appraisal of the Head of the Internal Audit and the senior staff in Internal Audit.</p>



## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	<ul style="list-style-type: none"> <li>- Recommendations on appointment or termination</li> <li>- Apprised the resignation of Senior staff of Internal Audit and any outsourced service providers.</li> <li>- Independence of Internal Audit Functions</li> </ul>	<p>Circumstances have not arisen during the year under review.</p> <p>Circumstances have not arisen during the year under review.</p> <p>Relevant actions are currently being taken to ensure the independence of the Internal Audit Function.</p>
	k) Consideration about the internal investigations and management's responses.	The need for an internal investigation on major findings has not arisen during the financial year under review.
	(l) Attendees of Audit Committee meeting with Corporate Management and External Auditors.	The Committee met twice with the External Auditors without the presence of the Executive Directors and Key Management Personnel. Finance Manager / Chief Financial Officer (CFO) and Chief Internal Auditor normally attend the meetings. The Managing Director (MD) / Chief Executive Officer (CEO), General Manager and other members of the Key Management Personnel may also attend meetings by invitation.
	(m) Explicit authority, adequate resources, access to information and obtain external professional advice where ever necessary.	The Audit Committee is empowered by Board approved Terms of Reference which sets out authority and responsibility of the Committee.
	(n) Regular meetings	The Committee has met regularly (12 times) during the year 2013/2014. Attendance of the meeting is set out on page 63 to the Annual Report.
	(o) Disclosures in the Annual Report.	The report of the Board Audit Committee on pages 64 to 65 includes the detailed activities, and the meeting held. Attendance of the members during the year is disclosed in page 63 to the Annual Report.
	(p) Maintain minutes of meetings	The Company Secretary acts as the Secretary to the Audit Committee and maintains the minutes of the meetings.
	(q) Whistle Blower Policy	The Company has finalized the Whistle Blower Policy and the Board approval is to be obtained for the same.
8 (3)	Integrated Risk Management Committee (IRMC)	
	(a) The composition of IRMC	The Committee comprises of three Directors (two Non Executive and CEO) and Other Key Management Personnel supervision board risk categories namely, General Manager, Chief Financial Officer / Finance Manager / Assistant Accountant, Manager Risk & Compliance / Compliance Officer, Head of Credit & Recoveries, Head of Branches, Head of Deposits, Manager - IT and Manager Corporate Affairs.
	(b) Periodical risk assessment	The Committee has a process to assess risks, such as Credit, Market, IT and Operational and Liquidity through appropriate risk indicators and management information. However, the Management is in the process of introducing a Board approved Risk Management policy and risk limits to monitor on a continuous basis.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	(c) Review and measurement of management level committee risk.	Assets and Liabilities Committee and Credit Committee review the adequacy and effectiveness in addressing the specific risk and managing risks. However, the Committee is in the process of establishing and review specific quantitative and qualitative risk limits.
	(d) Corrective action to mitigate the risk	The risk indicators introduced have been reviewed and corrective actions have been taken to mitigate. Further, the Company is in the process of setting risk limits to identify the factors which have exceeded the specified limits.
	(e) Frequency of meetings	The Committee has met four times on a quarterly basis during the year.
	(f) Actions against the officers responsible for failure to identify risks and take prompt corrective actions.	The Committee refers such matters, if any, to the HR division for necessary action. However, the specific risk and limits are identified by the Committee and such decisions are taken collectively. No such matters have arisen during the year.
	(g) Risk assessment report to the Board	Risk assessment reports have been submitted to the Board within the specified time frame.
	(h) Establishment of a compliance function	The Manager Risk & Compliance has been appointed as the Compliance Officer during latter part of the year. The Company's compliance functions with regulations are monitored by the Compliance Officer. However action has been taken to strengthen the Compliance Unit further to suit with this requirement.
<b>9. RELATED PARTY TRANSACTIONS</b>		
9 (2)	Avoid conflicts of interest that arise from transactions of the Company with related parties.	Company does not involve in any transaction with the related parties, which gives a favorable treatment to such parties. Transactions carried out with Related Parties in the normal course of the business (Arms length basis) are disclosed in Note No. 46 to the Financial Statements. However, the Company is in the process of developing a formal policy on Related Party Transactions.
9 (3)	Related party transactions.	Related Party Transaction Policy will cover this area and the Company will strengthen the process in this regard during the year 2014/15.
9 (4)	Monitoring of related party transactions defined as more favorable treatment including, (a) Granting Accommodation in excess of prudent percentage of regulatory capital (b) Charging lower rate than the best rate on accommodation and paying upper rate compared to unrelated counterparty	The Company has monitored the Related Party Transactions in order to avoid more favorable treatment. However, this will be further stream lined with the implementation of Board approved Related Party Transaction Policy.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	<p>(c) Allowing preferential treatment compared to unrelated parties in the normal course of business</p> <p>(d) Providing or obtaining services without proper evaluation</p> <p>(e) Maintaining reporting lines and information flows that may give benefits to related parties other than performance of legitimate duties.</p>	
<b>10. DISCLOSURES</b>		
10 (1)	Published Interim and Annual Financial Statement based on applicable accounting standards and published in Sinhala, Tamil and English newspapers.	Audited Financial Statements and the Bi-annual Financial Statements which are in compliance with the Accounting Standards and the guidelines issued by the regulatory bodies are published in the news papers (English, Sinhala and Tamil).
10 (2)	<p>The Board shall ensure that at least the following disclosures are made in the Annual Report;</p> <p>(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.</p> <p>(b) A Report by the Board on the Finance Company's internal control mechanism.</p> <p>(c) The External Auditor's Certification on the effectiveness of the internal control mechanism.</p> <p>(d) Details of Directors and the transactions with the Finance Company</p> <p>(e) Fees / remuneration paid by the Finance Company to the Directors in aggregate.</p> <p>(f) Total Net Accommodation and the Net Accommodation outstanding to the related parties as a percentage of the Capital Funds.</p> <p>(g) The aggregate values of remuneration paid and the value of transactions with the Key Management Personnel.</p> <p>(h) A report confirming compliance with prudential requirements, regulations, laws and internal controls.</p> <p>(i) Non-Compliance reporting</p> <p>(j) The External Auditor's certification of the compliance with the Corporate Governance Direction.</p>	<p>Compliance with applicable Accounting Standards and regulatory requirements has been reported under "Statement of Directors' responsibility for Financial Reporting" on page 79 to the Annual Report.</p> <p>Directors' Statement on Internal Control System over financial reporting is given on page 80 to the Annual Report</p> <p>The Company has obtained an Assurance Report from the External Auditors on the effectiveness of the Internal Control Mechanism. This is disclosed under "Report of the Board of Directors" on pages 75 to 78 in the Annual Report.</p> <p>Fees and remuneration paid is disclosed under note No. 46 to the Financial Statements.</p> <p>Net Accommodations granted to related party as a percentage of capital funds is as follows, Loans &amp; Advances - Nil Lease rental receivable and Stock out on Hire - 0.16% This is disclosed under Note No. 46 to the Financial Statements.</p> <p>This is disclosed under "Report of the Board of Directors" on pages 75 to 78 to the Annual Report.</p> <p>There are no significant lapses which require to be disclosed to the public.</p> <p>The Company has obtained a certificate from External Auditors over the compliance with corporate governance direction.</p>

## CORPORATE GOVERNANCE REPORT

### SECTION TWO : CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA & THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA.

The disclosures below reflect the level of adoption of the above voluntary code which comprises of seven fundamental principles. These are namely Directors, Director's Remuneration, Relations with Shareholders, Accountability and Audit,

Institutional Investors, Other Investors and Sustainability Reporting.

Abans Finance PLC's level of compliance of the above principles are tabulated below;

Section	Rule	Degree of Compliance
<b>A. DIRECTORS</b>		
<b>A.1</b>	<b>The Board -</b> The Company should be headed by an effective Board, which should direct, lead and control the Company. The Board comprises of professionals with required professional competence, skills and experience to lead and control the Company. The Board gives leadership in setting the strategic direction and implement sound environment for the successful functioning of the Company.	
A.1.1.	Board meetings - The Board should meet at least once in every quarter	Regular Board meetings are held monthly and special Board meetings are convened where necessary. The Board met twelve (12) times during the year. Attendance at Board meetings held in 2013/14 is disclosed in page 63 to the Annual Report.
A.1.2	Board's responsibilities - <ul style="list-style-type: none"> <li>- Formulation and implementation of a sound business strategy</li> <li>- CEO, Executive Directors and Senior Management team possess the skills, experience and knowledge</li> <li>- CEO and Key Management Personnel (KMP) succession planning</li> <li>- Implementing security and integrity of information, internal controls, business continuity and risk management</li> <li>- Ensuring compliance with laws, regulations and ethical standards</li> <li>- Ensuring all stakeholder interest is considered in corporate decisions</li> <li>- Recognizing sustainable business development</li> <li>- Ensuring that the Company's values and standards are set with emphasis on adopting appropriate Accounting Policies</li> </ul>	<p>The Board provides strategic direction for the development of strategy which is aimed at promotion of the long term success of the Company. Finalization of the Strategic Plan for 2014-15 to 2017-18 is currently in progress.</p> <p>The Management team headed by MD/CEO has the requisite skills, experience and knowledge for the purpose of implementing the strategy of the Company.</p> <p>A Board approved Succession Plan is in place for the CEO / MD and for the KMPs other than Chairman of the Board.</p> <p>Board reviews the internal control mechanism and the compliance with the laws and regulations with the assistance of the Audit Committee and IRMC. The Company is in the process of finalizing the Risk Management policies and procedures.</p> <p>Board ensures that the Company is complied with the laws, regulations and ethical standards to a greater extent. The Company considers the stakeholder interest in the decision making process.</p> <p>The Board recognizes the importance of sustainable business development in the corporate strategy.</p> <p>The Company's accounting policies are reviewed annually so as to be current with new developments, changing business requirements and best practices.</p>
A.1.3	Compliance with laws and access to independent professional advice.	The Board collectively and the Directors individually, recognized their duty to comply with laws of the country. The Directors have access to seek independent professional advice at the Company's expense as and when such advice is required and the Company is in the process of formalizing the above policy.

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Section	Rule	Degree of Compliance
A.1.4	All Directors should have access to the services and advice of the Company Secretary.	Depending on the circumstances Directors have obtained the advice of the Company Secretary. However, the Company is in the process finalizing the Board approved mechanism in this regard.
A.1.5	Independent judgment of Directors	All the Directors exercise independent judgment in decision making process on issue of strategy, resource allocation, performance and conduct of business.
A.1.6	Every Director should dedicate adequate time and effort to the matters of the Board and the Company	Directors devoted adequate time for Board and Board Sub Committee meetings during the year. Number of meetings held and the attendance by each Director are disclosed on page 63 to the Annual Report.
A.1.7	Every Director should receive appropriate training	Directors are constantly updated on the latest trends and issues facing by the Company and the industry as a whole. Further Directors have the facility to obtain relevant training.
<b>A.2</b>	<b>Chairman and Chief Executive Officer -</b> There should be a clear division of responsibilities at the head of the Company, which will ensure balance of power and authority, so that no one individual has unfettered power of decisions.	
A.2.1.	If CEO and Chairman is one person justification in the Annual Report	Since MD's and Chairman's roles are segregated, there is no need of such a disclosure in the Annual Report.
<b>A.3</b> <b>A.3.1</b>	<b>Chairman's Role -</b> The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running of the Board, the Chairman should preserve order and facilitate the effective discharge of the Board.	
A.3.1	Chairman's role	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.
<b>A.4</b>	<b>Financial Acumen -</b> The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.	
A.4.1	Financial Acumen	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 on pages 36 to 37 to the Annual Report.
<b>A.5</b>	<b>Board Balance -</b> It is preferable for the Board to have a balance of Executive and Non Executive Directors such that no individual or small group can dominate the Board's decision taking.	
A.5.1	Board should include at least two Non Executive Directors or one -third of total Directors whichever is higher	Board consisted of six members up to 3 August 2013 and out of which only MD / CEO is identified as an Executive Director. With the retirement of Mr. T. Someswaran, the members of the Board reduced to five.



## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
A.5.2	Two or one-third of Non Executive Directors whichever is higher should be independent.	The Board consists of two Independent Non-Executive Directors up to 3 August 2013 and it has reduced to one with the retirement of Mr. T. Someswaran. Further, the Board appointed Mr. Ajith S. Ratnayake as an Independent Non-Executive Director, w.e.f. 16 May 2014.
A.5.3	Evaluation of independence of Non Executive Directors	All the Independent Non-Executive Directors meet the criteria for independence as set out in the Code of Best Practice on Corporate Governance and the Listing Rules of the Colombo Stock Exchange.
A.5.4	Signed declaration of Independence by the Non Executive Directors	The Company has taken initiatives to submit a signed and dated declaration on an annual basis of his/her independency or non-independency.
A.5.5	Determination of the independence and non-independence of each Non Executive Directors annually.	The Board has taken action to review the declaration/s submitted by the Non-Executive Directors, and determined their independence. However, followings Directors are deemed to be Independent Directors, Mr. T. Someswaran – Retired w.e.f. 3 August 2013 Mr. V. K. Choksy Mr. Ajith S. Ratnayake – Appointed w.e.f. 16 May 2014
A.5.6	Alternate Directors to meet the criteria for independency / Non Executive status of the appointer.	No alternate Directors were appointed during the year.
A.5.7	Senior Independent Director	Even though a Senior Independent Director's role was not necessary under this section, Mr. V. K. Choksy has been appointed as Senior Director (Independent Non Executive) in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, since the Chairman is not an Independent Director.
A.5.8	Confidential discussion with other Directors by the Senior Independent Director	The Terms of Reference adopted by the Board for the Senior Independent Director requires him to make available for any confidential discussion with Non-Executive Directors. However, no such situation has arisen during 2013/14
A.5.9	Meetings held by the Chairman with Non-Executive Directors	The Company has taken necessary steps to comply with this section during 2014/15
A.5.10	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	All concerns rose by Directors at Board Meetings and the final unanimous decisions are recorded in the Minutes of the meeting.
A.6	<b>Supply of Information -</b>  The Board should be provided with timely information in a form and of quality appropriate to enable it to discharge its duties.	

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
A.6.1	Management should provide timely information to the Board.	The Directors are provided with timely and adequate information that is circulated within the prescribed period. Key Management personnel make themselves available to respond to any queries raised at the meetings and for the provision of additional information.
A.6.2	Adequate time for effective Board meetings.	The Agenda and Board Papers are circulated a week prior to Board meetings.
<b>A.7</b>	<b>Appointments to the Board -</b> There should be a formal and transparent procedure for the appointment of new Directors to the Board.	
A.7.1	Nomination Committee	Nomination Committee makes recommendations to the Board on all new appoints to the Board. Refer the page 68 to the Annual Report for the details of the Nomination Committee.
A.7.2	Assessment of Board composition by the Nomination Committee	Nomination Committee reviews the new appointments and re-elections to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications.
A.7.3	Disclosure requirements when appointing of new Directors to the Board	All appointments of new Directors are informed to the shareholders with the profile of such Director, via immediate notification to the Colombo Stock Exchange. Further, prior approval for such appointment is obtained from Central Bank of Sri Lanka in terms of regulations applicable to Finance Companies
<b>A.8</b>	<b>Re Election -</b> All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.	
A.8.1 - A.8.2	Re-election of Directors	The Directors are re-elected in terms of the Articles of Association of the Company. However, the Company will comply with this section during 2014/15.
<b>A.9</b>	<b>Appraisal of Board Performance -</b> Board should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.	
A.9.1	Appraisal of Board Performance	Performance of the members of the Board has been evaluated during 2013/14. However, a formal self assessment scheme will be implemented for the evaluation of individual Directors and the Board as a whole and it's Sub Committees during 2014/15.
A.9.2	Annual self-evaluation by the Board members and of its Committees	Refer the comment on Principle A.9.1
A.9.3	Disclosure of evaluation process	Refer the comment on Principle A.9.1

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
<b>A.10</b>	<b>Disclosure of information in respect of Directors</b> Shareholders should be kept advised of relevant details in respect of Directors.	
A.10.1	Annual Report disclosure in respect of Directors (Name, Qualifications and etc.)	Profiles of the Board of Directors are given on pages 36 & 37 to the Annual Report.
<b>A.11</b>	<b>Appraisal of Chief Executive Officer (CEO)</b> The Board should require at least annually to assess the performance of the CEO	
A.11.1	Targets for CEO at the commencement of each fiscal year	MD/CEO's performance targets are aligned with business strategies of the Company. Targets are set at the beginning of every financial year by the Board which is in line with the short, medium and long term objectives of the Company.
A.11.2	Evaluation of the performance at the end of fiscal year	At the end of each financial year the Board evaluates the set targets and the actual performance.
<b>B. DIRECTORS' REMUNERATION</b>		
<b>B.1</b>	<b>Remuneration Procedure</b> The company has a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Directors should be involved in deciding his / her remuneration.	
B.1.1	Setting up of Remuneration Committee	It is a Board Sub-Committee focused on remuneration packages of individual directors while ensuring no directors are involved in deciding their own remuneration. Further, the Committee is responsible for deciding the overall remuneration structure of the Company.
B.1.2	Composition of Remuneration Committee	Remuneration Committee is comprised with Non - Executive Directors. Refer the Remuneration Committee report on page 66 to the Annual Report.
B.1.3	Disclosure in the Annual Report about the Remuneration Committee members	Remuneration Committee report is given on page 66 to the Annual Report.
B.1.4	Remuneration of Non Executive Directors	Independent Non-Executive Directors receives a fee only on their attendance for the Board meetings and additional fee whenever they serve on Board Sub-Committees.
<b>B.2</b>	<b>The level and make up of Remuneration</b> Level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Director's need to run the Company successfully. A proportion of Executive Director's remuneration should be structured to link rewards to cooperate and individual performance.	
B.2.1 - B.2.9	Level and make up of remuneration of Executive Directors including performance element in pay structure	The Remuneration Committee gives due consideration to the provisions of these section and arrives at final recommendations as specified. The Company does not have executive share option scheme.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
	<ul style="list-style-type: none"> <li>- Remuneration packages in line with industry practices</li> <li>- Executive share option</li> <li>- Non Executive Directors remuneration</li> </ul>	<p>Remuneration Committee is comprised with Non - Executive Directors. Refer the Remuneration Committee report on page 66 to the Annual Report.</p> <p>The Company does not have any share option scheme.</p> <p>Independent Non-Executive Directors receives a fee only on their attendance for the Board meetings and additional fee whenever they serve on Board Sub-Committees.</p>
<b>B.3</b>	<p><b>Disclosure of Remuneration</b></p> <p>Annual Report of the Company should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.</p>	
B.3.1	Disclosure in the Annual report about the Remuneration Committee members and statement of remuneration policy	<p>Details of the Remuneration Policy and the committee are given in the Remuneration Committee report on page 66 to the Annual Report.</p> <p>Notes to the Financial Statements disclose the details of aggregate remuneration paid to Executive and Non-Executive Directors.</p>
<b>C. RELATIONS WITH SHAREHOLDERS</b>		
<b>C.1</b>	<p>Constructive use of the Annual General Meeting (AGM) and Conduct of General Meetings. Board should use the AGM to communicate with shareholders and should encourage their participation.</p>	
C.1.1	Use of proxy votes	The Company has recorded all proxy votes for each resolution prior to the General Meeting.
C.1.2	Separate resolution for separate issues	Separate resolutions are placed before Shareholders for business transactions at the AGM.
C.1.3	Arrangement made by the Chairman of Board that all Chairmen of Sub-Committees make themselves available at the AGM	All Sub-Committee Chairmen were available at the AGM.
C.1.4	Adequate notice for the AGM to the Shareholders	Annual Report including Financial Statements and the notice of the meeting are sent to Shareholders at least fifteen working days prior to the date of the AGM in compliance with the application statutes.
C.1.5	Procedure of voting at General Meeting	A summary of procedure is set out in the Notice of the Meeting and the Proxy form itself sent to each Shareholder.
<b>C.2</b>	<p><b>Communication with Shareholders</b></p> <p>The Board should implement effective communication with Shareholders.</p>	
C.2.1	Channel to reach all Shareholders to disseminate timely information	A Board approved Communication Policy is in place to fulfill this requirement.
C.2.2	Policy and methodology of communicating	Please refer page 26 to the Annual Report for a summary of the Communication Policy
C.2.3	Implementation of the methodology	Please refer page 26 to the Annual Report for a summary of the Communication Policy.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
C.2.4	Contact person	Please refer page 26 to the Annual Report for a summary of the communication policy.
C.2.5	Awareness of Directors on major issues and concerns of Shareholders	The Company Secretary maintains records of all correspondence received from Shareholders and direct the same to appropriate channels for resolution.
C.2.6	Contact person for Shareholders	The Company Secretary can be contacted for any queries of Shareholders, whose details are given below, Mr. Asanka Mallikarachchi, Varners International (Pvt.) Ltd., Corporate Secretaries, Level 14, West Tower, World Trade Centre, Echelon Square, Colombo - 01.
C.2.7	Process for responding to Shareholders	Please refer comment on Principle C.2.5 above.
<b>C.3</b>	<b>Major and material transactions</b> Directors should disclose all proposed corporate transactions which would materially alter the net asset base of the Company.	
C.3.1	Disclosure of major and material transactions	During the year, no major / material transactions engaged in which require disclosures prescribed by the Code.
<b>D. ACCOUNTABILITY AND AUDIT</b>		
<b>D.1</b>	<b>Financial Reporting</b> The Board should present a balanced and an understandable assessment of the Company's financial position and prospects.	
D.1.1	The Board should present interim and other price sensitive information to the public and reports to regulators	The Company has reported the Audited Financial Statements as at 31 March 2014 and the Interim Financial Statements at the end of the each quarter of the financial year which has complied with the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the directions made there under and in conformity with Sri Lanka Accounting Standards. These information are initially uploaded to the Colombo Stock Exchange website in order to maintain the information equity as required by Continuing Listing Rules.
D.1.2	Directors' Report in the Annual Report	Please refer the Report of the Board of Directors on pages 75 to 78 to the Annual Report.
D.1.3	Annual Report disclosure stating Boards' and Auditors' responsibility.	Statement of Directors responsibilities is given on page 79 to the Annual Report.
D.1.4	Management Discussion and Analysis	Management Discussion and Analysis is given on pages 10 to 35 to the Annual Report.
D.1.5	Directors' assumption on the going concern of the business	Please refer the Report of the Board of Directors on pages 75 to 78 to the Annual Report.
D.1.6	Serious Loss of Capital	This situation has not arisen during the year 2013/14 and the likelihood of such a situation is remote. However, should such a situation arises, an Extra Ordinary Meeting would be convened to keep the Shareholders informed thereof.



## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
D.1.7	Disclosure of related party transactions	Please refer the Note No. 46 to the Audited Financial Statements
<b>D.2</b>	<b>Internal control</b> The Board should maintain a sound system of internal control to safeguard Shareholders investments and the Company assets.	
D.2.1	Evaluation of internal controls by the Board	The adequacy and the integrity of the Company's internal control system are reviewed by the Board Audit Committee through internal audit reports and system reviews.
D.2.2	Internal Audit function	Chief Internal Auditor of the Abans Groups of Companies carried out the Internal Audit functions and the findings together with appropriate recommendations / actions made were discussed at the Audit Committee meetings. Please refer the Audit Committee Report on pages 64 & 65 to the Annual Report for more details.
D.2.3	Evaluation of the process and effectiveness of risk management and internal controls.	The Company has setup a separate Risk Management Division to oversee Risk Management.
D.2.4	Responsibilities of Directors in maintaining a sound system of internal control and Statement of Internal Control	Refer Directors' Statement on Internal Control over Financial Reporting on page 80 to the Annual Report.
<b>D.3</b>	<b>Audit Committee</b> The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principals and maintain an appropriate relationship with the Company's Auditors.	
D.3.1	Composition of the Audit Committee	The Board Audit Committee comprises two Directors all of whom are Independent Non-Executive Directors. However, with the retirement of Mr. T. Someswaran (Charman), w.e.f. 3 August 2013, the number was reduced to one until the appointment of the new Chairman Mr. Ajith S. Ratnayake, w.e.f. 16 May 2014. Refer the Audit Committee Report on pages 64 & 65 to the Annual Report.
D.3.2	Reviewing the scope and results of the audit and its effectiveness and independence and objectivity of the Auditors	The Audit Committee monitors and reviews the External Auditor's independence, objectivity and the effectiveness of the Audit process, considering the relevant regulatory requirements.
D.3.3	Terms of Reference of the Audit Committee	The Audit Committee operates with clearly defined Terms of Reference approved by the Board.
D.3.4	Disclosure made in the Annual Report about Audit Committee.	Refer the Audit Committee Report on pages 64 & 65 to the Annual Report.
<b>D.4</b>	<b>Code of Business Conduct and Ethics</b> Company must adopt a Code of Business Conduct and Ethics for Directors and members of the Senior Management team. Any non-compliance with the said code should be promptly disclosed.	

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
D.4.1	Code of Business Conduct and Ethics	The Code of Business Conduct and Ethics was introduced during the year with the approval of the Board.
D.4.2	Chairman's confirmations for any violation of code of conduct and ethics	Refer the Chairman's Statement of Corporate Governance on page 38 to the Annual Report.
<b>D.5</b>	<b>Corporate Governance Disclosures</b>	
	The Board should include this in the Annual Report setting out the manner and extent for it to be complied.	
D.5.1	Disclosure of Corporate Governance compliance	This requirement is satisfied through presentation of this Report.
<b>E. INSTITUTIONAL INVESTORS</b>		
<b>E.1</b>	<b>Shareholder Voting</b>	
	Institutional Shareholders are required to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.	
E.1.1	Regular dialogue to be maintained with Shareholders and Chairman to communicate Shareholders views to the Board	Annual General Meeting is a forum to have an effective dialogue with Shareholders.
<b>E.2</b>	<b>Evaluation of Governance Disclosure</b>	
	Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition.	
<b>F. OTHER INVESTORS</b>		
<b>F.1</b>	<b>Investing / Divesting Decisions</b>	
F.1	Individual shareholders investment decisions	Individual Shareholders are at liberty to carry out adequate analysis or seek independent advice on their investing, holding or divesting decisions.
<b>F.2</b>	<b>Shareholder Voting</b>	
F.2	Individual shareholder voting	Individual Shareholders are encouraged to attend the AGM and cast their votes. Notices of the meetings are dispatched to all Shareholders within the prescribed time period.
<b>G. SUSTAINABILITY REPORTING</b>		
G.1.1	Economic Sustainability	Refer Page 10 to the Annual Report.
G.1.2	The Environment	Refer Page 35 to the Annual Report.
G.1.3	Labour Practice	Refer Page 28 to the Annual Report.
G.1.4	Society	Refer Page 35 to the Annual Report.
G.1.5	Product Responsibility	Refer Page 32 to the Annual Report.
G.1.6	Stakeholder identification, engagement and effective communication	Refer Page 9 to the Annual Report.
G.1.7	Sustainable reporting and disclosure should be formalized.	Refer Pages 7 to 35 to the Annual Report.

## CORPORATE GOVERNANCE REPORT

### SECTION THREE : CONTINUING LISTING RULES SECTION 7.10 ON CORPORATE GOVERNANCE OF THE COLOMBO STOCK EXCHANGE

The Continuing Listing Rule Section 7.10 of the Colombo Stock Exchange (CSE) mandates companies listed on the Colombo Stock Exchange to publish a table in the Annual Report, confirming that as at the date of the annual report they comply with the Corporate Governance rules. The rule addresses the following areas;

Non-executive Directors, Independent Directors, Disclosures relating to Directors, Remuneration Committee and Audit Committee.

Abans Finance PLC's extend of Compliance is summarized below;

Section	Rule	Extend of Compliance
<b>NON EXECUTIVE DIRECTORS</b>		
7.10.1 (a)	Two or one third of the Directors, whichever is higher, should be Non-Executive Directors	The Board consisted of six members up to 3 August 2013 out of which only CEO / MD is identified as an Executive Director. With the retirement of Mr. T. Someswaran, the number of members of the Board was reduced to five.
7.10.1 (b)	The total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	Number of Non-Executive Directors has been reduced to four (4) with the retirement of Mr. T. Someswaran, w.e.f. 3 August 2013. However, except the Managing Director / CEO, all the other Directors are Non-Executive.
7.10.1 (c)	Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Refer 7.10.1 (b)
<b>INDEPENDENT DIRECTORS</b>		
7.10.2 (a)	Two or one third of Non-Executive Directors, whichever is higher, should be independent.	The Board consisted of two Independent Non-Executive Directors up to 3 August 2013 and it has reduced to one with the retirement of Mr. T. Someswaran. Further, the Board appointed Mr. Ajith S. Ratnayake as an Independent Non-Executive Director, w.e.f. 16 May 2014.
7.10.2 (b)	Each Non-Executive Director should submit a declaration of independence / non-independence in the prescribed format.	The Company has taken initiatives to submit a signed and dated declaration on an annual basis of his/her independency or non-independency.
<b>DISCLOSURES RELATING TO DIRECTORS</b>		
7.10.3 (a)	Names of Independent Directors should be disclosed in the Annual Report	It has been disclosed in the Annual Report. Refer Directors profile on pages 36 & 37 and Report of the Board of Directors on pages 75 to 78 to the Annual Report.
7.10.3 (b)	In the event a Director does not qualify as independent as per the rules on Corporate Governance, but if the Board is of the opinion that the Director is nevertheless independent, it shall specify the basis of the determination in the Annual Report.	No such determination was required since all the Independent Directors qualify the requirements.

## CORPORATE GOVERNANCE REPORT

Section	Rule	Degree of Compliance
7.10.3 (c)	A brief resume of each Director should be published in the Annual Report including the areas of expertise.	Refer the Directors profile on pages 36 & 37 to the Annual Report.
7.10.3 (d)	A brief resume of any new Director appointed to the Board should be provided to the Exchange for Dissemination to the public.	No new appointment during 2013/14. However, resume of Mr. Ajith S. Ratnayake was published in the website of Colombo Stock Exchange upon his appointment as a Director w.e.f. 16 May 2014.
<b>CRITERIA FOR DETERMINATION OF INDEPENDENCY OF DIRECTORS</b>		
7.10.4 (a) -(h)	Requirements for meeting the criteria to be independent	All of the Independent Directors of the Company met the criteria for independency specified in this rule.
<b>REMUNERATION COMMITTEE</b>		
7.10.5 (a)	A Listed Company shall have a Remuneration Committee.  The Remuneration Committee shall comprise; of a minimum of two Independent Non-Executive Directors or of Non-Executive Directors a majority of whom shall be independent, whichever shall be higher.	The Company has a Remuneration Committee as Board Sub-Committee.  With the appointment of Mr. Ajith S. Ratnayake, w.e.f 16 May 2014, the requirement has been fulfilled. Refer the Remuneration Committee Report on page 66 to the Annual Report.
7.10.5 (b)	Functions of Remuneration Committee shall be to recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Refer the Remuneration Committee Report on page 66 to the Annual Report for details.
7.10.5 (c)	The Annual Report shall set out; The names of the Directors that comprise the Remuneration Committee; A statement of remuneration policy; Aggregate remuneration paid to Executive and Non-Executive Directors.	Refer the Remuneration Committee Report on page 66 to the Annual Report for details.  Refer the Note No. 46 to the Audited Financial Statements
<b>AUDIT COMMITTEE</b>		
7.10.6 (a)	A listed Company shall have an Audit Committee. The Audit Committee shall comprise a minimum of two Independent Non-Executive Directors or a majority of Independent Non-Executive Directors whichever is higher. One Non-Executive Director shall be appointed as the Chairman of the Audit Committee by the Board. The Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings. The Chairman or one member of the Committee should be a member of a recognized professional accounting body.	Audit Committee is constituted by the Board as a Board Sub-Committee.  Audit Committee comprised of two Independent Directors until the retirement of Mr. T. Someswaran (Chairman), w.e.f. 3 August 2013. However, Mr. Ajith S Ratnayake has been appointed as the Chairman to the Committee w.e.f. 16 May 2014.  Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. Both Mr. T. Someswaran and Mr. Ajith S. Ratnayake are fellow Members of the Institute of Chartered Accountants of Sri Lanka. Refer Audit Committee Report on pages 64 & 65 and the Directors profile on pages 36 & 37 to the Annual Report.

## CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE		
7.10.6 (b)	The functions of the Audit Committee shall be as set out in section 7.10 of the Listing Rules.	Refer Audit Committee Report on pages 64 & 65 to the Annual Report for the description of its functions.
7.10.6 (c)	Annual Report shall set out; The names of the Directors who comprise the Audit Committee. The Audit Committee shall make a determination of the independence of the auditors and disclose the basis for such determination. A report by the Audit Committee setting out the manner of compliance of the function set out in section 7.10 of the listing rules.	Refer Audit Committee Report on pages 64 & 65 to the Annual Report which discloses the names of the members and other relevant disclosures.

## DIRECTORS' ATTENDANCE AT MEETINGS

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

Name of the Director		Mr. Rusi Pestonjee	Mr. Kithsiri Wanigasekara	Dr. (Mrs.) Saroshi Dubash	Mr. Channa Pathirana	Mr. V.K. Choksy	Mr. T. Someswaran
Main Board	Held	12	12	12	12	12	12
	Eligible	12	12	12	12	12	4
	Attended	10	12	11	09	12	3
Audit Committee	Held	-	-	-	-	12	12
	Eligible	-	-	-	-	12	4
	Attended	-	-	-	-	12	3
Integrated Risk Management Committee	Held	-	4	4	4	-	-
	Eligible	-	4	4	4	-	-
	Attended	-	4	4	4	-	-
Remuneration Committee	Held	3	-	3	-	3	-
	Eligible	3	-	3	-	3	-
	Attended	3	-	3	-	3	-
Nomination Committee	Held	1	-	1	-	1	-
	Eligible	1	-	1	-	1	-
	Attended	1	-	1	-	1	-



## BOARD AUDIT COMMITTEE REPORT

### TERMS OF REFERENCE

The Audit Committee reports to the Board of Directors on financial reporting, internal controls and functions related to internal and external audit. Recommendations of the Audit Committee are discussed and appropriate measures are taken by the Board at each meeting on a continuous basis. The Terms of Reference of the Audit Committee are reviewed periodically by the Board of Directors. The functions of the Audit Committee are given in the Finance Companies (Corporate Governance) Direction No. 3 of 2008, Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

### COMPOSITION OF THE AUDIT COMMITTEE

The Composition of the Audit Committee is as follows;

Mr. T. Someswaran, Chairman - Independent Non-Executive Director (up to 3 August 2013)

Mr. Ajith S. Ratnayake, Chairman - Independent Non-Executive Director (w.e.f. 16 May 2014)

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

Mr. T. Someswaran and Mr. Ajith S. Ratnayake are Fellow members of the Institute of Chartered Accountants of Sri Lanka.

### RESPONSIBILITIES OF THE AUDIT COMMITTEE

Responsibilities include;

- Overseeing the internal control systems and reviewing of their effectiveness.
- Reviewing and monitoring of the effectiveness of the internal audit function.
- Review of Accounting Policies, Practices and Financial Statements.
- Monitoring of the integrity of the financial statements.
- Advising the Board on appointment of the External Auditor and the remuneration of the External Auditor.

### MEETINGS

The Audit Committee met twelve times during the year and the attendance of the Committee members are given in page 64 under Corporate Governance. The Managing Director /CEO attended meetings by invitation. The Chief Internal Auditor, Head of Finance, Manager Risk & Compliance / Compliance Officer, Head of Credit, Head of Branches and the General Manager also attended on invitation. Other officials were also invited where appropriate. The representatives of External Auditors also attended meetings. The Audit Committee met the External Auditor in the absence of the CEO and the members of the management to ensure that there was no limitation of scope in relation to the audit and to allow the full disclosure for the effectiveness of the External Audit.

### 1. FINANCIAL REPORTING

The Audit Committee assists the Board to discharge its responsibility in the preparation of Financial Statements that reflect a true and fair view of the financial position and performance in accordance with the Company's accounting records as per the requirements of Sri Lanka Accounting Standards.

The committee reviewed:

- The adequacy and the effectiveness of the internal control systems and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- The company's Financial Statements and Accounting Policies and Practices.
- Effectiveness of the financial reporting systems in place to ensure reliability of the information provided to the stakeholders.
- The processes by which compliance with Sri Lanka Accounting Standards (SLFRSs) and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Financial Statements and the Interim Financial Statements prior to submission to the Board.

## BOARD AUDIT COMMITTEE REPORT

### 2. RISKS AND INTERNAL CONTROL

The Committee reviewed the effectiveness of the Company's internal control system and also assessed internal controls over Financial Reporting.

### 3. INTERNAL AUDIT

The Internal Audit Plan of the Company was reviewed and approved by the Committee at the beginning of the year. The Committee also reviewed reports submitted by the Internal auditors with regard to the evaluation of internal control system. The audit findings that were presented to the Committee were also reviewed in detail by the Committee.

### 4. REGULATORY COMPLIANCE

The Internal Audit covers verifications to ensure that systems and procedures are in place to ensure compliance with regulatory requirements.

### 5. INTERNAL AUDIT CHARTER

The Internal Audit Charter that governs the Internal Audit function defines the scope, functions, authority, responsibility and reporting guidelines for the Internal Audit division to discharge its duties independently.

### 6. EXTERNAL AUDIT

The Engagement Audit Partner was changed during the year on completion of five years. The External Auditors presented to the Committee the audit approach and procedures including matters relating to scope of the audit and the independence of the Auditor. The Committee reviewed the Audited Financial Statements with the External Auditor. The Committee also reviewed the Management Letter issued by the External Auditor with the management responses.

### 7. RE-APPOINTMENT OF EXTERNAL AUDITOR

The Audit Committee recommends to the Board the re-appointment of M/s. Ernst & Young, Chartered Accountants as External Auditors to the Board for the year ending 31 March 2015 subject to the approval of the Shareholders.



**Ajith S. Ratnayake**  
Chairman  
Audit Committee

08 July 2014

## BOARD REMUNERATION COMMITTEE REPORT

### THE COMPOSITION

The Board appointed Remuneration Committee comprises as follows;

Mr. V.K Choksy	- Chairman (Independent Non Executive Director/ Senior Director)
Mr. Rusi Pestonjee	- Non - Executive Director
Dr. (Mrs.) S. Dubash	- Non - Executive Director Up to 8 April 2014
Mr. Ajith S. Ratnayake	- Independent Non - Executive Director w.e.f 16 May 2014

### MEETINGS

The committee held three meetings during the financial year. The attendance by members is given in the Corporate Governance report on page 63 of the Annual Report.

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

### THE ROLE OF THE COMMITTEE

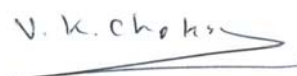
The Committee is entrusted with the responsibility to evaluate, assess and recommend to the Board of Directors on any matters that may affect the remuneration structure of the company including the following;

1. The determination of remuneration and other benefits of Key Management Personnel and the establishment of performance parameters.
2. The determination of the remuneration of CEO and the Independent Non - Executive Directors while ensuring that no Director is involved in setting his / her own remuneration.
3. To introduce policies and parameters of the remuneration structure for all staff members of the company and monitor the implementation thereof.
4. 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.

5. For the evaluation and recommendation on the promotion of the Management grade staff.
6. The evaluation of the performance of the Managing Director / CEO and the Key management personnel.
7. For the approval of annual increments, profit share and incentives.

### DIRECTORS REMUNERATION

The total of Directors' remuneration paid during the year under review is set out in Note 11 to the Financial Statements.



**V. K. Choksy**  
Chairman  
Remuneration Committee

22 July 2014

## BOARD INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC) REPORT

### COMPOSITION

The Committee consisted of two Non Executive Directors, Managing Director/ CEO, General Manager and other Key Management Personnel of the Company. The composition of the Committee as at 31 March 2014 is as follows;

Dr. (Mrs.) S. Dubash	- Chairperson (Non-Executive Director)- up to 8 April 2014
Mr. Channa Pathirana	- Chairman- (Non-Executive Director)- w.e.f 29 April 2014
Mr. Kithsiri Wanigasekara	- Managing Director /CEO
Mr. M.K.Nambiyarooran	- General Manager
Mr. Chaminda Sugathadasa	- Head of Branches
Mr. Gemunu Gunawardene	- Head Of Deposits
Mr. Aruna Somasiri	- Head of Credit & Recoveries
Mr. M. Suthakar	- Manager -Risk & Compliance / Compliance Officer
Mr. M. Rajakaruna	- Manager -IT
Ms. Mahika Rajakaruna	- Manager - Corporate Affairs
Ms. Anoma Rathnamali	- Assistant Accountant

### TERM OF REFERENCE

The IRMC was formed in January 2012 in terms of Finance Companies (Corporate Governance) Direction No 3 of 2008. The Terms of Reference of the IRMC were updated and approved by the Board of Directors on 24 September 2013.

### MEETINGS

The Committee held four meetings during the year under review to discuss matters that came within its purview. The attendance of the Committee members at meetings is given under Corporate Governance Report on page 63 of the Annual Report.

The Committee assesses all key risks of the Company such as Credit risk, Market risk, Liquidity risk and Operational risk. The discussions and conclusions reached at these meetings are recorded in the minutes and circulated to the Board of Directors for their information and necessary action. The key members of the staff participated at these meetings as appropriate.

### SCOPE OF DUTIES

The main responsibility of the Committee is to assess risks faced by the Company covering, credit, market, liquidity, operational and strategy. In fulfilling its duties the Committee covers the following areas;

- Review the quality of the credit portfolio, movement in NPL, and capital adequacy.
- Review performance of the Company
- Review adequacy of impairment in line with relevant accounting standards.
- Review liquidity position, impact on market volatility, performance of the equity portfolio and related issues.
- Review progress on operational risk throughout the Company.
- Review of Business Continuity Plan related issues.
- Assess adequacy and effectiveness of Management Committees, namely, Credit Committee and Assets and Liability Committee.
- Compliance with laws and regulations
- Propose appropriate measures for corrective actions as part of the risk mitigation process.

The Committee submits a risk assessment report to the Board of Directors within seven days of each meeting for information and for appropriate action.



**Channa Pathirana**

Chairman

Integrated Risk Management Committee

22 July 2014

## BOARD NOMINATION COMMITTEE REPORT

### COMPOSITION

The Nomination Committee was constituted during the year under review. The composition of the Committee as at 31 March 2014 is as follows;

- Mr. Rusi Pestonjee - Non- Executive Chairman,
- Dr. (Mrs.) S Dubash - Non -Executive Director  
(Up to 8 April 2014)
- Mr. V.K Choksy - Independent  
Non-Executive Director /  
Senior Director.

The Company Secretary functions as the secretary to the Committee.

### THE ROLE OF THE COMMITTEE

The Committee carries out the tasks set out in the Terms of Reference as approved by the Board of Directors and those specified in terms of Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No 3 of 2011. The role of the Committee is to identify and evaluate persons with the required skills, knowledge, standing and fitness and propriety to join the Board of the Company. The Committee makes recommendations to the Board of Directors for consideration.

### MEETINGS

The Committee meets as and when required to evaluate the suitability of prospective candidates to be appointed as Directors. One meeting was held during the financial year for the consideration and recommendation of the appointment of one Independent Non- Executive Director. The Committee reviewed and assessed the fitness and propriety of prospective candidates in terms of Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) No 3 of 2011. The Committee recommended the appointment of one Independent Non Executive Director.



**Rusi Pestonjee**  
Chairman

22 July 2014



## RISK MANAGEMENT REPORT

The uncertain economic times had a major effect on how companies in the financial services sector operate these days by shifting the focus from reliance on forecasts and projections to renewed focus to manage risk.

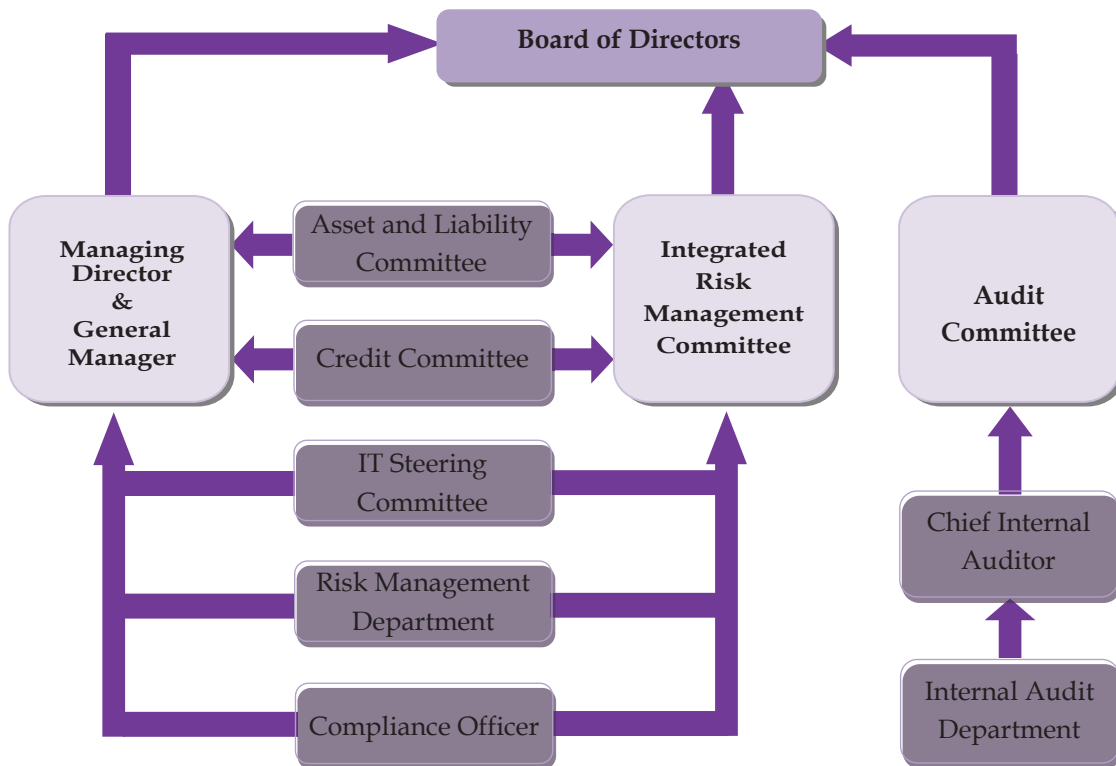
Risk is the main cause of uncertainty in any organisation in the financial services sector. Thus, companies in the financial services sector increasingly focus more on identifying risks and managing them before they even affect the business. The ability to manage risk will help companies act more confidently on future business decisions. Their knowledge of the risks they are facing will give them various options on how to deal with potential problems.

Abans Finance PLC provides a range of financial services to customers and encounters numerous risks in carrying out 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 IRMC also plays a crucial role in the implementation and follow up activities of the policies approved by the Board of Directors.

The Board of Directors is the ultimate authority on approving the business strategy, the risk appetite and delegated authority levels to the Chief Executive Officer, General Manager and Management level committees and 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 mainly carried out with the aid of the Credit Committee, the Asset and Liability Committee (ALCO) and the IT Steering Committee. 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 emerging issues.

The Risk Governance structure of the Company can be identified as follows,



## RISK MANAGEMENT REPORT

### 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, ALCO and the IT Steering Committee are the key Management Committees that meet periodically and provide complete, timely, relevant and accurate information with a critical analysis of qualitative and quantitative measures to facilitate Risk management.

### 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 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.

### Credit Appraisal

The Credit appraisal process consists of preliminary screening and evaluating borrower's ability to meet obligations in timely manner. Customer evaluation is based on the purpose of the proposed facility, collateral offered, market value of the collateral, past history, borrowers other commitments and repayment capacity. Further the Marketing Officer will carry out an investigation to assess physical verification of moveable and/or immovable assets, documentary evidences, income proof and references.

### Credit Approval

Credit Committee of the Company has the authority for credit approval based on the delegated authority. Credit Committee will consider loan to value ratio, market value of the collateral and counterparty exposures and other regulations on lending while approving the facility. The Board of Directors is the highest authority to approve facilities with the highest value or the exposure.

### Credit Disbursements

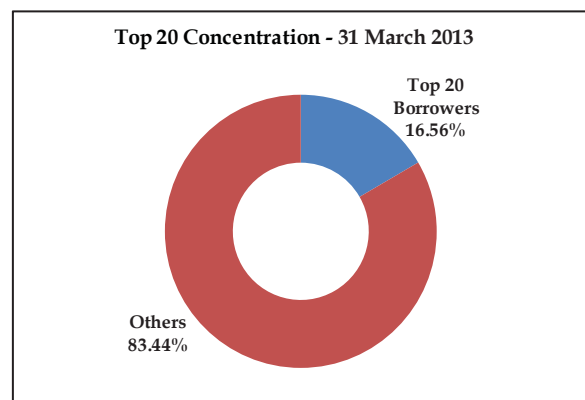
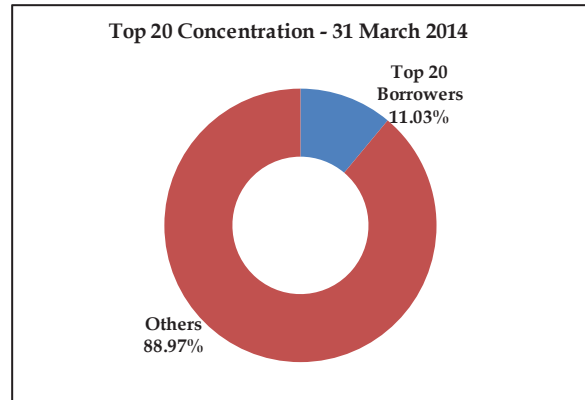
The Company has setup a centralized independent Credit Documentation and Administration division to evaluate and complete all security documents. Once the documentation is completed the Finance Division will release all disbursements from Head Office.

### Credit Monitoring & Recovery Process

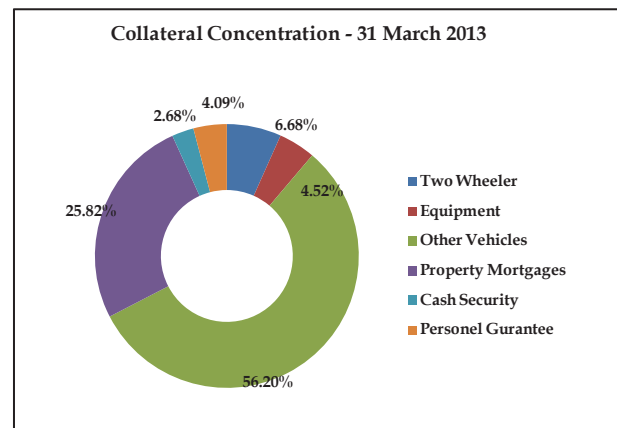
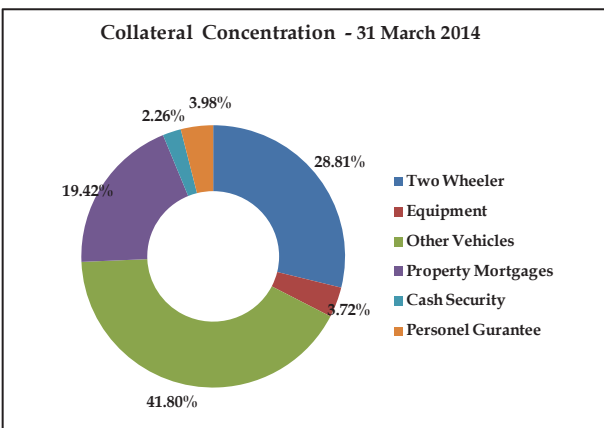
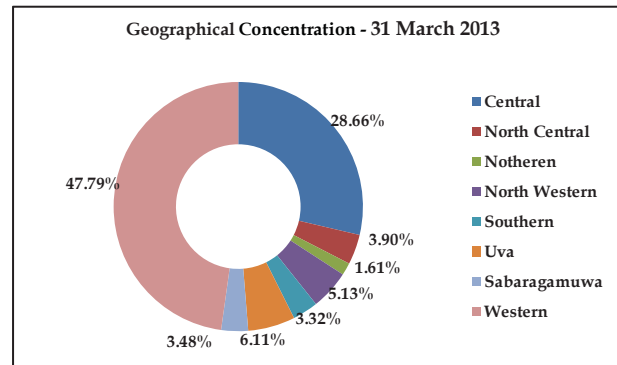
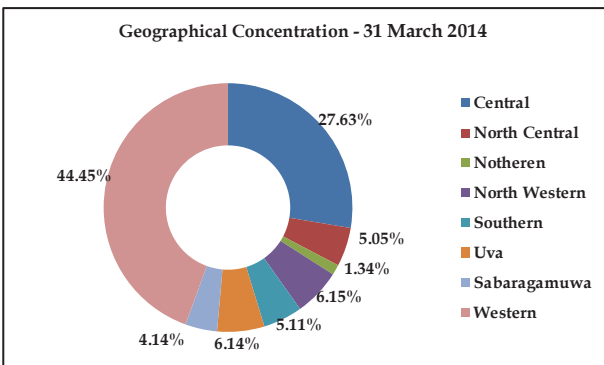
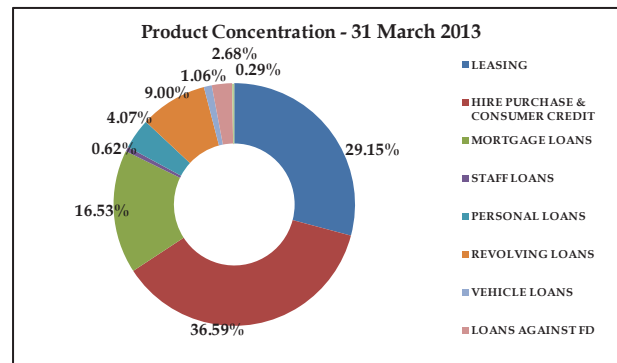
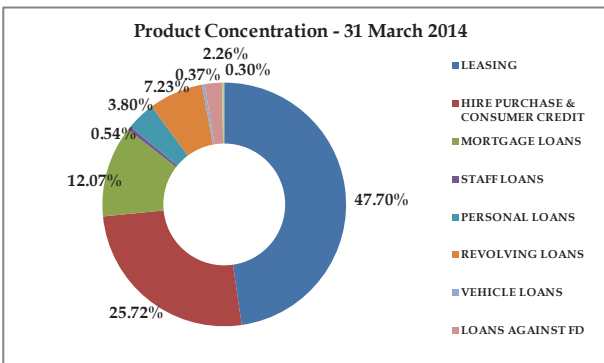
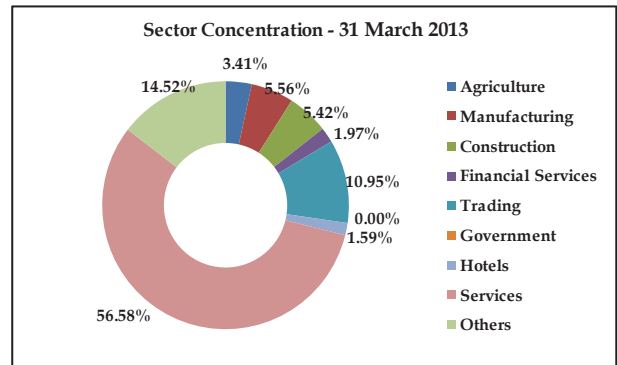
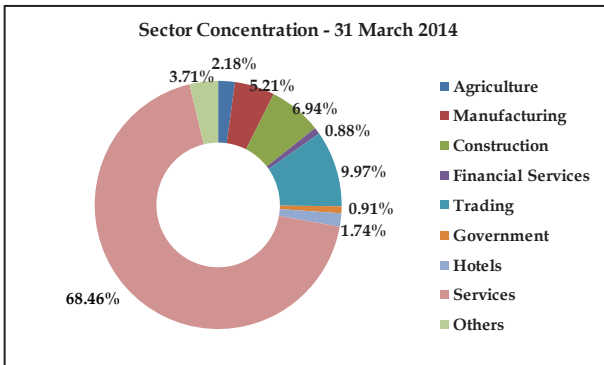
The Company has a well-established postdisbursement portfolio performance monitoring process coupled with a continuous review. This includes follow up procedure, delinquency monitoring, termination and initiating recovery action. As the last resort, legal recovery action will be taken in order to reduce the losses.

### Credit Concentration Risk

Concentration risk arises from the uneven distribution of exposures to counterparties, business sectors, product portfolio, geographical regions and collateral category. By diversifying the credit concentration, the Company would be able to maintain a safety cushion as any unfavourable movement in one concentration criteria could be offset by the favourable movement of the other.



**RISK MANAGEMENT REPORT**



## RISK MANAGEMENT REPORT

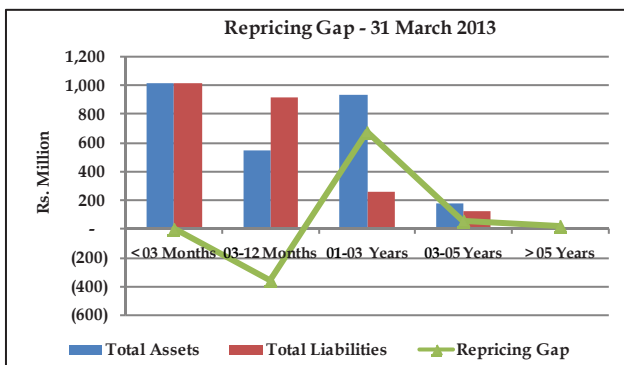
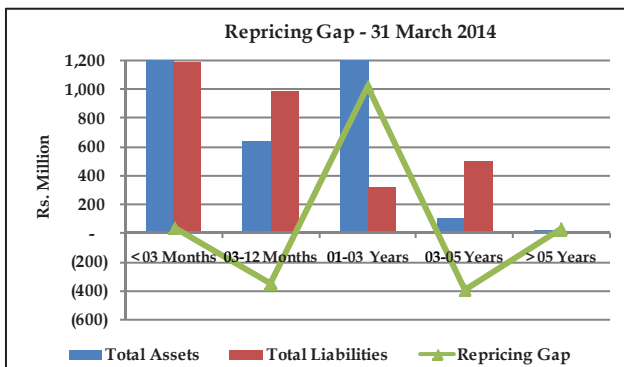
### MARKET RISK

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, equity prices and commodity prices (vehicle / collateral prices) in relation to our Company. 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.

#### 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 Interest Rate Risk as a major component of the Market Risk and has in place a continuous Assessment and monitoring process in this direction.

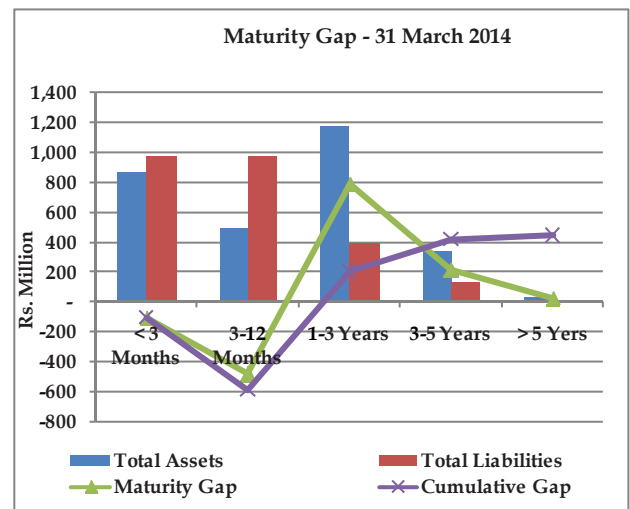
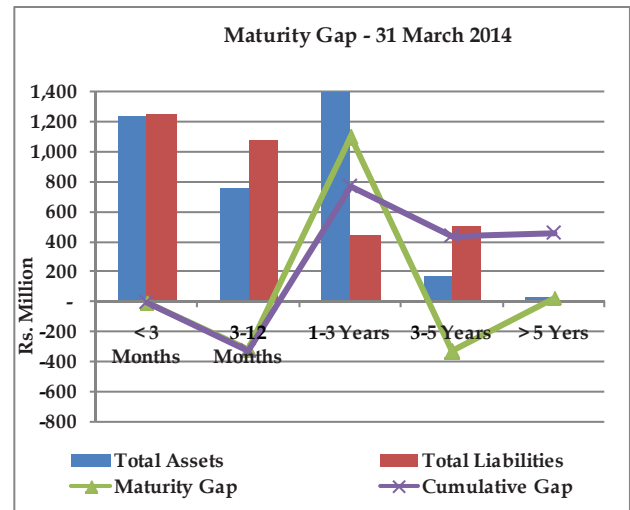
The change in interest rates in the market place from time to time requires the Company to assess its Assets and Liabilities portfolio with particular attention to re-pricing of both the assets and the liabilities. Further, ensuring that such Assets and Liabilities come within relevant time buckets in 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.

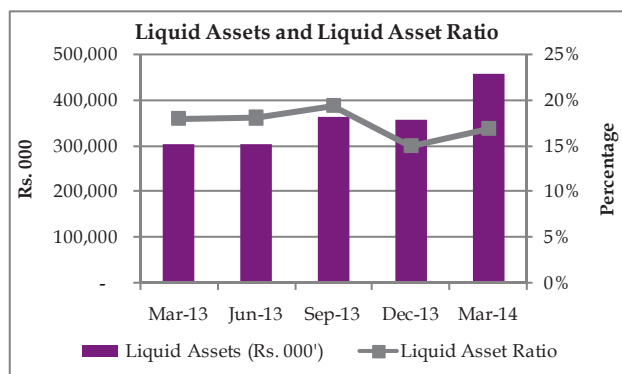
### LIQUIDITY RISK

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 maturity 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.

## RISK MANAGEMENT REPORT



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

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 a 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 has finalized 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.

### OTHER RISKS

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.



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## REPORT OF THE BOARD OF DIRECTORS

The Directors of Abans Finance PLC have pleasure in presenting to the shareholders the report of the Directors together with Audited Financial Statements for the year ended 31 March 2014 and the Auditors' Report on those Financial Statements in conformity with the requirements of the Companies Act No. 7 of 2007 and the Finance Business Act No. 42 of 2011 and the directions issued there under. The Company was incorporated as a Public Company in terms of the Companies Act No. 17 of 1982 and was subsequently re-registered as per the requirements of the Companies Act no 7 of 2007 on 15 June 2009. The Company registration No. is PB-1015-PQ. The Ordinary Shares of the Company are quoted with the Colombo Stock Exchange. The Registered Office is at No. 498, Galle Road, Colombo 03 and the Head Office / Principal place of business is located at No. 400, Galle Road, Colombo 03.

### PRINCIPAL ACTIVITIES

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

### REVIEW OF PERFORMANCE FOR 2013/2014 AND FUTURE DEVELOPMENT PLAN

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

### THE FINANCIAL STATEMENTS

The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS). The Financial Statements are duly certified by the Chief Financial Officer and approved by the Board of Directors and signed on behalf of the Board by the Managing Director and an Independent Non Executive Director (Senior Director) in accordance with the Companies Act No. 07 of 2007.

### DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibility of the Directors for financial reporting is described in detail in the Statement of Directors Responsibility for Financial Reporting given in the page 79 to the Annual Report. 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 have been prepared in compliance with requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards 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 Listing Rules of the Colombo Stock Exchange.

### INDEPENDENT AUDITOR'S REPORT OF THE COMPANY

The Company's External Auditors M/s Ernst & Young performed the audit of the Financial Statements for the year ended 31 March 2014 and the Auditor's Report is given in the page No. 82 to the Annual Report.

### SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Statements are given in pages 87 to 100 to the Annual Report.

### GOING CONCERN

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

### FINANCIAL PERFORMANCE

The Company's Profit before Taxation amounted to Rs. 25,367,993/- (after deducting Value Added Tax on Financial Services of Rs. 3,655,613/-) in comparison to Rs. 58,771,448/- in 2012/2013. After deducting Rs. 16,672,634/- (Rs. 18,083,398/- in 2012 / 2013) for Taxation, the Profit After Tax for the year amounted to Rs. 8,695,359/- (Rs. 40,688,050/- in 2012/2013). Details are given in the Statement of Comprehensive Income on Page 83 to the Annual Report.

### PROFIT APPROPRIATIONS

A summary of the financial results of the Company for the years ended 31 March 2014 and 31 March 2013 are given below;

## REPORT OF THE BOARD OF DIRECTORS

Description	2012/2013	2013/2014
Profit before Taxation from Operations	58,771,448	25,367,993
Provision for Income Tax	(18,083,398)	(16,672,634)
Profit for the Year	40,688,050	8,695,359
Transfer to Statutory Reserve Fund	(8,027,000)	(1,739,500)
Transfer to Investment Fund Reserve	(6,890,290)	(3,730,571)
Retained Profit Brought Forward From the Previous Year	(6,316,722)	18,899,588
Other Comprehensive Income Net of Tax	(554,450)	(25,753)
<b>Retained Earnings Carried Forward</b>	<b>18,899,588</b>	<b>22,099,123</b>

### EQUITY AND RESERVES

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

Description	2012/2013	2013/2014
Stated Capital	382,373,630	382,373,630
Statutory Reserve	28,228,500	29,968,000
Investment Fund Reserve	14,723,671	18,454,242
Retained Earnings	18,899,588	22,099,123
Total Shareholders' Funds	444,225,389	452,894,995

### TOTAL OPERATING INCOME

The Total Operating Income of the Company for 2013/2014 was Rs. 342,307,447/- compared to Rs. 235,112,018/- in 2012/2013. An analysis of the Income is given on page 83 to the Annual Report.

### PROPERTY, PLANT AND EQUIPMENT

Capital Expenditure incurred on Property, Plant and Equipment amounted to Rs. 7,371,737/- in 2013/2014 (Rs. 3,088,944/- in 2012/13). Details applicable to Capital Expenditure are given in Note 27 to the Financial Statements.

### DIRECTORS

In terms of the Articles of Association of the Company, the Board of Directors, as at 31 March 2014 consisted of five Directors including the Chairman and the Managing Director / CEO. The list of Directors who held office during the year under review and changes thereto are as follows;

Name of the Director	Changes (If, any)
Mr. R. Pestonjee (Chairman)	
Mr. K. B. Wanigasekara (Managing Director / CEO)	
Dr. (Mrs.) S. Dubash	Retired w.e.f. 8 April, 2014
Mr. V.K. Choksy (Senior Director)	
Mr. C. D. Pathirana	
Mr. T. Someswaran	Retired w.e.f. 3 August, 2013

The classification of Directors as Executive, Non-Executive, Independent and Non-Independent as at 31 March 2014 is given below.

Name of the Director	Independent / Non-Independent	Executive / Non-Executive
Mr. R. Pestonjee	Non-Independent	Non-Executive
Mr. K. B. Wanigasekara	Non-Independent	Executive
Dr. (Mrs.) S. Dubash	Non-Independent	Non-Executive
Mr. C. D. Pathirana	Non-Independent	Non-Executive
Mr. V.K. Choksy	Independent	Non-Executive

### RE-ELECTION OF DIRECTORS

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

Mr. Ajith S. Ratnayake, Independent Non-Executive Director who was appointed with effect from 16 May 2014 retires at the Annual General Meeting and being eligible offers himself for re-election with the unanimous support of the other directors.

The followings Directors will retire at the Annual General Meeting and being eligible offer themselves for re-election with the unanimous support of the other Directors.

\* Mr. K.B. Wanigasekara - Managing Director

\* Mr. V.K.Choksy - Independent Non-Executive Director

### RETIREMENT OF DIRECTORS

Mr. T. Someswaran, Independent Non- Executive Director retired with effect from 3 August 2013 in compliance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

Dr. (Mrs.) S. Dubash, Non -Executive Director retired with effect from 8 April 2014 in terms of the above Direction.



## REPORT OF THE BOARD OF DIRECTORS

### MEETINGS OF THE BOARD OF DIRECTORS AND BOARD SUB COMMITTEES.

Details of Directors' meetings and Board Sub Committee meetings are given in the Corporate Governance Report (page 63).

#### BOARD SUB COMMITTEES

There are four permanent committees of the Board, namely, Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Nomination Committee and the details of the members are as follows;

#### AUDIT COMMITTEE

- Mr. T. Someswaran – Chairman (Independent Non-Executive Director) – Retired w.e.f. 3 August 2013.
- Mr. V.K. Choksy – Member (Independent Non Executive Director – Senior Director ))
- Mr. Ajith. S. Ratnayake – Chairman (Independent Non Executive Director) – Appointed w.e.f. 16 May 2014

#### INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

- Dr. (Mrs.) S. Dubash – Chairperson (Retired w.e.f. 8 April, 2014)
- Mr. C. D. Pathirana –Non Executive Director \*
- Mr. K. B. Wanigasekara – Managing Director/CEO
- Mr. M.K. Nambiyarooran – General Manager
- Mr. Chaminda Sugathadasa – Head of Branches
- Mr. Aruna Somasiri – Head of Credit & Recoveries
- Mr. M. Suthakar – Manager – Risk & Compliance / Compliance Officer
- Mr. Manura Rajakaruna – Manager IT
- Ms. Mahika Rajakaruna – Manager Corporate Affairs
- Ms. Anoma Rathnamali – Assistant Accountant

\* Appointed as Chairman with effect from 29 April 2014.

#### REMUNERATION COMMITTEE

- Mr. V.K. Choksy –Chairman
- Mr. R. Pestonjee
- Dr. (Mrs.) Saroshi Dubash- Retired w.e.f. 8 April 2014
- Mr. Ajith.S. Rathnayake – Appointed w.e.f. 16 May 2014

#### NOMINATION COMMITTEE

- Mr. R. Pestonjee – Chairman
- Dr. (Mrs.) Saroshi Dubash – Retired w.e.f. 8 April 2014
- V.K.Choksy

### DISCLOSURE OF DIRECTORS INTEREST IN SHARES

Directors	As at 31-03-2014	As at 31-03-2013
Mr. R. Pestonjee	106,801	106,801
Dr. (Mrs.) S. Dubash	133,334	133,334
Mr. K. B. 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' interests in contracts are disclosed in Note No. 46 to the Audited Financial Statements.

### 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 on 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.

### APPOINTMENT OF AUDITORS

The Company's Auditors during the year under review were M/s. Ernst & Young Chartered Accountants. The retiring auditors M/s. Ernst & Young have expressed their willingness to continue in office and a resolution to re-appoint them as Auditors and 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.

### SYSTEM OF INTERNAL CONTROL

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

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

## REPORT OF THE BOARD OF DIRECTORS

### CORPORATE GOVERNANCE

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

### OUTSTANDING LITIGATION

The directors confirm that pending litigation against the Company will not have any material impact on the financial position of the Company.

### EVENTS OCCURRING AFTER THE REPORTING DATE

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

### NOTICE OF THE ANNUAL GENERAL MEETING

The eighth Annual General Meeting of the Company will be held at the Organization of Professional Associations of Sri Lanka No. 275 /75, Professor Stanley Wijesundara Mawatha, Colombo 7, on 17 September at 2.30 p.m. The Notice of Meeting is given on page 138 to the Annual Report.

### **For and on behalf of the Board of Directors,**

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

22 July 2014



## DIRECTORS RESPONSIBILITY FOR FINANCIAL REPORTING

The responsibilities of the Directors of Abans Finance PLC in relation to the preparation of Financial Statements as at 31 March 2014 are set out in this Statement.

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

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

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

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

- a. appropriate selection and application of accounting policies; and
- b. judgments and estimates being made on an appropriate basis.

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

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

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

obtained an Assurance Report from the External Auditors on the Statement of Internal Control.

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

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

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

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

Section 190 (1) of the said Act states:

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

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

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

- (a) acts in good faith;
- (b) makes proper inquiry where the need for inquiry is indicated by the circumstances; and
- (c) has no knowledge that such reliance is unwarranted.

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

By order of the board,

Varners International(Pvt.) Ltd.

Corporate Secretaries,

Level 14, West Tower, World Trade Centre,  
Echelon Square, Colombo 1.

## DIRECTORS STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

### RESPONSIBILITY

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

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

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

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

Company adopted the revised Sri Lanka Accounting Standards prefixed LKAS and SLFRS. Processes applied to adopt the said accounting standards were strengthened during the year 2014 based on the feedback received from the External Auditors, Internal Audit Department, Regulators and the Board Audit Committee.

Progressive improvements on processes to comply with new requirements of recognition measurement, classification and disclosure are being made whilst some processors were not fully completed at the reporting date. In particular, due to time constraints, areas with respect to the processes such as related party transactions, monthly impairment computation and IT controls are being implemented as at the reporting date. Company is in the process of updating relevant procedure manuals pertaining to these new requirements.

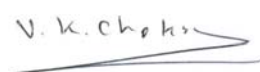
### CONFIRMATION

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

### EXTERNAL AUDITOR'S ASSURANCE REPORT

The External Auditors have submitted an Assurance Report on the process adopted by the Directors on the system of internal controls over Financial Reporting.

By order of the Board,



**V. K. Choksy**  
Director



**K. B. Wanigasekara**  
Director



**Ajith S. Ratnayake**  
Chairman - Audit Committee

26 June 2014

## CEO'S AND CFO'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Financial Statements of Abans Finance PLC for the year ended 31 March 2014 are prepared and presented in Compliance with the following regulatory requirements;

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

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

Significant Accounting Policies and Estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Audit Committee. The Board of Directors and the management of the Company accept responsibility for the integrity and objectivity of these Financial Statements. These estimates and 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 and on ongoing basis. Our Internal Audit Division has conducted periodic audits to provide a reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements of the Company were audited by M/s. Ernst & Young Chartered Accountants, the Independent External Auditors and their report is given on page 82 to the Annual Report.

The Audit Committee of the Company meets periodically with the Internal Audit team and the independent External Auditor to review their audit plans, assess the manner in which these auditors are performing their responsibilities and to discuss their reports on internal controls and financial reporting issues. Audit Committee also reviewed the quality of Accounting Policies and their adherence to statutory and regulatory requirements, the details of which are given in the Board Audit Committee report on pages 64 & 65 of this Annual Report. To ensure complete independence, the External Auditors and the Internal Auditor have full and free access to the members of the Audit Committee to discuss any matter of substance. The Audit Committee approves the Audit and Non Audit Services provided by External Auditors, M/s Ernst & Young, in order to ensure that the provision of such services does not impair independence of the External Auditors.

We confirm to the best of our knowledge;

- a. The Company has complied with all applicable laws, regulations and prudential requirements and there are 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 off where relevant provided for.



**A. Rathnamali**  
Chief Financial Officer



**K. B. Wanigasekara**  
Chief Executive Officer

22 July 2014



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

NDeS/NYR/NAS/KAS

## INDEPENDENT AUDITOR'S 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 2014, 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 set out on pages 83 to 129.

### 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 2014 and the financial statements give a true and fair view of the Company's financial position as at 31 March 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

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

*Ernst & Young*

26 June 2014

Colombo

Partners : A D B Talwatte FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva ACA Ms. Y A De Silva FCA W R H Fernando FCA FCMA  
W K B S P Fernando FCA FCMA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga ACA N M Sulaiman ACA ACMA B E Wijesuriya ACA ACMA

A member firm of the Ernst & Young Global Limited

**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED 31 MARCH 2014**

	Notes	2014 Rs.	2013 Rs.
<b>Income</b>	5	<u>751,979,154</u>	<u>570,344,914</u>
Interest Income	5.1	688,523,379	541,111,997
Interest Expenses	5.2	<u>(387,218,811)</u>	<u>(328,177,272)</u>
<b>Net Interest Income</b>		301,304,568	212,934,725
Fee and Commission Income		48,243,961	24,513,497
Fee and Commission Expenses		<u>(22,452,896)</u>	<u>(7,055,624)</u>
<b>Net Fee and Commission Income</b>	6	25,791,065	17,457,873
Net Gain from Trading	7	272,657	449,377
Other Operating Income (net)	8	<u>14,939,157</u>	<u>4,270,043</u>
<b>Total Operating Income</b>		342,307,447	235,112,018
Impairment Charges	9	<u>(115,721,812)</u>	<u>(5,143,119)</u>
<b>Net Operating Income</b>		226,585,635	229,968,899
<b>Operating Expenses</b>			
Personnel Costs	10	(78,998,858)	(69,738,998)
Other Operating Expenses	11	<u>(118,563,171)</u>	<u>(93,872,626)</u>
<b>Operating Profit before Value Added Tax on Financial Services</b>		29,023,606	66,357,275
Value Added Tax on Financial Services		<u>(3,655,613)</u>	<u>(7,585,827)</u>
<b>Profit before Taxation from Operations</b>		25,367,993	58,771,448
Provision for Income Taxation	12	<u>(16,672,634)</u>	<u>(18,083,398)</u>
<b>Profit for the Year</b>		<u>8,695,359</u>	<u>40,688,050</u>
<b>Other Comprehensive Income</b>			
Actuarial Gain/(Loss) on Defined Benefit Plans	34	263,703	(770,070)
Income Tax (Charge)/ Reversal Relating to Components of Other Comprehensive Income		<u>(289,456)</u>	<u>215,620</u>
<b>Other Comprehensive Income for the Year, Net of Tax</b>		<u>(25,753)</u>	<u>(554,450)</u>
<b>Total Comprehensive Income for the Year, Net of Tax</b>		<u>8,669,606</u>	<u>40,133,600</u>
<b>Basic Earnings Per Share (Rs)</b>	13	<u>0.24</u>	<u>1.10</u>

Accounting Policies and Notes from pages 87 to 129 form an integral part of these Financial Statements.



**STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH 2014**

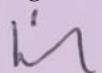
	Notes	2014 Rs.	2013 Rs.
<b>Assets</b>			
Cash and Bank Balances	14	105,135,491	33,802,530
Placements with Banks	15	127,536,938	125,140,325
Securities Purchased under Repurchase Agreement	16	268,997,323	-
Financial Assets - Held for Trading	17	7,050,136	8,336,546
Investments in Debt Securities	18	49,436,762	-
Loans and Advances	19	742,249,738	836,056,102
Lease Rentals Receivable & Stock Out on Hire	20	2,073,588,417	1,549,447,291
Financial Investments - Available for Sale	21	80,400	80,400
Financial Investments - Held to Maturity	22	57,074,657	168,522,407
Other Financial Assets	23	22,578,322	15,933,472
Real Estate Stock	24	130,860,857	133,841,502
Other Non Financial Assets	25	95,297,612	25,467,071
Intangible Assets	26	9,340,722	12,268,902
Property, Plant & Equipment	27	17,957,131	16,608,243
Deferred Tax Assets	28	155,429	-
<b>Total Assets</b>		<b>3,707,339,935</b>	<b>2,925,504,791</b>
<b>Liabilities</b>			
Due to Banks	29	263,270,842	359,435,796
Due to Customers	30	2,600,119,545	1,765,882,547
Debt Instruments Issued and Other Borrowed Funds	31	122,265,623	174,325,059
Other Financial Liabilities	32	252,620,559	168,376,894
Other Non Financial Liabilities	33	2,879,759	1,459,519
Retirement Benefit Obligations	34	7,411,816	5,833,972
Current Tax Liabilities		5,876,796	3,376,089
Deferred Tax Liabilities	28	-	2,589,526
<b>Total Liabilities</b>		<b>3,254,444,940</b>	<b>2,481,279,402</b>
<b>Shareholders' Funds</b>			
Stated Capital	35	382,373,630	382,373,630
Statutory Reserve	36	29,968,000	28,228,500
Investment Fund	36	18,454,242	14,723,671
Retained Earnings		22,099,123	18,899,588
<b>Total Shareholders' Funds</b>		<b>452,894,995</b>	<b>444,225,389</b>
<b>Total Liabilities and Shareholders' Funds</b>		<b>3,707,339,935</b>	<b>2,925,504,791</b>
<b>Commitments and Contingencies</b>		<b>-</b>	<b>-</b>

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

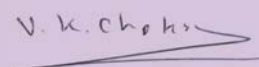


**Chief Financial Officer**

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



**Director**



**Director**

Accounting Policies and Notes from pages 87 to 129 form an integral part of these Financial Statements.

26 June 2014

Colombo

**STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 MARCH 2014**

	Stated Capital Rs.	Retained Earnings Rs.	Statutory Reserve Rs.	Investment Fund Reserve Rs.	Total Rs.
<b>Balance as at 1 April 2012</b>	382,373,630	(6,316,722)	20,201,500	7,833,381	404,091,789
Net profit for the year	-	40,688,050	-	-	40,688,050
Other comprehensive income net of tax	-	(554,450)	-	-	(554,450)
Transfer to / (from) during the year	-	(14,917,290)	8,027,000	6,890,290	-
<b>Balance as at 31 March 2013</b>	<u>382,373,630</u>	<u>18,899,588</u>	<u>28,228,500</u>	<u>14,723,671</u>	<u>444,225,389</u>
Net Profit for the year	-	8,695,359	-	-	8,695,359
Other comprehensive income net of tax	-	(25,753)	-	-	(25,753)
Transfer to / (from) during the year	-	(5,470,071)	1,739,500	3,730,571	-
<b>Balance as at 31 March 2014</b>	<u><u>382,373,630</u></u>	<u><u>22,099,123</u></u>	<u><u>29,968,000</u></u>	<u><u>18,454,242</u></u>	<u><u>452,894,994</u></u>

Accounting Policies and Notes from pages 87 to 129 form an integral part of these Financial Statements.

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED 31 MARCH 2014**

	Note	2014 Rs.	2013 Rs.
<b>Cash Flows From Operating Activities</b>			
Profit before Income Tax Expense		25,367,993	58,771,448
Adjustments for			
Depreciation	27	6,016,662	5,571,555
Amortization of Intangible Assets	26	4,331,603	2,850,401
Impairment Provision	9	115,721,812	5,143,119
Diminution/(Appreciation) in Value of Investments	7	199,912	(250,618)
Profit from Sale of Investments	7	(342,965)	-
Loss on Disposal of Property & Equipment	8	6,187	2,677
Provision for Defined Benefit Plans	10	1,989,297	1,714,372
Dividend Received		(129,604)	(195,425)
<b>Operating Profit before Working Capital Changes</b>		<b>153,160,897</b>	<b>73,607,529</b>
Decrease in Real Estate Stock		2,980,646	10,775,698
Decrease in Loans and Advances		52,841,689	136,316,656
Increase in Lease Rentals Receivable & Stock out on Hire		(568,478,796)	(316,729,951)
Increase in Other Financial Assets		(37,064,317)	(1,720,006)
(Increase)/Decrease in Other Non Financial Assets		(69,830,541)	521,243
Increase in Amounts Due to Customers		834,236,998	93,773,808
Increase in Other Financial Liabilities		84,243,665	34,132,770
Increase in Other Non Financial Liabilities		1,420,240	326,626
Cash Generated from Operations		453,510,481	31,004,373
Retirement Benefit Liabilities Paid	34	(147,750)	(366,638)
Taxes Paid		(17,206,338)	(5,218,304)
Net Cash From Operating Activities		<b>436,156,393</b>	<b>25,419,431</b>
<b>Cash Flows from / (Used in) Investing Activities</b>			
Acquisition of Property, Plant & Equipment	27	(7,371,737)	(3,088,944)
Acquisition of Intangible Assets	26	(1,403,423)	(4,709,086)
Investments in Debt Securities		(49,436,762)	-
Proceeds from Sales of Property, Plant & Equipment		-	159,821
Proceeds from Sales of Financial Investments Held for trading		3,526,479	-
Cash flow from/(used in) Fixed Deposits		(4,033)	15,982,531
Sale/(Purchase) of Financial Investments- Held to Maturity		(2,431,470)	4,598,192
Investments in Financial Assets held for trading		(2,097,015)	-
Securities Sold under Re-Purchase Agreements		-	15,362,989
Dividend Received		129,604	195,425
Net Cash Flows from/(Used in) Investing Activities		<b>(59,088,359)</b>	<b>28,500,929</b>
<b>Cash Flows from / (Used in) Financing Activities</b>			
Borrowings		(5,373,587)	13,915,966
Cash Flow from Debt Instruments Issued and Other Borrowings		(52,059,436)	74,950,439
Net Cash Flows from/(Used in) Financing Activities		<b>(57,433,023)</b>	<b>88,866,405</b>
<b>Net Increase in Cash and Cash Equivalents</b>		<b>319,635,011</b>	<b>142,786,765</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>		<b>179,932,942</b>	<b>37,146,177</b>
<b>Cash and Cash Equivalents at the end of the year</b>	14.1	<b>499,567,953</b>	<b>179,932,942</b>

Accounting Policies and Notes from pages 87 to 129 form an integral part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 1. 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 PLC.

#### 1.4 Date of Authorization for Issue

The Financial Statements of Abans Finance PLC for the year ended 31 March 2014 was authorized for issue in accordance with a resolution of the Board of Directors on 26 June 2014.

#### 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 31 March 2014 are prepared in accordance with Sri Lanka Accounting Standards comprising of SLFRSs and LKASs (hereafter referred as SLFRSs), as laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

#### 2.2 Changes in Accounting Policies and Disclosures

##### LKAS 19 - Employee Benefits (Revised 2013)

The Company applied LKAS 19 - (Revised 19) on Employee Benefit retrospectively in accordance with the transitional provisions set out in the said standard. As per previous policy actuarial gain/loss was recognized in full in the Income Statement. As per revised LKAS 19, actuarial gain/loss is recognized in full in other comprehensive income (OCI).

Accordingly the Company changed its policy for recognizing actuarial gain/loss in OCI. This resulted in reclassifying actuarial gain/loss previously recognized in Income Statement to the OCI. Since there was no significant impact on Retirement Benefit Liability, the opening Statement of Financial Position of the earliest comparative period has not been presented. The transition did not have an impact on the Statement of Cash Flows. There is no significant impact on the basic EPS.

#### 2.3 Basis of Measurement

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

#### 2.4 Presentation of Financial 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.

#### 2.5 Materiality & Aggregation

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

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

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.

### 2.6 Comparative Information

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

### 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. 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.

#### 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. Furthermore, board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. Therefore, the Financial Statements continue to be prepared on the going concern basis.

#### II. Defined Benefit Plans

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



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

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, Balance with Banks and Investments in Government Securities.

For the purpose of the Statement of Cash Flow, cash and Cash Equivalents consist of Cash and Short Term Deposits and Investments in Government Securities as defined above, net of unfavourable bank balances.

### 4.2 Financial Assets

#### 4.2.1 Financial Assets - initial recognition and subsequent measurement

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

##### (i) Date of recognition

All Financial Assets are initially 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.

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### (iv) Available for Sale Financial Assets

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

Dividends earned whilst holding available for sale financial investments are recognised in the income statement as 'Other operating income' when the right of the payment has been established.

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

### (v) Held- to- Maturity Financial Investments

Held to maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. Subsequent to initial recognition, held to maturity financial investments are measured at amortised cost using the Effective Interest Rate less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Impairment (Charges)/Reversal for Loans and Other Losses'.

If the Company was to sell or reclassify more than an insignificant amount of held to maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available for sale. Furthermore, the Company would be prohibited from classifying any financial asset as held to maturity during the following two years.

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

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

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

After initial measurement, amounts 'Loans and Advances to customers and Lease Rental Receivables from customers are subsequently measured at amortised cost using the Effective Interest Rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the Effective Interest Rate. The amortisation is included in 'Interest Income' in the Income Statement. The losses arising from impairment are recognised in the Income Statement in "Impairment (Charges) / Reversal for loans and other losses"

#### 4.2.2 'Day 1' difference

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

#### 4.2.3 Reclassification of Financial Assets

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

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

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

the amount recorded in equity is recycled to the income statement.

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

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

### 4.2.4 Derecognition of Financial Assets

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

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

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the

asset. In that case, the company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

### 4.2.5 Impairment of Financial Assets

The company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an 'incurred loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

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

#### Individually assessed Loans and Advances and Lease and Stock out on hire

For all loans that are considered individually significant, the company assesses on a case-by-case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence includes:

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

- 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 to customers, Lease Rental Receivable from customers and Stock out on Hire to customers**

Impairment is assessed on a collective basis in two circumstances:

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

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the company has incurred as a result of events occurring before the balance sheet date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans within the group, those loans are removed from the group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk; and
- Management's 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.



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

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 Effective Interest Rate 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 Effective Interest Rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the Loan's Original Effective Interest Rate.



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 4.2.6 Collateral Valuation

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

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

### 4.2.7 Collateral Repossessed

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

### 4.2.8 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 Effective Interest Rate.

### 4.2.9 Other Financial Assets

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

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

## 4.3 Non - Financial Assets

### 4.3.1 Property, Plant and equipment

#### Recognition and measurement

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

#### - Cost Model

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

#### Subsequent Cost

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

#### Depreciation

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

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

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 Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and 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 Lease

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 4.5 Taxation

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

#### 4.5.1 Current Taxes

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

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

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

#### 4.5.2 Deferred Taxation

Deferred Income Tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred Income Tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred Income Tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in

a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

#### 4.5.3 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 instruments issued by the Company that are not designated as fair value through profit or loss, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset for a fixed number of own equity shares.

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

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

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 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 are initially measured at fair value less transaction cost that are directly attributable to the acquisition and subsequently measured at amortised cost using the Effective Interest Rate method.

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

#### - Borrowings

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

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

### 4.7 Provisions

Provisions are 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 Other Comprehensive Income in the year in which they arise.

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

Past Service Costs are 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.



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### (ii) Defined Contribution Plan

The Company also operates a defined contribution plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense under 'Personnel Expenses'. Unpaid contributions are recorded as a liability.

The Company contributes to the following Schemes:

#### - Employees' Provident Fund

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

#### - Employees' Trust Fund

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

### 4.9 Recognition of Income and Expenses

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

#### 4.9.1 Interest Income and Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the Effective Interest Rate. Effective Interest Rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the Effective Interest Rate,

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

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

#### 4.9.2 Fee and Commission Income

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

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

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

#### 4.9.4 Dividend Income

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



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 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 share holders. 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 Segment Reporting

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

- Leasing
- Hire Purchase
- Term Loans
- Others

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

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

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

### 4.12 Effect of Sri Lanka Accounting Standards issued but not yet effective:

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future and have not been applied in preparing these financial statements. Those standards can have an effect on the accounting policies currently adopted by the Company and may have an impact on the future financial statements.

#### a) *SLFRS 9-Financial Instruments: Classification and Measurements*

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. The Company will quantify the effect in due course.

This standard was originally effective for annual periods commencing on or after 01 January 2015. However effective date has been deferred subsequently.

#### b) *SLFRS 13 - Fair Value Measurement*

SLFRS 13 establishes a single source of guidance under SLFRSs for all fair value measurements and provides guidance on all fair value measurements under SLFRSs.

This standard will be effective for the annual period beginning on or after 01 January 2014. However use of fair value measurement principles contained in this standard are currently recommended.

#### c) In addition to the above, following standards will also be effective for the annual periods commencing on or after 01 January 2014.

SLFRS 10 - Consolidated Financial Statements  
SLFRS 11 - Joint Arrangements  
SLFRS 12 - Disclosure of Interests in Other Entities

The above three standards will have an impact on recognition, measurement and disclosure requirements currently included in LKAS 27-Consolidated and Separate Financial Statements, LKAS 28 - Investments in

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

Associates, LKAS 31-Interest in Joint Ventures and SIC-12 and SIC 13 which are on consolidation of special purpose entities(SPEs) and jointly controlled entities respectively.

Establishing a single control model that applies to all entities including SPEs and removal of the option to apply proportionate consolidation of jointly controlled entities are the significant changes introduced under SLFRS 10 and SLFRS 11 respectively.

SLFRS 12 establishes a single standard on disclosure relating to interests in other entities.

This includes additional requirements relating to disclosure as well as the requirements previously included in LKAS 27, LKAS 28 and LKAS 31.

The Company will adopt these standards when they become effective. Pending the completion of a detailed review, the financial impact cannot be reliably measured as at the date of authorization for issue of these Financial Statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

	<b>2014</b>	<b>2013</b>
	<b>Rs.</b>	<b>Rs.</b>
<b>5. INCOME</b>		
Interest Income	688,523,379	541,111,997
Fee & Commission Income	48,243,961	24,513,497
Net Gain From Trading	272,657	449,377
Other Operating Income	<u>14,939,157</u>	<u>4,270,043</u>
	<u>751,979,154</u>	<u>570,344,914</u>
<b>5.1 Interest Income</b>		
Loans and Advances	217,076,786	209,834,053
Lease Rentals Receivable & Stock Out on Hire	432,668,679	299,326,270
Financial Investments - Held to Maturity & Repurchase Agreements	19,400,953	20,598,710
Other Financial Assets	980,390	1,187,992
Financial Investments -Debt Securities	4,485,001	-
Placements with Bank	<u>13,911,570</u>	<u>10,164,972</u>
<b>Total Interest Income</b>	<u>688,523,379</u>	<u>541,111,997</u>
<b>5.2 Interest Expenses</b>		
Due to Banks	54,541,706	56,172,484
Due to Customers	299,133,998	242,519,157
Debt Instruments Issued and Other Borrowed Funds	30,579,751	28,568,987
Other Financial Liabilities	<u>2,963,356</u>	<u>916,644</u>
<b>Total Interest Expenses</b>	<u>387,218,811</u>	<u>328,177,272</u>
<b>Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions</b>		
<p>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.</p> <p>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 &amp; the resulting notional Tax credit amounts to Rs.Rs.1,940,095/- (2013 - Rs.2,059,877/- ).</p>		
<b>6. NET FEE AND COMMISSION INCOME</b>		
<b>6.1 Fee and Commission Income</b>		
Credit Related Fees and Commissions	4,868,943	3,930,624
Service Charges	38,031,089	13,786,407
Transfer Fees	4,469,418	6,324,779
Other Fees	<u>874,512</u>	<u>471,687</u>
<b>Total Fee and Commission Income</b>	<u>48,243,961</u>	<u>24,513,497</u>
<b>6.2 Fee and Commission Expenses</b>		
Brokerage Fees	<u>22,452,896</u>	<u>7,055,624</u>
<b>Total Fee and Commission Expenses</b>	<u>22,452,896</u>	<u>7,055,624</u>
<b>Net Fee and Commission Income</b>	<u>25,791,065</u>	<u>17,457,873</u>
<b>7. NET GAIN FROM TRADING</b>		
Dividend Income from Financial Investments - Held for Trading	129,604	198,758
Appreciation / (Depreciation) in Market Value of Financial Investments - Held for Trading	(199,912)	250,619
Profit on Sale of Financial Investments - Held for Trading	<u>342,965</u>	<u>-</u>
	<u>272,657</u>	<u>449,377</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

8. OTHER OPERATING INCOME	2014 Rs.	2013 Rs.
Loss on Disposal of Property & Equipment	(6,187)	(2,677)
Bad Debt Recoveries	7,549,125	1,262,622
Rent Income from Sublease of Building	3,763,688	2,483,532
Others	3,632,531	526,566
<b>Total Other Operating Income</b>	<b>14,939,157</b>	<b>4,270,043</b>
9. IMPAIRMENT CHARGES	2014 Rs.	2013 Rs.
Loans and Advances	40,964,675	962,307
Lease Rentals Receivable & Stock Out on Hire	44,337,670	3,475,890
Other financial Assets	30,419,467	704,922
	<b>115,721,812</b>	<b>5,143,119</b>
10. PERSONNEL COSTS	2014 Rs.	2013 Rs.
Salaries and Bonus	58,996,138	53,459,131
Employer's Contribution to EPF	6,519,513	5,487,316
Employer's Contribution to ETF	1,629,878	1,371,829
Gratuity Charge for the Year	1,989,297	1,714,372
Other Allowances & Staff Related Expenses	9,864,032	7,706,350
	<b>78,998,858</b>	<b>69,738,998</b>
11. OTHER OPERATING EXPENSES	2014 Rs.	2013 Rs.
Directors' Emoluments	8,387,758	9,743,131
Auditors Remuneration- Audit	672,500	649,150
- Non Audit	359,400	1,000,000
Depreciation of Property, Plant & Equipment	6,016,662	5,571,554
Amortization of Intangible Assets	4,331,603	2,850,401
Professional & Legal Expenses	4,557,224	2,823,118
Office Administration & Establishment Expenses	60,238,314	49,165,748
Advertising & Business Promotion Expenses	15,656,348	10,551,982
Others	18,343,362	11,517,542
	<b>118,563,171</b>	<b>93,872,626</b>
12. TAXATION		
12.1 The major components of income tax expense for the years ended 31 March are as follows;		
<b>12.1 (A) Statement of Comprehensive Income</b>	<b>2014</b>	<b>2013</b>
<b>Current Income Tax</b>	<b>Rs.</b>	<b>Rs.</b>
Income Tax for the Year	19,707,045	15,196,569
<b>Deferred Tax</b>		
Deferred Taxation Charge/ (Reversal) (Note 28)	(3,034,411)	2,886,829
	<b>16,672,634</b>	<b>18,083,398</b>
<b>12.1 (B) Other Comprehensive Income</b>		
<b>Deferred Tax</b>		
Deferred Taxation Charge/ (Reversal) (Note 28)	289,456	(215,620)
	<b>289,456</b>	<b>(215,620)</b>
<b>12.1 (C) Total Tax Expense for the year</b>	<b>16,962,090</b>	<b>17,867,778</b>

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 12. TAXATION (CONTD...)

#### 12.2 Reconciliation of Accounting Profit and Taxable Income

A reconciliation between the tax expense and the accounting profit based on government of Sri Lanka's tax rate for the years ended 31 March 2014 and 2013 are as follows;

	2014 Rs.	2013 Rs.
<b>Accounting Profit Before Income Taxation</b>	25,367,993	58,771,448
<b>Adjustments</b>		
Capital Portion of Leasing Rental Due	404,047,810	213,762,906
Non-taxable Income/ (Losses)	(501,551)	(198,758)
Disallowable Expenses	95,403,172	17,911,549
Allowable Expenses	(442,660,237)	(243,280,107)
Adjustments of Taxes in Respect of Prior Years	-	(8,781,576)
Total Statutory Income	<u>81,657,188</u>	<u>38,185,460</u>
Tax Loss on Leasing Business Incurred During the Year	-	16,088,002
Claim on Carried Forward Tax Losses	(11,274,889)	-
Taxable Income	<u>70,382,299</u>	<u>54,273,462</u>
Income Tax Rate (%)	28%	28%
Income Tax	<u>19,707,045</u>	<u>15,196,569</u>
Deferred Taxation Charge/ (Reversal) (Note 28)	(2,744,955)	2,671,209
Total Tax Expense	<u>16,962,090</u>	<u>17,867,778</u>

### 13. BASIC EARNINGS PER ORDINARY SHARE

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

#### For the year ended 31 March

	2014	2013
Profit attributable to Ordinary Shareholders for Basic Earnings Per Share (Rs.)	8,695,359	40,688,050
Weighted Average Number of Ordinary Shares	37,000,000	37,000,000
Basic Earnings Per Ordinary Share (Rs.)	<u>0.24</u>	<u>1.10</u>

### 14. CASH AND BANK BALANCES

	2014 Rs.	2013 Rs.
Cash in Hand	5,630,500	3,612,000
Balances with Banks	99,504,991	30,190,530
	<u>105,135,491</u>	<u>33,802,530</u>

#### 14.1 Cash and Cash Equivalents in the Cash Flow Statement

Cash and Bank Balances	105,135,491	33,802,530
Bank Overdrafts	(38,437,806)	(129,229,173)
Treasury Bills and Repurchase Agreements	305,376,240	150,258,137
Short Term Fixed Deposits	127,494,028	125,101,448
<b>Total Cash and Cash Equivalents for the purpose of Cash Flow Statements</b>	<u>499,567,953</u>	<u>179,932,942</u>

### 15. PLACEMENTS WITH BANKS

	2014 Rs.	2013 Rs.
Fixed Deposit Investment	127,536,938	125,140,325
	<u>127,536,938</u>	<u>125,140,325</u>

### 16. SECURITIES PURCHASED UNDER REPURCHASE AGREEMENT

	2014 Rs.	2013 Rs.
Repurchase Agreements	268,997,323	-
	<u>268,997,323</u>	<u>-</u>

### 17. FINANCIAL ASSETS - HELD FOR TRADING

	2014 Rs.	2013 Rs.
Quoted Equities (Note 17.1)	7,050,136	8,336,546
	<u>7,050,136</u>	<u>8,336,546</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**17. FINANCIAL ASSETS - HELD FOR TRADING (CONTD...)**

**17.1 Dealing Securities**

	2014			2013		
	No. of Shares	Cost Rs.	Market Value Rs.	No. of Shares	Cost Rs.	Market Value Rs.
<b>Quoted Shares</b>						
<b>Plantations</b>						
Elpitiya Plantations PLC	20,000	839,296	332,000	20,000	839,296	344,000
Maskeliya Plantations PLC	10,000	323,271	100,000	10,000	323,271	121,000
Metropolitan Resource Holdings PLC	6,000	289,140	111,000	6,000	289,140	135,000
Watawala Plantations PLC	5,000	160,178	49,000	5,000	160,178	56,000
Horana Plantation PLC	10,000	290,723	229,000	-	-	-
Udupussellawa Plantation PLC	2,000	63,503	43,600	-	-	-
	<b>53,000</b>	<b>1,966,112</b>	<b>864,600</b>	<b>41,000</b>	<b>1,611,885</b>	<b>656,000</b>
<b>Hotels &amp; Travels</b>						
Hotel Sigiriya PLC	2,000	177,795	156,000	2,000	177,795	158,000
Mahaweli Reach Hotels PLC	9,400	365,104	156,980	9,400	365,104	185,180
Renuka City Hotel PLC	1,300	394,136	342,290	200	73,828	48,000
Aitken Spence Hotel Holdings PLC	7,000	767,853	490,000	7,000	767,853	518,000
	<b>19,700</b>	<b>1,704,888</b>	<b>1,145,270</b>	<b>18,600</b>	<b>1,384,580</b>	<b>909,180</b>
<b>Chemicals and pharmaceuticals</b>						
Haycarb PLC	-	-	-	4,000	806,502	704,000
	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,000</b>	<b>806,502</b>	<b>704,000</b>
<b>Diversified Holdings</b>						
Carson Cumberbatch PLC	500	352,909	182,500	500	352,909	220,000
John Keells Holdings PLC	1,045	210,459	224,048	3,333	752,460	823,551
Aitken Spence PLC	1,000	190,106	97,900	1,000	190,106	119,600
	<b>2,545</b>	<b>753,473</b>	<b>504,448</b>	<b>4,833</b>	<b>1,295,475</b>	<b>1,163,151</b>
<b>Power &amp; Energy</b>						
Lanka IOC PLC	5,000	101,121	192,500	20,000	404,484	408,000
Chevron Lubricants Lanka PLC	788	143,629	208,268	2,000	364,540	434,000
Hydro power lanka Holding PLC	10,000	146,624	48,000	10,000	146,624	57,000
	<b>15,788</b>	<b>391,374</b>	<b>448,768</b>	<b>32,000</b>	<b>915,648</b>	<b>899,000</b>
<b>Banking &amp; Finance</b>						
Sampath Bank PLC	3,234	900,979	588,911	3,140	900,979	709,326
Seylan Bank PLC	27,351	1,241,490	1,011,987	26,666	1,237,332	959,976
First Capital Holdings PLC	5,000	130,955	96,500	-	-	-
Lanka Ventures PLC	-	-	-	5,000	130,954	56,000
Commercial Bank Of Ceylon PLC	-	-	-	2,062	184,866	199,808
Lanka Orix Leasing Company PLC	1,000	140,759	75,000	1,000	140,759	57,000
Merchant Bank Of Sri Lanka PLC	5,000	276,310	67,500	5,000	276,310	80,500
Pan Asia Banking Corporation PLC	2,000	59,567	32,400	2,000	59,567	38,000
Singer Finance ( Lanka) Ltd	15,000	740,705	181,500	15,000	740,705	189,000
	<b>58,585</b>	<b>3,490,766</b>	<b>2,053,798</b>	<b>59,868</b>	<b>3,671,472</b>	<b>2,289,610</b>
<b>Telecommunication</b>						
Dialog Axiata PLC	20,000	234,598	180,000	20,000	234,598	182,000
Sri Lanka Telecom PLC	5,100	291,377	235,110	5,100	291,377	221,850
	<b>25,100</b>	<b>525,975</b>	<b>415,110</b>	<b>25,100</b>	<b>525,975</b>	<b>403,850</b>
<b>Oil Palm</b>						
The Bukit Darah PLC	500	707,840	295,450	500	707,840	352,700
	<b>500</b>	<b>707,840</b>	<b>295,450</b>	<b>500</b>	<b>707,840</b>	<b>352,700</b>
<b>Manufacturing</b>						
Lanka Ceramic PLC	900	109,211	86,310	900	109,211	58,500
Kelani Cables PLC	1,000	129,308	80,000	1,000	129,308	64,100
Royal Ceramics Lanka PLC	1,000	152,581	79,300	1,000	152,581	99,500
Tokyo Cement Company (Lanka) PLC	11,600	445,433	372,400	6,000	268,473	105,000
Expo Lanka Holdings PLC	25,000	214,880	217,500	-	-	-
	<b>39,500</b>	<b>1,051,412</b>	<b>835,510</b>	<b>8,900</b>	<b>659,573</b>	<b>327,100</b>
<b>Footwear &amp; Textile</b>						
Ceylon Leather Products PLC	1,000	110,221	57,300	1,000	110,221	62,000
	<b>1,000</b>	<b>110,221</b>	<b>57,300</b>	<b>1,000</b>	<b>110,221</b>	<b>62,000</b>
<b>Construction &amp; Engineering</b>						
Cargo Boat Development Company PLC	1,145	151,088	116,447	-	-	-
Colombo Dock Yard PLC	1,050	262,912	183,435	1,050	262,912	224,805
	<b>2,195</b>	<b>414,000</b>	<b>299,882</b>	<b>1,050</b>	<b>262,912</b>	<b>224,805</b>
<b>Beverage Food &amp; Tobacco</b>						
Distilleries PLC	-	-	-	500	91,513	83,250
Kothmale Holdings PLC	-	-	-	3,000	158,964	107,700
	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,500</b>	<b>250,477</b>	<b>190,950</b>
<b>Stores Supplies</b>						
Hunters PLC	500	718,609	130,000	500	718,609	154,200
	<b>500</b>	<b>718,609</b>	<b>130,000</b>	<b>500</b>	<b>718,609</b>	<b>154,200</b>
<b>Total</b>	<b>218,413</b>	<b>11,834,670</b>	<b>7,050,136</b>	<b>200,851</b>	<b>12,921,169</b>	<b>8,336,546</b>

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 MARCH 2014**

**18. INVESTMENTS IN DEBT SECURITIES**

Investments in Commercial paper

2014	2013
Rs.	Rs.
49,436,762	-
<u>49,436,762</u>	<u>-</u>

**19. LOANS AND ADVANCES**

Real Estate Loan

Mortgage Loan

Vehicle Loan

Personal Loan

Loan Against Fixed Deposits

Staff Loan

Revolving Loan

Less : Allowance for Impairment Losses (Note 19.1)

**Net loans and advances**

2014	2013
Rs.	Rs.
9,012,391	7,423,442
365,795,158	416,595,440
11,321,587	26,596,133
115,264,138	102,698,907
68,618,579	67,637,522
16,336,564	15,559,897
219,098,185	226,908,071
<u>805,446,602</u>	<u>863,419,411</u>
<u>(63,196,864)</u>	<u>(27,363,309)</u>
<u>742,249,738</u>	<u>836,056,102</u>

**19.1 Allowance for Impairment Losses**

Balance at the beginning of the year

Charge for the year

Amounts Written Off

Balance at the end of the year

Individual Impairment

Collective Impairment

Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance

27,363,309	26,401,002
40,964,675	962,307
<u>(5,131,120)</u>	<u>-</u>
<u>63,196,864</u>	<u>27,363,309</u>
11,239,323	2,804,019
51,957,541	24,559,290
<u>63,196,864</u>	<u>27,363,309</u>
<u>125,343,082</u>	<u>82,801,387</u>

**20. LEASE RENTALS RECEIVABLE & STOCK OUT ON HIRE**

**Gross Rentals Receivables**

- Lease Rentals

- Amounts Receivable from Hirers

Less: Unearned Income

**Net Rentals Receivables**

Less : Rental received in advance

Less :VAT

Less : Allowance for Impairment Losses (Note 20.1)

Total net rentals receivable (Note 20.2 & 20.3)

2014	2013
Rs.	Rs.
1,971,168,148	1,010,969,906
993,552,147	1,225,535,782
<u>2,964,720,295</u>	<u>2,236,505,688</u>
<u>(737,565,587)</u>	<u>(577,896,503)</u>
<u>2,227,154,708</u>	<u>1,658,609,185</u>
<u>(103,857)</u>	<u>(398,512)</u>
<u>(1,536,145)</u>	<u>(1,065,713)</u>
<u>2,225,514,706</u>	<u>1,657,144,960</u>
<u>(151,926,289)</u>	<u>(107,697,669)</u>
<u>2,073,588,417</u>	<u>1,549,447,291</u>

Lease & hirers receivables include receivables amounting to Rs.735,634,694/- that have been pledged for facilities obtained from banks.

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

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

	2014 Rs.	2013 Rs.
20.1 Allowance for Impairment Losses		
Balance at the beginning of the year	107,697,669	140,467,159
Charge for the year	44,337,670	3,475,890
Amounts written off	<u>(109,050)</u>	<u>(36,245,380)</u>
Balance at the end of the year	<u>151,926,289</u>	<u>107,697,669</u>
Individual Impairment	17,111,731	7,309,005
Collective Impairment	<u>134,814,558</u>	<u>100,388,664</u>
	<u>151,926,289</u>	<u>107,697,669</u>
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance.	<u>58,032,654</u>	<u>27,286,225</u>

**20.2 As at 31 March 2014**

	Within one year Rs.	1 - 5 years Rs.	Over 5 years Rs.	Total Rs.
<b>Gross rentals receivables</b>				
- Lease Rentals	859,766,012	1,111,351,145	50,991	1,971,168,148
- Amounts Receivable from Hirers	<u>533,456,616</u>	<u>460,044,436</u>	<u>51,095</u>	<u>993,552,147</u>
	1,393,222,628	1,571,395,581	102,086	2,964,720,295
Less: Unearned Income	<u>(416,914,983)</u>	<u>(320,648,786)</u>	<u>(1,818)</u>	<u>(737,565,587)</u>
<b>Net rentals Receivables</b>	<u>976,307,645</u>	<u>1,250,746,795</u>	<u>100,268</u>	2,227,154,708
Less : Rental received in advance				(103,857)
Less: VAT				<u>(1,536,145)</u>
				2,225,514,706
Less : Allowance for Impairment Losses				<u>(151,926,289)</u>
Total Net Rentals Receivable				<u>2,073,588,417</u>

**20.3 As at 31 March 2013**

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

**21. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE**

	2014 Rs.	2013 Rs.
<b>Unquoted Equities</b>		
Credit Information Bureau of Sri Lanka		
100 Ordinary Shares of Rs. 80.40/- each	<u>80,400</u>	<u>80,400</u>
	<u>80,400</u>	<u>80,400</u>

**22. FINANCIAL INVESTMENTS - HELD TO MATURITY**

	2014 Rs.	2013 Rs.
Government of Sri Lanka Treasury Bills	36,378,917	150,258,138
Government of Sri Lanka Treasury Bonds	<u>20,695,740</u>	<u>18,264,269</u>
	<u>57,074,657</u>	<u>168,522,407</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**23. OTHER FINANCIAL ASSETS**

Other Receivables  
Deposit  
Amounts Due from Related Parties

2014	2013
Rs.	Rs.
51,531,128	13,738,432
8,496,894	9,806,786
778,184	196,671
<u>60,806,206</u>	<u>23,741,889</u>

Less : Allowance for Impairment Losses (Collective) (Note 23.1)

<u>(38,227,884)</u>	<u>(7,808,417)</u>
<u>22,578,322</u>	<u>15,933,472</u>

23.1 Balance at the beginning of the year  
Charge for the year  
Amounts written off  
Balance at the end of the year

7,808,417	11,349,499
30,419,467	704,922
-	(4,246,004)
<u>38,227,884</u>	<u>7,808,417</u>

**24. REAL ESTATE STOCK**

Real Estate Stocks

2014	2013
Rs.	Rs.
130,860,857	133,841,502
<u>130,860,857</u>	<u>133,841,502</u>

**25. OTHER NON FINANCIAL ASSETS**

Advances  
Pre-paid Staff Cost  
VAT Receivable  
Other Receivable  
Pre- paid Rent Deposit  
Pre-paid Expenses

2014	2013
Rs.	Rs.
8,895,998	1,876,555
5,869,495	4,428,906
72,036,703	15,432,572
-	254,587
3,891,064	701,481
4,604,352	2,772,970
<u>95,297,612</u>	<u>25,467,071</u>

**26. INTANGIBLE ASSETS**

**Computer Software**

**Cost:**

As at 1 April 2013  
Additions  
Disposals  
As at 31 March 2014

**Total**  
**Rs.**

30,611,208  
1,403,423  
-  
32,014,631

**Amortization and Impairment:**

As at 1 April 2013  
Amortization Charge for the Year  
Disposals  
As at 31 March 2014

18,342,306  
4,331,603  
-  
22,673,909

**Net Book Value:**

As at 31 March 2014

9,340,722

**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.

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 MARCH 2014**

**27. PROPERTY, PLANT AND EQUIPMENT**

27.1 Gross Carrying Amounts	Balance As at 01.04.2013	Additions	Disposals	Balance As at 31.03.2014
Cost	Rs.	Rs.	Rs.	Rs.
<b>Freehold Assets</b>				
Furniture & Fittings	20,201,593	2,311,013	(199,020)	22,313,586
Office Equipment	8,203,815	1,435,192	(19,800)	9,619,207
Motor Vehicles	3,325,613	-	-	3,325,613
Computer Equipment	10,884,067	3,625,532	-	14,509,599
<b>Total Value of Depreciable Assets</b>	<u>42,615,089</u>	<u>7,371,737</u>	<u>(218,820)</u>	<u>49,768,005</u>

27.2 Depreciation	Balance As at 01.04.2013	Charge for the Year	Disposals	Balance As at 31.03.2014
Depreciation	Rs.	Rs.	Rs.	Rs.
<b>Freehold Assets</b>				
Furniture & Fittings	11,981,285	2,840,171	(199,020)	14,622,435
Office Equipment	3,675,971	1,113,233	(13,613)	4,775,592
Motor Vehicles	2,355,644	415,702	-	2,771,345
Computer Equipment	7,993,945	1,647,557	-	9,641,502
<b>Total Depreciation</b>	<u>26,006,845</u>	<u>6,016,662</u>	<u>(212,633)</u>	<u>31,810,874</u>

27.3 Net Book Values	2014 Rs.	2013 Rs.
<b>At Cost</b>		
Furniture & Fittings	7,691,151	8,220,309
Office Equipment	4,843,615	4,527,844
Motor Vehicles	554,268	969,969
Computer Equipment	4,868,097	2,890,122
<b>Total Carrying Amount of Property, Plant &amp; Equipment</b>	<u>17,957,131</u>	<u>16,608,243</u>

27.4 The useful lives of the assets are estimated as follows;	2014	2013
Furniture & Fittings	3 - 8 Years	3 - 8 Years
Office Equipment	8 Years	8 Years
Motor Vehicles	8 Years	8 Years
Computer Equipment	4 years	4 years

**27.5** During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 7,371,737/- (2013 - Rs.5,964,328/-).



**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 MARCH 2014**

**28. DEFERRED TAXATION**

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

	Statement of Financial Position		Statement of Other Comprehensive Income		Statement of Comprehensive Income	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
<b>Deferred Tax Liability</b>						
Capital Allowances for Tax Purposes	30,089,771	15,171,506	-	-	14,918,265	7,207,068
Defined Benefit Plans- Other Comprehensive Income	73,837	-	289,456	-	-	-
	<u>30,163,608</u>	<u>15,171,506</u>	<u>289,456</u>	<u>-</u>	<u>14,918,265</u>	<u>7,207,068</u>
<b>Deferred Tax Assets</b>						
Defined Benefit Plans- Income Statement	(2,149,145)	(1,417,892)	-	-	(731,253)	(377,365)
Defined Benefit Plans- Other Comprehensive Income	-	(215,620)	-	(215,620)	-	-
Provision for Impairment on Financial Assets	(24,286,733)	(3,908,340)	-	-	(20,378,393)	561,767
Brought Forward Tax Losses	(3,883,158)	(7,040,128)	-	-	3,156,970	(4,504,641)
	<u>(30,319,037)</u>	<u>(12,581,980)</u>	<u>-</u>	<u>(215,620)</u>	<u>(17,952,676)</u>	<u>(4,320,239)</u>
<b>Deferred Income Tax Charge/(Reversal)</b>			<u>289,456</u>	<u>(215,620)</u>	<u>(3,034,411)</u>	<u>2,886,829</u>
<b>Net Deferred Tax (Asset)/Liability</b>	<u>(155,429)</u>	<u>2,589,526</u>				
<b>29. DUE TO BANKS</b>						
Bank Overdrafts					38,437,806	129,229,173
Bank Borrowings and Other Bank Facilities (Note 29.1, 29.2 & 29.3)					224,833,036	230,206,623
<b>Total</b>					<u>263,270,842</u>	<u>359,435,796</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**29. DUE TO BANKS (CONTD....)**

	2014		2013		Security
	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	Amount repayable within 1 year Rs.	Amount repayable after 1 year Rs.	
<b>29.1 Due to Banks</b>					
Bank Borrowings and Other Bank Facilities					
	As at 01.04.2013 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Interest Rs.
	44,307,915	17,500,000	8,434,470	(21,217,832)	(8,310,168)
	60,553,864	150,000,000	23,932,541	(91,417,213)	(23,932,541)
	97,166,000	-	13,487,854	(32,184,000)	(13,487,854)
	28,178,844	-	3,142,040	(27,777,777)	(3,543,106)
	<u>230,206,623</u>	<u>167,500,000</u>	<u>48,996,904</u>	<u>(172,596,822)</u>	<u>(49,273,669)</u>
				As at 31.03.2014 Rs.	Period Security
				74,973,110	48-50 instalments Lease & Hire
				<u>74,973,110</u>	119,136,651 36-48 instalments Purchase portfolio
				155,233,513	64,982,000 48-50 instalments Lease & Hire
				<u>155,233,513</u>	36 instalments Purchase portfolio
				<u>230,206,623</u>	<u>224,833,036</u>
<b>29.2 Bank Borrowings and Other Bank Facilities</b>					
<b>Direct Bank Borrowings</b>					
<b>Term Loans</b>					
Bank of Ceylon					
Union Bank					
Sampath Bank					
Peoples Bank					
	As at 01.04.2012 Rs.	Loans Obtained Rs.	Interest Recognized Rs.	Repayments Capital Rs.	Interest Rs.
	64,381,592	-	9,572,368	(20,037,240)	(9,608,805)
	82,119,065	-	11,887,795	(21,532,892)	(11,920,104)
	69,790,000	50,000,000	13,896,185	(22,624,000)	(13,896,185)
	-	40,000,000	5,763,957	(12,222,221)	(5,362,892)
	<u>216,290,657</u>	<u>90,000,000</u>	<u>41,120,305</u>	<u>(76,416,353)</u>	<u>(40,787,986)</u>
				As at 31.03.2013 Rs.	Period Security
				44,307,915	48 Months Lease & Hire
				60,553,864	48 Months Purchase portfolio
				97,166,000	50 Months Lease & Hire
				28,178,844	36 Months Purchase portfolio
				<u>230,206,623</u>	<u>230,206,623</u>
<b>29.3 Bank Borrowings and Other Bank Facilities</b>					
<b>Direct Bank Borrowings</b>					
<b>Term Loans</b>					
Bank of Ceylon					
Union Bank					
Sampath Bank					
Peoples Bank					

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

<b>30. DUE TO CUSTOMERS</b>		<b>2014</b>	<b>2013</b>
		<b>Rs.</b>	<b>Rs.</b>
Fixed Deposits		2,589,384,472	1,751,158,518
Savings Deposits		10,735,073	14,724,029
		<u>2,600,119,545</u>	<u>1,765,882,547</u>
<b>31. DEBT INSTRUMENTS ISSUED AND OTHER BORROWED FUNDS</b>		<b>2014</b>	<b>2013</b>
		<b>Rs.</b>	<b>Rs.</b>
Commercial Paper		122,265,623	174,325,059
		<u>122,265,623</u>	<u>174,325,059</u>
<b>32. OTHER FINANCIAL LIABILITIES</b>		<b>2014</b>	<b>2013</b>
		<b>Rs.</b>	<b>Rs.</b>
Trade Payables - Related Parties (32.1)		183,978,961	43,068,946
Non Trade Payables - Related Parties (32.2)		1,746,091	13,805,589
Trade Payables - Other Parties		4,936,423	76,729,539
Accrued Expenses		61,959,084	34,772,820
		<u>252,620,559</u>	<u>168,376,894</u>
<b>32.1 Trade Payables to Related Parties</b>	<b>Relationship</b>		
Abans PLC	Parent Company	27,513,700	-
Abans Retail (Pvt) Ltd	Affiliate Company	-	166,787
Abans Auto (Pvt) Ltd	Affiliate Company	156,465,261	42,902,159
		<u>183,978,961</u>	<u>43,068,946</u>
<b>32.2 Non Trade Payables to Related Parties</b>	<b>Relationship</b>		
Abans Retail (Pvt) Ltd	Affiliate Company	1,237,448	1,255,969
Abans PLC	Parent Company	433,100	12,224,763
Abans Graphics (Pvt) Ltd	Affiliate Company	75,543	324,857
		<u>1,746,091</u>	<u>13,805,589</u>
<b>33. OTHER NON FINANCIAL LIABILITIES</b>		<b>2014</b>	<b>2013</b>
		<b>Rs.</b>	<b>Rs.</b>
VAT on Financial Services Payable		1,906,886	617,780
Others		972,873	841,739
		<u>2,879,759</u>	<u>1,459,519</u>
<b>34. RETIREMENT BENEFIT OBLIGATIONS</b>		<b>2014</b>	<b>2013</b>
<b>Retirement Benefit Obligations - Gratuity</b>		<b>Rs.</b>	<b>Rs.</b>
Balance at the beginning of the year		5,833,972	3,716,168
Current Service Cost		1,347,560	1,305,594
Interest Charge for the year		641,737	408,778
(Gain)/ Loss arising from changes in the assumption		(263,703)	770,070
Payments made during the year		(147,750)	(366,638)
Balance at the end of the year		<u>7,411,816</u>	<u>5,833,972</u>

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 34. RETIREMENT BENEFIT OBLIGATIONS (CONTD...)

	2014 Rs.	2013 Rs.
<b>34.1 Expenses on Defined Benefit Plan</b>		
<b>Income Statement</b>		
Current Service Cost for the year	1,347,560	1,305,594
Interest Cost for the year	641,737	408,778
	<u>1,989,297</u>	<u>1,714,372</u>
<b>Other Comprehensive Income</b>		
(Gain)/ Loss arising from changes in the assumption	(263,703)	770,070
	<u>(263,703)</u>	<u>770,070</u>

34.2 Gain arising from changes in the assumption includes gains arising from changes in Demographic assumptions, Financial assumptions and Experience adjustments amounting to Rs. 56,048, Rs.45,819 and Rs. 161,836 respectively.

34.3 Actuarial valuation of Retiring Gratuity Obligation as at 31 March 2014 was carried out by Messrs. Actuarial and Management Consultants (Pvt) Ltd, a firm of professional actuaries using "Project Unit Credit Method" as recommended by LKAS 19-'Employee Benefits'.

	2014	2013
<b>34.4 Assumptions</b>		
Discount Rate	9%	11%
Salary Increment Rate	9%	10.50%
Staff Turnover	20%	25%
Retirement Age	55 years	55 years

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

### 34.5 Sensitivity of Assumptions in Actuarial Valuation of Retiring Gratuity Obligation

The following table demonstrates the sensitivity to a possible change in key assumptions employed with all other variables held constant in the Retiring Gratuity Obligations measurement as at 31 March 2014. The sensitivity of the Statement of Financial position and Statement of Comprehensive Income is the effect of the assumed changes in the discount rate and salary increment on the profit or loss and Retiring Gratuity obligation for the year.

Increase/(Decrease) in Discount rate	Increase/(Decrease) in Salary Increment Rate	Sensitivity Effect on Statement of Comprehensive Income	Sensitivity Effect on Defined Benefit Obligation
1%	-	165,342	(165,342)
-1%	-	(174,641)	174,641
-	1%	(208,017)	208,017
-	-1%	200,469	(200,469)

### 34.6 Maturity Profile of the Defined Benefit Obligation Plan

Maturity Profile of the Defined Benefit Obligation Plan as at the reporting date is given below;

	Years
Weighted Average Duration of the Defined Benefit Obligation	1.88
Average Time to Benefit Payout	1.99

### 34.7 Distribution of Defined Benefit Obligation Over Future Lifetime

The following table demonstrates the distribution of the future working lifetime of the Defined Benefit Obligation as at the reporting period.

	2014 Rs.
Less than 1 year	-
Between 1-2 years	972,469
Between 2-5years	6,439,347
	<u>7,411,816</u>

### 35. STATED CAPITAL

#### 35.1 Issued and Fully Paid-Ordinary shares

	2014		2013	
	No. of Shares	Rs.	No. of Shares	Rs.
Fully Paid Ordinary Shares	<u>37,000,000</u>	<u>382,373,630</u>	<u>37,000,000</u>	<u>382,373,630</u>

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 35. STATED CAPITAL (CONTD...)

#### 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 Account Rs.	Total Rs.
As at 01 April 2013	28,228,500	14,723,671	42,952,171
Transfers to/(from) during the year	1,739,500	3,730,571	5,470,071
As at 31 March 2014	<u>29,968,000</u>	<u>18,454,242</u>	<u>48,422,242</u>

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

#### 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 upto 31 December 2013.
- (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.

However, as per the budget proposals for 2014, the Company is not required to transfer 8% of the profits calculated for the payment of VAT on Financial Services to such Investment Fund reserve with effect from 1 January 2014.

	2014 Rs.	2013 Rs.
At the beginning of the year	14,723,671	7,833,381
Profit transferred during the year	3,730,571	6,890,290
	<u>18,454,242</u>	<u>14,723,671</u>

#### 36.3 Utilization of Investment Fund Account (IFA)

##### Balance Available for Utilization

	2014 Rs.	2013 Rs.
Total transfers to IFA	3,730,572	6,890,290
Total approved loans granted	-	-
Total Investments in Government Securities	(1,958,316)	(11,746,980)
<b>(Over utilization) /Balance available for utilization as at end of 31 March</b>	<u>(1,224,335)</u>	<u>(2,996,591)</u>

#### 36.4 Investments in Government Securities

	Face Value (Rs.)	Year of Maturity	Cost of Investment (Rs.)	Outstanding (Rs.)
<b>(i) Treasury Bonds over 7 years</b>				
Treasury Bonds	24,770,700	2018 - 2022	19,678,579	20,695,740
<b>Total Investments in Government Securities</b>	<u>24,770,700</u>		<u>19,678,579</u>	<u>20,695,740</u>



**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**37. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS**

37.1 As at 31 March 2014

	HFT at Fair Value	HTM at Amortized Cost	L&R at Amortized Cost	AFS at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>					
Cash and Bank Balances	-	-	105,135,491	-	105,135,491
Placements with Banks	-	-	127,536,938	-	127,536,938
Securities Purchased under Repurchase Agreement	-	-	268,997,323	-	268,997,323
Financial Investments - Held for Trading	7,050,136	-	-	-	7,050,136
Investments in Debt Securities	-	-	49,436,762	-	49,436,762
Loans and Advances	-	-	742,249,738	-	742,249,738
Lease rentals receivable & Stock out on hire	-	-	2,073,588,417	-	2,073,588,417
Financial Investments - Available for Sale	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	57,074,657	-	-	57,074,657
Other financial assets	-	-	22,578,322	-	22,578,322
<b>Total Financial Assets</b>	<b>7,050,136</b>	<b>57,074,657</b>	<b>3,389,522,990</b>	<b>80,400</b>	<b>3,453,728,183</b>
<b>OFL</b>					
	<b>Rs.</b>				<b>Total</b>
					<b>Rs.</b>
<b>Liabilities</b>					
Due to Banks	263,270,842				263,270,842
Due to Customers	2,600,119,545				2,600,119,545
Debt Instruments Issued and Other borrowed funds	122,265,623				122,265,623
Other Financial Liabilities	252,620,559				252,620,559
<b>Total Financial Liabilities</b>	<b>3,238,276,569</b>				<b>3,238,276,569</b>

37.2 As at 31 March 2013

	HFT at Fair Value	HTM at Amortized Cost	L&R at Amortized Cost	AFS at Fair Value	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Assets</b>					
Cash and Bank Balances	-	-	33,802,530	-	33,802,530
Placements with Banks	-	-	125,140,325	-	125,140,325
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
<b>Total Financial Assets</b>	<b>8,336,546</b>	<b>168,522,407</b>	<b>2,560,379,720</b>	<b>80,400</b>	<b>2,737,319,073</b>
<b>OFL</b>					
	<b>Rs.</b>				<b>Total</b>
					<b>Rs.</b>
<b>Liabilities</b>					
Due to Banks	359,435,796				359,435,796
Due to Customers	1,765,882,547				1,765,882,547
Debt Instruments Issued and Other borrowed funds	174,325,059				174,325,059
Other Financial Liabilities	168,376,894				168,376,894
<b>Total Financial Liabilities</b>	<b>2,468,020,296</b>				<b>2,468,020,296</b>

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 2014

### 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.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.	Rs.	Rs.	Rs.
<b>Financial Assets</b>				
Cash and Bank Balances	105,135,491	105,135,491	33,802,530	33,802,530
Placement With Banks	127,536,938	127,536,938	125,140,325	125,140,325
Repurchase Agreements	268,997,323	268,997,323	-	-
Investments in Debt Securities	49,436,762	49,436,762	-	-
Loans and Advances	742,249,738	749,383,951	836,056,102	828,548,424
Lease rentals receivable & Stock out on hire	2,073,588,417	2,071,812,146	1,549,447,291	1,549,404,728
Financial Investments - Held to Maturity	57,074,657	58,832,243	168,522,407	168,548,059
Other financial assets	22,578,322	22,578,322	15,933,472	15,933,472
	<u>3,446,597,647</u>	<u>3,453,713,176</u>	<u>2,728,902,126</u>	<u>2,721,377,537</u>
<b>Financial Liabilities</b>				
Due to Banks	263,270,842	263,270,842	359,435,795	359,435,795
Due to Customers	2,600,119,545	2,611,243,614	1,765,882,547	1,745,763,897
Debt Instruments Issued and Other borrowed funds	122,265,623	122,265,623	174,325,059	174,325,058
Other Financial Liabilities	252,620,559	252,620,559	168,376,898	168,376,898
	<u>3,238,276,569</u>	<u>3,249,400,637</u>	<u>2,468,020,299</u>	<u>2,447,901,648</u>

#### 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.

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 quoted (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.

	2014	2013
	Level 1	Level 1
	Rs.	Rs.
<b>Assets</b>		
Financial Assets - Held for Trading	7,050,136	8,336,547
<b>Total Assets</b>	<u>7,050,136</u>	<u>8,336,547</u>

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 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; Chief Executive Officer/ Managing Director and two Non Executive Directors. General Manager, Head of Finance / Assistant Accountant, Head of Credit, Head of Recoveries, Head of Branches, Manager - Risk & Compliance, Manager - IT and Manager - Corporate Affairs were also co-opted to the 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.

#### 39.4 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.

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 39. RISK MANAGEMENT DISCLOSURES (CONTD...)

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of Company is not to eliminate risk, but to maintain the same within pre-determined acceptance levels. The Company manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

#### 39.4.1 Impairment Assessment

For accounting purposes, the Company uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- Where the Company grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or encounter other financial difficulties
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans

#### **Individually assessed allowances**

The Company determines the allowances appropriate for each individually significant Loans and Receivables on an individual basis, including any overdue payments of interests, credit rating down grades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### **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).

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**RISK MANAGEMENT DISCLOSURES (CONTD...)**

The following table shows the maximum exposure to credit risk by class of financial asset and the value of financial assets covered by the collateral.

**Maximum Exposure to Credit risk**

Type of Collateral	Maximum Exposure to Credit Risk		Fair Value of Collateral Held			Total Collateral Value	Net Exposure to Credit Risk
	Cash / Near Cash	Credit Risk	Property Mortgages	Moveable Assets *	Other **		
As at 31 <sup>st</sup> March 2014							
Cash and Bank Balances	-	105,135,491	-	-	-	-	105,135,491
Placement With Banks	-	127,536,938	-	-	-	-	127,536,938
Repurchase Agreements	-	268,997,323	-	-	-	-	268,997,323
Financial Investments - Held for Trading	-	7,050,136	-	-	-	-	7,050,136
Financial Investments - Debt Securities	-	49,436,762	-	-	-	-	49,436,762
Loans and Advances	68,618,579	805,446,602	578,130,310	27,658,154	8,520,433	682,927,476	122,519,126
Lease rentals receivable & Stock out on hire	-	2,225,514,706	-	2,115,410,904	35,287,899	2,150,698,803	74,815,903
Financial Investments - Available for Sale	-	80,400	-	-	-	-	80,400
Financial Investments - Held to Maturity	-	57,074,657	-	-	-	-	57,074,657
Other Financial assets	-	22,578,322	-	-	-	-	22,578,322
	<b>68,618,579</b>	<b>3,668,851,337</b>	<b>578,130,310</b>	<b>2,143,069,058</b>	<b>43,808,332</b>	<b>2,833,626,279</b>	<b>835,225,058</b>

\* Movable assets includes absolute ownership over Motor Vehicles and Machineries & Equipments.

\*\* Other collateral includes secured by Consumer Durables & Title Deed Transfers (Real Estate Loans).



**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

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

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

The amounts presented are Gross of Impairment allowances.

<b>As at 31 March 2014</b>	<b>Neither Past Due nor Individually Impaired</b>	<b>Past Due Not Individually Impaired</b>	<b>Individually Impaired</b>	<b>Total</b>
<b>Assets</b>				
Cash and Bank Balances	105,135,491	-	-	105,135,491
Placement With Banks	127,536,938	-	-	127,536,938
Repurchase Agreements	268,997,323	-	-	268,997,323
Financial Investments - Held for Trading	7,050,136	-	-	7,050,136
Financial Investments - Debt Securities	49,436,762	-	-	49,436,762
Loans and Advances	250,358,949	429,744,571	125,343,082	805,446,602
Lease Rentals Receivable & Stock out on Hire	949,296,266	1,218,185,786	58,032,654	2,225,514,706
Financial Investments - Available for Sale	80,400	-	-	80,400
Financial Investments - Held to Maturity	57,074,657	-	-	57,074,657
Other Financial Assets	22,578,322	-	-	22,578,322
<b>Total</b>	<b>1,837,545,244</b>	<b>1,647,930,357</b>	<b>183,375,736</b>	<b>3,668,851,337</b>

**As at 31 March 2013**

	<b>Neither Past Due nor Individually Impaired</b>	<b>Past Due Not Individually Impaired</b>	<b>Individually Impaired</b>	<b>Total</b>
<b>Assets</b>				
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
<b>Total</b>	<b>1,411,858,471</b>	<b>1,350,328,903</b>	<b>110,192,677</b>	<b>2,872,380,051</b>

**39.4.2.1** Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of financial assets as at the end of the relevant financial period.

	<b>1 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>	
Loans and Advances	90,194,106	77,005,127	55,275,194	207,270,143	429,744,571
Lease Rentals Receivable & Stock out on Hire	356,728,308	233,141,929	184,864,202	443,451,347	1,218,185,786
	<u>446,922,414</u>	<u>310,147,056</u>	<u>240,139,396</u>	<u>650,721,490</u>	<u>1,647,930,357</u>

Aging Analysis of past due (i.e. facilities in arrears of 1 day and above) but not individually impaired loans by class of financial assets as at the previous financial period.

	<b>1 to 30 days</b>	<b>31 to 60 days</b>	<b>61 to 90 days</b>	<b>More than 91 days</b>	<b>Total</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	
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
	<u>511,420,835</u>	<u>513,168,277</u>	<u>209,733,921</u>	<u>116,005,870</u>	<u>1,350,328,903</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

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

**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.

**As at 31 March 2014**

Purpose wise Breakdown	Cash and Bank Balances	Placement With Banks	Securities Purchased under Repurchase Agreement	Financial Investments - Held for Trading	Investment in Debt Securities	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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Agriculture	-	-	-	864,600	-	17,169,169	48,784,953	-	-	-	66,818,722
Manufacturing	-	-	-	892,810	-	92,010,799	65,984,338	-	-	-	158,887,947
Construction	-	-	-	299,882	-	119,100,116	91,100,298	-	-	-	210,500,296
Financial Services	105,135,491	127,536,938	268,997,323	2,053,798	-	20,531,183	6,081,764	80,400	-	-	530,416,897
Trading	-	-	-	130,000	49,436,762	206,273,264	96,063,449	-	-	-	351,903,475
Government	-	-	-	-	-	-	27,513,700	-	57,074,657	-	84,588,357
Hotels	-	-	-	1,145,270	-	45,455,660	7,245,932	-	-	-	53,846,862
Services	-	-	-	415,110	-	202,138,600	1,872,941,541	-	-	-	2,075,495,251
Others	-	-	-	1,248,666	-	102,767,811	9,798,732	-	-	22,578,322	136,393,551
<b>Total</b>	<b>105,135,491</b>	<b>127,536,938</b>	<b>268,997,323</b>	<b>7,050,136</b>	<b>49,436,762</b>	<b>805,446,602</b>	<b>2,225,514,707</b>	<b>80,400</b>	<b>57,074,657</b>	<b>22,578,322</b>	<b>3,668,851,338</b>

**As at 31 March 2013**

Purpose wise Breakdown	Cash and Bank Balances	Placement With Banks	Securities Purchased under Repurchase Agreement	Financial Investments - Held for Trading	Investment in Debt Securities	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
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
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	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
<b>Total</b>	<b>33,802,530</b>	<b>125,140,325</b>	<b>-</b>	<b>8,336,546</b>	<b>-</b>	<b>863,419,411</b>	<b>1,657,144,960</b>	<b>80,400</b>	<b>168,522,407</b>	<b>15,933,475</b>	<b>2,872,380,054</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

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

**39.5 Interest Rate Risk**

Interest rate risk is a key constitute of the market risk exposure of the Company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows and / or the fair values of financial instruments. Several factors give rise to interest rate risk; among these are term structure risk, which arises due to the mismatches in the maturities of assets and liabilities; basis risk which is the threat to income arises due to differences in the bases of interest rates.

Excessive movements in market interest rate could result in severe volatility to company's net interest income and net interest margin. Company's exposure to interest rate risk is primarily associated with factors such as;

- Repricing risk arising from a fixed rate borrowing portfolio where repricing frequency is different to that of the lending portfolio.
- Yield curve risk arising from unanticipated shifts of the market yield curve

Assets and Liabilities Committee of the Company is having the primary responsibility of managing the Interest Rate Risk. Interest rate risk is managed principally through 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.

**39.5.1 Interest Rate Sensitivity**

39.5.1.1 The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's Profit or Loss and Equity.

Borrowings/ Advance	Increase (Decrease) in basis points	Rs. Mn	
		Sensitivity of Profit or Loss	Sensitivity of Equity
Long Term Loans linked to AWPLR -LKR	<b>2014</b> +100/ (-100)	<b>2014</b> (3.05) / 3.05	<b>2014</b> (2.66) / 2.66
	<b>2013</b> +100/ (-100)	<b>2013</b> (2.41)/ 2.41	<b>2013</b> (3.25)/ 3.25

The base ratio considered in the Interest Rate Sensitivity Analysis is the AWPLR. Since 68.29% (43.12%) of total borrowings (excluding Due to Customers) are linked to AWPLR, the above sensitivity ratio indicates the impact on Profit or Loss and Equity.

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

**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 categorized by the earlier of contractual repricing or maturity dates as at the end of the relevant financial period.

ASSETS	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Non interest bearing	Total as at
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	31/03/2014 Rs.
Cash and Bank Balances	-	-	-	-	-	105,135,491	105,135,491
Placement with Banks	127,494,028	42,910	-	-	-	-	127,536,938
Securities Purchased under Repurchase Agreement	268,997,323	-	-	-	-	-	268,997,323
Investment in Debt Securities	49,436,762	-	-	-	-	-	49,436,762
Loans and Advances	394,106,535	127,086,868	203,341,401	12,068,101	5,646,834	-	742,249,738
Lease rentals receivable & Stock out on hire	343,336,173	509,491,227	1,132,418,875	88,241,873	100,268	-	2,073,588,417
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	36,378,917	-	-	3,069,687	17,626,053	-	57,074,657
Other Financial Assets	-	-	-	-	-	22,578,322	22,578,322
<b>TOTAL ASSETS</b>	<b>1,219,749,738</b>	<b>636,621,005</b>	<b>1,335,760,276</b>	<b>103,379,661</b>	<b>23,373,155</b>	<b>127,794,213</b>	<b>3,446,678,048</b>
<b>LIABILITIES</b>							
Due to Banks	263,270,842	-	-	-	-	-	263,270,842
Due to Customers	858,323,385	927,830,724	316,835,527	497,129,909	-	-	2,600,119,545
Debt Instruments Issued and Other borrowed funds	62,426,000	59,839,622	-	-	-	-	122,265,622
Other Financial Liabilities	-	-	-	-	-	252,620,559	252,620,559
<b>TOTAL LIABILITIES</b>	<b>1,184,020,227</b>	<b>987,670,346</b>	<b>316,835,527</b>	<b>497,129,909</b>	<b>-</b>	<b>252,620,559</b>	<b>3,238,276,568</b>
<b>TOTAL INTEREST SENSITIVITY GAP</b>	<b>35,729,511</b>	<b>(351,049,341)</b>	<b>1,018,924,749</b>	<b>(393,750,248)</b>	<b>23,373,155</b>	<b>(124,826,346)</b>	<b>208,401,480</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2014**

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

**39.5.2.1 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 categorized by the earlier of contractual repricing or maturity dates as at the end of the previous financial period.

ASSETS	Up to 03 Months		03-12 Months		01-03 Years		Over 05 Years		Non interest bearing		Total as at 31/03/2013	
	Rs.	Rs.	Rs.	Rs.	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	160,835,793	82,138	-	-	-	-	836,056,101	
Lease rentals receivable & Stock out on hire	226,525,816	359,562,015	802,441,525	-	-	-	-	-	-	-	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	
<b>TOTAL ASSETS</b>	<b>1,006,820,116</b>	<b>547,065,117</b>	<b>931,797,060</b>	<b>175,534,064</b>	<b>17,949,759</b>	<b>49,816,401</b>	<b>2,728,982,517</b>					
<b>LIABILITIES</b>												
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	-	910,953,782	256,906,384	121,455,573	-	-	-	-	168,376,898	-	168,376,898	
<b>TOTAL LIABILITIES</b>	<b>1,010,327,661</b>	<b>(363,888,665)</b>	<b>674,890,676</b>	<b>54,078,491</b>	<b>17,949,759</b>	<b>(118,560,497)</b>	<b>2,468,020,298</b>					
<b>TOTAL INTEREST SENSITIVITY GAP</b>	<b>(3,507,545)</b>											



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 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 Management Committee (ALCO) analyses and monitors liquidity risk, and maintains an adequate margin of safety in liquid assets.

The Company maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Company maintains the liquidity ratio prescribed by Central Bank of Sri Lanka.

##### 39.6.1 Statutory Liquid Asset Ratio

As per the requirements of Finance companies (Liquid Assets) Direction No.4 of 2013 the Company has to maintain minimum liquid assets comprises of 10% of Time Deposits and Certificates of Deposits at the close of the business on such day and 15% of Savings Deposits at the close of the business on such day. In addition to the above, with effect from 01 January 2014 the company needs to maintain 5% on Borrowings which are not included in the Tier -II capital base and borrowings which are not secured by mortgage of any assets. Further the Company has to maintain liquid assets in the form of Sri Lanka Government Securities not less than 7.5% of average month end total deposit liabilities and the above said borrowings of twelve months of the preceding financial year.

The company maintained a healthy statutory liquid asset ratio throughout the year. The Company considers cash balances, Favorable Balances held with Commercial Banks on demand deposits, Placement with banks in the form of Time Deposits and Savings, Investment in Treasury Bills, Securities Purchased under Repurchase Agreement are considered as Liquid Assets for the purpose Statutory Liquid Asset Ratio calculation.

#### Statutory Liquid Asset Ratio

	2014	2013
Maximum	20.80%	18.78%
Minimum	14.12%	15.37%
Average	16.88%	16.83%
Closing	16.88%	17.99%

##### 39.6.2 Advances to Deposits ratio

The Company stresses the importance of maintaining an adequate Customer Deposit Base such as Time and Savings Deposits as sources of funds to finance Loans and Advances. They are monitored using the Advances to Deposits ratio which comprises Accommodations to Customers as a percentage of Customer Deposits.

#### Advances to Deposits Ratio

	2014	2013
Maximum	145.82%	141.93%
Minimum	106.89%	136.48%
Average	126.48%	139.22%
Closing	106.89%	141.93%

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 39. RISK MANAGEMENT DISCLOSURES (CONTD...)

#### 39.6.3 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

39.6.3.1 The table below analyses the maturity profile of the undiscounted cash flows of the Company's financial assets & liabilities as at the end of relevant financial period.

	On Demand	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2014
<b>ASSETS</b>							
Cash and Bank Balances	105,135,491	-	-	-	-	-	105,135,491
Placement With Banks	10,317,308	118,069,174	45,409	-	-	-	128,431,892
Securities Purchased under Repurchase Agreement	-	271,078,476	-	-	-	-	271,078,476
Financial Investments - Held for Trading	7,050,137	-	-	-	-	-	7,050,137
Investment in Debt Securities	-	50,826,459	-	-	-	-	50,826,459
Loans and Advances	348,904,610	106,321,114	388,593,039	579,151,723	80,084,732	12,767,675	1,515,822,892
Lease rentals receivable & Stock out on hire	207,906,839	243,015,692	793,911,854	1,437,974,673	97,142,596	67,353	2,780,019,006
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	307,703,068	-	-	3,165,200	21,605,500	332,473,768
Other financial assets	-	22,578,322	-	-	-	-	22,578,322
<b>Total Financial Assets</b>	<b>679,314,384</b>	<b>1,119,592,305</b>	<b>1,182,550,302</b>	<b>2,017,126,395</b>	<b>180,392,528</b>	<b>34,520,928</b>	<b>5,213,496,842</b>
<b>LIABILITIES &amp; EQUITY</b>							
Due to Banks	38,437,807	34,043,448	96,505,528	128,570,134	-	-	297,556,916
Due to Customers	70,555,016	799,287,692	976,928,597	333,557,948	578,800,330	-	2,759,129,583
Debt Instruments Issued and Other borrowed funds	-	63,016,565	62,441,014	-	-	-	125,457,579
Other Financial Liabilities	-	252,620,559	-	-	-	-	252,620,559
<b>Total Financial Liabilities</b>	<b>108,992,822</b>	<b>1,148,968,265</b>	<b>1,135,875,138</b>	<b>462,128,082</b>	<b>578,800,330</b>	<b>-</b>	<b>3,434,764,637</b>
	<b>570,321,562</b>	<b>(29,375,959)</b>	<b>46,675,164</b>	<b>1,554,998,313</b>	<b>(398,407,803)</b>	<b>34,520,928</b>	<b>1,778,732,205</b>

39.6.3.2 The table below analyses the maturity profile of the undiscounted cash flows of the Company's financial assets & liabilities as at the end of previous financial period.

	On Demand	Up to 03 Months	03-12 Months	01-03 Years	03-05 Years	Over 05 Years	Total as at 31/03/2013
<b>ASSETS</b>							
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
<b>Total Financial Assets</b>	<b>42,139,077</b>	<b>936,848,989</b>	<b>767,568,686</b>	<b>1,492,866,377</b>	<b>306,626,857</b>	<b>24,985,630</b>	<b>3,571,035,616</b>
<b>LIABILITIES &amp; EQUITY</b>							
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
<b>Total Financial Liabilities</b>	<b>129,630,238</b>	<b>904,559,128</b>	<b>1,081,699,278</b>	<b>431,610,147</b>	<b>143,425,519</b>	<b>-</b>	<b>2,690,924,310</b>
	<b>(87,491,161)</b>	<b>32,289,861</b>	<b>(314,130,592)</b>	<b>1,061,256,230</b>	<b>163,201,338</b>	<b>24,985,630</b>	<b>880,111,306</b>

### 39.7 Operational Risk

An operational risk is the risk arising from execution of a company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a company operates. It also includes other categories such as fraud risks, regulatory and compliance risks, reputation and physical or environmental risks.

## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH 2014

### 40. MATURITY ANALYSIS (CONTRACTUAL)

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

	On Demand	Less than 3 Months	03 - 12 Months	01-03 Years	01-05 Years	Over 05 Years	Total as at 31/03/2014
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>							
Cash and Bank Balances	105,135,491	-	-	-	-	-	105,135,491
Placement With Banks	10,312,749	117,181,279	42,910	-	-	-	127,536,938
Securities Purchased under Repurchase Agreement	-	268,997,323	-	-	-	-	268,997,323
Financial Investments - Held for Trading	7,050,136	-	-	-	-	-	7,050,136
Investment in Debt Securities	-	49,436,762	-	-	-	-	49,436,762
Loans and Advances	169,200,234	46,981,026	158,955,016	303,386,535	58,080,094	5,646,834	742,249,738
Lease rentals receivable & Stock out on hire	198,749,290	144,586,883	509,491,227	1,132,418,876	88,241,873	100,268	2,073,588,417
Financial Investments - Available for Sale	-	-	-	-	-	80,400	80,400
Financial Investments - Held to Maturity	-	36,378,916	-	-	3,069,687	17,626,053	57,074,656
Other financial assets	-	22,578,322	-	-	-	-	22,578,322
Real Estate & Vehicle Stock	-	24,016,815	45,424,574	56,840,924	4,578,544	-	130,860,857
Other Non Financial Assets	-	37,823,783	35,921,143	21,552,686	-	-	95,297,612
Intangible Assets	-	-	-	9,340,722	-	-	9,340,722
Property, Plant & Equipment	-	-	-	7,693,276	10,263,855	-	17,957,131
Deferred tax assets	-	-	-	155,429	-	-	155,429
<b>Total Assets</b>	<b>490,447,900</b>	<b>747,981,109</b>	<b>749,834,871</b>	<b>1,531,388,448</b>	<b>164,234,053</b>	<b>23,453,554</b>	<b>3,707,339,934</b>
<b>Liabilities</b>							
Due to Banks	38,437,807	26,900,734	80,128,150	117,804,151	-	-	263,270,842
Due to Customers	70,555,016	787,768,369	927,830,724	316,835,527	497,129,909	-	2,600,119,545
Debt Instruments Issued and Other borrowed funds	-	62,426,000	59,839,623	-	-	-	122,265,623
Other Financial Liabilities	-	252,620,559	-	-	-	-	252,620,559
Other Non Financial Liabilities	-	2,879,759	-	-	-	-	2,879,759
Retirement Benefit Liability	-	-	741,182	2,223,545	1,482,363	2,964,726	7,411,816
Current tax liabilities	-	5,876,796	-	-	-	-	5,876,796
	<b>108,992,822</b>	<b>1,138,472,217</b>	<b>1,068,539,678</b>	<b>436,863,223</b>	<b>498,612,273</b>	<b>2,964,726</b>	<b>3,254,444,940</b>

40.2 An analysis of the Total Assets employed and Total Liabilities at the year end, based on the remaining at the end of the previous financial period to the respective contractual maturity dates are given below

	On Demand	Less than 3 Month	03 - 12 Months	01-03 Years	01-05 Years	Over 05 Years	Total as at 31/03/2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>ASSETS</b>							
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	16,608,244
<b>Total Assets</b>	<b>42,139,077</b>	<b>826,367,176</b>	<b>496,245,245</b>	<b>1,181,586,891</b>	<b>345,591,366</b>	<b>33,320,448</b>	<b>2,925,250,203</b>
<b>Liabilities</b>							
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	121,455,572	-	1,765,882,547
Debt Instruments Issued and Other borrowed funds	-	87,871,878	86,453,181	-	-	-	174,325,059
Other Financial Liabilities	-	168,376,894	-	-	-	-	168,376,894
Other Non Financial Liabilities	-	1,459,521	-	-	-	-	1,459,521
Retirement Benefit Liability	-	-	-	-	-	5,833,972	5,833,972
Deferred Tax Liabilities	-	-	-	2,589,525	-	-	2,589,525
Current tax liabilities	-	3,376,089	-	-	-	-	3,376,089
	<b>129,630,238</b>	<b>846,648,347</b>	<b>978,384,592</b>	<b>389,326,680</b>	<b>131,455,572</b>	<b>5,833,972</b>	<b>2,481,279,402</b>

**NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED 31 MARCH**

**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. EVENTS AFTER THE REPORTING DATE**

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 the Company's capital management policy is to maintain healthy capital ratios and to be in compliance with relevant statutory requirements.

**44. ASSETS PLEDGED**

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged		Included Under
		2014 Rs.	2013 Rs.	
Lease & Hire Purchase Receivables	Bank Overdraft	313,366,667	313,366,667	Lease Rental Receivables and Stock Out on Hire
Lease & Hire Purchase Receivables	Term Loan	422,268,027	411,241,162	Lease Rental Receivables and Stock Out on Hire
Real Estate -Panadura Land	Bank Overdraft	-	37,307,266	Real Estate
		<u>735,634,694</u>	<u>761,915,095</u>	

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH**

**45. FINANCIAL REPORTING BY SEGMENT**

	Leasing		Hirepurchase		Term Loans		Others		Total	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Interest Income	243,812,406	111,508,193	188,856,273	187,818,078	218,057,176	211,022,044	37,797,524	30,763,682	688,523,379	541,111,997
Fee Based Income & Others	38,840,113	9,752,738	5,698,165	8,228,542	3,705,684	6,532,217	814,849	692,198	49,058,811	25,205,695
Unallocated Income	-	-	-	-	-	-	14,396,964	-	14,396,964	4,027,222
<b>Total Revenue</b>	<b>282,652,519</b>	<b>121,260,931</b>	<b>194,554,438</b>	<b>196,046,620</b>	<b>221,762,860</b>	<b>217,554,261</b>	<b>53,009,337</b>	<b>31,455,880</b>	<b>751,979,154</b>	<b>570,344,914</b>
Interest Expenses	(129,479,279)	(72,062,603)	(94,044,690)	(102,763,782)	(97,301,253)	(107,684,465)	(66,393,588)	(45,666,422)	(387,218,811)	(328,177,272)
Fee Based Expenses & Others	(18,644,459)	(2,008,305)	(460,265)	(2,863,913)	(160,610)	(2,183,406)	(3,187,562)	-	(22,452,896)	(7,055,624)
Impairment	(9,883,110)	(7,305,670)	(34,454,560)	(416,224)	(40,964,674)	2,578,775	(30,419,468)	-	(115,721,812)	(5,143,119)
<b>Net Operating Income</b>	<b>124,645,671</b>	<b>39,884,355</b>	<b>65,594,923</b>	<b>90,002,701</b>	<b>83,336,323</b>	<b>110,265,165</b>	<b>(46,991,281)</b>	<b>(14,210,542)</b>	<b>226,585,635</b>	<b>229,968,899</b>
Unallocated Expenses	-	-	-	-	-	-	-	-	(201,217,642)	(171,197,451)
Profits/ (Loss) before Tax	-	-	-	-	-	-	-	-	25,367,993	58,771,448
Income Tax expenses	-	-	-	-	-	-	-	-	(16,672,634)	(18,083,398)
<b>Net Profit/(Loss) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,695,359</b>	<b>40,688,050</b>
Other Comprehensive Income for the Period, Net of Tax	-	-	-	-	-	-	(25,753)	-	(25,753)	(554,450)
<b>Total Comprehensive Income for the Year</b>	<b>1,406,643,525</b>	<b>693,616,175</b>	<b>668,584,895</b>	<b>856,896,829</b>	<b>742,249,738</b>	<b>836,056,101</b>	<b>641,037,075</b>	<b>435,921,180</b>	<b>3,458,515,233</b>	<b>2,822,490,286</b>
Segment Assets	-	-	-	-	-	-	-	-	248,824,702	103,014,505
Unallocated Assets	-	-	-	-	-	-	-	-	3,707,339,935	2,925,504,791
<b>Total Assets</b>	<b>1,406,643,525</b>	<b>693,616,175</b>	<b>668,584,895</b>	<b>856,896,829</b>	<b>742,249,738</b>	<b>836,056,101</b>	<b>641,037,075</b>	<b>435,921,180</b>	<b>3,707,339,935</b>	<b>2,925,504,791</b>
Unallocated Liabilities	-	-	-	-	-	-	-	-	3,707,339,935	2,925,504,791
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,707,339,935</b>	<b>2,925,504,791</b>



## NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 MARCH

### 46. RELATED PARTY TRANSACTIONS

Details of related party transactions which the Company had during the year are as follows,

#### 46.1 Transactions with Key Management Personnel

Key Management Personnel include the Board of Directors of the Company (including both Executive and Non Executive Directors), key employees who are members of the Board Integrated Risk Management Committee and their close family members.

Compensation to Key Management Personnel	2014 Rs.	2013 Rs.
<b>a. Compensation to Board of Directors</b>		
Short Term Employee Benefits	8,387,758	9,743,131
	<u>8,387,758</u>	<u>9,743,131</u>
<b>b. Compensation to Other Key Management Personnel</b>		
Short Term Employee Benefits	13,935,046	10,670,327
	<u>13,935,046</u>	<u>10,670,327</u>
<b>c. Other transactions with Key Management Personnel</b>		
Fixed Deposits/Promissory Notes accepted during the year	2,375,000	2,375,000
Fixed Deposits/Promissory Notes held at the beginning of the year	30,057,000	13,920,987
Consultancy Fee paid during the year	2,066,520	348,075

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

Nature of Transaction	Abans PLC				Total	
	Parent Company		Other Related Parties **		2014 Rs.	2013 Rs.
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.		
Fixed Deposits Accepted during the year	-	-	8,000,000	7,521,619	8,000,000	7,521,619
Fixed Deposits held at the end of the year	-	-	36,903,686	27,903,318	36,903,686	27,903,318
<b>As at 1 April</b>	(12,224,763)	(35,638,820)	(44,453,099)	3,617,992	(56,677,862)	(32,020,828)
Purchase of Articles Consumer Credit Granting	(27,513,700)	-	(5,256,723)	(21,134,438)	(32,770,423)	(21,134,438)
Purchase of Motor Bikes - Lease Granting	-	-	(1,039,857,721)	(157,721,782)	(1,039,857,721)	(157,721,782)
Printing Expenses	-	-	(1,005,829)	(1,230,520)	(1,005,829)	(1,230,520)
Receivable on Repossessed Consumer Durable Items	-	-	65,409	18,882	65,409	18,882
Rent Income Recognized & Expense Recoveries	3,186,697	(2,129,425)	1,442,630	2,350,758	4,629,327	221,333
Rent Expense Paid	-	-	1,255,969	(1,320,000)	1,255,969	(1,320,000)
Funds Transferred from the Company	86,211,174	36,175,548	-	-	86,211,174	36,175,548
Funds Transferred to the Company	(73,986,411)	(10,926,144)	-	-	(73,986,411)	(10,926,144)
Settlements Paid/(Received)	(2,802,631)	294,078	929,992,132	130,966,009	927,189,501	131,260,087
<b>As at 31 March</b>	<u>(27,129,634)</u>	<u>(12,224,763)</u>	<u>(157,817,232)</u>	<u>(44,453,099)</u>	<u>(184,946,866)</u>	<u>(56,677,862)</u>

\*\*Other Related Parties include the following companies

Abans Graphics (Pvt) Ltd  
Crown City Developers (Pvt) Ltd  
Abans Retail (Pvt) Ltd  
Abans Auto (Pvt) Ltd

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

#### 46.3 Terms and conditions of transactions with related parties

Transactions with related parties are carried out in the ordinary course of the business. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash.

NINE YEARS SUMMARY

STATEMENT OF FINANCIAL POSITION  
AS AT 31 MARCH

Assets	* 2014	* 2013	* 2012	* 2011	2010	2009	2008	2007	2006
Cash and Bank Balances	105,135,491	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	127,536,938	125,140,325	25,480,046	65,103,633	42,401,609	15,000,000	8,500,000	-	-
Investment in Government Securities	326,071,980	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	7,050,136	8,336,546	8,085,928	11,716,200	-	-	-	-	-
Investment in Debt Securities	49,436,762	-	-	-	-	-	-	-	-
Loans and Advances	742,249,738	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	2,073,588,417	1,549,447,291	1,236,193,230	901,333,337	777,541,018	1,012,680,534	747,511,231	498,283,954	50,828,896
Investment Securities	80,400	80,400	80,400	80,400	80,400	80,400	80,400	80,400	-
Real Estate and Vehicle Stock	130,860,857	133,841,502	144,617,200	135,883,066	136,058,707	133,343,132	131,738,766	8,202,436	-
Other Assets	117,875,994	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	9,340,722	12,268,902	10,410,217	12,900,571	-	-	-	-	-
Property, Plant & Equipment	17,957,131	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	155,429	-	81,683	20,557,523	32,969,828	-	-	-	-
<b>Total Assets</b>	<b>3,707,339,935</b>	<b>2,925,504,791</b>	<b>2,697,725,557</b>	<b>2,149,782,990</b>	<b>1,498,621,045</b>	<b>1,527,634,236</b>	<b>1,169,952,288</b>	<b>604,634,194</b>	<b>120,885,576</b>
<b>Liabilities</b>									
Due to Banks & Other Financial Institutions	263,270,842	359,435,796	383,057,225	153,893,325	92,607,209	340,489,122	163,159,067	39,122,549	-
Due to Customers	2,600,119,545	1,765,882,547	1,672,108,739	1,519,571,106	1,009,533,058	591,000,334	396,825,828	-	-
Debt Instruments Issued and Other Borrowed Funds	122,265,623	174,325,059	99,374,620	24,999,996	-	136,714,790	107,389,187	83,724,207	-
Other Liabilities	255,500,318	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	7,411,816	5,833,972	3,716,167	5,619,332	2,659,537	2,589,813	1,038,000	553,000	-
Current Tax Liabilities	5,876,796	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
<b>Total Liabilities</b>	<b>3,254,444,940</b>	<b>2,481,279,402</b>	<b>2,293,633,768</b>	<b>1,791,365,398</b>	<b>1,190,485,870</b>	<b>1,154,769,517</b>	<b>763,843,198</b>	<b>208,522,928</b>	<b>8,544,461</b>
<b>Shareholders' Funds</b>									
Stated Capital	382,373,630	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	29,968,000	28,228,500	20,201,500	9,519,900	1,020,000	1,020,000	1,020,000	520,000	-
Investment Fund	18,454,242	14,723,671	7,833,381	-	-	-	-	-	-
Retained Earnings	22,099,123	18,899,588	(6,316,722)	(33,475,938)	(75,258,455)	(10,528,911)	22,715,460	13,217,636	3,341,045
<b>Total Shareholders' Funds</b>	<b>452,894,995</b>	<b>444,225,389</b>	<b>404,091,789</b>	<b>358,417,592</b>	<b>308,135,175</b>	<b>372,864,719</b>	<b>406,109,090</b>	<b>396,111,266</b>	<b>112,341,115</b>
<b>Total Liabilities and Shareholders' Funds</b>	<b>3,707,339,935</b>	<b>2,925,504,791</b>	<b>2,697,725,557</b>	<b>2,149,782,990</b>	<b>1,498,621,045</b>	<b>1,527,634,236</b>	<b>1,169,952,288</b>	<b>604,634,194</b>	<b>120,885,576</b>

\* Figures as per SLFRSs

NINE YEARS SUMMARY (CONTD...)

INCOME STATEMENT  
YEAR ENDED 31 MARCH

	* 2014	* 2013	* 2012	2011	2010	2009	2008	2007	2006
<b>Income</b>	<b>751,979,154</b>	<b>570,344,914</b>	<b>456,093,900</b>	<b>396,244,898</b>	<b>287,674,710</b>	<b>354,520,565</b>	<b>205,558,532</b>	<b>76,546,200</b>	<b>7,688,624</b>
Interest Income	688,523,379	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	(387,218,811)	(328,177,272)	(221,598,714)	(181,474,454)	(191,575,112)	(230,983,120)	(73,383,478)	(7,371,583)	-
<b>Net Interest Income</b>	<b>301,304,568</b>	<b>212,934,725</b>	<b>213,398,429</b>	<b>188,161,417</b>	<b>78,279,251</b>	<b>107,713,854</b>	<b>111,160,019</b>	<b>61,202,622</b>	<b>7,688,210</b>
Fee and Commission Income	48,243,961	24,513,497	19,240,537	-	-	-	-	-	-
Fee and Commission Expenses	(22,452,896)	(7,055,624)	(3,855,418)	-	-	-	-	-	-
<b>Net Fee and Commission Income</b>	<b>25,791,065</b>	<b>17,457,873</b>	<b>15,385,119</b>	-	-	-	-	-	-
Net Gain / (Loss) from Trading	272,657	449,377	(2,869,874)	-	-	-	-	-	-
Other Operating Income (Net)	14,939,157	4,270,043	4,726,094	26,609,027	17,820,347	15,823,591	21,015,035	7,971,995	414
<b>Total Operating Income</b>	<b>342,307,447</b>	<b>235,112,018</b>	<b>230,639,768</b>	<b>214,770,444</b>	<b>96,099,598</b>	<b>123,537,445</b>	<b>132,175,054</b>	<b>69,174,617</b>	<b>7,688,624</b>
Impairment (Charge) / Reversal (Prov. For Bad Debts)	(115,721,812)	(5,143,119)	(2,649,110)	(19,220,718)	(95,177,038)	(31,333,036)	(13,939,427)	(326,633)	-
<b>Net Operating Income</b>	<b>226,585,635</b>	<b>229,968,899</b>	<b>227,990,658</b>	<b>195,549,726</b>	<b>922,560</b>	<b>92,204,409</b>	<b>118,235,627</b>	<b>68,847,984</b>	<b>7,688,624</b>
<b>Less: Operating Expenses</b>									
Personnel Cost	(78,998,858)	(69,738,998)	(58,603,261)	(53,341,872)	(36,157,265)	(40,850,660)	(28,824,745)	(13,784,793)	(832,604)
Other Operating Expenses	(118,563,171)	(93,872,626)	(83,203,335)	(70,204,434)	(67,224,035)	(71,503,989)	(52,934,767)	(33,096,306)	(1,618,437)
<b>Operating Profit before VAT on FS</b>	<b>29,023,606</b>	<b>66,357,275</b>	<b>86,184,062</b>	<b>72,003,420</b>	<b>(102,458,740)</b>	<b>(20,150,240)</b>	<b>36,476,115</b>	<b>21,966,885</b>	<b>5,237,583</b>
Value Added Tax on Financial Services	(3,655,613)	(7,585,827)	(8,379,298)	(8,935,538)	-	(1,192,032)	(6,825,205)	(6,269,391)	(80,288)
<b>Profit before Taxation from Operations</b>	<b>25,367,993</b>	<b>58,771,448</b>	<b>77,804,764</b>	<b>63,067,882</b>	<b>(102,458,740)</b>	<b>(21,342,272)</b>	<b>29,650,910</b>	<b>15,697,494</b>	<b>5,157,295</b>
Income Tax Expenses	(16,672,634)	(18,083,398)	(32,130,568)	(20,568,382)	37,729,196	(2,306,621)	(19,655,086)	(5,300,903)	(1,816,250)
<b>Profit / (loss) for the year</b>	<b>8,695,359</b>	<b>40,688,050</b>	<b>45,674,196</b>	<b>42,499,500</b>	<b>(64,729,544)</b>	<b>(23,648,893)</b>	<b>9,997,824</b>	<b>10,396,591</b>	<b>3,341,045</b>

\* Figures as per SLFRSs

**BRANCH NETWORK**

BRANCH	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. 348 A, 348 B, Maithripala Senanayaka Mw, Anuradhapura.	0253856947 0253244969	0252234557 afslapr@abansgroup.com	Sunil Kahawatta
03. BADULLA	No. 30, Anagarika Darmapala Mw, Badulla.	055 3357730 0552228180	0552222101 afslbdu@abansgroup.com	Harendra Kumara
04. DAMBULLA	Sujatha Bld, Kurunegala Junction, Dambulla.	0663669876 0663925777	0662285000 afslidam@abansgroup.com	Jamis Jayathilake
05. GALLE	No 02, Malwatta Rd, Kaluwella, Galle.	0913907720 0912235888	091 2227122 afslgal@abansgroup.com	Ranjith Kalyananda
06 .GAMPAHA	No. 118, Colombo Rd, Gampaha.	0333438602 0333555450	033 2234970 afslgam@abansgroup.com	Sameera De Silva
07.KANDY CITY CENTER	L1-17 Kandy City Center, No 5, Dalada Veediya Kandy	0812220744	081 2220745 afslkcc@abansgroup.com	B. W.S.R Gunawardana
08. KURUNEGALA	No. 19 Baudhaloka Mw,Kurunegala	0373877888 0373616655	0372222611 afslkrq@abansgroup.com	R. M. W. J. Wijewardana
09. RATHNAPURA	Zeena Building, No 139/1 Main Street, Rathnapura	0453457777 0453608060	0452226873 afslrtp@abansgroup.com	H.W.D.A. Sujeewa Kumara
10. JAFFNA	No. 221, Power House Rd, Jaffna.	0213207686	0212217022 afslchu@abansgroup.com	N. Sooriyanathan
<b>CUSTOMER SERVICE CENTERS</b>				
01.JA-ELA	No.17, Negambo Rd, Ja ela	0113144338	0112240228	M.L.G.K. Karunarahna
02.KADAWATHA	No.172/12/E, Kandy Rd, Kadawatha.	0112926811		B.M.K.I. Balasooriya
03.MORATUWA	No.486, Galle Rd, Rawathawatta, Moratuwa.	0113052200	0112649177	M.S.C.M. Fernando
04.PILIYANDALA	No.28, Saranapala Mw, Piliyandala.	0113034200	0112609310	Danushka Silva
05. KANDY	1 <sup>st</sup> Floor, Arpico Bld, No.123, D. S Senanayaka Veediya, Kandy.	0813827710 0813842720	0812205675 afslkdy@abansgroup.com	B.W.S.R Gunawardana

## GLOSSARY OF TERMS

### A

#### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and Presenting Financial Statements.

#### Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

#### 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.

#### Collective Impairment

Impairment is measured on a collective basis for homogeneous groups of lending facilities that are not considered as individually significant.

#### Contingencies

A condition or situation existing at the balance sheet date where the outcome will be confirmed only by the occurrence or non-occurrence of one or more future events.

#### Commitments

Credit facilities approved but not yet 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.



## GLOSSARY OF TERMS

### E

#### Earnings per Share (EPS)

Profit attributable to ordinary shareholders, divided by the number of ordinary shares in issue

#### Effective Interest Rate (EIR)

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or liability.

#### Effective Tax Rate

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

#### Events after Reporting Date

Transactions that are not recognized as assets or liabilities in the statement of financial position, but which give rise to the contingencies and commitments.

### F

#### Fair Value

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Finance Lease

A contract where by a lessor conveys to the lessee the right to use asset for rent over an agreed period of time which is sufficient to 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 Assets

Any asset that is cash, equity instrument of another entity, a contractual right to receive cash or contractual right to receive another financial asset from another entity.

#### Financial Instruments

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

#### Financial Liabilities

A contractual obligation to deliver cash or other financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

### H

#### Held for Trading

Debt and equity investments that are purchased with the intent of selling them within a short period of time.

#### Held To Maturity Investment

A non derivative financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

#### Hire purchase

A contract between hirer and financier where the hirer takes on hire a particular article from the financier, with the option to purchase the article at the conclusion of the agreed rental payments.

### I

#### Impairment

This occurs when recoverable amount of an asset is less than the carrying amount.

#### Individual Impairment

Impairment is measured on an individual basis for non-homogeneous groups of lending facilities that are considered as individually significant.

#### Intangible Asset

An identifiable non-monetary asset without physical substance held for use in production/supply of goods/services or for rental to others or for administrative purposes.

#### Interest Bearing Liabilities

Liabilities on which the Company is paying interest.

## GLOSSARY OF TERMS

### 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.

### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, equity prices and commodity prices.

## N

### Net-Interest Income (NII)

The difference between what a Company earns on assets such as loans and securities and what it pays on liabilities such as deposits refinance funds and other borrowings.

### Non-Performing Loans (NPL)

All loans classified as Non-Performing when a payment of capital and/or interest is in arrears for 6 months or more.

### NPL Ratio (Gross)

Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense).

### NPL Ratio (Net)

Total Non-Performing Advances as a percentage of total advances portfolio (Net of interest in suspense and Loan loss provision).

## O

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

## P

### Past Due

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

## GLOSSARY OF TERMS

### Price Earnings Ratio

A valuation ratio of a company's current share price to its per share earnings. It can be calculated by dividing the market Value per share by Earnings per share.

### Probability of Default (PD)

An internal estimate for each borrower grade of the likelihood that an obligor will default on an obligation.

### Prudence

Inclusion of a degree of caution in the exercise of 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 understate.

## R

### Return on Average Assets (ROA)

Net income expressed as a percentage of average total assets, used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

### Revenue Reserve

Reserves set aside for future distribution and investment.

### Return on Equity (ROE)

Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

### Related Parties

Parties where one party has ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Related Party Transactions

A transfer of resources, services, obligations between related parties, regardless of whether a price is charged or not.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specific date and price.

### Risk Weighted Assets

On Balance Sheet Assets and the credit equivalent of off Balance Sheet Assets multiplied by the relevant risk weighting factors as specified by Central Bank of Sri Lanka.

### Risk Adjusted Asset

Used the calculation of risk based capital ratio. The face amount of lower risk assets is discounted using risk weighted factor in order to reflect a comparable risk per-rupee among all type of asset.

## S

### Segmental Analysis

Analysis of financial information by segments of an enterprise specifically the different industries and the different geographical areas in which it operates.

### Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

### Statutory Reserve Fund

A capital reserve created as per the provisions of the Finance Business Act No. 42 of 2011.

## T

### Tier 1 Capital

Core Capital representing permanent Shareholders' equity and reserve created or increased by appropriation of retained earnings or other surpluses.

### Tier 2 Capital

Tier 2 Capital or Supplementary Capital represents total value of Re-valuation reserves, General provisions and subordinated Debt.

### Transaction Costs

They are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

## GLOSSARY OF TERMS

### 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 EIGHTH ANNUAL GENERAL MEETING of ABANS FINANCE PLC will be held on 17 September 2014 at 2.30p.m. at Organization of Professional Association of Sri Lanka, No.275/75, Prof. S. Wijesundara Mawatha, Colombo 07 for the following purposes:**

1. To receive and adopt the Report of the Directors, the Audited Financial Statements of the Company for the year ended 31 March 2014 and Report of the Auditors thereon.
2. To re-elect Mr. Ajith Surendra Ratnayake, a Director of the Company who retires by rotation in terms of Article 26 (05) of the Articles of Association of the Company. Directors recommend the re-election of Mr. A. S. Ratnayake as a Director of the Company.
3. To re-elect Mr. Kithsiri Bandara Wanigasekara, a Director of the Company who retires by rotation in terms of Section A.8 of the Code of Best Practice on Corporate Governance 2013. Directors recommend the re-election of Mr. K. B. Wanigasekara as a Director of the Company.
4. To re-elect Mr. Vishtasp Kairshasp Choksy, a Director of the Company who retires by rotation in terms of Section A. 8 of the Code of Best Practice on Corporate Governance 2013. Directors recommend the re-election of Mr. V. K. Choksy as a Director of the Company.
5. 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

Sgd.  
Varners International (Private) Limited  
Company Secretaries of Abans Finance PLC,  
Level 14, West Tower,  
World trade Center,  
Echelon Square,  
Colombo 01.

12 August 2014







**FORM OF PROXY**

I/We \*..... of

.....

..... being a member/members \* of ABANS FINANCE PLC, hereby appoint;

Mr. Rusi Pestonjee of Colombo or failing him

Mr. Kithsiri Bandara Wanigasekara of Colombo or failing him

Mr. Channa Dilhan Pathirana of Colombo or failing him

Mr. Vishtasp Kairshasp Choksy of Colombo or failing him

Mr. Ajith Surendra Ratnayake of Colombo or failing him

..... of

..... (National Identity Card Number

.....) as my/our \* proxy to represent me/us \* and to vote as

indicated hereunder for me/us \* and on my/our \* behalf at the Annual General Meeting of the Company to be

held on 17 September 2014 and at every poll which may be taken in consequence of the aforesaid meeting

and at any adjournment thereof.

To receive and adopt the Report of the Directors and the Audited Financial Statements for the year ended 31 March 2014 and the Report of the Auditors thereon.

To re-elect Mr. Ajith Surendra Ratnayake, a Director of the Company who retires in terms of Articles 26(05) of the Articles of Association.

To re-elect Mr. Kithsiri Bandara Wanigasekara, a Director of the Company who retires by rotation in terms of Section A.8 of the Code of Best Practice on Corporate Governance 2013

FOR	AGAINST

**FORM OF PROXY (CONTD....)**

To re-elect Mr. Vishtasp Kairshasp Choksy, a Director of the Company who retires by rotation in terms of Section A.8 of the Code of Best Practice on Corporate Governance 2013.

To re-appoint Messrs. Ernst & Young the Auditors for the ensuring year and to authorise the Directors to determine their remuneration

FOR	AGAINST

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

.....  
Signature of Shareholder

\* Please delete the inappropriate words.

**INSTRUCTIONS ON COMPLETING THE FORM OF PROXY**

1. Please perfect the Form of Proxy after filling in legibly your name and address and by signing in the space provided and inserting the date of signature.
2. Please return the completed Form of Proxy to the registered office of the Company at No. 498, Galle Road, Colombo 03, or at the Office of the Secretaries at Level 14, West Tower, World Trade Centre, Echelon Square, Colombo 01 after crossing out one or the other of the alternative words indicated by the asterisks on the body of the form. The Form of Proxy shall be lodged with the Company or the Secretaries not less than Forty Eight (48) hours before the time appointed for holding the Meeting.
3. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney should accompany the completed Form of Proxy for registration, if a Power of Attorney has not already been registered with the Company.
4. If the shareholder is a company or body corporate, the Form of Proxy should be under its Common Seal in accordance with its Articles of Association or Constitution.
5. If there is any doubt as to the manner in which the proxy holder should vote by reason of the manner in which instructions in 2 above have been carried out, the proxy holder will vote as she/ he thinks fit.

## FORM OF ATTENDANCE

I/We \*hereby record my / our\* presence at the Eight Annual General Meeting of Abans Finance PLC on 17 September 2014 at 2.30 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 8 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. K. B. Wanigasekara**  
Managing Director

**Dr. (Mrs.) S. Dubash**  
Non-Executive Director  
(Retired w.e.f 8 April 2014)

**Mr. C. D Pathirana**  
Non-Executive Director

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

**Mr. T. Someswaran**  
Independent Non-Executive Director  
(Retired w.e.f 3 August 2013)

**Mr. Ajith S. Ratnayake**  
Independent Non-Executive Director  
(Appointed w.e.f 16 May 2014)



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

A Finance Company Licensed by the Monetary Board of the Central Bank of Sri Lanka  
under the Finance Business Act No. 42 of 2011.