

BUILT ON TRUST



 **vallibel** Finance

Annual Report 2013/14

This report to shareholders, which will be lodged with the Vallibel Finance PLC, is also available on our website www.vallibelfinance.com



BUILT ON TRUST

 **vallibel** Finance
Annual Report 2013/14

1

BUILT ON TRUST

In the business of finance, longevity is the name of the game and we at Vallibel believe that our time has been forged by the confidence of our stakeholders. Built on trust, we stand firm in an industry that is littered with pitfalls, and we have affirmed our position in the hearts and minds of those who have been a part of our history. And at the end of a successful year, it was through inspiring the trust and confidence of Sri Lankans all over the island in our own way, that we have become the success that we are today.





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 **vallibel** Finance

When Rupee Finance was acquired by the powerful Vallibel Group in 2005, we were virtually unknown. Rebranded as **Vallibel Finance** and backed by the prestige of our parent holding group, **Vallibel Finance** PLC has travelled a long way from its humble beginnings. As 2013/2014 drew to an end, we stood as one of the fastest growing financial entities of Sri Lanka, offering customers a host of financial solutions designed to improve and simplify their transactions, as well as their lives. From entrepreneur to enterprising householder, **Vallibel Finance** has delivered.

To improve the access Sri Lanka has to this service excellence, **Vallibel Finance** has followed an aggressive expansion strategy in 2013/2014, 01 branch & 03 collection centres were opened across the island bringing the total number of branches & collection centres to 18. Our dedicated staff serve clients corporate and individual with warmth and personal attention.

Spearheading the ambitious journey of the company is our dynamic and multifaceted Chairman Mr. Dhammika Perera. A visionary entrepreneur with his interests in diverse ventures who is also the Chairman of Sampath Bank & Delmege Limited and the Deputy Chairman of Hayles, Royal Ceramics and LB Finance & also serves on the Boards of Amaya Leisure, Kingsbury and Orit Apparels. Mr. Perera's chairmanship has been the driving force behind our success story.

As we diversify our business and move into exciting new ground with every passing day, our strong asset base and solid profits guarantee that exponential growth can be expected of **Vallibel Finance** PLC in the future. Most importantly, we at **Vallibel Finance** have made it possible for Sri Lankans across the country to place their trust in us for sure returns and secure investment.

OUR VISION

To change the financial landscape of our country; bringing more people in more areas to become stakeholders of a national reawakening. We are driven by relentless passion to seek out people who need help.

OUR MISSION

Our work ethics involve working tirelessly to formulate and offer a financial product spread that understands the pulse of the people. Our search is for excellence in all we do including accountability in financial stewardship and in our responsibility towards customers, stakeholders and our country.

Contents

004	Financial Highlights
006	Quarterly Highlights
010	Chairman's Statement
012	Managing Director's Message
014	Board of Directors
018	Senior Management Team
020	Management Team
022	Branch Management Team
026	Management Discussion & Analysis
035	Financial Performance Review
040	Corporate Social Responsibility Report
044	Corporate Governance
074	Risk Management Report
090	Annual Report of the Board of Directors on the Affairs of the Company
093	Integrated Risk Management Committee Report
094	Directors' Statement on Internal Control Over Financial Reporting
095	Audit Committee Report
098	Statement of Directors' Responsibilities
099	Independent Auditors' Report
100	Income Statement
101	Statement of Comprehensive Income
102	Statement of Financial Position
103	Statement of Changes in Equity
104	Cash Flow Statement
105	Notes to the Financial Statements
153	Value Added Statement
154	Sources and Utilisation of Income
156	Information on Ordinary Shares
158	Information on Listed Debentures
159	Nine Year Summary
163	Branch Network
165	Glossary of Financial Terms
167	Notice of Annual General Meeting
171	Form of Proxy
IBC	Corporate Information

Financial Highlights

Growth of
Deposit Base

48.37%

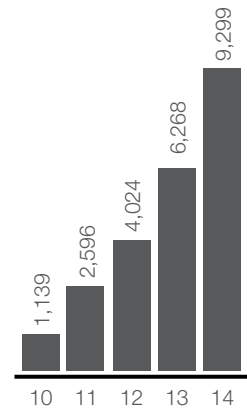
Growth of
Total Assets

35.20%

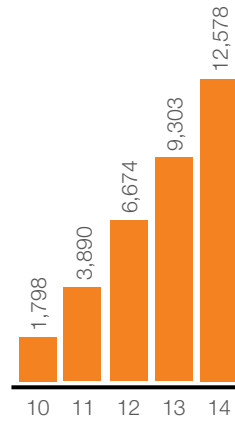
Growth of
Gross Income

36.78%

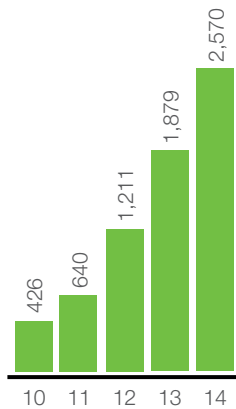
Deposit Base
(Rs. Mn)



Total Assets
(Rs. Mn)



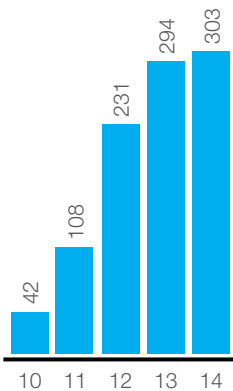
Gross Income
(Rs. Mn)



Growth of
Net Profit

3.18%

Net Profit
(Rs. Mn)



For the Year Ended 31st March	2014 Rs.'000	2013 Rs.'000	Change %
Financial Performance			
Gross Income	2,570,624	1,879,396	36.78
Gross Interest Cost	1,340,465	1,008,845	32.87
Pre-Tax Profit	489,010	467,928	4.51
Income Taxation	139,093	134,647	3.30
Profit After Taxation	303,910	294,532	3.18
Revenue to The Government	185,100	173,396	6.75
Financial Position			
Shareholder's Funds	1,180,743	936,176	26.12
Total Deposit Base	9,299,978	6,268,210	48.37
Borrowings & Bank Overdrafts	776,395	1,311,304	(40.79)
Loans & Advances, Lease and Hire Purchase	9,938,181	7,784,041	27.67
Total Assets	12,578,714	9,303,949	35.20
Market Capitalisation	1,234,053	1,175,882	4.95
Key Indicators per Ordinary Share			
Earnings Per Share (Rs.)	7.31	7.09	3.18
Dividends Per Share (Rs.)	-	1.50	-
Dividend Payout (%)	-	21.16	-
Net Assets Per Share (Rs.)	28.42	22.53	26.12
Market Value Per Share (Rs.)	29.70	28.30	4.95
PE Ratio (Times)	4.06	3.99	1.71
Key Ratios			
Return on Average Equity (%)	28.71	36.35	(21.01)
Return on Average Assets - After Tax (%)	2.78	3.69	(24.66)
Interest Cover (Times)	1.36	1.46	(6.76)
Equity / Assets	0.09	0.10	(0.10)
Debt plus Total Deposit to Equity (Times)	9.10	8.14	11.78
Non Performing Ratio (%) - Gross	4.95	3.19	55.17
Non Performing Ratio (%) - Net	1.97	1.45	35.86
Statutory Ratios			
Liquid Assets - Minimum Required 10%	15.82	15.68	0.89
Core Capital Ratio (%) - Minimum Required 5%	10.11	10.39	(2.71)
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	15.16	14.45	4.94

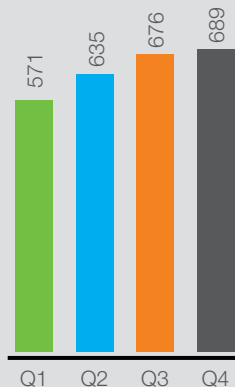
Quarterly Highlights

Q1

- Opened a Collection Center in Moratuwa on 27th June 2013

	Rs. Mn
Income for the Quarter	571
Profit for the Quarter	70
Total Assets	9,795
Deposit Base	6,828

Income for the Quarter
(Rs. Mn)

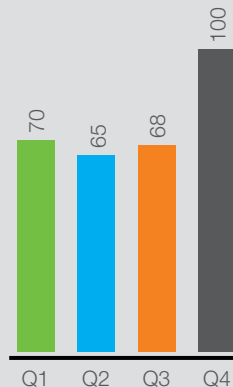


Q2

- Opened a Collection Center in Malabe on 29th August 2013

	Rs. Mn
Income for the Quarter	635
Profit for the Quarter	65
Total Assets	10,901
Deposit Base	7,611

Profit for the Quarter
(Rs. Mn)



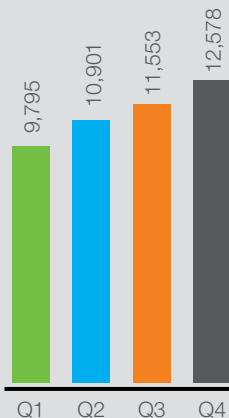
Q3

- Opened a Collection Center in Panadura on 19th December 2013

Rs. Mn

Income for the Quarter	676
Profit for the Quarter	68
Total Assets	11,553
Deposit Base	8,424

Total Assets
(Rs. Mn)



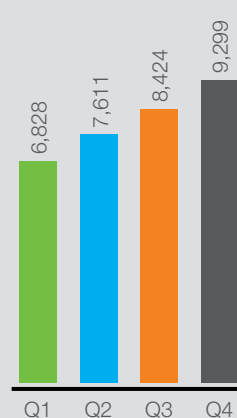
Q4

- Opened the first Premier Center in Nugegoda on 30th January 2014
- Issued Rs. 500 Mn Unsecured Subordinated Redeemable Listed Debentures
- Appointed as an agent of Western Union-MMBL Money Transfers (pvt) Ltd
- Lanka Rating Agency Limited (formerly known as RAM Ratings (Lanka) Limited) reaffirmed ratings of Vallibel Finance at BB+ / NP with Stable Outlook

Rs. Mn

Income for the Quarter	689
Profit for the Quarter	100
Total Assets	12,578
Deposit Base	9,299

Deposit Base
(Rs. Mn)







Creating opportunities

BUILT ON TRUST

Chairman's Statement

“The company’s reputation for reaching milestones continued as assets crossed the Rs. 10 Bn mark to reach Rs. 12.58 Bn from a previous Rs. 9.30 Bn, a rise of 35%.

I want you to know that your company has my fullest confidence. After all, it’s the name-bearer for what has grown to be a significant contributor to the national economy.”



Dhammika Perera
Chairman

Sitting on top of a diversified business group gives you a clear and holistic view of your entire entrepreneurial landscape. Every year, when it’s time for the customary report card, what you get is an exhaustive account of how each of your enterprises has gone about with their mandate and how they have performed when under the hammer of volatile market forces.

I have kept a keen eye on Vallibel Finance, a young and combative member of the group, still cutting its teeth among seasoned campaigners.

I’m as pleased with its report card, as I have been from its inception few years ago. If in the previous year it showed us how to survive difficult times, the challenge for the young finance company, in the year under review, was how to keep abreast in a deceptively promising business climate.

The holistic view from top, as far as the country goes, was an encouragingly good one with the economy on the ascent with a heartwarming 7.3% growth, a comparatively commendable figure over the previous year’s 6.3%.

It is an incredibly gratifying privilege to be part of this Sri Lankan renaissance and the country’s emergence was confirmed by its entry into a select group defined as the world’s top emerging markets. In fact, Sri Lanka is listed among the world’s top 5 emerging countries.

Lowering by the Central Bank of key policy rates was a significant development that fuelled growth across sectors. While the macro-economic scenario was shaping up quite well, the positive effects of fiscal initiatives didn’t quite come off as well as expected.

There was a decrease in demand for credit especially among SMEs and at individual levels. It is this mood of uncertainty at micro-economic levels that bore the largest effect on finance companies, the engine of growth for the masses. This posed the biggest challenge for Vallibel Finance PLC, too and I watched earnestly how the company responded.

Under the context, I viewed the lending portfolio with interest and am pleased to witness a 28% growth over the previous year. The lending portfolio crossed a milestone, peaking at Rs. 9.94 Bn from a previous Rs. 7.78 Bn. The leasing portfolio too showed momentum, reaching the Rs. 5 Bn mark (Rs. 4.86 Bn) with a growth of 22% from a previous Rs. 3.98 Bn.

Hire purchases, other loans and advances too showed positive trends climbing to Rs. 5.07 Bn from Rs. 3.81 Bn, a growth of 33%. What I see through the lending portfolio is how Vallibel Finance has inspired growth through credit among its fan base at an otherwise sluggish time for personal dreams.

Deposits; the usual yardstick of public confidence, was on its customary track for the company, rising impressively by 48% to Rs. 9.30 Bn as against Rs. 6.27 Bn the previous year. This too proves that the company and its customers have defied negative growth sentiments, making sure in the process that the all-important status quo has been maintained.

The company's reputation for reaching milestones continued as assets crossed the Rs. 10 Bn mark to reach Rs. 12.58 Bn from a previous Rs. 9.30 Bn, a rise of 35%.

The bottom-line affirmed the company's sound fiscal management initiatives while staying true to its mandate of inspiring growth in people. Pre-tax profits grew to Rs. 489 Mn surpassing the Rs. 468 Mn registered the previous year. Profit after tax rose to Rs. 304 Mn from Rs. 294 against the previous year.

The Managing Director's Message eloquently explains the Company's commitment to its customers with opening of three more service centres and one branch offering exciting prospects. I endorse the view that people-centric finance companies battle to find the correct balance between the bottom-line and its civic obligations and am happy to note that your company is doing a commendable job on both fronts. The company's successful debenture issue too highlights the confidence Sri Lanka has in the company.

I want you to know that your company has my fullest confidence. After all, it's the name-bearer for what has grown to be a significant contributor to the national economy. I expect it to build on its laurels as it seeks new opportunity.

I say to my Managing Director and his team of achievers, "well done", and I am confident I will hear greater things in the future. I extend warm greetings along with a big thank you to all our shareholders.

Finally, I say, your company is in good hands!



Managing Director's Message

“As we continued to explore setting higher standards, the year saw the launching of several new products...

Vallibel Finance has been duly recognized within the top 100 brands of Sri Lanka by the LMD Brands Annual survey for three years running.”



S.B. Rangamuwa
Managing Director

When a young financial star climbs high something strange takes place. It is expected to maintain its high levels; come whatever may. It is with sincere joy that I bring to you the latest report card of your company; proudly proclaiming that Vallibel Finance is not only able to ride through stormy skies but has acquired the maturity and skill to maintain its course.

For our country, it was a year of vibrant, encouraging overtones on one hand and conflicting undercurrents and cross-winds on the other, making the year under review rather interesting. The Central Bank has it that the economy, encouraged by lowering of key policy rates, grew at an impressive 7.3% as against 6.3% the previous year, making Sri Lanka the fastest growing economy in Asia with a value tag of nearly US\$ 60 Bn and growing. Paradoxically, however, a mood of uncertainty prevailed with the demand for credit decreasing at a time when more economic activity was forecast. Savings too showed a depressive undertone and right in the path of the cross-winds was Sri Lanka's resilient financial sector. It is these undertones and cross-winds which made our journey all the more noteworthy.

This meant that no finance company was on cruise-control, demanding a resourceful and innovative approach instead. Your company adapted to the challenge really well. Here are the results.

Three new service centers and one branch, the number now becoming par for the course, set our path alight as my team of achievers took the challenges head on, once again displaying the home-grown aptitude that keeps Vallibel Finance abreast of expectations. Deposits, a finance company's ultimate barometer of public confidence as usual, soared spectacularly by 48% to a landmark Rs.9.30 Bn as against Rs. 6.27 Bn the previous year and that's despite the contradictory sentiments seen in the market.

Your company, as the name-bearer of the illustrious Vallibel Group, continues to be devout custodians of such exalted heritage and the brand equity it enjoys among people of Sri Lanka converted into a stronger asset base with a monumental crossing of the Rs. 10 Bn land mark. Your company's asset base reached Rs. 12.58 Bn from a previous Rs. 9.30 Bn, clocking a 35% rise.

The demand for credit may have been dampened by the mood of investors, especially SMEs and individuals but the company built stronger bridges with its community of customers resulting in a 28% growth in the total lending portfolio. The lending portfolio grew to Rs. 9.94 Bn from a previous Rs. 7.78 Bn. Closer scrutiny sees the leasing portfolio reaching the Rs. 5 Bn mark (Rs. 4.86 Bn) with a growth of 22% from a previous Rs. 3.98 Bn. Hire purchases, other loans and advances were also in the ascendancy reaching Rs. 5.07 Bn from Rs. 3.81 Bn, a growth of 33%.

While the macro-economic front saw impressive growth as per Central Bank figures, it was evident from the mood of our customers that the going was indeed tough as the cost of living continued to batter them. But true to our vision we worked closely with them, inspiring personal growth, offering them the much needed support. Easier said than done, empowering people against the tide comes with its own risks but your company has strived to strike a fair balance between bottom-line and civic obligations as a finance company. This is reflected in

our bottom-line in a year committed to maintaining the status quo, preserving the achievements gained. Such consolidation will set us up nicely for new opportunities.

The pre-tax profit showed the company's resilience and its ability to remain on course, with the figure rising to Rs.489 Mn from a previous Rs. 468 Mn. Profit after tax rose to Rs. 304 Mn from Rs. 294 against the previous year.

Financial institutions depend on hundreds of thousands of people who become stakeholders of our own future. You can take all the precautions, be good financial stewardship but we are exposed to a high risk industry. This is where maintaining course becomes harder than what is seen on paper. I assure you that your team continues to be driven by the kind of work ethic that will keep your company moving in the right direction at all times. This we do by accumulating positives even through stormy skies.

The biggest high for us was an outstanding debenture issue, oversubscribed 3 times on the opening day, once again, endorsing the good will of our stakeholders and customers alike. The Rs. 500 Mn listed debenture issue raised the Capital Adequacy Ratio of the company in compliance with Central Bank stipulations.

The year under review saw the opening of our first ever premier customer center in Nugegoda, responding to a need among high net-worth individuals eager to do business with your company. Meanwhile, service levels of all our 18 branches and service centers island-wide have been enhanced with a committed workforce of over 430 individuals.

As we continued to explore setting higher standards, the year saw the launching of several new products which included property mortgage loans, group personal loans and a money transfer service, successfully executed through a partnership with Western Union.

Vallibel Finance has been duly recognized within the top 100 brands of Sri Lanka by the LMD Brands Annual survey for three years running. In addition we have improved our ranking by 6 positions to 67th from 73rd place a year ago. This is a noteworthy achievement despite Vallibel Finance being one of the youngest in the pack whilst its market capitalization is much lower than its peers.

It is that time of the year we pause to give thanks to several people who remain the wind beneath our wings. While it is a rare privilege to be part of the illustrious Vallibel Group, the guidance and inspiration we so cherish from the visionary Mr. Dhammika Perera is indeed our most singular honor. A heartfelt thank you to Mr. Perera and the astute Board of Directors of Vallibel Finance and finally, bravo my team, take a bow.



Board of Directors

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- 1 Mr. Dhammika Perera (Chairman)
- 2 Mr. W.D.N.H. Perera (Deputy Chairman)
- 3 Mr. S.B. Rangamuwa (Managing Director)
- 4 Mr. J.A.S.S. Adhihetty (Director)
- 5 Mr. M.D.S. Goonatilleke (Director)
- 6 Mr. K.D.H. Perera (Director)
- 7 Mr. Suranimala Senaratne (Director)
- 8 Mr. R.M. Karunaratne (Director)
- 9 Mr. K.V.P.R. De Silva (Director)



09

Board of Directors

Mr. Dhammika Perera

Chairman

Mr. Dhammika Perera is the quintessential business leader, with interests in a variety of key industries including Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance. He enriches the Board with over 25 years of experience in building formidable businesses through unmatched strategic foresight.

He currently holds the position of Secretary to the Ministry of Transport, Sri Lanka. He is also a member of the Board of Directors of Strategic Enterprise Management Agency (SEMA).

Mr. Perera is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Power Erathna PLC, The Fortress Resorts PLC and Delmege Limited. He is the Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC, Horana Plantations PLC, Lanka Ceramic PLC and LB Finance PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, The Kingsbury PLC, Dipped Products PLC, Lanka Tiles PLC and Orit Apparels Lanka (Pvt) Limited and Sun Tan Beach Resorts Ltd.

Mr. W.D.N.H. Perera

Deputy Chairman

Mr. Nimal Perera serves on boards of Pan Asia Banking Corporation PLC, Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramics PLC, Horana Plantations PLC, Swisstek Ceylon PLC, as the Chairman, Royal Ceramics Lanka PLC as the Managing Director, Vallibel One PLC as the Deputy Chairman, LB Finance PLC as the Executive Director, Vallibel Power Erathna PLC and The Fortress Resorts PLC as Alternate Directors.

He holds directorships in Hayleys PLC, Haycarb PLC, Thalawakele Tea Estates PLC, Kingsbury PLC, and Amaya Leisure PLC.

He is a renowned business magnate, stock trader and shareholder of many companies in the country.

Mr. S.B. Rangamuwa

Managing Director

A Fellow of the Chartered Institute of Marketing (UK), a Chartered Marketer and Mr. Rangamuwa is a member of the Institute of Management Accountants of Australia.

He is also a Fellow of the Sri Lanka Institute of Credit Management and holds a Certificate in Foundation Studies (Sports) from Unitech, New Zealand.

He obtained an MBA from the University of Southern Queensland/ICASL as well as a postgraduate Diploma in Financial Administration from the Institute of Chartered Accountants of Sri Lanka.

Mr. Rangamuwa was formerly a Board Director of Mercantile Investments PLC where he had a long career of nearly 20 years and held various key positions until he relinquished to take reins at Vallibel Finance PLC and also he had earlier stints at Central Finance PLC and Ernst & Young.

He served as Deputy Chairman of the Leasing Association of Sri Lanka.

Currently he serves as a Director of Hunnas Falls PLC and Style-Craft Sportswear Ltd (Orit Apparels).

Mr. J.A.S.S. Adhihetty

Director

A well-known professional in the marketing field, he counts over 33 years of experience in the finance sector.

He is the Managing Director of L B Finance and The Fortress Resorts PLC. Also he serves on the board of Vallibel One PLC and Pan Asia Banking Corporation PLC.

He was formerly the Deputy Managing Director of Mercantile Investments Limited and served as a Director of Nuwara Eliya Hotels Limited, Grand Hotel (Pvt) Limited, Royal Palm Beach Hotels Limited, Tangerine Beach Hotels Limited and Security Ceylon (Pvt) Limited.

Mr. M.D.S. Goonatileke

Director

Mr. Goonatileke joined the Board of Vallibel Finance PLC on 26th August 2005. He is a financial professional with over 27 years of post-qualification experience and has held Senior Managerial positions in Financial Management, Credit Management, Treasury, Export & Import Trade, General Management and Operations in leading private sector organisations in Sri Lanka.

He is a Group Director of Douglas & Sons Ltd. Group of Companies. In addition, he serves as a Director of Pan Asia Banking Corporation PLC and Hayleys PLC.

Mr. Goonatileke possesses a Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of Institute of Chartered Management Accountants (UK) and a passed finalist of the Institute of Chartered Accountants, Sri Lanka.

Mr. K.D.H. Perera

Director

Mr. Harendra Perera joined the Board of Vallibel Finance PLC on the 22nd August 2005. He is also a Director of Vallibel Leisure (Pvt) Ltd., and holds directorships in other private sector companies which are under the Vallibel Group and Horana Plantations PLC which is also a public quoted company listed in the Colombo Stock Exchange.

Mr. Suranimala Senaratne

Director

Mr. Suranimala Senaratne counts over 36 years' experience in the tourism and leisure industry. He held the position of Managing Director of Connaissance Group of Companies from 1987 to 2008.

In 2008, he took over the management of Yathra Travels (Pvt) Ltd as the Chairman / Managing Director. He is also the Chairman of Blackpool Holdings (Pvt) Ltd and a Director of Amaya Leisure PLC.

Mr. R.M. Karunaratne

Director

Mr. Rathnayake Mudiyanseelage Karunaratne joined the Board of Vallibel Finance PLC on 30th April 2013.

He received his Bachelor of Science (B.Sc.) degree from the University of Sri Jayawardenapura, Sri Lanka, specializing in Estate Management & Valuation.

After his graduation in 1977, he joined the Board of Investment of Sri Lanka (BOI) in 1978 and during the period 2008 to 2011, having served in various departments, rose to the position of Executive Director - Monitory.

Mr. K.V.P.R. De Silva

Director

Mr. K.V.P. Ranjith De Silva holds a Bachelor of Arts Degree from Vidyodaya University and Postgraduate Diploma from the Postgraduate Institute of Management (PIM). He joined the Sri Lanka Administrative Service (SLAS) in 1980 and became a special grade SLAS officer in 2006.

He held many key positions in the public sector at a divisional, district and national level and has served in various Government Ministries such as Food and Cooperative, Home Affairs, Health, Ports and Aviation etc.

He held the position of Additional Secretary in the Ministry of Ports in 2005 and became the Secretary to the Ministry of Ports and Aviation in 2009. He became the Secretary to the Ministry of Civil Aviation in 2010.

During his tenure at the Ministry of Ports and Aviation and Ministry of Civil Aviation some of the major Government projects i.e Colombo Port Expansion Project, Port of Oluvil, Magampura Mahinda Rajapaksa Port, Mahinda Rajapaksa International Airport at Mattala were commenced and completed under his supervision as the Chief Accounting Officer in those Ministries.

He has served as a member of the Standing Cabinet Appointed Review Committee (SCARC) which grant principle approval for major Government projects.

He was the Chief Executive Officer of the Commonwealth Heads of Government Meeting (CHOGM) held in Sri Lanka in November 2013.

Senior Management Team

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- 1 Mr. D.G.N. Perera (Deputy General Manager - Credit)
- 2 Mr. S.K.N.C. Jayawardana (Deputy General Manager - Business Development)
- 3 Mr. K.D.M. Sameera (Senior Manager - Finance & Administration)
- 4 Mr. T.U. Amaraweera (Senior Manager - Asset Management)
- 5 Mr. D.M.P.M.B. Dissanayaka (Senior Manager - Credit)
- 6 Mr. S. Sapukotana (Senior Manager - Business Development)
- 7 Mr. L.G.R. De Silva (Senior Manager - Metropolitan Branch)

Management Team



- | | | | |
|----|--|-----|---|
| 01 | Mr. R. Mendis (Manager-Administration) | 011 | Mr. R.S. Wijesooriya (Assistant Manager - IT) |
| 02 | Mr. H.B.M.R.D. Bandara (Manager-Finance) | 012 | Mr. J.D.S.T. Gunasekara (Assistant Manager-Human Resources) |
| 03 | Ms. L.S.Wijayananda (Legal Officer) | 013 | Mr. R.L.N.C.S. Ranawaka (Accountant) |
| 04 | Mr. U.G.K. Udayanka (Accountant-Payments) | 014 | Mr. K.D. Gunarathne (Assistant Treasurer) |
| 05 | Ms. E.A.B. De Silva (Head-Fixed Deposits) | 015 | Ms. H.A.G.M. Samanthilaka (Legal Officer - Property) |
| 06 | Mr. H.K.K.C. Harischandra (Manager-Recoveries) | 016 | Mr. P. Ranasinghe (Manager - Recoveries) |
| 07 | Mr. W.R.S. Wickramaratne (Manager-Credit Administration) | 017 | Mr. D.A. Samaranayaka (Manager - Recoveries) |
| 08 | Mr. K.N. Warnakula (Manager-Micro Finance) | 018 | Mr. P.H.U. Perera (Assistant Manager-Operations) |
| 09 | Ms. D.D. Wijayathilaka (Compliance Officer) | 019 | Mr. H.M.R. Kumara (Assistant Manager-Insurance) |
| 10 | Mr. K.Y.M. Pushpakumara (Manager-Pawning) | 020 | Mr. U.G. Kariyapperuma (Assistant Manager-Group Personal Loans) |



Branch Management Team



- 1 Mr. S.P. Abeywickrama (Manager-Minuwangoda)
- 2 Mr. A.D.K.S. Amarasinghe (Manager-Moratuwa)
- 3 Mr. H.W.R. Gunaratne (Manager-Rathnapura)
- 4 Mr. W.A.A.S. Perera (Manager-Kurunegala)
- 5 Mr. M.J.I.R. Fernando (Manager-Negombo)
- 6 Mr. G.D.D. Saminda (Manager-Gampaha)
- 7 Mr. J.J.P. Mendis (Manager-Galle)
- 8 Mr. S.P.U.W. Kumara (Manager-Chilaw)
- 9 Mr. R.A.J.R. Kumara (Manager-Embilipitiya)
- 10 Mr. I.K.R. Kumara (Manager-Panadura)

- 11 Mr. L. Gabadage (Manager-Nugegoda)
- 12 Mr. K.M.R.P. Rathnayake (Manager-Malabe)
- 13 Mr. L.H.C.N. Hettiarachchi (Officer In Charge-Aluthgama)
- 14 Mr. D.L. Kuranage (Officer In Charge-Kuliyapitiya)
- 15 Mr. S.D. Rathnayake (Officer In Charge-Kiribathgoda)
- 16 Mr. W.A.G.R.M.N.B. Amunugama (Officer In Charge-Kandy)
- 17 Mr. R.M.I.U.K. Waidyathilaka (Officer In Charge-Matara)

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Establishing connections

BUILT ON TRUST

Management Discussion & Analysis

Vallibel Finance had yet another excellent year in 2013/2014 with exponential growth across its portfolio of services. This performance was amidst a volatile global economic context and slower than the expected growth in the Sri Lankan economy. Outstanding leadership and strong business acumen of the Vallibel Finance team continues to be the hallmark of your company's success.

The Global Economy

The global economy grew by approximately 2.9% in 2013, its slowest rate since 2009.



Global growth is in low gear, and the drivers of activity are changing. These dynamics raise new policy challenges. Advanced economies are growing again but must continue financial sector repair, pursue fiscal consolidation, and spur job growth. Emerging market economies face the dual challenges of slowing growth and tighter global financial conditions.

The US economy is expected to build on the gains that materialised in 2013. GDP growth rose while unemployment has fallen. The equity market has outperformed the bond market in 2013.

The Euro Zone continues to face headwinds even as the economy attempts to eke out a positive performance in 2014. Despite leaving the recession in early 2013, GDP growth remained lacklustre while unemployment remains close to record highs and deflationary pressures persist.

The Chinese government announced long term structural reforms at its 3rd Plenum last year. These will likely spur economic growth in the long run. Of specific concern during 2013 was the liquidity squeeze which resulted in a spike of the overnight rate.

However, prospects for 2014 look brighter with robust growth forecast in large developed economies such as Germany, Japan, the United Kingdom and the United States. Because of their scale, a recovery

in these economies is likely to boost global growth to 3.6% in 2014, accelerating to 4.0% in 2015. Having contracted marginally in 2013, the Euro Zone is expected to return to growth, although the outlook remains tricky with debt levels continuing to rise, especially in troubled southern Europe. Growth in developing economies as a whole slowed in 2013, but they are still expected to expand faster than developed economy peers in 2014. The economies of developing Asia, led by China, India and Indonesia, are expected to grow by 6.5% in 2014.

Sri Lanka Economy

GDP growth rebounded to 7.3% in 2013. The recovery reflected domestic demand strengthening and a pickup in exports and tourism. Faster growth in wholesale and retail trade, hotels and restaurants, transport, banking, insurance and real estate lifted performance in the large service sector to 6.4% from 4.6% a year earlier, providing the impetus for the rebound. Industry grew by 9.9%, slightly less than a year earlier, as slower growth in mining and quarrying and in construction offset a pickup in manufacturing and utilities. Favorable weather helped maintain agriculture growth at a relatively favorable 4.7%.

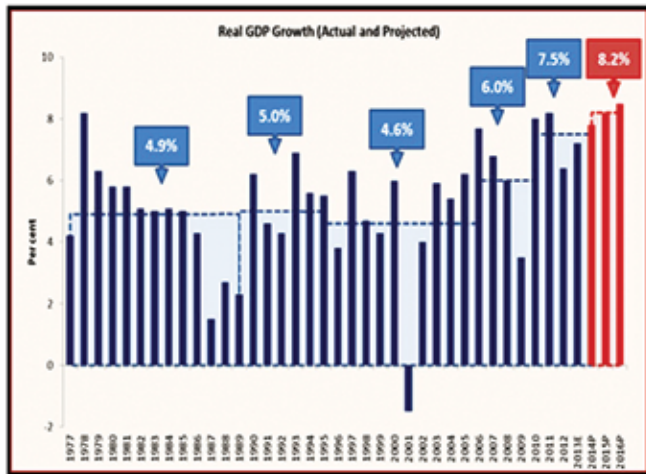
Inflation trended downward in 2013, averaging 6.9% for the year. Food inflation was at about 12% during the first quarter, as drought late in 2012 had disrupted domestic food supplies, but then dropped markedly to 0.9% in February 2014. Nonfood inflation also moved lower over the year but picked up to 7.1% in January 2014 on large increases in communications and transport prices that month.

The 2013 fiscal deficit is estimated at 5.8% of GDP, in line with the target. The target was hit, despite unexpectedly weak revenues, by compressing current expenditure. Capital expenditure was largely maintained but was again slightly below the target of 6% of GDP.

The ratio of government debt to GDP fell to 78.4% in September 2013 from 79.1% in 2012. Debt composition is changing with the gradual move toward marketable and non-concessional instruments and foreign investment in government securities with the rise in income levels as a middle income country.

An improving external environment, higher investments, and a recovery in domestic consumption will sustain a rapid pace of GDP growth in the next 2 years. The recent relaxation in monetary policy will allow more lending to the private sector and provide an impetus for expansion. Sri Lanka's post-conflict growth has been buoyed by construction, which has increased its share of GDP from 6.6% in 2009 to 8.1% in 2012, and by transport and telecommunications, its share up from 12.8% to 14.3% in the same period. The government's focus on infrastructure and post-conflict reconstruction and development has supported this expansion and will continue to drive growth in the medium term. As tourist numbers continue to rise rapidly and large

hotel projects in the pipeline open their doors, economic growth and foreign exchange earnings from tourism will continue to be buoyant over the next several years.



Source: CBSL

Operating Environment

The NBFi (Non-Banking Financial Institutions) sector expanded in 2013, with assets of the sector increasing despite the moderation in the sector's accommodation growth. Representing 7% of Sri Lanka's financial system, the NBFi sector continued to complement the banking system. The effectiveness of the regulatory measures in place was reflected in the build-up of resilience and soundness of the sector. However, fluctuations in the market prices of gold and relatively high lending rates offered by NBFis during 2012 led to an increase in non-performing loans in the sector.

In view of the envisaged growth of domestic economic activity in the years approaching, the Central Bank adopted several measures to build the capacity of the NBFi sector to facilitate the expansion of economic activity as well as to strengthen the ability of the sector to manage and absorb risks. Key amongst these measures were the steps taken by the Central Bank to promote consolidation of the NBFi sector. These measures would help secure financial system stability whilst facilitating the expansion of economic activities.

The NBFi sector comprised of 48 LFCs (Licensed Financial Companies) and 10 SLCs (Specialized Leasing Companies) by end 2013, meanwhile, the branch network of the NBFi sector expanded by 88 to 1,060 in 2013. Of the new branches, 61 were opened outside the Western Province.

The total asset base of the NBFi sector grew by 20% during 2013 to Rs. 717 Bn. The main contributory factor in the expansion of the asset base has been the growth of the accommodation portfolio and liquid

assets. Finance leases, hire purchases and other secured advances accounted for a large part of the accommodation portfolio, accounting for 46%, 22% and 22%, respectively.

Deposits were the major source of funding for the LFCs, while borrowings were the major source of funding for the SLCs, representing 47% and 27%, respectively, of the total NBFi sector liabilities. During 2013, eleven NBFis have issued listed debentures, valued at Rs. 21.9 Bn.

During the year the Central Bank tightened the regulatory framework on NBFis. On-site and spot examinations of NBFi were conducted and NBFis have been instructed to implement the recommendations that were made based on the findings of the examinations. During 2013, the Central Bank also introduced several policy measures and regulations and the scope of the existing Structural Changes Direction was enlarged. Further, a supervisory framework was introduced in respect of debt instruments issued by finance companies, especially to deal with areas such as liquidity and interest rates. Guidelines on the adoption of Sri Lanka Accounting Standards (LKAS) 32 and 39 and Sri Lanka Financial Reporting Standards (SLFRS) 7 require NBFis to obtain prior approval of D/SNBFi for dividend distribution, and the relevant amendments have been incorporated into the disclosure requirements in the Corporate Governance Direction. In addition, the annual licensing fees payable by a LFC were revised.

Your company has taken all required measures to adhere to the latest regulations and regulatory framework introduced by Central Bank and thus providing assurance of its secure operating framework with robust controls and processes.

Operational Performance

Brand Excellence

Your company's brand is growing stronger each year. Vallibel Finance has been duly recognized within the top 100 brands of Sri Lanka by the LMD Brands Annual Survey for three years running. In addition we have improved our ranking by 6 positions to 67th from 73rd place a year ago. This is a significant achievement despite Vallibel Finance being one of the youngest in the pack whilst its market capitalization is much lower than its peers. This is testament to your company's excellent standing with strong business growth complimented by external independent recognition.

In a relatively short span of time your company's brand rating has risen to A- rating as rated by LMD, assuring stability and good governance as the company grows from strength to strength. This has enabled Vallibel Finance to be among the top NBFis in Sri Lanka racing ahead of its older peers.

Management Discussion & Analysis

Assured Stability

Further, RAM Ratings Lanka has reaffirmed the respective long- and short-term financial institution ratings of Vallibel Finance at BB+ and NP. We are on track to improve our asset quality, performance levels and capitalization mechanisms to take the ratings higher in the near future.

Branch Expansion

Our expanding branch network has played a vital role in our growth story that has enabled us to acquire new customers and offer a more convenient service to all our existing customers through proximity. This year we have added one new branch and three collection centres (Malabe, Moratuwa and Panadura). The new branch opened in the heart of a bustling metropolis in Nugegoda was our first premier centre catering to the premium needs of our growing clientele. The Nugegoda premier centre was inaugurated by our Chairman Mr.Dhammika Perera. Further, our head office expansion project was successfully completed in July 2013 and that has enabled us to accommodate our growing number of employees and also our expanding customer base. Today we boast of 12 branches and 6 collection centres island-wide in key strategic locations close to our customers. We are happy to note that our customer footfall has increased significantly which is evidence of the trust and confidence our customers bestow upon us.



At the Panadura service centre opening



Nugegoda Premier Centre being opened by the Chairman, Mr. Dhammika Perera



New Collection Centre opening at Moratuwa



Opening of the extended office of the FD division, Colombo



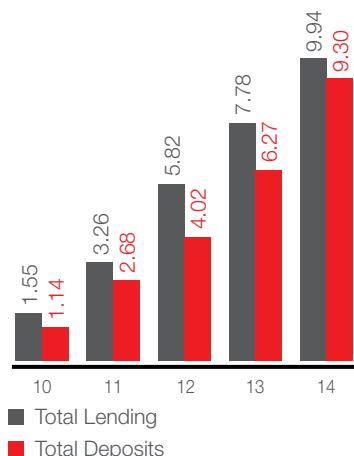
Managing Director, Mr. S.B. Rangamuwa addressing the gathering at the Malabe service centre opening

Product, Portfolio and Performance

Product Portfolio	
Investment Products	
Deposits	
Lending Products	
Leasing	
Hire Purchase	
Personal Loans	
Property Mortgage Loans	
Group Personal Loans	
Pawning	
Other Loans and Advances	

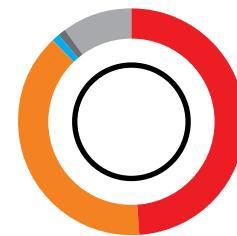
We offer a host of financial products and services that include both lending instruments and deposits. Our lending instruments include leasing, hire purchase, personal loans, property mortgage loans, group personal loans, pawning and loans against fixed deposits. Property mortgage loans and group personal loans are the newest additions to our expanding lending portfolio. In the year under review, our lending portfolio demonstrated strong growth, growing by 27.67% to cross the Rs. 9.94 Bn mark as compared to previous years Rs. 7.78 Bn. Further, we reached more customers and our existing customers bestowed their confidence in us by increasing the deposit base significantly by 48.37% to reach Rs.9.30 Bn during the year.

Total Lending & Deposit Portfolio (Rs. Bn)



Leasing and hire purchase stand out as our star services and accounted for 88% of the total lending portfolio in the year under consideration.

Composition of Lending Portfolio 2014

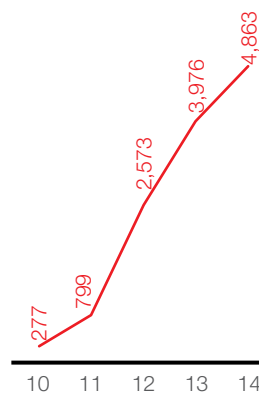


■ Lease Rental Receivables	49%
■ Hire Purchase Receivables	39%
■ Loans Against Fixed Deposits	1%
■ Pawning Advances	1%
■ Other Loans and Advances	10%

Leasing

Our Leasing business grew significantly during the year with our lease portfolio increasing by 22.30% to Rs. 4.86 Bn. Whilst we offer similar leasing options as other market players, the key differentiating factor is our ability to cater our product to meet the unique requirements of our customers. Our Leasing business continues to focus on vehicle and equipment leasing solutions with our primary customer base being small / medium scale entrepreneurs and low / middle income earners, which is categorized as the “Micro Finance” segment. The ‘Micro Finance’ segment essentially is focused on the leasing of three wheelers and motorcycles and is a fast growing category.

Growth in Lease Assets Portfolio (Rs. Mn)



Management Discussion & Analysis

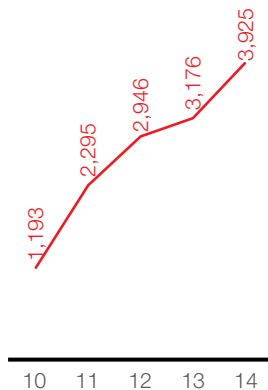
In the year under consideration we granted 7,918 new leasing facilities to our customers, a 35% increase compared to the previous year. From the total leasing facilities granted, micro leasing facilities amounted to 77%.

During the year interest income from finance leases amounted to Rs. 1.23 Bn compared to Rs. 824.73 Mn earned during the previous year, recording a healthy growth of 49.04%.

Hire Purchase

Our Hire Purchase business expanded to Rs. 3.93 Bn from Rs. 3.18 Bn in the previous year, recording a growth of 23.59%. Our hire purchase schemes are geared to enable our customers to purchase vehicles or make a borrowing against the vehicles they own. In terms of volume, the number of contracts entered into increased significantly growing by 56% on the back of an 11% decline in the previous year. This turnaround highlights the fact that our Hire Purchase products and services are now cutting edge.

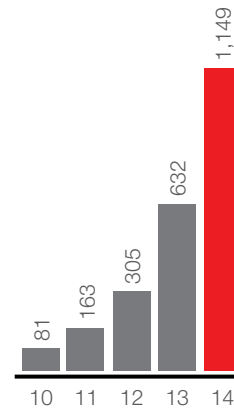
Growth in Hire Purchase Portfolio (Rs. Mn)



Other Loans & Advances

An unprecedented increase of 81.99% was recorded in this sector by our company for the year under review. The other loan and advances portfolio increased to Rs. 1.15 Bn as compared to the previous year's Rs 631.72 Mn. This category comprises of loans granted against fixed deposits, investment fund loans, personal loans, mortgage loans, pawning advances and other loans.

Portfolio of Other Loan & Advances (Rs. Mn)



Pawning Advances

A relatively new foray in our product portfolio and we are proud to report that our Pawning centers have generated business to the tune of Rs.62.59 Mn through 1519 contracts in 2013/2014. Pawning services are available to the public from our Head Office in Colombo and from our branches and collection centres in Maharagama, Nugegoda, Moratuwa, Malabe and Panadura.

New Products

Our quest for strong profitable growth combined with our desire to cater to all our customer financial requirements resulted in new innovative products and solutions. As such two new lending instruments, group personal loans and property mortgage loans, aimed at providing tailor made solutions for our customers were introduced.

The group personal loan scheme is offered to salaried employees in both the government and private sector.

The property mortgage loans are personalized for specific financial situations and needs of a customer. This solution is available to government and private sector employees as well as self employed persons and businessmen who are in urgent need of cash or need to purchase a land or building. Very competitive interest rates are offered in par with prevailing market rates combined with a friendly and speedy customer service.

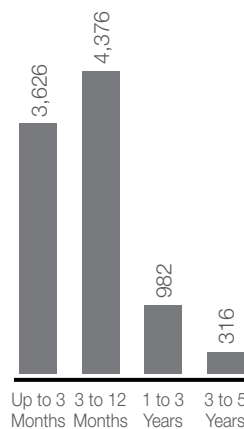
Fixed Deposits

Deposits, are the strongest indication of public confidence in a financial institution. Fixed Deposits (FDs) form an important part of the portfolio and with the public's increasing trust in the financial arm of the powerful Vallibel group, total deposits which stood at Rs. 6.27 Bn last year grew significantly by 48.37% to reach the Rs. 9.30 Bn mark as at end March 2014. During the year under review we also witnessed a significant increase in collection of Certificate of Deposits which amounted to Rs. 246.91 Mn, a 161.84% increase compared

to previous year's Rs. 94.30 Mn. Our fixed deposits range consists of products that vary from 1 month to 5 year deposits with an option of receiving interest either monthly or at maturity.

Our initiatives for deposits included public awareness promotional campaigns e.g. presence at exhibitions, newspaper advertisements and expansion of the FD division at head office in order to provide better service and convenience to customers.

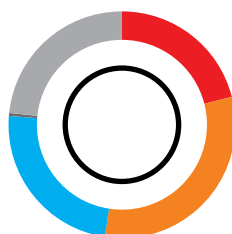
Deposits by Maturity Period (Rs. Mn)



Borrowings

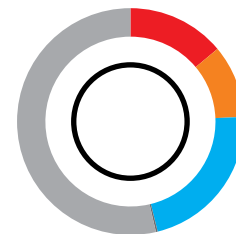
Interest bearing borrowings decreased by 2.11% to Rs. 1.67 Bn compared to Rs. 1.71 Bn in the previous year. Subordinated Term Debts/ Debentures increased during the year on account of the Rs. 500 Mn Debenture issue aimed at strengthening the Tier II capital to meet the capital adequacy requirement stipulated by the Central Bank. Other sources of borrowings included bank overdrafts, term loans, securitized borrowings and other facilities.

Borrowings Composition 2013



Bank Overdrafts	21%
Term Loans	31%
Securitised Borrowings	24%
Finance Lease	0.4%
Debentures	23%

Borrowings Composition 2014



Bank Overdrafts	14%
Term Loans	10%
Securitised Borrowings	22%
Finance Lease	0.2%
Debentures	54%

Debenture Issue

In February 2014 your company received a resounding vote of confidence from the public with its first ever Debenture issue being oversubscribed three times within hours of opening. The advisors and managers to the issue was Navara Capital Partners Ltd. The success of the Debenture issue echoes the confidence the financial markets and investors have in your company, which is growing from strength to strength. The Debenture issue was intended to raise funds for the expansion of the capital base in accordance with the Central Bank's regulatory requirements of capital adequacy imposed on Licensed Finance companies. The Company issued 2.5 Mn unsecured, subordinated, redeemable debentures at Rs. 100 each with an option to issue a further 2.5 Mn debentures in the event the initial issue is oversubscribed.

Management Discussion & Analysis

Human Capital

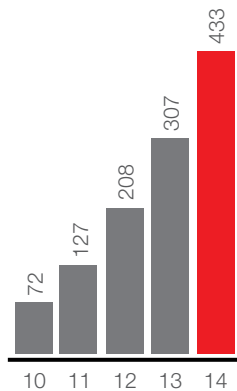
“While extraordinary products and unique services still afford a competitive advantage, the one advantage that stands the test of time is people.”

Mark Salesbury

Team Profile

Our people are the bedrock of our company and have enabled us to achieve significant success in a relatively short span of time. Our Vallibel family grew by 126 members during the year bringing our total staff strength to 433. The strength of our culture and excellent working environment has also meant that we have had very low attrition.

Growth in Number of Employees



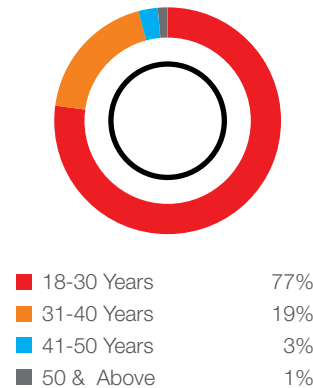
We are an equal opportunity company and believe in a meritocracy. Our recruitment philosophy is based on merit and finding the best candidate for a given position within our organization. Our gender diversity stands at a 70:30 ratio (male : female) and we are actively working on reaching a balanced position in the future. Towards this we have many facilities to encourage female employees such as our maternity leaves policy, flexible working culture etc.

We believe in empowering our team and therefore have a relatively flat organization structure that enables the right decision making at the appropriate level within the organization. This has enabled our team to be proactive and responsive to our customers' requirements in a timely and effective manner.

Employee categories	
Senior Management	8
Middle Management	48
Senior Executives	11
Executives / Junior Executives	88
Operational staff	181
Clerical	69
Inplant Trainees	1
Minor	27
Total	433

Being a relatively young organization we have a equally young family. 77% of our team are below the age of 30 years, however we also have very experienced members at critical positions that require such experience.

Age Analysis of Employees



Training & Development

At Vallibel Finance, we take professional and personal development of our staff very seriously. We have instituted a culture of continuous learning to ensure that the entire team stays relevant to the times and acquire new knowledge and skills to serve our customers better. We have invested significantly in both internal and external trainings with 132 participating in training and development sessions throughout the year.

Whilst internal training programs were conducted by the respective department heads, selected employees were afforded the opportunity to participate in external training programs conducted by the Central Bank of Sri Lanka, The National Chamber of Commerce of Sri Lanka and McQuire Rens & Jones (pvt) Limited.

The core areas of training included operational excellence, legal and regulatory framework, credit management, micro finance, corporate planning, leadership skills, marketing, customer relations and Information Technology.



Training session conducted by the Senior Management at the Caritas Sri Lanka - SEDEC auditorium, Colombo on micro finance.

HR Events and Activities

At Vallibel Finance we believe that hard work and good performances must be complimented with recognition and enjoyment. Towards this, we have formed the Vallibel Finance Sports Club and our HR team organized many events and activities.

Our cricket team participated in the "Honda Challenge Trophy – Division G" 25 Over League Tournament organized by the Mercantile Cricket Association for the year 2013.

We had a Quarterly Business Review Session of Managers at The Kingsbury Hotel which was followed by cocktails. And to end the successful year the entire Vallibel Finance team celebrated success in style with an Annual Dinner Dance on 7th December 2013 at Hotel Ramada, Colombo which was a house full and an unforgettable event.



"Honda Challenge Trophy" - 25 Overs League Tournament 2013



Vallibel Night



Quarterly Business Review Session at The Kingsbury Hotel Colombo

IT Developments

We have also invested significantly in enhancing our IT systems to enable continuous improvement and speed of systems and processes. Some of the new systems introduced during the year include Kingsoft office software license and a new gold loan management system for the Pawning product which has been fully integrated with the existing systems.

We linked all major systems (Fixed Deposits, Lending & Pawning) with the common general ledger system making it a seamless and integrated ERP system.

We are currently working on our next project to establish a virtualization environment of the servers to reduce the energy and space requirements in the data center.

On the banking front, the Company linked up with Western Union services through MMBL Money Transfers (Pvt) Ltd and also entered into an agreement with Lanka Clear to become a secondary participant in the Sri Lanka Interbank Payment System (SLIPS).

Management Discussion & Analysis



Managing Director exchanges signed agreement with Director General of Western Union - MMBL in Sri Lanka.

Marketing Highlights

Our recipe for success is also attributed to our comprehensive and holistic Marketing & Promotional strategy that has gone hand in hand with our excellence in innovative product development and superior customer service.

We have spearheaded multiple communications campaigns utilizing TV, Radio, Press and Hoardings to drive top of mind awareness amongst our customer base. We have placed many hoardings, street name boards and bill boards at strategic locations to effectively communicate our products, services and innovations.



We have invested heavily and backed our marketing efforts by recruiting marketing and sales personnel and provided training on complementary cross selling strategies to derive incremental business

from our existing Customers. Further as a retention strategy, we have also personalized our services through relationship officers to offer a dedicated service to our customers. We have also introduced the concept of door step service and personal selling.

Our promotional campaigns were very successful and we seized many opportunities to reach out to new customers through these events. We occupied stalls at 'Kedella: Art of Living 2013' a show held in Kandy and Colombo. We had an exclusive platform at the event and our staff went all out to promote our products and provide information and advice to potential customers. We also occupied a stall at the International Motor & Accessories Exhibition also known as the Colombo Motor Show 2013 organized by the Asia Exhibition and Conventions at BMICH. This exhibition fitted well with our promotional efforts on leasing products. Our promotional campaigns also included tie-ups with leading suppliers and vendors, joint campaigns with suppliers and free offers such as free insurance schemes for leases.



Vallibel Finance at 'Kedella: Art of Living 2013'



Vallibel Finance at 'Kedella: Art of Living 2013'

Future Outlook

We expect the economy to remain stable throughout 2014/2015 with sustained GDP growth. In this context your company would continue to drive exponential growth through expansion of our branch network and derive organic growth through our marketing and sales strategies thereby securing a greater share of the NBF1 market. We will also focus on improving our profitability whilst providing enhanced value to our Customers and developing deeper roots with society.

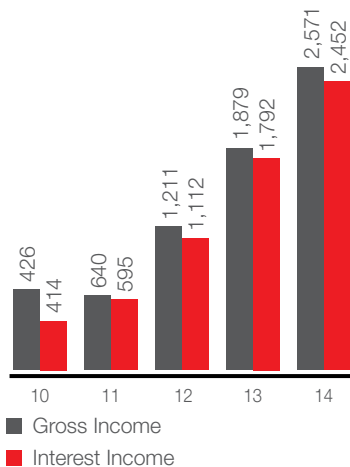
Financial Performance Review

Revenue & Profitability

Income

Against a lackluster economic backdrop Vallibel Finance has continued to do well in terms of income generation. The Company's total income escalated by an encouraging 36.78% to Rs. 2.57 Bn from Rs. 1.88 Bn in the previous year. The interest income earned from our loans and advances, our primary source of income contributed significantly to the said growth. Our loans and advances portfolio grew by 27.67% and generated interest income of Rs. 2.28 Bn from the previous year's Rs. 1.68 Bn, giving us a 35.85% increase in interest income earned for the year under review. In addition our income has been supplemented with earnings from our investments and non-interest bearing products to the tune of Rs. 285.55 Mn.

Growth in Revenue (Rs. Mn)



Interest Income

Interest Income for the year grew significantly to Rs.2.45 Bn which is a 36.83% increase as compared to last year's earnings of Rs.1.79 Bn.

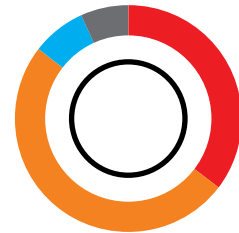
Our leasing portfolio continued to be the biggest contributor to interest income accounting for 50.13 % of total interest income earned for the year as compared to the 46.03% contribution made to last year's turnover. The aggregated value of our earnings from leasing portfolio for the year amounted to Rs.1.23 Bn and reflects a noteworthy increase of 49.04% as related to last year's value of Rs.824.73 Mn. Income from hire purchase activities escalated by 16.44% to generate interest income of Rs.867.09 Mn.

Though a relatively small segment of our business the interest income from other loans and advances portfolio showed superlative growth of 67.64% and recorded Rs.188.78 Mn a huge jump compared to last year's value of Rs.112.61Mn. This category mainly comprises of personal loans, mortgage loans, loans against fixed deposits and

pawning advances. During the year we have introduced two new products, the group personal loans and the property mortgage loans to this category to maximize on the huge future growth potential this segment holds.

The smallest piece in the pie- income from other interest earnings contributed Rs.166.73 Mn to total income and comprises of our interest income from investments in fixed deposits, treasury bills, treasury bonds and other government securities.

Composition of Interest Income - 2014



■ Hire Purchase	35%
■ Finance Leases	50%
■ Other Loans & Advances	8%
■ From Other Investments	7%

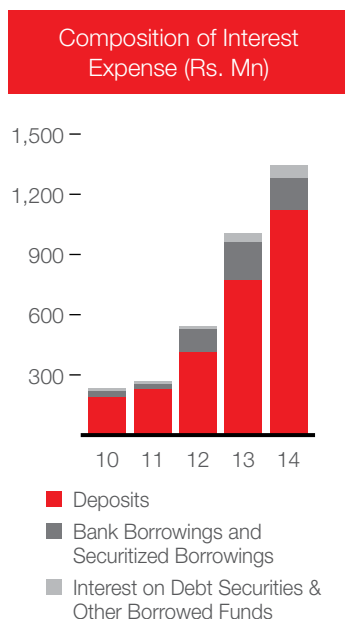
Interest Expenses

Interest expenses for the year increased by 32.87% to Rs.1.34 Bn as compared to last year's Rs.1.01 Bn. Owing to the lower policy rates prevailing in the country interest expenses on deposits for the year increased by a lower rate of 45.57% and amounted to Rs.1.12 Bn as compared to last year's increase of 85.43%. Fixed deposit interest is the largest component of interest expenses and accounts for 83.80% of total interest expenses.

As the Company reduced its exposure to bank borrowings during the year, interest on bank borrowings and securitized borrowings decreased by 17.42% from Rs. 188.74 Mn in the previous year to Rs. 155.86 Mn this year.

To support our expansion drive, we were required to expand our capital base in line with the Central Bank capital adequacy regulations. Thus we augmented our capital base during the year by issuing 5 year redeemable, unsecured debentures to the value of Rs. 500 Mn to the market. Total debentures issued stood at Rs. 875 Mn and resulted in interest expenses of Rs. 60.36 Mn for the year under consideration.

Financial Performance Review



Net Interest Income

Net Interest Income (NII) rose by 41.92% to a healthy Rs. 1.11 Bn compared to the previous year's Rs. 783.07 Mn. We have been able to achieve significant growth in NII with our new product lines and effective re-pricing strategies of assets and liabilities. 90% of total operating income is derived from NII. The overall downward trend in interest rates in the industry has stimulated favorable credit growth, more lending opportunities and resulted in better interest income generation for the year.

On the other side of the coin a lower interest rate policy would typically translate into attracting lower deposits. We have been successful in overriding this position, as in the year our deposit base has grown by a remarkable 48.37% whilst lending grew at 27.67%. Our company was able to increase the deposit base and lending portfolio at a steady pace maintaining a net interest margin of 10.74% which is in line with the previous year's margin.

	Rs. '000			
	2011	2012	2013	2014
Total Interest Income	595,383	1,111,638	1,791,914	2,451,801
Total Interest Expense	269,556	536,825	1,008,845	1,340,465
Net Interest Income	325,827	574,813	783,069	1,111,336

Non Interest Income

Other operating income / non-interest income for the year registered Rs.118.82 Mn, a year on year increase of 35.83% compared to the previous year's figure of Rs.87.48 Mn. Non-interest bearing revenue streams mainly comprise of income from insurance administration fees, profit from terminations, gains from disposals of assets, capital gains from the sale of quoted shares and the mark to market valuation of quoted shares. 73% of our other operating income for the year was derived from fee and commission income and termination income.

Total Operating Income

Our company's total operating income for the year has soared by 41.31% to Rs.1230.16 Mn as compared to the 870.55 Mn achieved in the previous year. Total operating income consists of income from net interest income and other income. This notable increase can be attributed to the growth we have achieved in both interest bearing and non-interest bearing revenue streams.

Operating Expenses

Total operating expense/ non-interest expenses for the year was recorded at Rs.530.49 Mn which is a year on year increase of 51.16% when compared to last year's figure of Rs.350.94 Mn. The increase in operating expenses is directly linked to our expansion activities. During the year we carried out building expansions, introduced new lines of business, expanded our branch network and recruited more staff to support our expansion agenda. All these activities contributed to the increase in total operating expenses.

With 45% of total expenses attributed to staff costs it is no doubt our largest overhead cost for the year. Staff costs stood at Rs.239.90 Mn and grew by 81.82%. The increase in staff costs can be ascribed to our company's ambitious recruitment drive which brought in 126 new personnel into the Vallibel finance family during the year. Further our efforts taken to improve on our employee benefits also added to our total staff costs.

During the year Premises, Equipment and Establishment Expenses escalated by 53.29% to Rs. 55.10 Mn reflecting our increased expenses due to branch expansion activities. Our advertising and business promotional expenses rose by 22.29% primarily due to an increase in brand building and promotional expenses incurred during the period.

Composition of Operating Expenses 2013



■ Personnel Expenses	38%
■ Premises Equipment and Establishment Expenses	10%
■ Depreciation of Fixed Assets	8%
■ Advertising & Business Promotional Expenses	12%
■ Other Expenses	32%

Composition of Operating Expenses 2014



■ Personnel Expenses	45%
■ Premises Equipment and Establishment Expenses	10%
■ Depreciation of Fixed Assets	8%
■ Advertising & Business Promotional Expenses	10%
■ Other Expenses	27%

Cost to Income Ratio

In the year under review the company saw its cost to income ratio rise marginally from 40% in 2012/2013 to 43%. This increase can be drawn to costs incurred in expanding our branch network to which we have added one new branch and 3 collection centers during the year. Our head office expansion programme which was concluded in the year also added to our expansion costs.

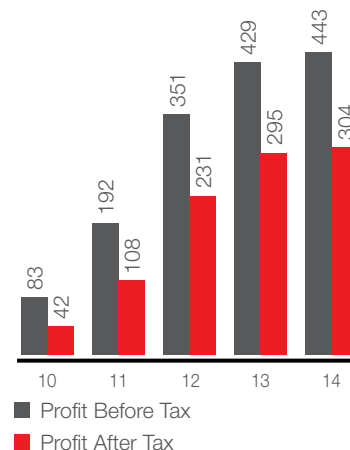
Loan Loss Provision & Credit Quality

The Company's Non-Performing Loans (NPLs) ratio remained at a manageable level, despite the increase in non-performing loans compared to the previous year mainly due to high lending rates and the aggressive credit expansion in recent years. The Company recorded its gross Non Performing Loans and Advances (NPA) ratio at 4.95% for the period under review as compared to our previous year recorded figure of 3.19%. After loan loss provisioning, net Performing Loans and Advances (NPA) ratio stood at 1.97% as at the end of the year. A deterioration of borrowers' creditworthiness resulted in an increase of non-performing loans which was a condition observed across the industry. Combining both prudent lending policies and aggressive recovery strategies, the Company's Credit Division and Recovery Division remained well focused on mitigating the NPA ratio.

Profitability

Profit Before Income Tax & VAT on Financial Services for the year grew marginally by a year on year increase of 4.51% and stood at Rs. 489.01Mn. Total Government taxes amounted to Rs. 185.10 Mn comprising of Rs. 139.09 Mn for corporate income tax and Rs. 46.01 Mn as VAT on financial services & NBT. Overall the Company's net profit for the year increased by 3.18% to Rs. 303.91 Mn. The low growth in profitability is attributed to the high impairment costs we have borne for the year 2014. The industry as a whole experienced an increase in tension levels with regard to loan recoveries and we hope to adopt more stringent procedures for better loan recoveries in the future.

Profitability (Rs. Mn)

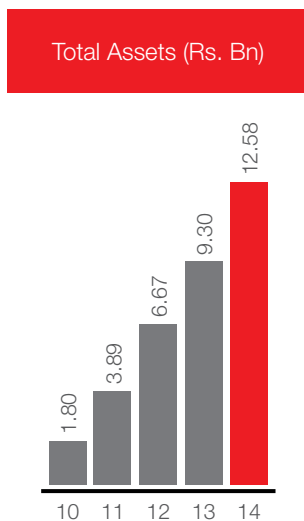


Financial Performance Review

Financial Position

Total Assets

In analyzing the total asset position, it is evident that the Company is in a strong position as witnessed by the year on year growth of 35.20% to Rs. 12.58 Bn from Rs. 9.30 Bn recorded in 2012/ 2013. This is primarily due to the noteworthy expansion in business volumes during the year. The Company has managed its asset mix efficiently in order to optimize asset growth and stability while simultaneously maintaining the quality of the portfolio.



Liquidity Position

The value of liquid assets at the end of the year stood at Rs. 1.47 Bn compared with the Rs. 982.72 Mn. Total Liquid assets consists of cash and bank balances, government securities, treasury bills and deposits with commercial banks. The Company's liquid assets to total assets ratio stood at 11.70% compared to 10.56% recorded for the prior year.

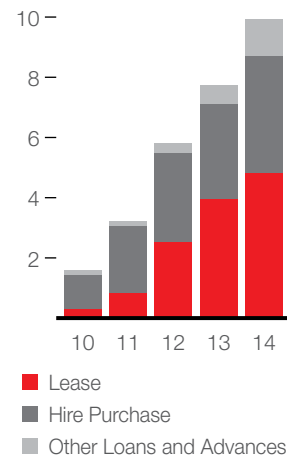
Lending Assets

The Company's lending portfolio soared by 27.67% to Rs. 9.94 Bn Compared to Rs. 7.78 Bn recorded in the previous year. The total finance lease portfolio at the end of the financial year stood at Rs. 4.86 Bn compared to Rs. 3.98 Bn, a rise of 22.30%. Hire Purchase receivable stood at Rs. 3.92 Bn compared to Rs. 3.18 Bn on the previous year, reflecting growth of 23.59%. Leasing and Hire Purchase represent 49% and 39% of the total lending portfolio respectively.

Other loans and advances comprised of loans against fixed deposit, personal loans, property mortgage loans, investment fund loans, pawning advances and other loan and advances. The other loans & advance portfolio has demonstrated significant growth and escalated

to Rs. 1.15 Bn, an 81.99% increase from Rs. 631.71 Mn recorded for the previous year. This surge was largely due to the increase in business brought in by our new products the mortgage loans and the personal loans, whilst expansion of our pawning advances also augmented the growth in this category. Our pawning business which began in March 2013 was valued at Rs. 62.59 Mn as at the end of the financial year.

Lending Portfolio Distribution for Last Five Years (Rs. Bn)



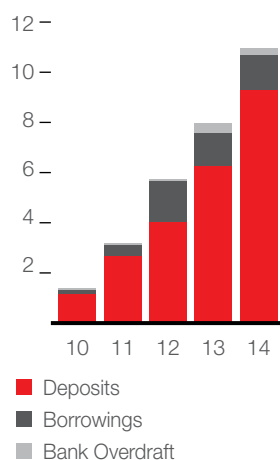
Total Liabilities

Total liabilities for the company comprises of the deposit base, bank overdraft facilities, term loan facilities from banks, securitized borrowings, debentures and other borrowings amounting to Rs. 11.40 Bn - a 36.21% year on year rise on the previous year's Rs. 8.37 Bn. Our largest source of funding - public deposits accounted for 82% of total liabilities.

The Company's exposure to bank borrowings reduced during the year, accounting for only 7% of total funding compared to 16% in the previous year. Bank borrowings include the bank overdraft, term loans, finance leases and securitized borrowings which amounted to Rs. 776.39 Mn as at the end of the financial year, a 40.79% decrease compared to last year's Rs. 1.31 Bn.

The Company raised Rs. 500 Mn through unsecured, subordinated and redeemable debentures which were listed on the Colombo Stock Exchange in February 2014. With the new debenture issue of Rs. 500 Mn total debentures with interest payable, stood at Rs 898.09 Mn as at the end of the financial year.

Deposit Base, Borrowings & Overdraft (Rs. Bn)



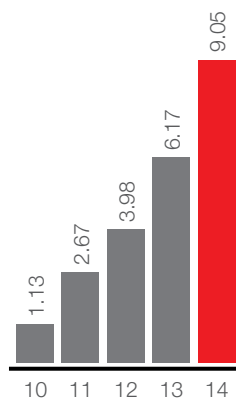
Deposit Base

Public Deposits reached an all-time high of Rs. 9.30 Bn as at 31st March 2014 - a 48.37% year on year rise on the previous year's figure of 6.27 Bn. This is indicative of the investor confidence the Company enjoys. Out of the total deposit base, fixed deposits accounts for 97% while CDs contributed a modest 3%.

Fixed Deposits

The Company's fixed deposits for the year amounted to Rs. 9.05 Bn against the Rs. 6.17 Bn recorded last year, indicating a year on year rise of 46.63%. Of the total fixed deposit base, 86% of fixed deposits have a maturity of less than one year while the remaining 14% represent maturities with cycles of more than one year. We continuously focus on obtaining medium and long term funding in order to minimize mismatches in interest bearing assets and liabilities.

Fixed Deposits (Rs. Bn)



Certificate of Deposits

Although a small segment of our total deposit base we have achieved extraordinary growth in our Certificate of Deposit (CD) portfolio. Our CDs were valued at Rs. 246.91 Mn for the year as against the previous year's Rs.94.30 Mn giving rise to an outstanding year on year growth of 161.84% as at 31st March 2014.

Shareholders' Fund

The Company's main source of capital continued to be retained earnings which stood at Rs. 548.13 Mn at the end of the financial year. Total shareholders' funds amounted to Rs. 1.18 Bn a 26.12% increase on the Rs. 936.18 Mn that stood at the end of the previous year. Return on Average Shareholders' Funds for 2014 declined slightly to 28.71% when compared to the previous year's 36.35%.

Key Indicators per Ordinary Share

	2014	2013	Change (%)
Number of Shares (Mn)	41.55	41.55	-
Earnings per Share (Rs.)	7.31	7.09	3.18%
Market Price per Share (Rs.)	29.70	28.30	4.95%
PE ratio (Times)	4.06	3.99	1.71%
Net Assets per Share (Rs.)	28.42	22.53	26.12%

Capital Adequacy

Vallibel Finance has comfortably superseded the minimum capital adequacy regulatory requirements for the year under review. Our Total Risk Weighted Capital Ratio stood at 15.16% while our Tier 1 capital ratio stood at 10.11% exceeding the minimum regulatory limits of 10% and 5% respectively. This comes across as a modest improvement as compared to last year's capital adequacy ratios for the same which stood at 14.45% and 10.39% respectively. Further the company's present core capital and total capital are valued at Rs.1.05 Bn and Rs.1.57 Bn respectively, and is a clear indication that the company is well within the required capital adequacy requirements of the Central Bank.

Corporate Social Responsibility Report

Great things are not done by impulse, but by a series of small things brought together.

Vincent van Gogh

At Vallibel Finance PLC we care for the community in which we operate. We are involved in social initiatives through our organizational and voluntary programmes. We strongly believe in doing well by doing good.

Our CSR program is integral to our culture and employees, an intrinsic part of Vallibel Finance's efforts in making a difference to society. Our CSR program touches many lives, including children and those in need of medical care, and we reach out to society both through monetary and non-monetary means. The key programs carried out by our company in 2013/2014 are highlighted below.

Refurbishment of a Ward at Lady Ridgeway Hospital in Colombo

The Lady Ridgeway hospital is the leading establishment for child care in Sri Lanka and is known to be one of the largest non paying children's hospitals in the world. As in the past, we continue to support the mission of this renowned hospital. In 2013, we refurbished the entire Ward number 3 by painting 70 beds whilst decorating with child friendly stickers. This programme enabled us to uplift the mood and provide comfort to the many children who come in for treatment for numerous ailments. By placing children at the heart of our CSR mandate we continue to invest behind the health and well being of our future generations and thereby serving our community. Adding a smile to children, who need our empathy the most, is immensely rewarding to us.



Vallibel Senior Managers with the officials of Lady Ridgeway Hospital

Blood Donation Campaign

Our CSR initiatives encompass helping those in need. In June 2013 we successfully launched the "DONATE BLOOD, SAVE LIVES" blood donation campaign with the patronage of the National Blood Transfusion Service, Colombo. The event which was held in our head office attracted more than 84 donors most of whom were from our very own Vallibel Finance family. Our staff has always been the cornerstone of our CSR mission and has earnestly given back to society at times of need.



Safe Drinking Water project

In 2013 we took our safe drinking water campaign three steps further. Three district Government hospitals, in Kandy, Gampaha and Matara were identified to provide much needed safe drinking water. Water filters were fitted in these hospitals to quench the thirst of the many patients and care givers who come in for treatment. Our initiative fulfilled a simple yet life giving need – quenching the thirst of those at their weakest moments.



Donation of equipment for safe drinking water for children treated at the wards of Sirimavo Bandaranaike Pediatric Hospital, Kandy.

Vesak Dansala

The spirit of giving is always associated with the Vesak festival! Giving back to society is engrained in our values and culture at Vallibel Finance. To commemorate Vesak, our staff organized a Vesak Dansala that served ice cream to all those partaking in the festivities. With a beautifully decorated Dansala in front of our Head Office, our staff spread the message of peace and togetherness. They touched the hearts and delighted many who visited the city to enjoy the Vesak Pandols, Lanterns and learn from the teachings of Lord Buddha.



Community Projects and Sponsorships

We also engaged in many other community projects and sponsored events intended to build a progressive society aligned to our culture.

In June 2013 we contributed towards building a monastery at the Sri Saddharma Nikeathanaramaya Temple, Malabe providing the people in the vicinity with an abode for meditation and other religious activities.

Recognizing the need for advancement of medicine and the medical profession, in July 2013, we sponsored the Annual Medical Education Programme for Doctors Organized by Hemas Southern Hospital, Galle. The session was on Common Surgical Problems in the Perianal Region. It was attended by a multitude of medical professionals who benefitted immensely from the sessions which in turn would benefit our society through their knowledge and skills.



Sponsoring the Annual Medical Education Programme for Doctors Organized by Hemas Southern Hospital, Galle

Understanding the importance of sport for the enhancement of society and the spirit it inculcates in the young, in August 2013 we sponsored the second Antonian Rugby Carnival which was organised by the Antonian Rugby Trust Fund of St. Anthony's College Kandy, which took place at CR & FC grounds, Colombo.

Further we sponsored two events – 'Kandy Vibes Musical program' held at Dharmaraja College Auditorium, Kandy in June 2013 and 'Kandy Bash 2013' the Annual Gathering of Past Pupils of Kandy Schools (KSPPA) held at CR & FC Grounds, Colombo in September 2013. Both these events were organized by the Kandy Schools Past Pupils Association (KSPPA) to raise funds for their immediate project which was to set up a hostel in Colombo to accommodate Kandy school teams visiting Colombo for inter-school matches, or academic activity.



Sponsoring the KANDY VIBES - Musical program held at Dharmaraja College Auditorium, Kandy

Looking Forward

Our CSR journey will continue to gather momentum in the years to come and we will reach wider and deeper into society and spread our wings to encompass many other aspects including the environment, livelihoods and sustainability initiatives. As our organization grows in size of business, our spirit of giving back to society will grow with it.





Supporting the grassroots that
have been

BUILT ON TRUST

Corporate Governance

Corporate Governance is popularly understood as the system by which companies are directed and controlled. The Board of Directors is responsible for the governance of the Company and has placed considerable emphasis on developing rules, structures and processes to ensure integrity and transparency in all the Company's dealings and making the best effort in achieving performance and quality profits. We have continuously refined our structure and systems to ensure governance on the lines as defined, aware at all time that we are accountable to our stakeholders and the general public.

This statement describes the application of the Corporate Governance practices within the Company during the year under review.

Board of Directors

The Board is the highest body of Vallibel Finance PLC that carries the responsibilities of directing the Company. The responsibilities of the Board includes making an accurate assessment of the Company's position, taking strategic decisions, holding regular meetings of the Board and Board Sub Committees, ensuring good governance and overseeing the risk management of the Company.

Composition and Independence

The Board comprises of nine (09) members, eight (08) of whom including the Chairman are Non Executive Directors with a balance of skills and experience which is appropriate for the business carried out by the Company.

The names of the Directors who served during the year under review are disclosed in the Annual Report of the Board of Directors on the Affairs of the Company on page 90.

In terms of paragraph 7(3) of the Finance Companies Direction No. 3 of 2008, it is declared that Messrs Dhammika Perera and K. D. H. Perera are siblings.

Based on declarations submitted by the Non-Executive Directors, the Board has determined that four (04) Non Executive Directors, namely Mr. M. D. S. Goonatilleke, Mr. S. Senaratne, Mr. R. M. Karunaratne and Mr. K. V. P. R. De Silva are 'Independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.

Though Messrs. M. D. S. Goonatilleke and S. Senaratne do not qualify under paragraph 4 (4)(f)(ii) in the Finance Companies (Corporate Governance) Direction 3 of 2008 upon consideration of all resultant circumstances the Board has determined that those two Directors too, discharge their responsibilities as Independent Directors and in the Board's opinion the directorships held by those two Directors in other Boards with certain other Directors of the Company do not compromise their independence and objectivity in discharging functions as Independent Directors.

Chairman and Managing Director

The functions of the Chairman and the Managing Director are separate with a clear distinction drawn between responsibilities, which ensure balance of power and authority.

Mr. Dhammika Perera is the Chairman of the Board of Directors and Mr. S.B. Rangamuwa serves as the Managing Director/CEO.

Tenure, Retirement and Re-election of Directors

At each Annual General Meeting one of the Directors for the time being, shall retire from office and seek re-election by the shareholders.

The provisions of the Company's Articles of the Association also require Directors appointed by the Board to hold office until the next Annual General Meeting and seek appointment by the shareholders at that meeting.

Board Meetings

The results of the Company are regularly considered and monitored against the budgets at Board Meetings at which a standard agenda is discussed together with any other matter that require the attention of the Board. The Board meets once a month, and wherever necessary Special Meetings of the Board are held.

During the year ended 31st March 2014, twelve (12) meetings of the Board were held. The attendance at the meetings was:

Name of Director	Executive/Non-Executive/ Independent Non- Executive	Attendance
Mr. Dhammika Perera	Non-Executive	10/12
Mr. S.B. Rangamuwa	Executive	12/12
Mr. J.A.S.S. Adhietty	Non-Executive	12/12
Mr. W.D.N.H. Perera	Non-Executive	11/12
Mr. M.D.S. Goonatilleke	Independent Non-Executive	11/12
Mr. S. Senaratne	Independent Non-Executive	10/12
Mr. K.D.H. Perera	Non-Executive	11/12
Mr. R.M. Karunaratne	Independent Non-Executive	11/12

Board Sub-Committees

An Audit Committee and Remuneration Committee function as Sub-Committees of the Board. The names of the Directors who serve on the said Committees are given on page 92.

The Report of the Audit Committee is given on page 95.

Integrated Risk Management Committee

In compliance with the Finance Companies (Corporate Governance) Direction No.3 of 2008 an Integrated Risk Management Committee functioned under the Chairmanship of Mr. R. M. Karunaratne, (during the period under review) and consisted of senior management personnel supervising broad risk categories.

Compliance Officer

Ms. D. D. Wijayathilaka functions as the Compliance Officer to ensure compliance with the Regulatory and Statutory requirements and the laws and regulations governing Finance Companies, Public Listed Companies and business activities undertaken by the Company in general.

The Management

The day-to-day operations of the Company are entrusted to the Corporate and Senior Management headed by the Managing Director/ CEO. They ensure that risks and opportunities are identified and required steps are taken to achieve targets within defined time frames and budgets.

Financial Disclosures and Transparency

Financial Statements are prepared in accordance with the new Sri Lanka Accounting Standards, the Companies Act, the Finance Business Act and the directions and rules issued thereunder. As a listed Company, Vallibel Finance PLC publishes unaudited quarterly/ half yearly Financial Statements and audited Financial Statements in compliance with the Listing Rules of the Colombo Stock Exchange and Finance Companies (Publication of half yearly Financial Statements) Guideline No.2 of 2006.

Messrs KPMG, Chartered Accountants, acts as Independent Auditors of the Company. The Auditors are allowed to act independently and without intervention from the Management or the Board of Directors to express an opinion on the financial statements of the Company. All the required information is provided for examination to the Auditors.

Ethical Standards

The Company requires that all its employees maintain the highest standards of integrity in the performance of their duties and dealings on behalf of the Company.

The Company focuses on the training and career development of employees for the creation of an empowered and committed group of employees.

Statutory Payments

All statutory payments due to the Government, which have fallen due, have been made or where relevant provided for. Retirement gratuities have been provided for in accordance with Sri Lanka Accounting Standards No.19, Employee Benefits.

Compliance with Central Bank Regulations

Both as a Licensed Finance Company and a Registered Finance Leasing establishment, the Company is governed by the Non-Bank Financial Institutions Directions & Rules issued by the Monetary Board of the Central Bank of Sri Lanka.

Accordingly the Company has to carryout and maintain business activities in compliance with the Directions issued by the Central Bank of Sri Lanka from time to time.

Accountability and Disclosure

The members of the Board of Directors have reviewed in detail the Financial Statements in order to satisfy themselves that they present a true and fair view of the Company's affairs.

By Order of the Board
VALLIBEL FINANCE PLC



Ms. Anusha Wijesekara
P W Corporate Secretarial (Pvt) Ltd
Secretaries

23rd May 2014

Corporate Governance

Section one

The Finance Companies (Corporate Governance) Direction No. 3 of 2008 and subsequent amendments thereto on Corporate Governance for Licensed Finance Companies in Sri Lanka issued by Monetary Board of the Central Bank of Sri Lanka:

The disclosures below reflect the Company's compliance and the extent of its compliance with the above Direction which comprises of nine subsections, namely:

1. The Responsibilities of the Board of Directors
2. Meetings of the Board
3. Composition of the Board
4. Fitness and Propriety of Directors
5. Delegations of Functions
6. The Chairman and Chief Executive Officer
7. Board Appointed Committees
8. Related Party Transactions
9. Disclosures

Directions		Extent of Compliance
2. The Responsibilities of the Board of Directors		
2. (1)	The Board of Directors shall strengthen the safety and soundness of the finance company by-	
	a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	<p>Complied with.</p> <p>Strategic objectives and values are incorporated in the Board approved strategic plan for the period 2013 – 2016. These have been communicated to the staff.</p> <p>The Board of Directors approves and oversees the implementation of strategies mainly through the monthly Board meetings and the Boards views relating to such strategies are communicated to the staff through ALCO meetings and other management meetings.</p>
	b) approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the immediate next three years;	<p>Complied with.</p> <p>The Strategic Plan 2013 – 2016 addresses the Company's overall business strategy. The Board approved risk policy and risk management framework is also in place.</p> <p>The Board sub committees namely, the Audit Committee and the Integrated Risk Management Committee oversee the risk management aspect of the Company within the Board approved Terms of Reference.</p>
	c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	<p>Complied with.</p> <p>Identifying major risks, establishing governance structures and systems to measure, monitor and manage those key risks are carried out mainly through the Board Integrated Risk Management Committee.</p> <p>Risk Reports are submitted to the Committee by the Corporate management on a quarterly basis. The decisions and actions taken are submitted for the Board's information where necessary.</p> <p>Please refer to Risk Management report on page 74 and Integrated Risk Management Committee report on page 93 for further details.</p>

Directions	Extent of Compliance
d) approving a policy of communication with all stakeholders, including depositors, creditors, share- holders and borrowers;	Complied with. Board approved Communication Policy covering all stakeholders is in place.
e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	Complied with. Adequacy and integrity of the Company's internal control systems and management information systems are reviewed by the Board Audit Committee. The Committee is assisted in this function by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of internal control systems and management information systems, the results of which are reported to the Audit Committee. The Committee reviews the scope and results of internal audit reports and system reviews and the decisions and actions taken are submitted for Board's information and/or action (if deemed necessary).
f) identifying and designating key management personnel, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with. The Board has identified and designated the Key Management Personnel, as defined in the Sri Lanka Accounting Standard (LKAS) 24 "Related Party Disclosures", who significantly influence policy, direct activities and exercise control over business activities, operations and risk management.
g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;	Complied with. The key responsibilities of key management personnel are defined in their job responsibilities, whilst the Directors derive their responsibilities from the regulations and directions, mainly, the Directions issued under the Finance Business Act No. 42 of 2011.
h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;	Complied with. The Board of Directors formulates policies and exercises oversight of the affairs of the Company through the MD / CEO. Affairs of the Company by key management personnel are discussed at the monthly Board meetings and reviewed by the Board. Further, board sub committees and other committees separately review and monitor the designated areas of business operations and report to the Board as it deems necessary.
i) periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied with. Evaluation of the Board's own governance practices are assessed by the Directors individually and collectively discussed/reviewed by the Board annually.
j) ensuring that the finance company has an appropriate succession plan for key management personnel;	Complied with. A succession plan is in place for the Corporate Management team and Board of Directors who are currently defined as "Key Management Personnel".

Corporate Governance

Directions	Extent of Compliance
<p>K) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;</p>	<p>Complied with. The members of the senior management regularly make presentation and take part in discussions on their areas of responsibility at Board meetings, Board subcommittee meetings and other management committee meetings. The Directors have free and open contact with the Corporate and Senior Management of the Company.</p>
<p>i) understanding the regulatory environment;</p>	<p>Complied with. The Board is updated of the changes in the regulatory environment and new directions, circulars etc. issued are made available to the Directors.</p>
<p>m) exercising due diligence in the hiring and oversight of external auditors.</p>	<p>Complied with. The Audit Committee carries out the due diligence in hiring of the External Auditors and makes recommendations to the Board. The Committee reviews the work carried out by External Auditors including the audited accounts, management letter and any other documents referred to the Audit Committee. External auditors attend Audit Committee meetings by invitation.</p>
<p>2 (2) The Board shall appoint the chairman and the chief executive officer and define and approve the functions and responsibilities of the chairman and the chief executive officer.</p>	<p>Complied with. The Chairman and the Chief Executive Officer have been appointed by the Board. The Chairman provides leadership to the Board and the Chief Executive Officer/ Managing Director is responsible for effective management of the Company's operations.</p>
<p>2 (3) There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.</p>	<p>Complied with. The Directors are permitted to seek independent professional advice on any matters when deemed necessary at the Company's expense.</p>
<p>2 (4) A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.</p>	<p>Complied with. Directors abstain from voting on any resolution in which the Directors have related party interests and he is not counted in the quorum for the relevant agenda item at the Board Meeting.</p>
<p>2 (5) The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.</p>	<p>Complied with. The Board has a formal schedule of matters specifically reserved for the Board for decision to ensure that the direction and control is firmly under its authority.</p>
<p>2 (6) The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.</p>	<p>No such situations have arisen.</p>
<p>2 (7) The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.</p>	<p>Complied with. This report serves the said requirement.</p>

Directions		Extent of Compliance
2 (8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied with. The Company has adopted a scheme of self assessment to be undertaken by each Director annually and filed with the Company Secretary.
3. Meetings of the Board		
3 (1)	The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied with. Board meetings are held at monthly intervals, mainly to review the performance of the Company and other relevant matters referred to the Board. Twelve Board meetings were held during the year 2013/2014. Circulation of resolutions/papers to obtain Board's consent is minimized and resorted only when absolutely necessary.
3 (2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied with. Annual calendar of Board meetings is issued at the beginning of the each calendar year enabling them to include matters and proposals in this regard. Agenda, draft minutes and Board papers are sent in advance, enabling Directors to submit their views, proposals and observations at the respective Board Meeting.
3 (3)	A notice of at least 7 days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	Complied with. Notice of Meeting is circulated to the Directors 7 days prior to the meeting for regular Board meetings which are held at monthly intervals. Reasonable notice is given before any special meeting.
3 (4)	A director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Such situation has not arisen during the year 2013/2014.
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with. Secretary to the Board is PW Corporate Secretarial (Pvt) Ltd, a Company registered with the Registrar General of Companies as a qualified secretary under Registration No SEC/(2)2008/216. Secretary's primary responsibilities involve handling of secretarial services to the Board and shareholders meetings and carryout other functions specified in other laws and regulations.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied with. The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting.

Corporate Governance

Directions		Extent of Compliance
3 (7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied with. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures and all applicable rules and regulations are followed.
3 (8)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied with. Minutes of Board Meetings are maintained by the Company Secretary. The minutes are approved at the subsequent Board meeting. Minutes are open for inspection by any Director.
3 (9)	<p>Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties.</p> <p>The minutes of a Board meeting shall clearly contain or refer to the following:</p> <ol style="list-style-type: none"> a) a summary of data and information used by the Board in its deliberations; b) the matters considered by the Board; c) fact-finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; f) decisions and Board resolutions. 	Complied with. Detailed minutes are maintained by the Company Secretary covering these given criteria.
4. Composition of the Board		
4 (1)	The number of directors on the Board shall not be less than 5 and not more than 13.	Complied with. The Board comprised of eight Directors as 31st March 2014. (Seven Directors as at 31st March 2013).
4 (2)	The total period of service of a director other than a director who holds the position of chief executive officer or executive directors shall not exceed nine years, and such period in office of a non executive Director shall be inclusive of the total period of service served by such Director up to January 1, 2009.	Complied with. The total period of service of all Non Executive Directors is less than 9 years as at date.
4 (3)	An employee may be appointed, elected or nominated as a director (as an "executive director") provided that the number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.	Complied with. Mr. S.B.Rangamuwa is the only Executive Director on the Board. Accordingly, the number of Executive Directors does not exceed one-half of Directors of the Board.

Directions	Extent of Compliance
<p>4 (4) From January 1, 2012, the number of independent non-executive directors of the Board shall be at least one fourth of the total numbers of directors.</p> <p>A non-executive director shall not be considered independent if such director:</p> <ol style="list-style-type: none"> a) has shares exceeding 2% of the paid up capital of the finance company or 10% of the paid up capital of another finance company b) has or had during the period of two years immediately preceding his appointment as director, any business transactions with the finance company as described in Direction hereof, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds of the finance company as shown in its last audited balance sheet; c) has been employed by the finance company during the two year period immediately preceding the appointment as director; d) has a relative, who is a director or chief executive officer or a key management personnel or holds shares exceeding 10% of the paid up capital of the finance company or exceeding 12.5% of the paid up capital of another finance company. e) represents a shareholder, debtor, or such other similar stakeholder of the finance company; f) is an employee or a director or has a share holding of 10% or more of the paid up capital in a company or business organization: <ol style="list-style-type: none"> i. which has a transaction with the finance company as defined in section 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds as shown in its last audited balance sheet of the finance company; or ii. in which any of the other directors of the finance company is employed or is a director or holds shares exceeding 10% of the capital funds as shown in its last audited balance sheet of the finance company; or iii. in which any of the other directors of the finance company has a transaction as defined in section 9, aggregate value outstanding of which at any particular time exceeds 10% of the capital funds, as shown in its last audited balance sheet of the finance company. 	<p>Complied with.</p> <p>The Board comprised of three Independent Non-Executive Directors as at the end of the year under review. Accordingly, the number of independent Non-Executive Directors exceeds one-fourth of the total number of Directors on the Board.</p>
<p>4 (5) In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.</p>	<p>Not applicable as no alternate directors have been appointed.</p>

Corporate Governance

Directions		Extent of Compliance
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied with. The Non-Executive Directors of the Board are eminent personnel and they possess extensive experience in the different business sectors, including leaderships in quoted companies. Director's Profiles appearing on pages 16 to 17 spells out the necessary information.
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied with. Number of Directors required to constitute the quorum is three. Other than the Managing Director all the Board members of the Company are Non-Executive Directors.
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied with. Please refer page 44 under "Composition and Independence" in the Corporate Governance Report.
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied with. All new appointments to the Board are subject to regulatory provisions.
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied with. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	There were no resignations or removals of Directors during the year 2013/2014.
5. Criteria to Assess the Fitness and Propriety of Directors		
5 (1)	The age of a person who serves as Director shall not exceed 70 years.	Complied with. All Directors are below the age of 70 years as at 31st March 2014.
5 (2)	A director of a finance company shall not hold office as a director or any other equivalent position in more than 20 companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company.	Complied with. No Director holds directorships of more than 20 companies/societies/bodies/institutions.

Directions		Extent of Compliance
6. Delegation of Functions		
6 (1)	The Board shall not delegate any matters to a board committee, chief executive officer, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	<p>Complied with.</p> <p>The Board is empowered by the Articles of Association to delegate any of their powers other than those exercisable exclusively by the Directors. The Board has delegated matters pertaining to the affairs of the Company to the Board Sub-committees within the scope of the respective Terms of Reference as approved by the Board and also to the CEO and other key management personnel. All delegations are made in a manner that would not hinder the Board's ability to discharge its functions.</p>
6 (2)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	<p>Complied with.</p> <p>The delegation process to the Board Sub-committees and to the CEO and key management personnel is reviewed by the Board based on business requirements.</p>
7. The Chairman and the Chief Executive Officer		
7 (1)	The roles of chairman and chief executive officer shall be separated and shall not be performed by the one and the same person.	<p>Complied with.</p> <p>The positions of the Chairman and the Chief Executive Officer are separate and performed by two different individuals.</p>
7 (2)	<p>The chairman shall be a non-executive director.</p> <p>In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element.</p> <p>The designation of the Senior Director shall be disclosed in the finance company's Annual Report.</p>	<p>Complied with.</p> <p>The Chairman is a Non-Executive Director and since he is not independent, an Independent Non-Executive Director has been appointed as "Senior Director".</p> <p>An Independent Non Executive Director, Mr. M. D. S. Goonatilleke functions as the Senior Director.</p> <p>Please refer page 90 under "Directors" in the Annual Report of the Board of Directors on the Affairs of the Company.</p>
7 (3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the chairman and the chief executive officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the chairman and the chief executive officer and the relationships among members of the Board.	<p>Complied with.</p> <p>The Board is aware that there are no relationships whatsoever, including financial, business, family, any other material/relevant relationship between the Chairman and the CEO.</p> <p>Directors Messrs Dhammika Perera and K.D.H. Perera are of the same family.</p> <p>No relationships prevail among the other members of the Board, other than for Directors who are common Directors of certain Companies.</p>

Corporate Governance

Directions		Extent of Compliance
7 (4)	The chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied with. The Chairman provides leadership to the Board and ensures that the Board effectively discharge its responsibilities and that all key issues are discussed and resolved in a timely manner.
7 (5)	The chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The chairman may delegate the function of preparing the agenda to the company secretary.	Complied with. The Secretary to the Board draws up the agenda under the authority delegated by the Chairman. This agenda is approved by the Chairman of the Board. The Company Secretary circulates formal agenda prior to the Board Meeting.
7 (6)	The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied with. Board papers covering adequate information of matters to be taken up for discussions are circulated in advance prior to the meeting.
7 (7)	The chairman shall encourage each director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied with. All Directors are encouraged to actively participate in the Board's affairs.
7 (8)	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied with There is a constructive relationship among all Directors and they work together in the best interest of the Company.
7 (9)	The chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with The Chairman is a Non-Executive Director and does not engage in direct supervision of the key management personnel or any other executive duties.
7 (10)	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with. Effective communication with shareholders is maintained at the Annual General Meeting providing opportunity for them to express their views and recommendations.
7 (11)	The chief executive officer shall function as the apex executive-in-charge of the day-to-day-management of the finance company's operations and business.	Complied with. The Chief Executive Officer/Managing Director functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.

Directions	Extent of Compliance
8. Board Appointed Committees	
<p>8 (1) Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof.</p> <p>Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee.</p> <p>The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.</p>	<p>Complied with.</p> <p>The following Board Sub - Committees have been appointed by the Board;</p> <ol style="list-style-type: none"> 1. Remuneration Committee 2. Audit Committee 3. Integrated Risk Management Committee <p>Each committee reports directly to the board. The Company Secretary functions as the Secretary to these Committees.</p> <p>The Reports of the Audit Committee and Integrated Risk Management committee are given on pages 95 and 93 of this Annual Report.</p>
8 (2)	Audit Committee
<p>a) The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p>	<p>Complied with.</p> <p>The Chairman of the Audit Committee is an Independent Non-Executive Director and possesses qualifications and related experience.</p> <p>Qualifications and experience are disclosed in page 16 of the Annual Report.</p>
<p>b) The Board members appointed to the committee shall be non-executive directors.</p>	<p>Complied with.</p> <p>All the members of the Audit Committee are Non-Executive Directors.</p>
<p>c) The committee shall make recommendations on matters in connection with:</p> <ol style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	<p>Complied with.</p> <p>In accordance with the Terms of Reference, the Committee has made the following recommendations:</p> <ol style="list-style-type: none"> 1. The appointment of Messrs KPMG, Chartered Accountants as the External Auditor for audit services to be provided in compliance with the relevant statutes. 2. The implementation of CBSL Guidelines applicable to the Auditors. 3. Application of relevant Accounting Standards 4. The service period, audit fee and any resignation or dismissal of the auditor <p>Complied with the requirement that the engagement of the audit partner does not exceed five years. The current Audit Partner has been engaged since the year 2010/2011.</p>
<p>d) The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>Complied with.</p> <p>The Committee obtains representations from the External Auditors on their independence and that the audit is carried out in accordance with the Sri Lanka Accounting and Auditing Standards (LKAS/SLFRS).</p> <p>The Audit Committee reviews the nature and scope of the external audit taking into account the regulations & guidelines.</p>

Corporate Governance

Directions	Extent of Compliance
<p>e) The committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity.</p> <p>When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:</p> <ul style="list-style-type: none"> (i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor. 	<p>Complied with.</p> <p>In the instances where non-audit services are obtained from the External Auditor, prior approval is obtained from the Audit Committee. The Audit Committee evaluates the Company's requirement, nature of the non-audit service required by the Company, fee structure, skills and the experience required to perform the said service of such Auditors. If the Audit Committee is of the view that the independence is likely to be impaired with the assignment of any non-audit service to External Auditors, no assignment will be made to obtain such services.</p>
<p>f) The committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) an assessment of the finance company's compliance with Directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one auditor is involved. 	<p>Complied with.</p> <p>The Committee has discussed and finalized the nature and the scope of audit, with the External Auditors before the audit commences.</p>

Directions	Extent of Compliance
<p>g) The committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	<p>Complied with.</p> <p>Meetings of the Audit Committee are convened for this purpose. The Annual and Quarterly Financial Statements are reviewed by the Audit Committee in order to ascertain the quality and integrity of the financial information prepared by the Finance Department and their reviews/comments and recommendations are submitted to the Board for the final review and approval.</p>
<p>h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p>Complied with.</p> <p>During the year under review the Committee has met the External Auditors on two occasions in the absence of Executive Directors and Corporate Management to discuss issues, problems and reservations relating to audit.</p>
<p>i) The committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied with.</p> <p>The Committee has reviewed the External Auditor's Management Letter and the management response thereto. Follow up actions were taken accordingly.</p>
<p>j) The committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the committee is apprised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; 	<p>Complied with.</p> <p>The Company's Internal Audit function has been outsourced and carried out by Ernst & Young Advisory Service (Pvt) Limited.</p> <p>The Internal Audit plan is reviewed and approved by the Audit Committee at the beginning of each calendar year.</p> <p>Audit reports are tabled at the Audit Committee meeting by the Internal Auditors and the relevant items are discussed in detail with suitable actions agreed upon. Where required, the Corporate Management is invited to attend the meeting to provide clarifications.</p> <p>Performance of Ernst & Young as Internal Auditors is reviewed by the Audit Committee.</p> <p>The Internal Audit function is an independent function which directly reports to the Board Audit Committee and the audits are performed with impartiality and due professional care.</p>

Corporate Governance

Directions	Extent of Compliance
k) The committee shall consider the major findings of internal investigations and management's response thereto;	Complied with. Significant findings of investigations carried out by the Internal Auditors along with the responses of the Management are tabled and discussed at Audit Committee meetings.
l) The chief finance officer, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the chief executive officer may also attend meetings upon the invitation of the committee. However, at least once in six months, the committee shall meet with the external auditors without the executive directors being present.	Complied with. The Chief Executive Officer, Chief Financial Officer and representatives of the Internal Auditors generally attend meetings. Where it is deemed necessary, other members of the Corporate Management are invited to attend the meeting. The Committee met two times with the External Auditors without the Executive Director being present.
m) The committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with. The Terms of Reference of the Board Audit Committee include scope and responsibilities of the Committee. The Audit Committee is authorized to obtain external professional advice and to invite outsiders with relevant experience to attend if necessary. The Committee also has full access to information in order to investigate into matters relating to any matter within its Terms of Reference.
n) The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with. The Audit Committee meets regularly and members of the Committee are provided with due notice of issues to be discussed. Minutes of the meetings maintained by the Company Secretary. Please refer section "Meetings" of the Audit Committee Report on page 95.
o) The Board shall, in the Annual Report, disclose in an informative way, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings.	Complied with. Please refer Audit Committee Report on page 95.
P) The secretary to the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied with. The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee.
q) The committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied with. A Whistle Blower Policy is in place which covers these aspects and significant findings are reported to the Audit Committee for appropriate follow-up action. The Audit Committee is the key representative body for overseeing the Company's relations with the External Auditor and meets the Auditor on a regular basis to discharge this function.

Directions	Extent of Compliance
8 (3) Integrated Risk Management Committee	
The following shall apply in relation to the Integrated Risk Management Committee (IRMC):	
a) The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks, The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied with. Committee consists of two Independent Non-Executive Directors, Chief Executive Officer, Deputy General Manager, Head of Finance and Senior Manager - Asset Management who supervise broad risk categories as detailed in this Direction. Any other key management personnel and other staff are invited as and when the Committee needs their presence.
b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.	Complied with. Key risks are assessed on a regularly basis through appropriate risk indicators and management information and reported to the respective Management Committees and summary reports are submitted to the Board Integrated Risk Management Committee at quarterly intervals for necessary guidance. Please refer Risk Management Report on page 74 for further details.
c) The committee shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied with. The Committee assesses the adequacy of the Credit Committee and Asset & Liability Committee which cover credit risk management and the management of all other types of risk. These committees address the specific risks and manage these risks within qualitative and quantitative risk limits. The Management level committees report to the Board Integrated Risk Management Committee which reviews their activities through the minutes of their meetings.
d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the finance company's policies and regulatory and supervisory requirements.	Complied with. All risk indicators which exceeds the specified quantitative and qualitative risk limits are reviewed and discussed for action. The progress of rectification of the position and implementation of the recommendations are also being monitored closely by the Committee.
e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with The Board Integrated Risk Management Committee meetings are held at quarterly intervals.
f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied with The Internal Audit identifies lapses of this nature and makes recommendations to the Board Audit Committee to initiate actions against officers where material failures to meet risk management responsibilities are observed.
g) The committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with The minutes of the meetings are submitted to the next immediate Board meeting together with the recommendations and risk management reports.

Corporate Governance

Directions	Extent of Compliance
<p>h) The committee shall establish a compliance function to assess the finance company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.</p>	<p>Complied with</p> <p>The Committee has established a separate compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations.</p> <p>The Company has appointed a Compliance Officer and the Compliance Officer submits a Compliance Report to the Board at its meetings held monthly and quarterly to the Integrated Risk Management Committee.</p>
9. Related Party Transactions	
<p>9 (2) The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A director of the finance company; d) A key management personnel of the finance company; e) A relative of a director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding 10% of the paid up capital of the finance company; g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding 10% of the paid up capital of the finance company, has substantial interest. 	<p>Complied with.</p> <p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties.</p> <p>Transactions carried out with related parties in the normal course of business are disclosed in Note 40 on "Related Party Disclosures" in the Financial Statements.</p>
<p>9 (3) The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	<p>Complied with.</p> <p>Information in this regard, is disclosed in Note 40 on "Related Party Disclosures" in the Financial Statements.</p>

Directions	Extent of Compliance
<p>9 (4) The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph, “more favourable treatment” shall mean: Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company’s share capital and debt instruments with a remaining maturity of 5 years or more.</p> <p>b) Charging of a lower rate of interest than the finance company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty;</p> <p>c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for the performance of legitimate duties and functions.</p>	<p>Complied with.</p> <p>The Board takes necessary steps to avoid any conflicts of interest that may arise from any transaction of the Company with its related parties in the manner mentioned herein.</p> <p>However, monitoring mechanism to identify favourable treatment will be strengthened.</p>
10. Disclosures	
<p>10 (1) The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	<p>Complied with.</p> <p>The Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards (LKAS/SLFRS) and the formats prescribed by the Supervisory Regulatory Authorities and that such statements published in the newspapers in all three languages.</p> <p>Interim (unaudited) Financial Statements as well as Audited Financial Statements are submitted to the Colombo Stock Exchange (CSE) and the financials are made available on the websites of CSE.</p>
<p>10 (2) 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>Complied with.</p> <p>Relevant disclosures are included in page 98 of the annual report under “Statement of Directors Responsibilities”.</p>

Corporate Governance

Directions	Extent of Compliance
b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.	Complied with. "Directors' Statement on Internal Control Over Financial Reporting" is given on page 94.
c) The external auditor's certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published after March 31, 2010.	Complied with. The Company has obtained a certification from the External Auditors on the effectiveness of the internal control mechanism over financial reporting.
d) Details of directors, including names, transactions with the finance company.	Complied with. Please refer pages 14 to 17 for details of Directors, pages 138 and 139 on "Related Party Disclosures" for transactions with the Company.
e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	Complied with. The fees and remuneration paid has been disclosed under short term employment benefits in note 40.2.1 to the Financial Statements.
f) Total net accommodation as defined in paragraph 9(4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied with. Disclosed under the 'Related Party Disclosures' in note 40 to the Financial Statements. No accommodation has been granted to related parties during the period under review.
g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied with. Relevant disclosures are included in the Annual Report page 138 under "Related Party Disclosures".
h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied with. This has been disclosed under the "Corporate Governance Report" and "Annual Report of the Board of Directors on the Affairs of the Company".
i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Not applicable There were no significant supervisory concerns on lapses in the Company's risk management system or non-compliance with these Directions that have been pointed out by the Director of the Non-Bank Supervision Department of the CBSL and requiring disclosure to the public.
j) The external auditor's certification of the compliance with the Corporate Governance Direction in the annual corporate governance reports published after January 1, 2011.	Complied with. The Company has obtained a certificate from External Auditors over the compliance of Corporate Governance Directions and the Company is in the process of strengthening the procedures based on the recommendations made by them.

Section Two

Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka);

The disclosures below reflect the Company's compliance and the extent of the above Code of Best Practice which comprises of seven subsections, namely:

1. Directors
2. Directors' Remuneration
3. Relations with Shareholders
4. Accountability and Audit
5. Institutional Investors
6. Other Investors
7. Sustainable Reporting

The Company's compliance with this Code is on a voluntary basis.

Code Ref.	Principle	Extent of Compliance
A. Directors		
A.1 The Board		
A.1	Effective Board, which should direct, lead and control the Company.	<p>Complied with.</p> <p>As at the end of the year under the review, the Board comprised of one Executive and seven Non-Executive Directors who are eminent professionals with extensive experience in the different business sectors, including leaderships in quoted companies.</p> <p>The only Executive Director is the Managing Director to whom the day-to-day management of the Company's operations and business has been delegated. The Board has appointed Sub Committees to assist in discharging its responsibilities and also approve policies, governance structures and the delegation of authority to provide a conducive business environment for effective performance of the Company.</p>
A.1.1	Board meetings	<p>Complied with.</p> <p>Regular Board meetings are held at monthly intervals and the Board met 12 times during the year under review. See 'Number of Meetings Held and Attendance' on page 44.</p>
A.1.2	<p>Board responsibilities</p> <p>Formulation and implementation of a sound business strategy;</p>	<p>Complied with.</p> <p>The Board provides strategic direction to the development of short, medium and long term strategies and monitors the performance against agreed goals and Key Performance Indicators through regular Board meetings.</p> <p>Please refer response to requirement 2 (1) a) and b) of Section One, The Finance Companies (Corporate Governance) Direction No. 3 of 2008 on page 46 for details.</p>

Corporate Governance

Code Ref.	Principle	Extent of Compliance
	<p>Chief Executive Officer (CEO) and management team possess the skills, experience and knowledge to implement the strategy;</p> <p>The adoption of an effective CEO and Key Management Personnel succession strategy;</p> <p>An effective system to secure integrity of information, internal controls, business continuity and risk management;</p> <p>Compliance with laws, regulations and ethical standards;</p> <p>All stakeholder interests are considered in corporate decisions;</p> <p>Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations; and</p> <p>Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned.</p>	<p>The Board has put in place a Corporate Management team led by the MD / CEO who possess required skills, experience and knowledge necessary to implement the strategy.</p> <p>Refer 2 (1) j) on page 47 of Section One.</p> <p>The Board reviews effectiveness of internal control and risk management system on a continuous basis through the Audit Committee and Integrated Risk Management Committee.</p> <p>Please refer "Director's Statement on Internal Control Over Financial Reporting", "Audit Committee Report" and "Integrated Risk Management Committee Report" on pages 93 to 95 for details.</p> <p>Compliance function is in place to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business.</p> <p>The views/impact on all stakeholders is considered when corporate decisions are made at Board meetings.</p> <p>Refer 8 (2) g) and 10 (1) on page 57 and 61 of Section One.</p> <p>The Board is committed to fulfilling such other functions that are required according to the business environment.</p>
A.1.3	Compliance with laws and seeking independent professional advice	<p>Complied with.</p> <p>The Board collectively, and Directors individually are conscious of their responsibility to comply with laws applicable to the Company.</p> <p>The Directors are permitted to seek independent professional advice at the Company's expense as and when such advice is required.</p>
A.1.4	Access to the advice and services of the Company Secretary	<p>Complied with.</p> <p>Please refer response to requirement 3 (7) to (8) of the Section One on page 50 for details on advice and services of Company Secretary.</p> <p>The removal of the Company Secretary is a matter to be considered by the Board as a whole.</p>
A.1.5	Independent judgment of Directors	<p>Complied with.</p> <p>Directors exercise independent judgment in decisions made by the Board on issues of strategy, performance, resource allocation and the conduct of business.</p>

Code Ref.	Principle	Extent of Compliance
A.1.6	Dedication of adequate time and effort by the Board	Complied with. Directors devote adequate time for Board meetings as well as Board Sub-committee meetings to ensure that the duties and responsibilities are satisfactorily discharged. Agenda, draft minutes and Board papers are sent in advance to the Board to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification.
A.1.7	Training for Directors	Complied with. A newly appointed Director is given appropriate induction with regard to the affairs of the Company and laws and regulations applicable to the Company.
A.2 Chairman & Chief Executive Officer (CEO)		
A.2	Separation of the roles and responsibilities of the Chairman and CEO to ensure a balance of power and authority, such that no one individual has unfettered powers of decision.	Complied with. The positions of the Chairman and the CEO have been separated. The Chairman is responsible for leading the Board and for its effectiveness. The Managing Director (MD) is the Chief Executive Officer who is responsible for managing the Company's business.
A.2.1	Justification to combine the posts of Chairman and Chief Executive Officer.	Not applicable.
A.3 Chairman's Role		
A.3.1	Role of the Chairman	Complied with. The Chairman provides leadership to the Board and encourages an active contribution of both Executive and Non-Executive Directors to the Board's affairs and maintains balance of power between Executive and Non-Executive Directors. Please refer 7 (4) to (10) on page 54 of Section One for further details.
A.4 Financial Acumen		
A.4	Financial acumen and knowledge	Complied with. The Board has an adequate number of Directors who have financial acumen and knowledge to contribute and offer guidance to the Board on matters of finance. Please refer pages 16 and 17 for the Profiles of the Directors.
A.5 Board Balance		
A.5.1	Have a balance of Executive & Non-Executive Directors.	Complied with. Board maintains the required balance of Executive and Non-Executive Directors on the Board. The Board consisted of one Executive Director and 7 Non-Executive Directors of whom three are independent as at 31st March 2014. As the majority of the Board comprises of Non Executive Directors, their opinions and views carry significant weight in the Board's decisions.

Corporate Governance

Code Ref.	Principle	Extent of Compliance
A.5.2 & A. 5.3	Independence of Non Executive Directors	Complied with. Three Non Executive Directors are independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.
A.5.4 & A.5.5	Board to determine annually as to the Independence or Non-Independence of Non-Executive Directors.	Complied with. The Board determines the Independence and Non-Independence of the Non- Executive Directors based on the declarations submitted by them and also based on the extent of independence as defined in the Finance Companies (Corporate Governance) Direction No. 3 of 2008.
A.5.6	Appointment of an Alternate Director	No such situation has arisen during the year under review.
A.5.7	Appointment of Senior Independent Non-Executive Director and making himself available for confidential discussions	Complied with. A Non-Executive Director has been appointed as Senior Independent Director in accordance of the requirements of the Finance Companies (Corporate Governance) Direction No. 3 of 2008. Please refer 7 (2) on page 53 of Section One for further details.
A.5.8	Meetings only with Non-Executive Directors	Complied with. Chairman meets with the Non-Executive Directors without the presence of Executive Director, whenever necessary.
A.5.9	Recording of concerns of Directors in Board minutes where they cannot be unanimously resolved.	Complied with. The Board Minutes include concerns raised by Directors and also the ultimate decisions made by the Board.
A.6 Supply of Information		
The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.		
A.6.1	Obligation of the Management to provide appropriate and timely information to the Board.	Complied with. Timely and adequate information is provided by the Management to the Board which is circulated in advance for regular meetings. The Management also provides additional information as and when required by the Board members.
A.6.2	Adequate Notice for Board Meetings	Complied with. Please refer response to requirement 3 (3) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 on page 49 for details.
A.7 Appointments to the Board		
A.7.1 & A.7.2	Formal and transparent procedure for appointment of new Directors to the Board and Assessment of Board composition	Complied with. Refer comments under Section 4 (9) of the Finance Companies Corporate Governance Direction.

Code Ref.	Principle	Extent of Compliance
A.7.3	Disclosure of information to shareholders upon appointment of new Directors. This shall include brief profile of the Director; the names of companies in which the Director holds directorships or memberships in Board committees; and whether such a Director can be considered independent.	Complied with. Details of new Directors are disclosed to the shareholders through a Colombo Stock Exchange (CSE) announcement at the time of their appointment. Prior approval for appointment of new Directors is obtained from the CBSL in accordance with the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.03 of 2011.
A.8 Re-election		
A.8.1 & A.8.2	All Directors should be subject to reelection by shareholders at first opportunity after appointment and should be submitted for re-election regularly or at least once in every three years.	Complied with. Re-election of Directors is carried out in accordance with the provisions of the Articles of Association. All Directors appointed to the Board are subject to re-election by shareholders at the first Annual General Meeting after their appointment. One Director is required to retire by rotation at each AGM. Article 88 provides that the Directors to retire by rotation at an AGM shall be those who, (being subject to retirement by rotation), have been longest in office, since their last election or appointment. In accordance with this provision, Mr. J. A. S. S. Adhihetty who retired by rotation in terms of Articles 87 and 88 of the Articles of Association was re-elected at the AGM held on 6th September 2013. In terms of Article 94 of the Articles of Association, Mr. R. M. Karunaratne was re-elected as a Director on the same date.
A.9 Appraisal of Board Performance		
A.9.1 – A.9.3	Appraisal of Board Performance Periodic appraisal of Board's performance to ensure that their responsibilities are effectively discharged.	Refer 2 (8) on page 49 of Section One.
A.10 Disclosure of Information in Respect of Directors		
Shareholders should be kept advised of relevant details in respect of Directors.		
A.10.1	Disclosure of information on Directors in the Annual Report.	Complied with. Information pertaining to Directors is disclosed in the following sections of this Annual Report. 1. Name, qualifications, expertise, material business interests and brief profiles on pages 14 to 17. 2. Related party transactions are given in Note No 40 to the Financial Statements on pages 138 to 139. 3. Membership of Sub Committees and attendance at Board Meetings on pages 92 and 44.

Corporate Governance

Code Ref.	Principle	Extent of Compliance
A.11 Appraisal of Chief Executive Officer		
A.11.1 & A.11.2	Requirement for Board to at least annually assess the performance of the CEO.	Complied with. Managing Director/CEO's performance targets are aligned with the short, medium and long term objectives of the Company. Targets are set at the beginning of every year by the Board and at the end of each financial year the Board evaluates the set targets and the actual performance.
B Directors' Remuneration		
B.1 Remuneration Procedure		
The Company should establish a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.		
B.1.1	Establishment of a Remuneration Committee	Complied with. The Board has established a Remuneration Committee to make recommendations to the Board in determining remuneration of the Managing Director. No Director is involved in deciding his own remuneration.
B.1.2	Remuneration Committee to comprise exclusively of Non-Executive Directors	Complied with. All members of the Committee are Non-Executive Directors two of whom are independent as well. The committee members are; 1. Mr. Dhammika Perera (Chairman) 2. Mr. M. D. S. Goonatileke - Independent Non-Executive Director 3. Mr. S. Senaratne- Independent Non-Executive Director
B.1.3	Membership to be disclosed in the Annual Report	Complied with. Disclosed in the page 92 of the "Annual Report of the Board of Directors on the Affairs of the Company".
B.1.4	Remuneration of Non- Executive Directors	Complied with. The Non-Executive Directors receive a fee for being a Director of the Board and additional fee whenever they serve on Board sub Committees.
B.1.5	Consultation with Chairman and/ or CEO for remuneration proposals and access to professional advice.	Complied with. Chairman is consulted on proposed/revisions to compensation packages and independent advice is also resorted as deemed necessary.
B.2 Level and Make Up of Remuneration		
Levels of remuneration of both Executive and Non - Executive Directors should be sufficient to attract and retain the Directors. Proportion of Executive Directors' remuneration should be linked to corporate and individual performance.		
B.2.1 - B.2.9	Level and make up of remuneration of Executive Directors including performance element in pay structure	Complied with. The Remuneration Committee recommends the remuneration payable to the Managing Director. The Board makes the final determination after considering such recommendations.
	Remuneration packages in line with industry practices	The remuneration packages offered by the Company are linked to the corporate and individual performances and are aligned with the market/industry rates.
	Executive share option	No share options schemes have been offered to the Executive Director.
	Non Executive Directors remuneration	Non-Executive Directors of the Company are paid a fee in line with the market practices.

Code Ref.	Principle	Extent of Compliance
B.3 Disclosure of Remuneration		
Requirement for Annual Report to contain a Statement of Remuneration Policy and details of Board's remuneration as a whole.		
B.3.1	Composition of Remuneration Committee, Remuneration Policy and disclosure of aggregate remuneration paid to Executive and Non- Executive Directors	<p>Complied with.</p> <p>See "Annual Report of the Board of Directors on the Affairs of the Company" on page 92 for disclosures on the names of the Remuneration Committee members and the Remuneration Policy of the Company.</p> <p>The remuneration paid to the Board of Directors is disclosed in aggregate in note No 11 to the Financial Statements on page 119.</p>
C. Relations with Shareholders		
C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings		
The Board should use the Annual General Meetings to communicate with shareholders and encourage their active participation.		
C.1.1	Counting of proxy votes	<p>Complied with.</p> <p>All proxy votes lodged, together with the votes of shareholders present at the AGM are considered for each resolution.</p>
C.1.2	Separate resolutions for each substantially separate issue adoption of Annual Report and Accounts	<p>Complied with.</p> <p>A separate resolution is proposed at the AGM for each substantially separate issue. The adoption of the Annual Report and accounts is proposed as a separate resolution.</p>
C.1.3	Heads of Board Sub-committees to be available to answer queries	<p>Complied with.</p> <p>In the absence of the Chairman of the respective Committee, a co-member is attended to queries raised.</p>
C.1.4	Notice of Annual General Meeting to be sent to shareholders with other related papers as determined by statute, before the meeting.	<p>Complied with.</p> <p>Notice of the AGM, Form of Proxy and a copy of the Annual Report are sent to all shareholders at least 15 working days prior to the meeting in accordance with the provisions of the Companies Act of No. 7 of 2007, CSE Rules and the Articles of Association of the Company.</p>
C.1.5	Summary of procedures governing voting at general meetings to be circulated	<p>Complied with.</p> <p>Notice of Annual General Meeting and proxy form provides instructions for shareholders about voting procedures.</p>
C.2 Communication with Shareholders		
C.2.1 – C. 2.7	The Board should implement effective communication with shareholders.	<p>Complied with.</p> <p>The main communication method with the shareholders is the Annual Report and AGM. Information is provided to the shareholders prior to the AGM, enabling them to raise / submit their views, suggestions and observations relating to the Company.</p> <p>A person to contact in relation to shareholders is the Company Secretary.</p> <p>The Company Secretary maintains a record of all correspondence received and conveys such correspondence to the Board.</p>

Corporate Governance

Code Ref.	Principle	Extent of Compliance
C.3 Major and Material Transactions		
Directors should disclose to shareholders all proposed material transactions which would materially alter the net asset position of the Company, if entered into.		
C.2.1	Disclosure to shareholders of all material facts concerning any proposed transaction involving acquisition, sale or disposition of greater than one third of the value of the Company's assets.	There were no major transactions necessitating disclosure of this nature.
D. Accountability And Audit		
D.1 Financial Reporting		
D.1	Requirement for Board to present a balanced and understandable assessment of the Company's financial position, performance and prospects.	Complied with. The Company's position and prospects have been discussed in detail in the following sections of this Annual Report. 1. Chairman's Statement on pages 10 to 11 2. Managing Director's Message on pages 12 to 13 3. Management Discussion and Analysis on pages 26 to 34 4. Financial Performance Review on pages 35 to 39
D.1.1	Present interim and other price sensitive public reports and mandated reports to regulators by statute	Complied with. The Board's responsibility over financial reporting is stated in the "Statement of Directors' Responsibilities" on page 98. In the preparation of quarterly and annual financial statements, the Company complies with the requirements of the Companies Act No 07 of 2007, the Finance Business Act No. 42 of 2011 and amendments thereto, and financial statements are prepared and presented in conformity with Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS). The Company complies with the reporting requirements prescribed by the regulatory authorities such as the Central Bank of Sri Lanka, the Colombo Stock Exchange and the Securities and Exchange Commission of Sri Lanka, etc.
D.1.2	Declarations by Directors in the Directors' Report.	Complied with. Declarations/confirmations pertaining to this Principle are disclosed in the "Annual Report of the Board of Directors on the Affairs of the Company" on pages 90 to 92.
D.1.3	Statements by Directors and Auditors on Responsibility for Financial Reporting	Complied with. The "Statement of Directors' Responsibilities" is given on page 98 and "Directors' Statement on Internal Control Over Financial Reporting" is given on page 94. See "Independent Auditors' Report" on page 99 for the reporting responsibility of Auditors.
D.1.4	Include a Management Discussion and Analysis	Complied with. Please refer "Management Discussion and Analysis" on page 26 to 34 & "Financial Performance Review" on pages 35 to 39.

Code Ref.	Principle	Extent of Compliance
D.1.5	Board should report that the business is a going concern with all the supporting assumptions and qualifications as necessary.	Complied with. Reported in the 'Annual Report of the Board of Directors on the Affairs of the Company' and in the Statement of Directors' Responsibilities" published in this Annual Report.
D.1.6	Remedial action at an Extraordinary General Meeting if net assets fall below 50% of value of shareholders' funds.	This situation has not arisen.
D.1.7	Disclosure of Related Party Transactions adequately and accurately	Complied with. Related Party Transactions as defined in Sri Lanka Accounting Standard - LKAS 24 on "Related Party Disclosures" is disclosed in Note No. 40 of the Financial Statements on page 138. Please refer responses to requirements of section 9 of the Finance Companies Corporate Governance Direction on page 60 for further details.
D.2 Internal Control		
D.2.	Maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.	Complied with. The Board is responsible for establishing and overseeing the adequacy and integrity of the Company's internal control systems and the Audit Committee assists the Board in discharging this responsibility. Internal Audit reviews the adequacy and effectiveness of the internal control systems and reports on a regular basis to the Board Audit Committee. The overall risk management has been assigned to the Integrated Risk Management Committee of the Board.
D.2.1	Annual evaluation of the risks facing the Company and the effectiveness of the system of internal controls	Complied with. Adequacy and integrity of the Company's internal control systems is reviewed by the Board Audit Committee. The Integrated Risk Management Committee assesses all aspects of risk management on a quarterly basis or more frequently as it deems necessary. The minutes of the Board Committee meetings are tabled at the meetings of the Board of Directors for their information and action. The Board's Statement on the effectiveness of the Company's Internal control mechanism is presented in the "Directors' Statement on Internal Control Over Financial Reporting" of this Annual Report. The Company has obtained the External Auditors' Certification on the effectiveness of the internal control mechanism over financial reporting.

Corporate Governance

Code Ref.	Principle	Extent of Compliance
D.2.2	Internal audit function	Complied with. The Company's internal audit function has been outsourced and carried out by Ernst & Young Advisory Service (Pvt) Limited. Internal Audit reports are discussed at the Audit Committee meeting and appropriate recommendations/actions are agreed based on those findings.
D.2.3	Audit Committee to carryout reviews of the process and effectiveness of risk management and internal controls and document to the Board	Complied with. Described in response to D.2.1 above.
D.3 Audit Committee		
Formal and transparent arrangements to be in place for selection and application of accounting policies, financial reporting & internal control principles and maintaining appropriate relationship with the Company's Auditors.		
D.3.1	Composition of the Audit Committee	Complied with. All members of the Board Audit Committee, including the Chairman are Non-Executive Directors and two of the members are Independent Non-Executive Directors as well.
D.3.2	Duties of the Audit Committee	Complied with. The Audit Committee monitors and reviews the scope, results and effectiveness of the audit and the independence and objectivity of the External Auditors. Please refer responses to requirements of section 8 (2) of the Finance Companies Corporate Governance Direction on page 55 for further details.
D.3.3	Terms of Reference of the Audit Committee	Complied with. The Audit Committee is guided by the Board approved Terms of Reference which specifies the authority and responsibilities of the Committee.
D.3.4	Disclosures of the Audit Committee	Complied with. The names of the Directors of the Audit Committee, its functions, meetings and the basis of determination of independency of auditors is disclosed in the Audit Committee Report on page 95 of this Annual Report.
D.4 Code of Business Conduct and Ethics		
Requirement to adopt a Code of Business Conduct and Ethics for Directors and members of senior management with due disclosures of waivers.		
D.4.1 & D.4.2	Disclosure whether the Company has a Code of Business Conduct and Ethics for directors and key management personnel with an affirmative statement of Chairman.	Moving towards compliance. The Company is in the process of developing a Code of Business Conduct and Ethics.
D.5 Corporate Governance Disclosures		
Requirement to disclose the extent to which the Company adheres to established principles and practices of good corporate governance.		
D.5.1	Disclosure of Corporate Governance	Complied with. This requirement is met through the presentation of this report.

Code Ref.	Principle	Extent of Compliance
B. Shareholders		
E. Institutional Investors		
E.1 Shareholder Voting		
Institutional shareholders to make use of their votes to encourage 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.	Complied with. The Annual General Meeting is the forum utilized by the Board to have an effective dialogue with shareholders. All shareholders are encouraged to participate and vote at the Annual General Meeting (AGM).
E.2 Evaluation of Governance Disclosures		
E.2	Encourage Institutional investors to give due weight to relevant governance arrangements.	Complied with. Institutional investors are encouraged to give due weight to all relevant factors in Board structure and composition when evaluating governance arrangements.
F. Other Investors		
F.1 Investing/Divesting Decision		
F.1	Adequate analysis or seek independent advice	Complied with. Individual shareholders investing directly in the Company are encouraged to carry out adequate analysis in investing or divesting decisions.
F.2 Shareholder Voting		
F.2	Individual shareholder voting	Complied with. Individual shareholders are encouraged to participate at Annual General Meeting and exercise their voting rights.
G. Sustainability Reporting		
G.1	The Code requires the Company to adopt principles in Sustainability Reporting to ensure the maintenance of policies and procedures to develop a sustainable business environment and to make disclosures on sustainability.	Moving towards compliance. "Corporate Social Responsibility Report" is given on page 40 and it describes community –based development initiatives carried out to support and build the Community around the Company.

Risk Management Report

Effective Risk Management continues to be a fundamental element to the business operations at Vallibel Finance.

Our Approach to Risk Management

The Financial Services Industry in which we operate intrinsically has a higher risk that must be understood and carefully managed in order to build a sustainable growth over time.

Effective risk management is central to how we run our business and it supports to deliver our strategic objectives, ultimately protecting our business and all stakeholders. It also ensures we remain focused and successfully navigate the Company in difficult economic conditions and add value to our shareholders, employees and society. Our ability to manage risk is continually growing and we keep on coping with both upside and downside aspects of risk we face in a wide number of business activities and strengthening our place in the Financial Services Industry.

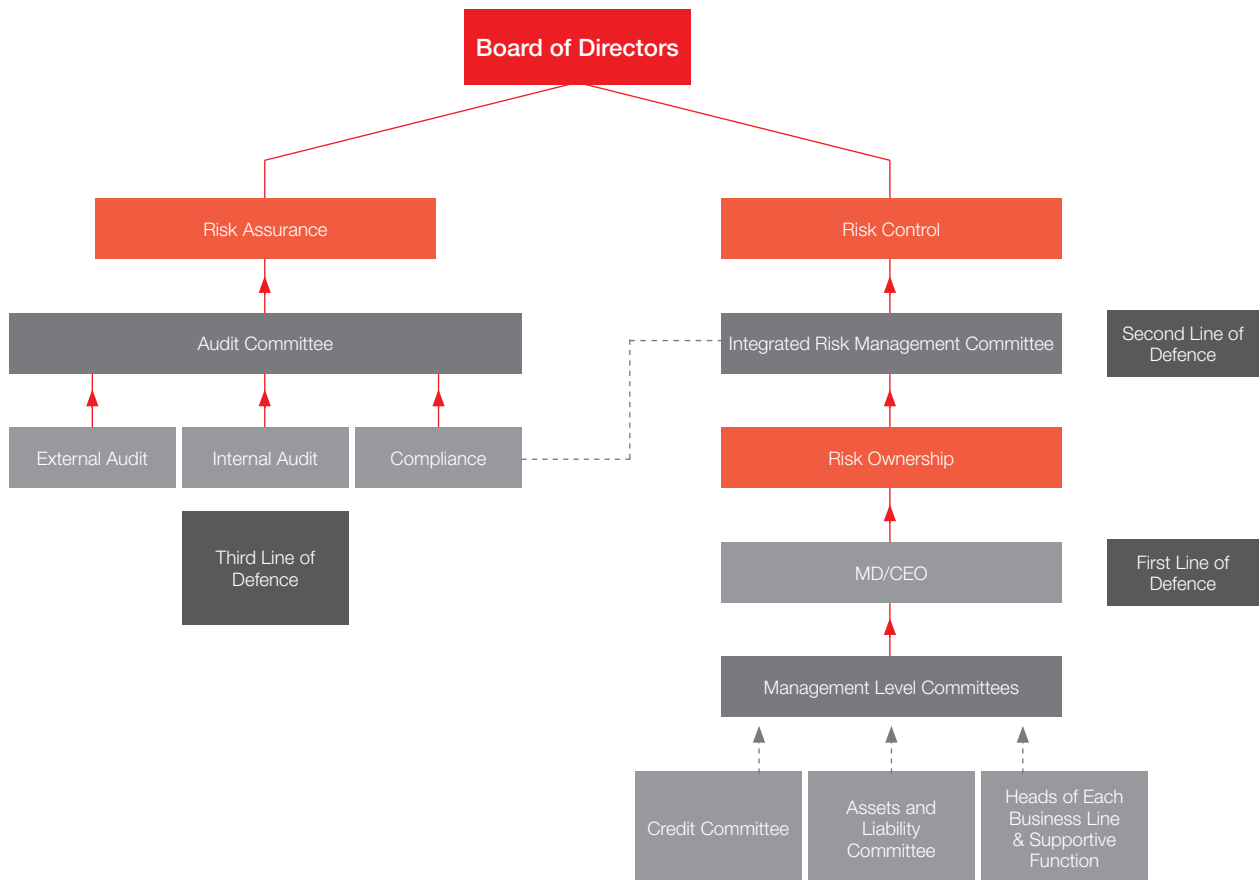
This section presents risk governance structure and risk management framework of the Company, key risks associated with each of our strategic priorities, how they could impact our performance and also explains how these risks are managed across the Company.

Risk Governance

A robust governance framework is the cornerstone for the delivery of effective risk management and remains as a priority for the Company.

Governance is maintained through delegation of authority from the Board, Audit Committee and Integrated Risk Management Committee, down through the management hierarchy. The committee-based structure were further embedded to organizational culture throughout the year 2013/2014 to ensure that the Company's risk appetite, policies, procedures, controls and reporting are entirely in line with laws, regulations, rules, directions, internal controls and other prescribed practices.

The Board of Directors has the overall responsibility for the risk management and the sub committees are responsible for the ongoing management and monitoring of risk exposure. The below structure outlines the flow and escalation of risk information and reporting from the management and the Committees and Board.



Board and Management Committees

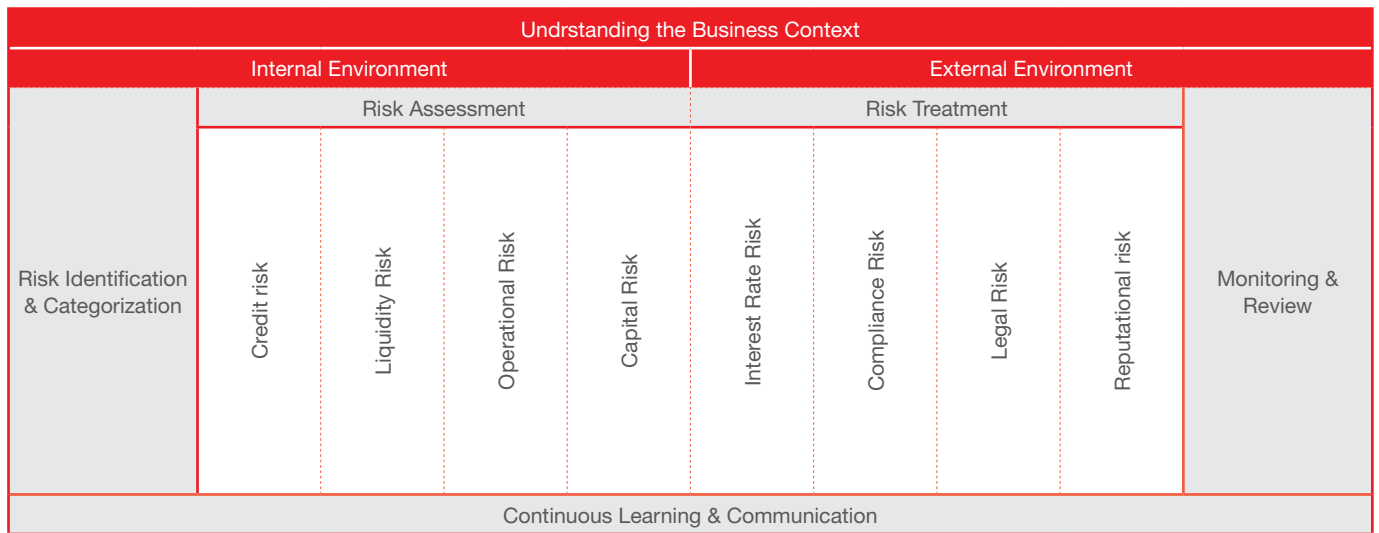
Board Committees	
Board	<p>The Board of Directors have the ultimate responsibility for the establishment and overseeing the risk management framework of the Company. Accordingly the Board has established two sub committees namely, the Audit Committee and Integrated Risk Management Committee to assist the Board in discharging its responsibility for risk management.</p>
Audit Committee	<p>Areas of Focus - Risk Assurance</p> <p>The Audit Committee assists the Board in fulfilling its oversight responsibilities for the integrity of financial statements, the Company's compliance with legal and regulatory requirements, the External Auditor's independence and the performance of the Company's internal audit function.</p> <p>The Committee is responsible for monitoring and reviewing risk management policies and procedures and reviewing the adequacy of the risk management framework in relation to risks faced by the Company. The Audit Committee is assisted in these functions by Internal Audit.</p> <p>Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Committee reviews the scope and results of internal audit reports assessing the implementation of the Company's asset and liability management policies, procedures and the effectiveness of the Company's internal control and monitoring systems.</p>
Integrated Risk Management Committee (IRMC)	<p>Areas of Focus - Risk Control</p> <p>IRMC is responsible for developing and monitoring risk management policies and procedures in specified risk areas.</p> <p>The Committee is comprised of a Non Executive Director (Chairman), Chief Executive Officer and three representatives from the senior management who supervise major risk categories.</p> <p>The Committee meets on a quarterly basis to assess all aspects of risk management or more frequently as it deems necessary or appropriate to carry out its duties and responsibilities. Major duties of the Committee are as follows.</p> <ul style="list-style-type: none"> • To ensure that the Company has a comprehensive risk management framework relative to its business activities and risk profile • To assess the effectiveness of the Company's risk management system • To ensure that a compliance function is in place to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices • To ensure that the Board of Directors is kept updated of the Company's risk exposure and make recommendations considering the risk appetite, risk profile and risk management practices of the Company

Risk Management Report

Management Committees	Areas of Focus - Risk Ownership
<p>Assets & Liability Management Committee (ALCO)</p>	<p>It is the main management committee and assists the Board of Directors by assessing the adequacy and monitoring the implementation of the Company's asset & liability management policies and related procedures.</p> <p>ALCO is primarily responsible for the management of interest rate risk, market risk, liquidity risk, capital risk and any other risk which may be specified by the Integrated Risk Management Committee.</p> <p>ALCO is comprised of representatives from the management who supervise major risk categories and chaired by the Chief Executive Officer. The Committee meets on a monthly basis. A special meeting of the Committee is conveyed, if an issue arises that cannot wait until the next regularly scheduled meeting. All action taken by the Committee is reported to the Board of Directors as the Committee deems appropriate or as the Board may request.</p> <p>The ALCO discharges following responsibilities.</p> <ul style="list-style-type: none"> • Reviewing the risk tolerances in terms of each risk category as specified by the Integrated Risk Management Committee • Monitoring the risk management activities undertaken by the Company in terms of interest rate risk, market risk, liquidity risk, capital risk, etc. • Monitoring trends in the economy in general and interest rates in particular with a view toward limiting any potential adverse impact on the Company's earning • Reviewing interest margin trends including forecast position, and the variances from the planned net interest rate margin, and detail any required actions as appropriate • Reviewing and managing changes to the Company's balance sheet, including structural changes and achievement of strategic objectives in relation to growth or shrinkage • Recommending to the Board policies and any changes to those policies, in relation to the Company's assets, liabilities and capital structures • Ensuring that an effective system of internal controls is in place to enable effective monitoring of performance against specified policies and procedures • Monitoring compliance with both external regulations and the Company's policies with respect to the asset and liability management
<p>Credit Committee</p>	<p>The Board of Directors have delegated responsibility for the overseeing of credit risk to the Credit Committee of the Company. The Committee is responsible for:</p> <ul style="list-style-type: none"> • Formulating credit policies in consultation with business lines, considering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements • Establishing the authorization structure for the approval and renewal of credit facilities • Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating and market liquidity • Reviewing compliance of business lines with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Credit Committee which may require appropriate corrective actions to be taken. • Providing advice, guidance and specialist skills to business lines to promote best practice throughout the Company in the management of credit risk

Risk Management Framework

A risk management framework has been established to ensure that risks are identified and managed according to a consistent approach across all business areas and all risk types and in line with the risk appetite of the Company. The framework is designed to ensure that policies and controls can be adapted to reflect adjustments to business strategy and risk appetite which is made in response to changing market conditions. This structured approach to identify and assess the impact of emerging risks, agreed tolerances and develop mitigating strategies eventually supports the Company's aim of maximising value for stakeholders.



Principle Risks and Mitigation Strategies

The company is primarily exposed to credit risk, liquidity risk, interest rate risk, operational risk, legal risk, reputational risk, compliance risk and capital risk and approaches of managing them are discussed in ensuing section.

CREDIT RISK	
<p>Credit risk is defined as the risk of financial loss if a borrower/ counterparty fails to meet their contractual obligations.</p>	<p>Risk Description</p> <p>Credit risk arises principally from the Company's loans and advances to customers, lease and hire purchase facilities to customers, pawning advances and investment in debt securities.</p> <p>For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure (such as individual obligations or default risk and sector risk).</p> <p>Default risk is the exposure to loss due to non-payment by a borrower of a financial obligation when it becomes payable. The Company is exposed to default risk in terms of hire purchase, leasing and other loan and advances which account for over 80% of the total assets.</p>

Risk Management Report

CREDIT RISK

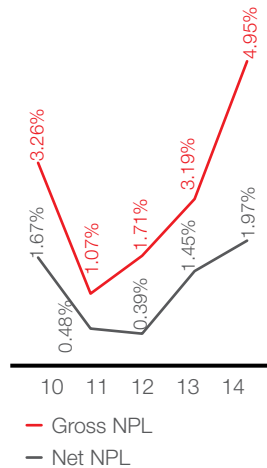
Key Risk Indicators

Risk indicators have been established based on the regulatory requirements and economic environment prevails in the country in order to assess the credit quality. These limits are reviewed by the IRMC quarterly or earlier if required.

The following are some of the indicators in exposure to credit risk.

1. Movement of Gross & Net Non-Performing Loans (NPL) Ratio

Movement of Gross & Net Non-Performing Loans (NPL) Ratio



2. Sector Concentration

Lease & Hire Purchase Portfolio by Sector - 2014

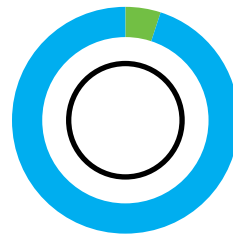


Agriculture	2%
Industrial	4%
Tourism	7%
Trading	41%
Transport	3%
Construction	19%
Services	3%
Individual	21%

CREDIT RISK

3. Exposure to Top 20 Customers – 2014

Concentration on Top 20 Customers - 2014



■ Exposure of Top 20 Customers	5%
■ Exposure of Other Customers	95%

4. Maturity Analysis of Lending Portfolio as at 31st March 2014

Rs. '000

	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
Total Loans and Advances (Net)	1,574,051	2,651,830	4,779,576	931,362	1,362	9,938,181

5. Gross Credit Exposure by Lending Type

Rs. '000

	2014	2013	2012
Lease Rental Receivable	5,053,821	4,022,357	2,595,234
Hire Purchase Receivable	4,065,969	3,259,398	2,999,446
Pawning Receivables	62,887	1,581	-
Loans Against Fixed Deposits	72,619	99,681	100,606
Investment Fund Loans	49,452	101,621	42,277
Other Loans & Advances	981,545	436,854	171,886
Total Loan & Receivables	10,286,292	7,921,492	5,909,450

Mitigating Actions

Credit risk is managed within the risk appetite of the Company. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. The risk tolerance of the Company is low and therefore all credit is mitigated through sound credit principles, and all lending done against appropriate security, except where other factors deem it not necessary to obtain specific security.

Credit Committee of the Company is responsible for overseeing of the credit risk and the Credit and Recovery Departments, reporting to the Credit Committee is responsible for monitoring and managing the Company's credit risk.

Risk Management Report

CREDIT RISK	
	<p>Mitigating Actions Contd.</p> <p>Credit risk mitigation strategies undertaken by the Company are summarised below.</p> <ul style="list-style-type: none"> • Strong credit policies have been formulated in consultation with business lines, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements. • Structured and standardized credit evaluation process has been established in order to assess credit exposures prior to facilities being committed to customers by the business line concerned. • There is a clear authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to head of each business line. Large facilities require approval by the Board of Directors as appropriate. The delegated authority levels are reviewed periodically. • Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) by issuer, credit rating and market liquidity to ensure that the lending is well diversified across a wide range of products, industries and customers. • Reviews are carried out to monitor the compliance of business lines with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of portfolios are provided to the Board which may require appropriate corrective actions to be taken. • The credit committee provides advice, guidance and specialist skills to business lines to promote best practice throughout the Company in the management of credit risk. • Each business line is required to implement credit policies and procedures, with credit approval authorities delegated from the Company Credit Committee. Each business line has an officer who reports on all credit related matters to management and the Company Credit Committee. Each business line is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central review. • Regular audits of business lines and credit processes of the Company are undertaken by Internal Audit. • Adequacy of these risk management strategies are assessed regularly by the Credit Committee and quarterly by the IRMC.

LIQUIDITY RISK	
<p>Liquidity risk is the risk that the Company has insufficient financial resources to meet its commitments as they fall due.</p>	<p>Risk Description</p> <p>Liquidity risk reflects the risk of loss as a result of insufficient liquidity to cover current payment obligations. The Company may not be able to meet its obligations due to a lack of funds or having to meet these obligations at an excessive cost. This result from maturity mismatches between assets and liabilities. The day-to-day operations of the Company are affected by liquidity flows, including the risk that the Company is unable to meet expected and unexpected payment obligations as they fall due.</p> <p>Furthermore, a risk of losses may arise as a result of the Company's difficulty in disposing of or realising certain assets within a limited time horizon and without any significant impairment of the market value due to inadequate market liquidity or other market interruptions.</p>

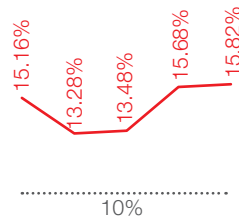
LIQUIDITY RISK

Key Risk Indicators

Key risk indicators used by the Company to assess the liquidity position are:

1. Liquid Assets to Deposits Ratio

Liquid Assets to Deposits Ratio

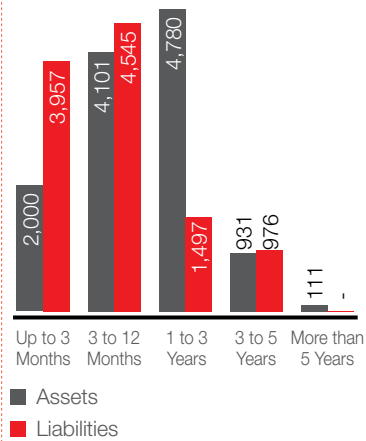


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— Liquid Asset to Deposit Ratio
 ... Minimum Liquidity Requirement

2. Maturity analysis of interest bearing assets and liabilities as at 31st March 2014

Maturity Analysis of Assets & Liabilities as at 31st March 2014
(Rs. Mn)



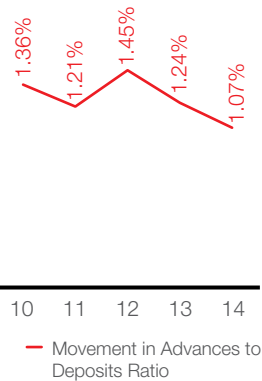
■ Assets
 ■ Liabilities

Risk Management Report

LIQUIDITY RISK

3. Movement in Advances to Deposits Ratio

Movement in Advances to Deposits Ratio



Mitigating Actions

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Liquidity risk mitigation strategies are;

- The Company maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, fixed and calls deposits and short term government securities, to ensure that sufficient liquidity is maintained within the Company. Liquidity profile of financial assets and liabilities of each business line and details of projected cash flows arising from future business are considered in managing the liquidity.
- The statutory liquidity ratio is maintained well above the regulatory limit.
- Daily liquidity is monitored and considers stress scenarios covering various market conditions.
- All liquidity policies and procedures are subject to review and approval by the Assets and Liability Management Committee.
- Regular ALCO meetings are held and the Committee monitors the liquidity position of the Company and liquidity management activities undertaken by the Company. ALCO reviews the overall liquidity position as shown by the weekly liquidity report and considers the impact of other inflows and outflows as they affect overall liquidity.
- A summary report, including any exceptions and remedial action taken, is submitted to the Integrated Risk Management Committee. The Integrated Risk Management Committee approves liquidity risk tolerances by reviewing how the Company's inability to meet its obligations when they become due may affect the Company's earnings, capital, and operations.
- The Company relies on deposits from customers and borrowing liabilities as its primary sources of funding. While the Company's borrowing liabilities have maturities of over one year, deposits from customers generally have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

MARKET RISK

Market risk is the possibility of losses to the Company from changes in market variables.

Risk Description

Losses may result from changes in market variables such as interest rates, exchange rates, equity prices and commodity prices which will affect value of assets and liabilities or income adversely.

The Company's exposure to market risk arises as a result of dealing in financial products including loans, deposits, securities, short term borrowings, long term debt, etc.

Mitigating Actions

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in Integrated Risk Management Committee (IRMC) of the Company. The Treasury is entrusted with managing the market risk including interest rate risk and liquidity risk of the Company.

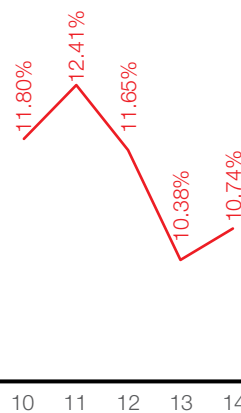
INTEREST RATE RISK

Interest rate risk is the potential for changes in rates to reduce the Company's earnings or value.

Key Risk Indicator

1. Net Interest Margin

Net Interest Margin



Mitigating Actions

Evaluation of net interest position and analysis of various interest rate scenarios are carried out in order to assess the interest rate risk faced by the Company.

Regular monitoring of trends in the economy in general and interest rates in particular are carried out with a view toward limiting any potential adverse impact on the Company's earning. The ALCO approves interest rate risk tolerances by reviewing how movements in interest rates may adversely affect the Company's earnings and capital using the Company's projected earnings and capital as benchmarks. The ALCO reviews interest margin trends including forecast position and the variances from the planned net interest rate margin and changing the interest rate offers according to the changes in interest rates.

Risk Management Report

OPERATIONAL RISK

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.

Risk Description

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the operations of the Company.

Mitigating Actions

Severity of these operational risks is assessed regularly through identified key risk indicators such as staff turnover, insurance coverage, fraud attempts, branch / department audit ratings, etc. The information derived act as early warning signals to identify a potential event that may harm daily business activities and the operations of the Company.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business line. This responsibility is supported by the development of overall Company Standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- Requirements for the reporting of operational losses and proposed remedial actions
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where it is effective.

LEGAL RISK

Risk Description

Legal risk arises from unenforceable transactions in a court of law or the failure to successfully defend legal action instituted against the Company.

Legal risk management commences from prior analysis, and a thorough understanding of and adherence to related legislation by the staff. Necessary precautions are taken at the designing stage of transactions to minimize legal risk exposure. In the event of a legal risk factor, the Legal Department of the Company takes immediate action to address and mitigate these risks.

Mitigating Actions

The Company's legal division ensures that all business activities are carried out in a manner which complies with the laws and regulations applicable in the country. Among others, the division is responsible for advising senior management on any legal issues, reviewing all contracts and agreements, examining documentation related to collateral, and representing the Company in courts of law when necessary.

REPUTATIONAL RISK

Reputational risk is the damage to the Company's image among stakeholders.

Risk Description

Reputational risk is that of losing public trust or the tarnishing of the Company's image in the public eye. It could arise from environmental, social, regulatory or operational risk factors. We consider reputational risk as a consequence of a failure to manage other key risks arising from the business activities.

Mitigating Actions

Events that could lead to reputation risk are closely monitored, utilizing an early warning system that includes inputs from frontline staff, media reports, and internal and external market survey results.

Reputation risk management and mitigation aspects are embedded in the Company's policies, procedures and training programmes. Policies and standards relating to the conduct of the Company's business have been promulgated through internal communication and training and ensure compliance with laws, regulations, rules, directions, prescribed practices and ethical standards. A whistle blowing policy has been established to entertain employees' complaints regarding accounting, internal controls or auditing matters or if any, breaches of any law, statutory, regulatory or other ethical concerns. We are continuously committed towards maintaining and improving reputation in all the activities we undertake.

COMPLIANCE RISK

Compliance risks are the potential threats to the company that resulting from non conformance with laws, regulations, rules, directions, prescribed practices and ethical standards.

Risk Description

Financial institutions in Sri Lanka are governed by the Central Bank of Sri Lanka which is the main regulatory body in the country. Every financial institution must obtain licence from the Central Bank prior to commencing financial business and continues to carry out business in compliance with the laws, directions, rules, determinations, notices, and guidelines issued by the Central Bank. Additionally the Company should comply with other regulatory and statutory requirements governing Finance Companies, Public Listed Companies and business activities undertaken in general.

Thus, the Company operates in a highly regulated environment and the Company could be adversely affected by failure to comply with existing laws and regulations or by failing to adapt to changes in laws, regulations and regulatory policies.

Mitigating Actions

Regular reviews are carried out in order to assess the Company's compliance with the regulatory and statutory requirements.

The Integrated Risk Management Committee has established a compliance function to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices. A separate Compliance Officer has been appointed in order to carry out the compliance function independently.

Risk Management Report

CAPITAL RISK

Capital risk is the risk that the Company has insufficient capital resources to meet minimum regulatory requirements and to support credit rating, growth and strategic options of the Company.

Key Risk Indicators

1. Capital Adequacy Ratio (CAR)

Capital Adequacy Ratio (CAR) is the measure of the financial strength of a finance company expressed as a ratio of its capital to its risk weighted assets.

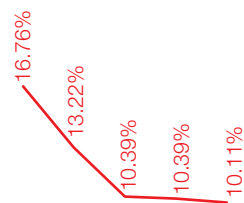
A higher Capital Adequacy Ratio indicates that the Company is able to handle losses and fulfill its obligations to account holders without ceasing operations. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of a financial system.

The Company's Capital Adequacy Ratios as at 31st March 2014 were 10.11% for Tier I and 15.16% for Tier I & II and are above the minimum requirements of the Central Bank of a minimum 5% and a minimum 10% respectively.

Please refer pages 151 and 152 in the notes to the Financial Statements for a detailed breakdown of capital adequacy ratio computation.

As at 31st March	2010	2011	2012	2013	2014
Core Capital Ratio	16.76%	13.22%	10.39%	10.39%	10.11%
Total Risk Weighted Capital Ratio	16.75%	13.20%	14.03%	14.45%	15.16%

Core Capital Ratio



5%

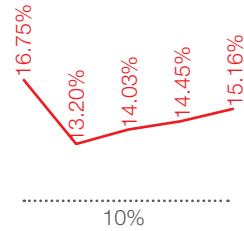
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— Core Capital Ratio

···· Minimum Requirement

CAPITAL RISK

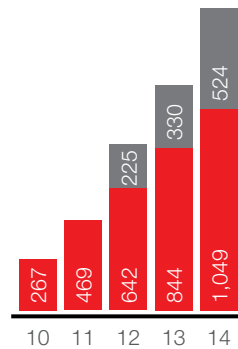
Total Risk Weighted Capital Ratio



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— Total Risk Weighted Capital Ratio
··· Minimum Requirement

Total Capital Base



■ Core Capital - Tier I
■ Supplementary Capital - Tier II

Mitigating Actions

Capital Management is integral to the Company's approach to financial stability and embedded in the way the business operates.

The ALCO monitors the capital position and the capital management activities undertaken by the Company to ensure that capital levels are maintained in accordance with regulatory requirements and directives.

Capital Adequacy Ratios are measured on a monthly basis and maintained above the minimum requirements specified by the regulator, The Central Bank of Sri Lanka.





Developing service

BUILT ON TRUST

Annual Report of the Board of Directors on the Affairs of the Company

The Directors of Vallibel Finance PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2014.

General

Vallibel Finance is a limited liability company which was incorporated on 5th September 1974 as a private limited liability company under the Companies Ordinance (Chapter 145) as "THE RUPEE FINANCE COMPANY LIMITED" and was converted to a public company on 7th August 1989 under the Companies Act, No.17 of 1982.

On 21st November 2005 the name of the Company was changed to "VALLIBEL FINANCE LIMITED". The Company was re-registered under the Companies Act, No.7 of 2007 on 20th August 2008 under Registration No.PB 526.

The Ordinary Shares of the Company were listed on the Main Board of the Colombo Stock Exchange on 4th May 2010.

Vallibel Finance PLC is a Licensed Finance Company in terms of the Finance Business Act, No.42 of 2011 and a Registered Finance Leasing Establishment in terms of the Finance Leasing Act No.56 of 2000.

Principal Activities of the Company and Review of Performance During the Year

The Company's principal activities are the acceptance of deposits, granting of lease facilities, hire purchase facilities, mortgage loans facilities, pawning, other credit facilities and related services in the finance business.

This Report and the Financial Statements reflect the state of affairs of the Company.

Financial Statements

The complete Financial Statements of the Company, duly signed by two Directors on behalf of the Board of Directors and the Auditors, are included in this Annual Report and form part and parcel hereof.

Auditors' Report

The Report of the Auditors on the Financial Statements of the Company appear on page 99.

Accounting Policies

The Accounting Policies, which are adopted by the Company in the preparation of Financial Statements, are given on pages 105 to 116. The Company prepared the Financial Statements for all periods up to and including the year ended 31st March 2012 in accordance with Sri Lanka Accounting Standards which were in effect up to that date. Following the convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards (IFRSs), all existing/

new Sri Lanka Accounting Standards were prefixed as SLFRS and LKAS. Accordingly the Company adopted these new Sri Lanka Accounting Standards (which are commonly known as SLFRSs) applicable for financial periods commencing from 1st April 2011.

Directors

The names of the Directors who held office as at the end of the accounting period are given below:

Executive Director

Mr. S B Rangamuwa - Managing Director

Non-Executive Directors

Mr. Dhammika Perera - Chairman
 Mr. W. D. N. H. Perera - Deputy Chairman
 Mr. J. A. S. S. Adhietty - Director
 Mr. M. D. S. Goonatilleke*/** - Director
 Mr. S. Senaratne* - Director
 Mr. K. D. H. Perera - Director
 Mr. R. M. Karunaratne* - Director

* Independent Non-Executive Directors as per the Listing Rules of the Colombo Stock Exchange

** Senior Director in terms of Finance Companies (Corporate Governance) Direction No. 3 of 2008

Based on the declarations made by the Independent Non-Executive Directors under the Listing Rules, the Board determined that both Messrs M. D. S. Goonatilleke, S. Senaratne and R. M. Karunaratne who held office during the period under review, were independent as against the criteria for defining "independence" set out in the Listing Rules.

Mr. K. V. P. R. De Silva was appointed as an Independent Non-Executive Director to the Board of the Company with effect from 23rd April 2014. The Independence of the said Director has been determined in terms of the Finance Companies (Corporate Governance) Direction No.3 of 2008 and the Listing Rules of the Colombo Stock Exchange.

Mr. K. V. P. R. De Silva retires in terms of Article 94 of the Articles of Association of the Company and being eligible is recommended by the Directors for re-election.

Mr. K. D. H. Perera retires by rotation at the conclusion of the Annual General Meeting in terms of Articles 87 and 88 of the Articles of Association and being eligible is recommended by the Directors for re-election.

Interest Register

The Company maintains an Interest Register in terms of the Companies Act, No.7 of 2007 which forms part and parcel of this

annual report and is available for inspection upon request. The names of the Directors who were directly or indirectly interested in contracts or related party transactions with the Company during the accounting period are stated in Note 40 to the Financial Statements.

Related Party Transactions

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the interests register, which also covers the disclosures as per paragraph 10 (g) of the Finance Companies (Corporate Governance) Direction No. 3 of 2008.

The relevant interests of Directors in the shares of the Company as at 31st March 2014 as recorded in the interests register are given in this Report under Directors shareholding.

Directors' Remuneration

The Directors' remuneration is disclosed under Note 11 of the Financial Statements.

Directors' responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

Stated Capital

The Stated Capital of the Company is Rs.287,153,000/- (Rs.287,153,000/- as at 31st March 2013).

The number of shares issued by the Company stood at 41,550,600 fully paid ordinary shares as at 31st March 2014 (41,550,600 fully paid ordinary shares as at 31st March 2013).

Directors' shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2014 are as follows:

	Shareholding as at 31/03/2014	Shareholding as at 31/03/2013
Mr. Dhammika Perera*	600	600
Mr. S B Rangamuwa	203,031	115,301
Mr. J A S S Adhietty	600	600
Mr. W D N H Perera	Nil	Nil
Mr. M D S Goonatilleke	600	600
Mr. S Senaratne	22,600	22,600
Mr. K D H Perera*	600	600
Mr. R M Karunaratne	Nil	Nil

* Mr. Dhammika Perera is the Chairman and major shareholder of Vallibel Investments (Pvt) Ltd. which held 30,277,000 shares constituting 72.87% of the issued shares of the Company.

* Mr. K.D.H. Perera also serves as a Director of Vallibel Investments (Pvt) Ltd.

Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, the 20 largest shareholders of the Company and public holding as per the Listing Rules of the Colombo Stock Exchange are given on pages 156 and 157. Earnings, Dividends and Net Assets per Share appear on page 5.

Auditors

Messrs KPMG, Chartered Accountants served as the Auditors during the year under review.

A total amount of Rs. 1,605,000/- is payable by the Company to the Auditors for the year under review which comprise of Rs. 895,000/- as Audit fees and Rs. 710,000/- for Non Audit Services.

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorize the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Donations

The total amount of donations made during the year under review is Rs. 427,025 /-.

Property, Plant and Equipment

Details of Property, Plant and Equipment and changes during the year are given in Note 25 of the Financial Statements.

Material Foreseeable Risk Factors

The section on Risk Management on pages 74 and 87 sets out the processes currently practiced by the Company to identify and manage the risks.

Land Holdings

The Company's land holdings referred to in Note 25 of the accounts represent a land of an extent of 15.20 perches with a building situated in No.126, High Level Road, Maharagama which is carried at it's book value of Rs. 30 Mn.

Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company and contributions, levies and taxes payable on behalf of and in respect of the employees of

Annual Report of the Board of Directors on the Affairs of the Company

the Company and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date, have been paid or, where relevant, provided for.

Corporate Governance

The Board of Directors confirms that the Company is compliant with Section 7.10 of the Listing Rules of the CSE on Corporate Governance and the Finance Companies (Corporate Governance) Direction No.3 of 2008 and the terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.03 of 2011, save and except in respect of the matters referred to in the Annual Corporate Governance Report on pages 46 to 73.

The Corporate Governance Statement on page 44 explains the practices within the Company in this respect.

The Audit Committee and Remuneration Committee, function as Board Sub Committees, with Directors who possess the requisite qualifications and experience. The composition of the said Committees and the Integrated Risk Management Committee is as follows:

Audit Committee

Mr. M.D.S. Goonatileke - *Independent Non-Executive Director (Chairman)*
 Mr. J.A.S.S. Adhihetty - *Non-Executive Director*
 Mr. S. Senaratne - *Independent Non-Executive Director*

The Report of the Audit Committee appears on page 95.

Remuneration Committee

Mr. Dhammika Perera - *Non-Executive Director (Chairman)*
 Mr. M.D.S. Goonatileke - *Independent Non-Executive Director*
 Mr. S. Senaratne - *Independent Non-Executive Director*

The Remuneration Committee recommends the remuneration payable to the Managing Director. The Board makes the final determination after considering such recommendations. The remuneration packages offered by the Company are linked to the individual performances and are aligned with the Company's business.

Integrated Risk Management Committee

Mr. R.M. Karunaratne - *Independent Non-Executive Director (Chairman)*
 Mr. M.D.S. Goonatileke - *Independent Non-Executive Director*
 Mr. S.B. Rangamuwa - *Managing Director*
 Mr. Niroshan Perera - *Deputy General Manager*
 Mr. K.D. Menaka Sameera - *Senior Manager - Finance & Administration*
 Mr. T.U. Amaraweera - *Senior Manager - Asset Management*

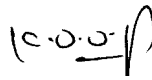
The report of the Integrated Risk Management Committee appears on page 93.

Annual General Meeting

The Annual General Meeting will be held on 26th June 2014 at 10.30 am at the Winchester Hall of The Kingsbury Hotel, Colombo.

The notice of the Annual General Meeting appears on page 167.

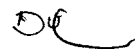
This Annual Report is signed for and on behalf of the Board of Directors by



Dhammika Perera
Chairman



S.B. Rangamuwa
Managing Director



Anusha Wijesekara
P W Corporate Secretarial (Pvt) Ltd
Secretaries

23rd May 2014
Colombo

Integrated Risk Management Committee Report

Composition of the Integrated Risk Management Committee (IRMC)

IRMC is comprised of a Non Executive Director (Chairman), CEO and three representatives from the senior management. During the year under review composition of the Integrated Risk Management Committee is as follows.

Mr. R.M. Karunaratne

Independent Non Executive Director (Chairman)

Mr. M.D.S. Goonatilleke

Independent Non Executive Director

Mr. S.B. Rangamuwa

Managing Director/CEO

Mr. Niroshan Perera

Deputy General Manager

Mr. K.D. Menaka Sameera

Senior Manager - Finance & Administration

Mr. T.U. Amaraweera

Senior Manager - Asset Management

Main Role and Responsibilities of the Committee

In line with sections 8.1 and 8.3 of the Finance Companies (Corporate Governance) Direction No.3 of 2008, an Integrated Risk Management Committee was established in December 2008.

The Integrated Risk Management Committee functions within the Terms of Reference approved by the Board which sets out the objectives and responsibilities of the Integrated Risk Management Committee. The scope and functions of the Committee conform with the provisions of the Finance Companies (Corporate Governance) Direction No.3 of 2008. The main objectives of the committee are:

- To ensure that the Company has a comprehensive risk management framework relative to its business activities and risk profile
- To assess the effectiveness of the Company's risk management system
- To ensure that a compliance function is in place to assess the Company's compliance with laws, regulations, rules, directions, regulatory guidelines, internal controls and other prescribed practices
- To ensure that the Board of Directors is kept updated of the Company's risk exposure

During the year, the Committee assessed and reviewed material risks associated with the conduct of the business. And also ensured strategies are in place to manage those risks to prudent levels. The Risk Management process which is used by the IRMC to discharge its functions is detailed in the Risk Management section of the annual report.

Meetings

The Committee held four meetings in quarterly intervals and the minutes of the IRMC Meetings were tabled at the Board meetings.

The Integrated Risk Management Committee reviewed risk policy framework and risk management strategies and key risk indicators were discussed at the meetings. The IRMC is satisfied that the risk exposures of the Company are being appropriately managed.



Mr. R.M. Karunaratne

Chairman

Integrated Risk Management Committee

23rd May 2014

Directors' Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Finance Companies Direction, No. 03 of 2008, 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 Vallibel 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 sound and adequate to provide reasonable assurance regarding the reliability of Financial Reporting, and that the preparation of Financial Statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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 Auditors of the Company for suitability of design and effectiveness on an on-going basis.

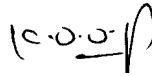
Confirmation

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

External Auditors Certification

The External Auditors have submitted a certification on the process adapted by the Directors on the system of Internal Controls over Financial Reporting. The matters addressed by the External Auditors in this respect, are being looked into.

By order of the Board



Dhammika Perera
Chairman



S.B. Rangamuwa
Managing Director



M.D.S. Goonatileke
Chairman – Audit Committee

23rd May 2014

Audit Committee Report

Composition of the Audit Committee

The Audit Committee, appointed by the Board of Directors of Vallibel Finance PLC, comprises of three Non-Executive Directors two of whom are Independent Directors as well. Mr. M.D.S. Goonatileke, Chartered Management Accountant with over 27 years of post qualification experience in Finance, functions as the Chairman of the Audit Committee. Mr. S. Senaratne, Independent Non-Executive Director and Mr. J.A.S.S. Adhihetty, Non-Executive Director, are the other members of the Audit Committee.

Role of the Committee

The Audit Committee charter, which was approved by your Board of Directors in 2009, clearly defines the role and responsibility of the Audit Committee. The key purpose of the Audit Committee of Vallibel Finance PLC is to assist the Board of Directors by fulfilling its overseeing responsibilities for:

- The integrity of Financial Statements.
- The Company's compliance with legal and regulatory requirements.
- The External Auditor's independence.
- The performance of the Company's internal audit function.

The Audit Committee has authority to authorize investigations into any matter within its scope and responsibility as defined in the Audit Committee charter. The Committee provides a communication link between Internal Audit, External Audit and the Board of Directors of the Company.

Meetings

The Committee met five times during the year. The attendance at the meetings was as follows:

Name of Director	Executive/Non-Executive Independent/Non-Independent	Attendance
Mr. M. D. S. Goonatileke	Independent Non-Executive	5/5
Mr. J. A. S. S. Adhihetty	Non-Executive	4/5
Mr. S. Senaratne	Independent Non-Executive	3/5

The Company Secretaries function as the Secretaries to the Committee. The Managing Director and the Senior Manager Finance, attend the meetings on invitation. The minutes of the Audit Committee were tabled at the monthly Board meetings. The Committee carried out the following activities:

Financial Statements

The Committee reviewed the Financial Information of Vallibel Finance PLC in order to monitor the integrity of the Financial Statements, its Annual Report and Accounts Reports prepared for publication.

Internal Audit

During the year under review, the Committee reviewed the Audit Reports presented by Messrs Ernst and Young, Chartered Accountants to whom the internal audit function is outsourced together with the management responses. Risk-based audit approach was adopted with a view to rationalize the usage of audit resources.

External Audit

The Audit Committee met with Messrs KPMG prior to the commencement of the audit to discuss and approve the audit approach and the audit plan. Further, at the conclusion of the audit the Committee met with the Auditors to discuss the audit findings. The meetings were held without the presence of the Management and the Auditors have assured that they have no cause to compromise their independence. The Management's letter from the External Auditors and the response of the Management thereto were discussed by the Audit Committee.

The Audit Committee has recommended to the Board of Directors that Messrs KPMG, Chartered Accountants, be re-appointed as the Auditors of the Company for the financial year ending 31st March 2015, subject to the approval of the Shareholders at the next Annual General Meeting.

Conclusion

The Audit Committee is of the view that adequate controls are in place to safeguard the Company's assets and to ensure that the financial position and the results disclosed in the Audited Accounts are free from any material misstatements.



M.D.S. Goonatileke
Chairman
Audit Committee

23rd May 2014

Financial Reports

- 98 Statement of Directors' Responsibilities
- 99 Independent Auditors' Report
- 100 Income Statement
- 101 Statement of Comprehensive Income
- 102 Statement of Financial Position
- 103 Statement of Changes in Equity
- 104 Cash Flow Statement
- 105 Notes to the Financial Statements

Statement of Directors' Responsibilities

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements are prepared in compliance with the required standards and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the new Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and Finance Business Act, No. 42 of 2011 and the relevant Directions issued in respect of Licensed Finance Companies.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2014/15, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board
Vallibel Finance PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

23rd May 2014

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
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TO THE SHAREHOLDERS OF VALLIBEL FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Vallibel Finance PLC ("the Company"), which comprise the statement of financial position as at March 31, 2014, the statements of comprehensive income, changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 100 to 152 of the annual report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting 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 March 31, 2014 and the financial statements give a true and fair view of the financial position of the Company as at March 31, 2014, and of its financial performance and its cash flow 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.



CHARTERED ACCOUNTANTS
Colombo
23rd May 2014

Income Statement

For the Year Ended 31st March	Page No.	Note	2014 Rs.	2013 Rs.	Change %
Gross Income	117	4	2,570,624,353	1,879,396,483	36.8
Interest Income	117	5	2,451,800,812	1,791,914,232	36.8
Interest Expense	118	6	(1,340,464,712)	(1,008,844,798)	32.9
Net Interest Income			1,111,336,100	783,069,434	41.9
Fee and Commission Income			43,082,243	31,255,381	37.8
Net Fee and Commission Income			43,082,243	31,255,381	37.8
Net Gain / (Loss) from Trading	118	7	903,092	2,386,146	(62.2)
Other Operating Income	118	8	74,838,206	53,840,724	39.0
Total Operating Income			1,230,159,641	870,551,685	41.3
Impairment (Charges) / Reversals for Loans and other losses	118	9	(210,654,141)	(51,678,935)	307.6
Net Operating Income			1,019,505,500	818,872,750	24.5
Operating Expenses					
Personnel Expenses	118	10	(239,902,299)	(131,946,471)	81.8
Premises Equipment and Establishment Expenses			(55,105,334)	(35,949,026)	53.3
Other Expenses			(235,487,743)	(183,049,067)	28.6
Operating Profit Before Value Added Tax & NBT	119	11	489,010,124	467,928,186	4.5
Value Added Tax on Financial Services & NBT			(46,006,899)	(38,748,927)	18.7
Profit Before Taxation			443,003,225	429,179,259	3.2
Income Tax Expense	119	12	(139,092,992)	(134,646,817)	3.3
Profit for the Year			303,910,233	294,532,442	3.2
Earnings Per Share	120	13			
Basic Earnings Per Share			7.31	7.09	3.2
Diluted Earnings Per Share			7.31	7.09	3.2

The notes on pages 105 to 152 are an integral part of these financial statements.
Figures in brackets indicate deductions.

Statement of Comprehensive Income

For the Year Ended 31st March	Page No.	Note	2014 Rs.	2013 Restated Rs.	Change %
Profit for the Year			303,910,233	294,532,442	3.2
Actuarial Gains / (Losses) on Retirement Benefit Plans	134	34.3	(1,488,824)	(486,670)	205.9
Gains / (Losses) on remeasuring Available For Sale Financial Assets	127	21.1	4,054,987	-	100.0
Tax on Other Comprehensive Income	133	32.2	416,871	119,681	248.3
Other Comprehensive Income for the Year, Net of Tax			2,983,034	(366,989)	(912.8)
Total Comprehensive Income for the Year			306,893,267	294,165,452	4.3

The notes on pages 105 to 152 are an integral part of these financial statements.
Figures in brackets indicate deductions.

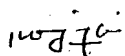
Statement of Financial Position

As at 31st March	Page No.	Note	2014 Rs.	2013 Restated Rs.	Change %
Assets	121	14			
Cash and Cash Equivalents	123	15.1	311,612,928	239,915,519	29.9
Placements with Banks and Other Finance Companies	123	16	1,146,244,786	698,087,988	64.2
Reverse Repurchase Agreements			112,017,262	-	100.0
Financial Investments - Held for Trading	123	17	5,101,684	14,329,011	(64.4)
Loans and Receivables to Finance Companies	124	18	-	16,472,400	(100.0)
Loans and Receivables to Other Customers	124	19	1,149,653,055	631,715,458	82.0
Lease Rental and Hire Purchase Receivables	126	20	8,788,528,303	7,152,325,616	22.9
Financial Investments - Available for Sale	127	21	113,965,232	203,800	55,820.1
Financial Investments - Held to Maturity	128	22	612,634,968	281,718,777	117.5
Other Financial Assets	128	23	7,912,643	6,343,169	24.7
Other Assets	128	24	165,575,145	137,949,157	20.0
Property, Plant and Equipment	129	25	127,325,987	116,748,120	9.1
Intangible Assets	130	26	4,355,878	5,997,534	(27.4)
Deffered Tax Assets	133	32.4	33,785,748	2,142,794	1,476.7
Total Assets			12,578,713,619	9,303,949,343	35.2
Liabilities	121	14			
Bank Overdrafts	123	15.2	233,878,618	360,101,982	(35.1)
Rental Received in Advance			136,928,230	164,624,026	(16.8)
Deposits due to Customers	130	27	9,299,977,850	6,268,210,181	48.4
Interest bearing Borrowings	130	28	542,516,837	951,201,653	(43.0)
Subordinated Term Debts	131	29	898,088,784	399,255,587	124.9
Other Financial Liabilities	132	30	48,884,870	41,463,609	17.9
Current Tax Liabilities	132	31	88,294,895	41,938,998	110.5
Deferred Tax Liabilities	133	32.3	74,288,962	65,089,176	14.1
Other Liabilities	134	33	62,239,217	68,235,470	(8.8)
Retirement Benefit Obligations	134	34	12,872,166	7,652,838	68.2
Total Liabilities			11,397,970,429	8,367,773,520	36.2
Equity					
Stated Capital	135	35	287,153,000	287,153,000	-
Statutory Reserves	136	36	333,906,930	237,580,979	40.5
Available For Sale Reserve	137	37	4,054,987	-	100.0
General Reserve	137	38	7,500,000	7,500,000	-
Retained Earnings	137	39	548,128,273	403,941,844	35.7
Total Equity			1,180,743,190	936,175,823	26.1
Total Liabilities and Equity			12,578,713,619	9,303,949,343	35.2
Net Assets Value Per Share (Rs.)			28.42	22.53	26.1

The notes on pages 105 to 152 are an integral part of these financial statements.
Figures in brackets indicate deductions.

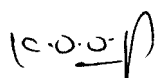
Certification

I certify that these Financial Statements have been prepared and presented in compliance with the requirements of the Companies Act, No.07 of 2007.



K.D. Menaka Sameera
Head of Finance

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements.
Approved and signed for and on behalf of the Board ;



Dhammika Perera
Chairman



S.B. Rangamuwa
Managing Director

23rd May 2014,
Colombo.

Statement of Changes in Equity

	Stated	Statutory Reserves		Available For	General	Retained	Total
	Capital	Reserve	Investment	Sale	Reserve	Earnings	Equity
	Rs.	Fund	Fund	Reserve	Rs.	Rs.	Rs.
		Rs.	Rs.	Rs.			
Balance as at 01st April 2012	287,153,000	87,801,782	42,750,099	-	7,500,000	259,189,630	684,394,511
LKAS 19 - Transitional effect	-	-	-	-	-	(833,540)	(833,540)
Restated Balance as at 01st April 2012	287,153,000	87,801,782	42,750,099	-	7,500,000	258,356,090	683,560,971
Profit for the Year	-	-	-	-	-	294,532,442	294,532,442
Other Comprehensive Income, net of Tax	-	-	-	-	-	(366,989)	(366,989)
Dividends	-	-	-	-	-	(41,550,600)	(41,550,600)
Investment Fund Account Transfers	-	-	49,646,252	-	-	(49,646,252)	-
Statutory Reserve Transfers	-	57,382,846	-	-	-	(57,382,846)	-
Balance as at 31st March 2013	287,153,000	145,184,628	92,396,351	-	7,500,000	403,941,844	936,175,823
Profit for the Year	-	-	-	-	-	303,910,233	303,910,233
Other Comprehensive Income, net of Tax	-	-	-	4,054,987	-	(1,071,953)	2,983,034
Dividends	-	-	-	-	-	(62,325,900)	(62,325,900)
Investment Fund Account Transfers	-	-	35,543,904	-	-	(35,543,904)	-
Statutory Reserve Transfers	-	60,782,047	-	-	-	(60,782,047)	-
Balance as at 31st March 2014	287,153,000	205,966,675	127,940,255	4,054,987	7,500,000	548,128,273	1,180,743,190

The notes on pages 105 to 152 are an integral part of these financial statements.

Figures in brackets indicate deductions.

Cash Flow Statement

For the Year Ended 31st March	Page No.	Note	2014 Rs.	2013 Rs.
Cash Flow from Operating Activities				
Interest and Commission Receipts			2,420,389,662	1,823,046,111
Interest Payments			(1,328,063,518)	(1,116,848,821)
Cash Receipts from Customers			75,149,871	52,348,395
Cash Payments to Employees and Suppliers			(480,934,641)	(318,765,583)
Operating Profit Before Changes in Operating Assets and Liabilities			686,541,374	439,780,102
(Increase) / Decrease in Operating Assets				
Short Term Funds			(1,648,345)	43,397,576
Deposits held for Regulatory or Monetary Control Purposes			(320,931,429)	(86,661,821)
Funds Advanced to Customers			(2,348,996,445)	(1,924,168,920)
Other Short Term Negotiable Securities			(648,647,449)	(452,573,086)
Increase / (Decrease) in Operating Liabilities				
Deposits from Customers			2,841,046,782	2,310,987,332
Certificate of Deposits			152,608,321	46,609,912
Net Cash (Used in) / Generated from Operating Activities before Income Tax			359,972,809	377,371,094
Taxes Paid			(160,030,147)	(147,614,350)
Net Cash (Used in) / Generated from Operating Activities			199,942,662	229,756,744
Cash Flows from Investing Activities				
Dividends Received	118	7	781,589	340,291
Proceed from Sale of Securities			26,130,646	-
Proceed from Sale of Property , Plant and Equipment			3,714,730	395,000
Purchase of Property, Plant and Equipment	129	25	(52,146,159)	(37,505,453)
Purchase of Intangible Assets	130	26	-	(6,669,156)
Net Cash (Used In) / Generated from Investing Activities			(21,519,194)	(43,439,318)
Cash Flows from Financing Activities				
Issue of Debentures			500,000,000	150,000,000
Net Increase in Borrowings			(418,176,795)	(411,508,784)
Dividend Paid			(62,325,900)	(41,550,600)
Net Cash (Used in) / Generated from Financing Activities			19,497,305	(303,059,384)
Net Increase / (Decrease) in Cash & Cash Equivalents			197,920,773	(116,741,958)
Cash & Cash Equivalents at the Beginning of the Year			(120,186,463)	(3,444,505)
Cash & Cash Equivalents at end of the Year (Note A)			77,734,310	(120,186,463)
Note A				
Cash & Cash Equivalents at the end of the Year				
Cash in Hand and at Banks	123	15.1	311,612,928	239,915,519
Bank Overdrafts	123	15.2	(233,878,618)	(360,101,982)
			77,734,310	(120,186,463)

The notes on pages 105 to 152 are an integral part of these financial statements.

Figures in brackets indicate deductions.

Notes to the Financial Statements

1. Reporting Entity

1.1. Corporate Information

Vallibel Finance PLC (“Company”), regulated under the Finance Business Act No. 42 of 2011, was incorporated on 5th September 1974 as a Public Limited Liability Company domiciled in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 7 of 2007.

The registered office of the Company is located at 310, Galle Road, Colombo 03, and the principal place of business is situated at the same place.

The Company was listed on the Main Board of the Colombo Stock Exchange on 4th May 2010.

1.2. Principal Activities and Nature of Operations

The principal activities of the Company are granting finance leases, hire purchase, assets financing, granting of mortgage loans, pawning, mobilisation of deposits and other credit facilities.

1.3. Parent Entity and Ultimate Parent Entity

In the opinion of Directors, the Company’s immediate and ultimate parent undertaking and controlling party is Vallibel Investments (Private) Limited, which is incorporated in Sri Lanka.

2. Basis of Preparation

2.1. Statement of Compliance

The Financial Statements of the Company prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRS) 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 and the Finance Business Act No. 42 of 2011 and amendments thereto, and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

The Company did not adopt any inappropriate accounting treatments which are not in compliance with the requirements of the SLFRSs, and regulations governing the preparation and presentation of the Financial Statements.

The Financial Statements were authorised for issue by the Management on 23rd May 2014.

2.2. Directors’ Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of these Financial Statements as per the provisions of the Companies Act No. 07 of 2007 and SLFRS and Finance Business Act No. 42 of 2011.

The Board of Directors acknowledge their responsibility as set out in the “Annual Report of the Board of Directors”, “Statement of Director’s Responsibility” and the “Statement of Financial Position”.

These Financial Statements include the following components:

- an Income Statement and a Statement of Comprehensive Income providing the information on the financial performance of the Company for the year under review
- a Statement of Financial Position providing the information on the financial position of the Company as at the year-end
- a Statement of Changes in Equity depicting all changes in shareholders’ funds during the year under review of the Company
- a Statement of Cash Flows providing the information to the users, on the ability of the Company to generate cash and cash equivalents and the needs of entities to utilise those cash flows
- Notes to the Financial Statements comprising Accounting Policies and other explanatory information

2.3. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position;

- Held for trading investments in quoted equity instruments are measured at fair value.
- Liability for Defined Benefit Obligations is measured at the projected unit credit method of the defined benefit obligations.
- Available-for -sale financial assets are measured at fair value.
- Land and buildings are measured at cost at the time of acquisition.

2.4. Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company’s functional and presentation currency. All financial information presented in Rupees has been rounded to the nearest Rupee. There was no change in the Company’s Presentation and Functional Currency during the year under review.

2.5. Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the LKAS 01 on “Presentation of Financial Statements”.

2.6. Use of Judgments and Estimates

The preparation of the Financial Statements of the Company in conformity with SLFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Notes to the Financial Statements

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on amounts recognised in the Financial Statements of the Company are as follows:

2.6.1. Going Concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Therefore, continue to adopt the going-concern basis in preparing these Financial Statements.

2.6.2. Fair Value of Financial Instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values.

The Company measures fair value using the fair value hierarchy that reflects the significance of input used in making measurements.

2.6.3. Impairment Losses on Loans and Receivables

The Company reviews its individually significant loans and receivables at each reporting date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. 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 allowance.

Loans and receivables that have been assessed individually and found to be not impaired and all individually insignificant loans and receivables are assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made based on incurred loss events for which there is objective evidence, but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio (such as loan type, levels of arrears etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, inflation, interest rates).

2.6.4. Impairment Losses on Available for Sale Investments

The Company records impairment charges on available for sale equity investments & debt securities when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical

price movements and duration and extent to which the fair value of an investment is less than its cost.

2.6.5. Impairment Losses on Other Assets

The Company assesses whether there are any indicators of impairment for an asset or a cash-generating unit at each Reporting date or more frequently, if events or changes in circumstances necessitate doing so. This requires the estimation of the 'value in use' of such individual assets or the cash-generating units. Estimating value in use requires management to make an estimate of the expected future cash flows from the asset or the cash-generating unit and also to select a suitable discount rate in order to calculate the present value of the relevant cash flows. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence, they are subject to uncertainty.

2.6.6. Defined Benefit Obligation

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making various assumptions determining the discount rates, future salary increases, mortality rates etc. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of Sri Lanka Government bonds with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables. Future salary increases are based on expected future inflation rates and expected future salary increase rate of the Company.

2.6.7. 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. Judgment 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.

2.7. Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the Reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the Reporting Period have been considered and appropriate disclosures are made in the Financial Statements where necessary.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

3.1. Financial Instruments – Initial Recognition, Classification and Subsequent Measurement

3.1.1. Date of Recognition

All financial assets and liabilities except 'Regular way trades' are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument. Regular way trades means 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. Those trades are initially recognised on the settlement date.

3.1.2. Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them.

All financial instruments are initially measured at their fair value plus transaction costs, except in the case of financial assets and liabilities as per the Sri Lanka Accounting Standard – LKAS 39 on "Financial Instruments : Recognition and Measurement" recorded at fair value through profit or loss.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit or loss are dealt with through the Statement of Comprehensive Income.

3.1.3. Classification and Subsequent Measurement of Financial Assets

At inception financial assets are classified into one of the following categories:

- At Fair value through profit or loss
- Held for trading ; or
- Designated at fair value through profit or loss.
- Loans and receivables.
- Held-to-maturity.
- Available for Sale.

The subsequent measurement of the financial assets depends on their classification.

3.1.3.1. Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial

recognition at fair value through profit or loss which are discussed below.

3.1.3.1.1. Financial Assets Held for Trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term Profit or position taking.

Financial assets held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in profit or loss.

The Company evaluates its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Company may elect to reclassify these financial assets in rare circumstances.

3.1.3.1.2. Financial Assets Designated at Fair Value through Profit or Loss

The Company designates financial assets at fair value through profit or loss in the following circumstances:

- The assets are managed, evaluated and reported internally at fair value;
- The designation eliminates or significantly reduces an accounting mismatch, which would otherwise have arisen; or

Financial assets designated at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets and liabilities designated at fair value through profit or loss'. Interest earned is accrued in 'Interest Income', using the EIR, while dividend income is recorded in 'other operating income' when the right to the payment has been established.

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.1.3.2. Loans and Receivables

'Loans and receivables' include nonderivative 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

Notes to the Financial Statements

- Those for which the Company may not recover substantially all of its initial investment, other than because of credit deterioration 'Loans and receivables' include Lease Rental and Hire Purchase Receivables, Loans and Advances and other financial investments classified as loans and receivables of the Company.

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under "Lease Rentals Receivable". Leasing balances are stated in the Statement of Financial Position after deduction of initial rentals received, unearned lease income and the provision for impairment.

Assets sold to customers under fixed rate hire agreements, which transfer all risk and rewards as well as the legal title at the end of such contractual period are classified as 'Hire Purchase Receivable'. Such assets are accounted for in a similar manner as finance leases.

After initial measurement, 'loans and advances' are subsequently measured at amortised cost using the EIR, less allowance for impairment except when the Company recognises loans and receivables at fair value through profit or loss. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'Impairment charges for loans and other losses'.

'Other financial investments classified as loans and receivables' include debt instruments. After initial measurement, these are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

3.1.3.3 Held to Maturity Financial Investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from

impairment of such investments are recognised in the Statement of Comprehensive Income in 'impairment charges for loans and other losses'.

If the Company were to sell or reclassify more than an insignificant amount of Held to Maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'), 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.

3.1.3.4 Available for Sale Financial Investments

Available-for-sale investments include equity securities and debt 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. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in Equity through Other Comprehensive Income in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in Equity is recognised in the Statement of Comprehensive Income in 'Other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding Available-for- Sale financial investments is reported as 'Interest Income' using the EIR.

Dividends earned whilst holding Available-for-Sale financial investments are recognised in the Statement of Comprehensive Income as 'Other operating income' when the right to receive the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income in 'Impairment losses on financial investments' and removed from the 'Available for Sale reserve'.

3.1.3.5 Cash & Cash Equivalents

Cash and cash equivalents comprise of cash in hand and cash at bank and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to an insignificant risk of changes in their fair value.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

3.1.4. Classification and Subsequent Measurement of Financial Liabilities

At inception a financial liability is classified into one of the following categories:

- At fair value through profit or loss
- Held for trading; or
- Designated at fair value through profit or loss.
- At Amortised cost

The subsequent measurement of financial liabilities depends on their classification.

3.1.4.1. Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Gains or losses on liabilities held for trading are recognised in the Statement of Comprehensive Income.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.1.4.2. Financial Liabilities at Amortised Cost

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

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in 'Interest Expenses' in the Statement of Comprehensive Income. Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

3.1.5. Reclassification of Financial Instruments

The Company reclassifies non-derivative financial assets out of the 'held for trading' category and into the 'available-for-sale', 'loans and receivables', or 'held to maturity' categories as permitted by the Sri Lanka Accounting Standards - LKAS 39 on 'Financial Instruments: Recognition and Measurement'. Further, in certain circumstances, the Company is permitted to reclassify financial instruments out of the 'available-for-sale' category and into the 'loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset with a fixed maturity 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 asset using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. In the case of a financial asset does not have a fixed maturity, the gain or loss is recognised in the profit or loss when such financial asset is sold or disposed of. If the financial asset is subsequently determined to be impaired, then the amount recorded in Equity is recycled to the Statement of Comprehensive Income.

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

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

The Company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. Further, the Company does not reclassify any financial instrument out of the fair value through profit or loss category if upon initial recognition it was designated as at fair value through profit or loss.

Notes to the Financial Statements

3.1.6. Derecognition of Financial Assets and Financial Liabilities

3.1.6.1. Financial Assets

Financial assets (or, where applicable or 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; or
- The Company has transferred its rights to 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 assets, 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 flow from an asset or has entered in to a pass through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the assets nor transferred control of it, the asset is recognised to the extent of the Company's continuing involvement in it. In that case, the Company also recognises an associated liability. The transferred assets and the associated liabilities are measured on a basis that reflects the right and obligation 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.

3.1.6.2. Financial Liabilities

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

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, and the difference in the respective carrying amounts are recognised in the profit or loss.

3.1.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Income and expenses are presented on a net basis only when permitted under SLFRSs.

3.1.8. Determination of 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 on the measurement date.

Fair Value Measurement Hierarchy

Level 1

When available, the Company measures the fair value of an instrument using active quoted prices or dealer price quotations (assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price), without any deduction for transaction costs. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, credit models, option pricing models and other relevant valuation models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined by using valuation models that have been tested against prices or inputs to actual market transactions and also using the best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

3.1.9. Impairment of Financial Assets

At each reporting date the Company assesses whether there is objective evidence that a financial asset or a group of financial assets not carried at fair value through profit or loss are 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.

Objective evidence that financial assets (including equity securities) are impaired can include:

- significant financial difficulty of the borrower or issuer,
- rescheduling of credit facilities,
- default or delinquency by a borrower,
- restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

3.1.9.1. Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost (such as lease rental and hire purchase receivables, loans and receivables to other customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of impairment loss is recognised in the Statement of Comprehensive Income.

3.1.9.2. Impairment of Financial Investments - Available for Sale

With regards to 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 based on the same criteria as financial assets carried at amortised cost. 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 Statement of Comprehensive Income. Future interest income is based on the reduced carrying amount/impaired balance 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 on such assets too is recorded within '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 Statement of Comprehensive Income, the impairment loss is reversed through the Statement of Comprehensive Income.

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 Statement of Comprehensive Income is removed from equity and recognised in the Statement of Comprehensive Income. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in Other Comprehensive Income.

3.2. Property, Plant & Equipment

3.2.1. Recognition and measurement

Property, Plant & Equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

Items of property, plant and equipment except freehold land are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased

Notes to the Financial Statements

software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

3.2.2. Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

3.2.3. Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Freehold Buildings	6.67% p.a.
Computer Equipment	25.00% p.a.
Furniture & Fittings	25.00% p.a.
Office Equipment	25.00% p.a.
Freehold Motor Vehicles	25.00% p.a.
Leasehold Motor Vehicles	25.00% p.a.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.2.4. De-recognition

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other operating income/other operating expenses in the Statement of comprehensive income.

3.3. Intangible Assets

The Company's intangible assets include the value of Computer Software.

3.3.1. Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost can be measured reliably.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

3.3.2. Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.

3.3.3. Amortisation of intangible assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives at the rates specified below:

Computer Software	25.00% p.a.
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3.3.4. Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

3.4. Finance and Operating Leases

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

3.4.1. Finance Lease

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

When the Company is a lessee under finance leases, the leased assets are capitalised and included in 'Property, Plant and Equipment' and the corresponding liability to the lessor is included in 'Interest bearing Borrowings'. 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.

3.4.2. Operating Lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, Plant and Equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

When the Company is the lessee, leased assets are not recognised on the statement of financial position. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'Other operating expenses' and 'other operating income', respectively.

3.5. Impairment of Non-Financial Assets

The carrying amounts of the Company's non-financial Assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related Cash-Generating unit (CGU) exceeds its estimated recoverable amount.

The Company's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would

have been determined, net of depreciation, if no impairment loss had been recognised.

3.6. Deposits due to Customers

Deposits include term deposits and certificates of deposits. They are stated in the Statement of Financial Position at the amount payable. Interest paid / payable on these deposits based on effective interest rate is charged to the Statement of Comprehensive income.

3.6.1. Deposit Insurance Scheme

In terms of the Finance Companies Direction No 2 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 all Registered Finance Companies are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010.

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

- Deposit liabilities to member institutions
- Deposit liabilities to Government of Sri Lanka
- Deposit liabilities to shareholders, directors, key management personnel and other related parties as defined in Finance Companies Act Direction No 03 of 2008 on Corporate Governance of Registered Finance Companies
- Deposit liabilities held as collateral against any accommodation granted
- Deposit liabilities falling within the meaning of dormant deposits in terms of the Finance Companies Act, funds of which have been transferred to the Central Bank of Sri Lanka

Registered Finance Companies are required to pay a premium of 0.15% on eligible deposit liabilities as at end of the month to be payable within a period of 15 days from the end of the respective month.

3.7. Debt Securities Issued

These represent the funds borrowed by the Company for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the effective interest method, except where the Company designates debt securities issued at fair value through profit or loss. Interest paid/payable is recognised in profit or loss.

3.8. Other Liabilities

Other liabilities are recorded at amounts expected to be payable at the Reporting date.

Notes to the Financial Statements

3.9. Provisions

A provision is recognised in the Statement of Financial Position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present obligation at the Reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.10. Employee Benefits

3.10.1. Defined Benefit Plan (DBP) - Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan.

The liability recognised in the statement of financial position in respect of a defined benefit plan is the present value of the defined benefit obligation at the reporting date. Benefits falling due more than 12 months after the reporting date are discounted to present value. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS-19, "Employee benefits".

Actuarial gains and losses in the period in which they occur have been recognised in the statement of Other Comprehensive income.

The assumptions based on which the results of the actuarial valuation was determined, are included in notes to the financial statements.

Gratuity liability was computed from the first year of service for all employees in conformity with Sri Lanka Accounting Standards 19 – "Employee Benefits".

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continual service.

The Company is liable to pay gratuity in terms of the relevant statute.

The Gratuity liability is not externally funded.

3.10.2. Defined Contribution Plans (DCPs)

A Defined Contribution Plan is a post- employment plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Defined Contribution Plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.10.2.1. Employees' Provident Fund (EPF)

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the Employees Provident Fund managed by the Central Bank of Sri Lanka.

3.10.2.2. Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund managed by the Central Bank of Sri Lanka.

3.10.3. Short-Term Employee Benefits

Short-Term Employee Benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3.11. 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 and associated costs incurred or to be incurred can be reliably measured. The following specific criteria are used for the purpose of recognition of revenue.

3.11.1. Interest Income and Expense

For all financial instruments measured at amortised cost, interest income and expense are recognised in profit or loss using the Effective Interest Rate (EIR) method. The EIR is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the EIR, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes all material transaction costs and fees and points paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded in 'Interest Income' for financial assets and in '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 EIR from the date of the change in estimate.

3.11.2. Fees and Commission Income and Expense

Fees and commission income and expense that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR. Other fees and commission income are recognised as the related services are performed.

3.11.3. Net Trading Income

Results arising from trading activities include all realised and unrealised gains and losses from changes in fair value, dividends for financial assets and financial liabilities 'held for trading'.

3.11.4. Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

3.12. Income Tax Expense

As per the Sri Lanka Accounting Standard - LKAS 12 on 'Income taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Income Statement except to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognised in Equity or in OCI.

3.12.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted by the Reporting date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. Notes to Financial Statements include the major components of tax expense, the effective tax rates and a reconciliation between the profit before tax and tax expense as required by the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes'.

3.12.2 Deferred Taxation

Deferred tax is provided using the liability method, providing for the tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of assets and liabilities, which is the amount attributed to those assets and liabilities for tax purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted by the reporting date.

Deferred tax assets including those related to temporary tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.13. Value Added Tax (VAT) on Financial Services

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

3.14. Crop Insurance Levy (CIL)

As per the provisions of the Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from April 01, 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

3.15. Earnings per Share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

3.16. Operating Segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Company's Management to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

For each of the strategic divisions, the Company's management monitors the operating results separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profits or losses which, in certain respects, are measured differently from operating profits or losses in the Financial Statements. Income taxes are managed on a Company basis and are not allocated to operating segments. Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard – SLFRS 8 "Operating Segments" is provided in Notes to the Financial Statements.

Notes to the Financial Statements

3.17. Commitments and Contingencies

All discernible risks are accounted for in determining the amount of all known liabilities. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless they are remote.

3.18. Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Lanka Accounting Standard LKAS - 07 "Cash Flow Statements". Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. The cash and cash equivalent include cash in hand and favorable balances with banks.

3.19. New Accounting Standards Issued but not Effective as at Reporting Date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014.

Accordingly, these Standards have not been applied in preparing these financial statements.

- **Sri Lanka Accounting Standards – SLFRS 10 "Consolidated Financial Statements"**
The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

An investor is expected to control an investee if and only if the investor has all the following: power over the investee; exposure, or rights, to variable returns from its involvement with the investee ; and the ability to use its power over the investee to affect the amount of the investor's returns.

SLFRS 10 will become effective from 1st April 2014 with early adoption permitted. This SLFRS will supersede the requirements relating to consolidated financial statements in LKAS 27 "Consolidated and Separate Financial Statements".

- **Sri Lanka Accounting Standards – SLFRS 11 "Joint Arrangements"**
The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

SLFRS 11 will become effective from 1 April 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to consolidated financial statements in LKAS 31 "Interests in Joint Ventures".

- **Sri Lanka Accounting Standard-SLFRS 12 "Disclosure of Interests in Other Entities"**
SLFRS 12 will become effective from 1 April 2014 for the Group with early adoption permitted.
- **Sri Lanka Accounting Standard - SLFRS 13, "Fair Value Measurement"**
This SLFRS defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective for the Group from 1 April 2014. Earlier application is permitted.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

- **Sri Lanka Accounting Standard - SLFRS 9 "Financial Instruments"**
The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

The effective date of this standard has been deferred.

For the Year Ended 31st March

	2014 Rs.	2013 Rs.
4 Gross Income		
Interest Income (Note 5)	2,451,800,812	1,791,914,232
Fee and Commission Income	43,082,243	31,255,381
Net Gain / (Loss) from Trading (Note 7)	903,092	2,386,146
Other Operating Income (Note 8)	74,838,206	53,840,724
	2,570,624,353	1,879,396,483
5 Interest Income		
5.1 Hire Purchase		
Interest Income	777,217,970	647,333,424
Over Due Interest	89,872,122	97,345,239
	867,090,092	744,678,663
5.2 Lease		
Interest Income	1,074,980,994	722,544,461
Over Due Interest	154,223,864	102,189,335
	1,229,204,858	824,733,796
5.3 Personal Loans		
Interest Income	132,132,647	72,697,380
Over Due Interest	17,519,207	9,614,019
	149,651,854	82,311,399
5.4 Fixed Deposit Loans		
Interest Income	19,616,607	19,410,143
Over Due Interest	2,395	-
	19,619,002	19,410,143
5.5 Investment Fund Loans		
Interest Income	11,503,088	10,666,419
Over Due Interest	-	205,378
	11,503,088	10,871,797
5.6 Pawning Advances		
Interest Income	8,002,773	17,205
	8,002,773	17,205
5.7 Fixed Deposits		
Placements with Banks	56,872,603	55,056,715
Placements with Other Finance Companies	53,426,623	14,132,747
	110,299,226	69,189,462
5.8 Staff Loans		
	382,916	112,736
5.9 Short Term Loans		
	-	5,904,273
5.10 Interest on Debentures		
	1,775,392	3,729,600
5.11 Interest Income from Sri Lanka Government Securities		
	54,271,611	30,955,158
	2,451,800,812	1,791,914,232

Notes to the Financial Statements

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

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a Company which derives interest income from the secondary market transactions in Government securities be entitled to a notional tax credit (being one ninth of the net Interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, net income earned from secondary market transactions in Government securities for the year by the Company has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 5,427,161 (2012/13 - Rs. 3,102,599).

For the Year Ended 31st March

	2014 Rs.	2013 Rs.
6 Interest Expense		
On Fixed Deposits	1,095,465,142	760,783,563
On Borrowings	155,860,015	188,738,002
On Finance Leases	648,250	1,153,338
On Certificate of Deposits	27,833,712	10,887,958
On Debentures	60,360,867	45,741,203
On Commercial Papers	296,726	1,540,734
	1,340,464,712	1,008,844,798
7 Net Gain / (Loss) from Trading		
Net marked to Market Gain/ (Loss)	(309,416)	2,045,855
Gain / (Loss) from sale of Financial Investments - Held for Trading	430,919	-
Dividend Income from Financial Investments - Held for Trading	781,589	340,291
	903,092	2,386,146
8 Other Operating Income		
Early Termination Income	43,528,917	31,655,138
Gain on Disposal of Property, Plant & Equipment	513,953	119,939
Amortised Staff Cost - Interest Income	2,065,082	969,671
Other Income	28,730,254	21,095,976
	74,838,206	53,840,724
9 Impairment (Charges) / Reversals for Loans and Other Losses		
On Hire Purchase Receivable	(57,220,458)	(29,551,501)
On Lease Receivable	(144,611,299)	(23,611,956)
On Personal Loans Receivable	(8,527,634)	1,484,522
On Pawning Receivable	(294,750)	-
	(210,654,141)	(51,678,935)
10 Personnel Expenses		
Salaries & Wages	196,153,070	105,951,740
Retirement Benefit Costs (Note 34.2)	3,868,004	2,105,552
Amortised Staff Cost - Personnel Expenses	2,065,082	969,671
Employer's Contribution to Employee's Provident Fund	16,263,054	10,052,170
Employer's Contribution to Employee's Trust Fund	3,970,382	2,466,453
Staff Welfare	17,582,707	10,400,885
	239,902,299	131,946,471

11 Operating Profit Before Value Added Tax & NBT

For the Year Ended 31st March

	2014	2013
	Rs.	Rs.

Operating Profit Before Value Added Tax & NBT is stated after charging all the expenses including the following:

Professional Fees	350,584	2,417,046
Auditors Remuneration - Statutory Audit	895,000	795,000
- Other Non Audit Services	710,000	645,000
Directors Emoluments	16,296,212	20,487,233
Depreciation of Property, Plant and Equipment	38,367,516	26,275,230
Amortisation of Intangible Assets	1,641,656	671,622
Advertising & Related Expenses	40,833,514	38,766,898
Donations	427,025	417,320
Deposit Insurance Premium	10,755,865	6,236,732
Staff Expenses (Note 10)	239,902,299	131,946,471

12 Income Tax Expense

The Company is liable for tax at the rate of 28% on its taxable income in accordance with the Inland Revenue Act No 10 of 2006 and subsequent amendments made thereto. Provision has been made in the financial statements accordingly.

For the Year Ended 31st March

	2014	2013
	Rs.	Rs.

Current Income Tax Expense on Profits for the Year (Note 12.1)	161,817,912	110,181,791
(Over) / Under provision in respect of previous year	(698,622)	-
	161,119,290	110,181,791
Deferred Tax Charge / Reversal for the Year (Note 32.2)	(22,026,298)	24,465,026
	139,092,992	134,646,817

12.1 Reconciliation of Accounting Profit to Income Tax Expense

Profit Before Taxation	443,003,225	429,179,259
Add : Disallowable Expenses	2,655,692,634	1,664,575,498
Less : Tax Deductible Expenses	(2,508,059,149)	(1,694,082,157)
Less : Allowable Credits	(12,715,596)	(6,166,201)
Assessable Income	577,921,114	393,506,399
Less : Qualifying Payments	-	-
Taxable Income	577,921,114	393,506,399
Current Income Tax Expense @ 28%	161,817,912	110,181,791
	161,817,912	110,181,791

Notes to the Financial Statements

12.2 Reconciliation of Effective Tax Rate

For the Year Ended 31st March

	%	2014 Rs.	2013 %	Rs.
Profit Before Income Taxation		443,003,225		429,179,259
Taxable Income	28.0%	124,040,903	28.0%	120,170,192
Disallowable Expenses	167.9%	743,593,938	108.6%	466,081,139
Tax Deductible Expenses	-158.5%	(702,256,562)	-110.5%	(474,343,004)
Allowable Credits	-0.8%	(3,560,367)	-0.4%	(1,726,536)
Effects on Deferred Taxation	-5.0%	(22,026,298)	5.7%	24,465,026
Effects on (Over) / Under provision	-0.2%	(698,622)	-	-
Total Income Tax Expense	31.4%	139,092,992	31.4%	134,646,817

13 Earnings Per Share

13.1 Basic Earnings per Share

The calculation of Basic Earnings Per Share was based on the profit attributable to ordinary shareholders by dividing the weighted average number of ordinary shares outstanding during the year as per the LKAS 33 - Earnings per Share. Calculation is as follows:-

For the year ended 31st March	2014 Rs.	2013 Rs.
Profit Attributable to Ordinary Shareholders	303,910,233	294,532,442
Weighted Average Number of Ordinary Shares (Note 13.1.1)	41,550,600	41,550,600
Basic Earnings Per Share	7.31	7.09

13.1.1 Weighted Average Number of Ordinary Shares

At the beginning of the year	41,550,600	41,550,600
Issued during the year	-	-
Total as at end of the period	41,550,600	41,550,600

13.2 Diluted Earnings per Share

There were no potential dilutive ordinary shares outstanding at any time during the year. Therefore, Diluted Earnings Per Share is same as Basic Earnings Per Share shown above.

14 Analysis of Financial Instruments by Measurement Basis

14.1 Analysis of Financial Instruments by Measurement Basis As at 31st March 2014

	Held For Trading (HFT) Rs.	Held To Maturity (HTM) Rs.	Loans and Receivables (L&R) Rs.	Available For Sale (AFS) Rs.	Others Rs.	Total Rs.
Assets						
Cash and Cash Equivalents	-	-	311,612,928	-	-	311,612,928
Placements with Banks and Other Finance Companies	-	-	1,146,244,786	-	-	1,146,244,786
Reverse Repurchase Agreements	-	-	112,017,262	-	-	112,017,262
Financial Investments - Held for Trading	5,101,684	-	-	-	-	5,101,684
Loans and Receivables to Other Customers	-	-	1,149,653,055	-	-	1,149,653,055
Lease Rental and Hire Purchase Receivables	-	-	8,788,528,303	-	-	8,788,528,303
Financial Investments - Available for Sale	-	-	-	113,965,232	-	113,965,232
Financial Investments - Held to Maturity	-	612,634,968	-	-	-	612,634,968
Other Financial Assets	-	-	7,912,643	-	-	7,912,643
Total Financial Assets	5,101,684	612,634,968	11,515,968,977	113,965,232	-	12,247,670,861
Other Assets	-	-	-	-	165,575,145	165,575,145
Property, Plant and Equipment	-	-	-	-	127,325,987	127,325,987
Intangible Assets	-	-	-	-	4,355,878	4,355,878
Deferred Tax Assets	-	-	-	-	33,785,748	33,785,748
Total Non-financial Assets	-	-	-	-	331,042,758	331,042,758
Total Assets	5,101,684	612,634,968	11,515,968,977	113,965,232	331,042,759	12,578,713,619

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Others Rs.	Total Rs.
Liabilities				
Bank Overdrafts	-	233,878,618	-	233,878,618
Rental Received in Advance	-	136,928,230	-	136,928,230
Deposits due to Customers	-	9,299,977,850	-	9,299,977,850
Interest bearing Borrowings	-	542,516,837	-	542,516,837
Subordinated Term Debts	-	898,088,784	-	898,088,784
Other Financial Liabilities	-	48,884,870	-	48,884,870
Total Financial Liabilities	-	11,160,275,189	-	11,160,275,189
Current Tax Liabilities	-	-	88,294,895	88,294,895
Deferred Tax Liabilities	-	-	74,288,962	74,288,962
Other Liabilities	-	-	62,239,217	62,239,217
Retirement Benefit Obligations	-	-	12,872,166	12,872,166
Total Non-financial Liabilities	-	-	237,695,240	237,695,240
Total Liabilities	-	11,160,275,189	237,695,240	11,397,970,429

Notes to the Financial Statements

14.2 Analysis of Financial Instruments by Measurement Basis As at 31st March 2013

	Held For Trading (HFT) Rs.	Held To Maturity (HTM) Rs.	Loans and Receivables (L&R) Rs.	Available For Sale (AFS) Rs.	Others Rs.	Total Rs.
Assets						
Cash and Cash Equivalents	-	-	239,915,519	-	-	239,915,519
Placements with Banks and Other Finance Companies	-	-	698,087,988	-	-	698,087,988
Financial Investments - Held for Trading	14,329,011	-	-	-	-	14,329,011
Loans and Receivables to Finance Companies	-	-	16,472,400	-	-	16,472,400
Loans and Receivables to Other Customers	-	-	631,715,458	-	-	631,715,458
Lease Rental and Hire Purchase Receivables	-	-	7,152,325,616	-	-	7,152,325,616
Financial Investments - Available for Sale	-	-	-	203,800	-	203,800
Financial Investments - Held to Maturity	-	281,718,777	-	-	-	281,718,777
Other Financial Assets	-	-	6,343,169	-	-	6,343,169
Total Financial Assets	14,329,011	281,718,777	8,744,860,150	203,800	-	9,041,111,738
Other Assets	-	-	-	-	137,949,157	137,949,157
Property, Plant and Equipment	-	-	-	-	116,748,120	116,748,120
Intangible Assets	-	-	-	-	5,997,534	5,997,534
Deferred Tax Assets	-	-	-	-	2,142,794	2,142,794
Total Non-financial Assets	-	-	-	-	262,837,605	262,837,605
Total Assets	14,329,011	281,718,777	8,744,860,150	203,800	262,837,605	9,303,949,343

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Others Rs.	Total Rs.
Liabilities				
Bank Overdrafts	-	360,101,982	-	360,101,982
Rental Received in Advance	-	164,624,026	-	164,624,026
Deposits due to Customers	-	6,268,210,181	-	6,268,210,181
Interest bearing Borrowings	-	951,201,653	-	951,201,653
Subordinated Term Debts	-	399,255,587	-	399,255,587
Other Financial Liabilities	-	41,463,609	-	41,463,609
Total Financial Liabilities	-	8,184,857,038	-	8,184,857,038
Current Tax Liabilities	-	-	41,938,998	41,938,998
Deferred Tax Liabilities	-	-	65,089,176	65,089,176
Other Liabilities	-	-	68,235,470	68,235,470
Retirement Benefit Obligations	-	-	7,652,838	7,652,838
Total Non-financial Liabilities	-	-	182,916,482	182,916,482
Total Liabilities	-	8,184,857,038	182,916,482	8,367,773,520

As at 31st March 2014
Rs. 2013
Rs.

15 Cash and Cash Equivalents

Cash & Cash Equivalents (Note 15.1)	311,612,928	239,915,519
Bank Overdrafts	(233,878,618)	(360,101,982)
Net Cash and Cash Equivalents	77,734,310	(120,186,463)
15.1 Cash at Banks	268,597,934	202,465,392
Cash in Hand	43,014,994	37,450,127
	311,612,928	239,915,519
15.2 Bank Overdrafts	(233,878,618)	(360,101,982)

16 Placements with Banks and Other Finance Companies

Placements with Banks and Other Finance Companies	1,146,244,786	698,087,988
	1,146,244,786	698,087,988

	Institute	Type of Investment	2014 Rs.	2013 Rs.
Placements with Banks	PABC Bank	Fixed Deposit	480,598,767	225,969,452
	Peoples' Bank	Fixed Deposit	-	230,000,000
Other Finance Companies	LB Finance PLC	Fixed Deposit	436,819,615	242,118,536
	Peoples' Leasing & Finance PLC	Fixed Deposit	228,826,404	-
			1,146,244,786	698,087,988

17 Financial Investments - Held for Trading

As at 31st March 2014
Rs. 2013
Rs.

Quoted Equities (Note 17.1)	5,101,684	14,329,011
	5,101,684	14,329,011

17.1 Investments in Quoted Equities

Balance at the Beginning of the year	14,329,011	12,283,156
Movement during the year	(8,917,911)	-
Gain / (Loss) from marked to Market valuation	(309,416)	2,045,855
Balance at the End of the Year	5,101,684	14,329,011

Notes to the Financial Statements

	No of Ordinary shares as at 31/03/2014	Cost of Investment Rs.	Market Price as at 31/03/2014 Rs.	Market value as at 31/03/2014 Rs.	Market Price as at 31/03/2013 Rs.	Market value as at 31/03/2013 Rs.
Bank, Finance & Insurance						
Ceylinco Insurance PLC	-	-	-	-	999.90	60,994
DFCC PLC	-	-	-	-	131.10	188,784
National Development Bank PLC	-	-	-	-	165.00	7,590
Union Assurance PLC	-	-	-	-	85.70	8,399
Union Bank of Colombo PLC	-	-	-	-	17.00	214,200
Singer Finance (Lanka) PLC	103,000	1,918,331	12.10	1,246,300	12.60	1,297,800
Land & Property						
Cargo Boat PLC	-	-	-	-	78.00	7,800
Manufacturing						
Regnis Ceylon PLC	-	-	-	-	59.90	93,444
Diversified Holdings						
Free Lanka Capital Holdings PLC	1,835,898	8,628,721	2.10	3,855,384	2.50	12,450,000
Total Quoted Equities	1,938,898	10,547,052		5,101,684		14,329,011

18 Loans and Receivables to Finance Companies

As at 31st March	2014 Rs.	2013 Rs.
Loans and Receivables to Finance Companies		
Gross Loans and Receivables	-	16,472,400
Less :- Allowance for Individual Impairment	-	-
Net Loans and Receivables	-	16,472,400
 Quoted Debentures (Note 18.1)	 -	 16,472,400
	-	16,472,400

18.1 Quoted Debentures

	No of Debentures	Cost of investment Rs.	Value as at 31/03/2014 Rs.	Value as at 31/03/2013 Rs.
LB Finance PLC	15,540	15,540,000	-	16,472,400
Total Quoted Debentures	15,540	15,540,000	-	16,472,400

19 Loans and Receivables to Other Customers

As at 31st March	2014 Rs.	2013 Rs.
Gross Loans and Receivables	1,166,502,196	639,742,214
Less :- Allowance for Impairment	(16,849,141)	(8,026,756)
Net Loans and Receivables (Note 19.1)	1,149,653,055	631,715,458

As at 31st March

	2014 Rs.	2013 Rs.
19.1 Net Loans and Receivables		
19.1.1 Receivable on Loans and Advances	964,990,255	428,827,098
19.1.2 Receivable on Loans against Fixed Deposits	72,618,762	99,680,898
19.1.3 Receivable on Investment Fund Loans	49,451,599	101,626,308
19.1.4 Receivable on Pawning	62,592,439	1,581,154
	1,149,653,055	631,715,458
19.1.1 Receivable on Loans and advances		
Future receivable	1,276,849,417	514,114,063
Future interest	(295,304,771)	(77,260,209)
Gross loans	981,544,646	436,853,854
Allowance for impairment	(16,554,391)	(8,026,756)
Net Receivable on Loans and Advances	964,990,255	428,827,098
19.1.2 Receivable on Loans against Fixed Deposits		
Future receivable	72,618,762	99,680,898
Future interest	-	-
Gross loans	72,618,762	99,680,898
Allowance for impairment	-	-
Net Receivable on Loans against Fixed Deposits	72,618,762	99,680,898
19.1.3 Receivable on Investment Fund Loans		
Future receivable	63,672,691	139,791,949
Future interest	(14,221,092)	(38,165,641)
Gross loans	49,451,599	101,626,308
Allowance for impairment	-	-
Net Receivable on Investment Fund Loans	49,451,599	101,626,308
19.1.4 Receivable on Pawning		
Future receivable	62,887,189	1,581,154
Future interest	-	-
Gross loans	62,887,189	1,581,154
Allowance for impairment	(294,750)	-
Net Receivable on Pawning	62,592,439	1,581,154
19.1.5 Allowance for Impairment		
Balance brought forward	8,026,756	9,511,278
Net impairment charge / (reverse) for the year	8,822,385	(1,484,522)
Balance carried forward	16,849,141	8,026,756

Notes to the Financial Statements

20 Lease Rental and Hire Purchase Receivables

As at 31st March

	2014 Rs.	2013 Rs.
20.1 Hire Purchase Receivables	3,925,564,405	3,176,213,979
20.2 Lease Rental Receivables	4,862,963,898	3,976,111,637
	8,788,528,303	7,152,325,616
20.1 Hire Purchase Receivables		
20.1.1 Future Receivables	5,459,868,972	4,372,349,705
Future Interest	(1,393,899,995)	(1,112,951,612)
Gross Hire Purchase Receivables	4,065,968,977	3,259,398,093
Allowance for Impairment (Note 20.1.5)	(140,404,572)	(83,184,114)
Net Hire Purchase Receivables	3,925,564,405	3,176,213,979
20.1.2 Hire purchase receivables within one year from Statement of Financial Position date		
Future Receivables	2,376,064,886	2,028,583,231
Future Interest	(722,724,453)	(599,567,880)
	1,653,340,433	1,429,015,351
20.1.3 Hire purchase receivables after one year but before five years from Statement of Financial Position date		
Future Receivables	3,083,416,586	2,343,766,474
Future Interest	(671,116,598)	(513,383,732)
	2,412,299,988	1,830,382,742
20.1.4 Hire purchase receivables after five years from Statement of Financial Position date		
Future Receivables	387,500	-
Future Interest	(58,944)	-
	328,556	-
20.1.5 Allowance for Impairment		
Balance brought forward	83,184,114	53,632,613
Net impairment charge / (reverse) for the year	57,220,458	29,551,501
Balance carried forward	140,404,572	83,184,114
20.2 Lease Rental Receivables		
20.2.1 Future Receivables	6,748,387,222	5,510,863,159
Future Interest	(1,694,566,666)	(1,488,506,163)
Gross Lease Rental Receivables	5,053,820,556	4,022,356,996
Allowance for Impairment (Note 20.2.5)	(190,856,658)	(46,245,359)
Net Lease Rental Receivables	4,862,963,898	3,976,111,637
20.2.2 Lease rental receivables within one year from Statement of Financial Position date		
Future Receivables	3,277,621,691	2,455,263,271
Future Interest	(963,603,954)	(801,749,260)
	2,314,017,737	1,653,514,011

As at 31st March 2014
Rs. 2013
Rs.

20.2.3 Lease rentals receivables after one year but before five years from Statement of Financial Position date

Future Receivables	3,470,671,981	3,055,599,888
Future Interest	(730,960,311)	(686,756,903)
	2,739,711,670	2,368,842,985

20.2.4 Lease rentals receivables after five years from Statement of Financial Position date

Future Receivables	93,550	-
Future Interest	(2,401)	-
	91,149	-

20.2.5 Allowance for Impairment

Balance brought forward	46,245,359	22,633,403
Net impairment charge / (reverse) for the year	144,611,299	23,611,956
Balance carried forward	190,856,658	46,245,359

21 Financial Investments - Available for Sale

As at 31st March 2014
Rs. 2013
Rs.

Government of Sri Lanka Treasury Bonds (Note 21.1)	113,761,432	-
Unquoted Equities - (Note 21.2)	203,800	203,800
	113,965,232	203,800

21.1 Government of Sri Lanka Treasury Bonds

Balance at the Beginning of the year	-	-
Movement During the year	109,706,445	-
Gain / (Loss) on marked to Market valuation	4,054,987	-
Balance at the End of the year	113,761,432	-

21.2 Unquoted Equities

	No of Ordinary shares as at 31/03/2014 Rs.	Cost of investment Rs.	Market Value/ Manager's Buying Price as at 31/03/2014 Rs.	Market Value/ Manager's Buying Price as at 31/03/2013 Rs.
Credit Information Bureau of Sri Lanka	38	3,800	3,800	3,800
Finance House Association	20,000	200,000	200,000	200,000
		203,800	203,800	203,800

All unquoted Available for sale Equities are recorded at cost, since there is no market value for these investments and the Company intends to hold them for the long term.

Notes to the Financial Statements

22 Financial Investments - Held to Maturity

As at 31st March	2014 Rs.	2013 Rs.
Government of Sri Lanka Treasury Bills - Face Value	649,173,451	310,107,099
Less:- Income allocated for future periods	(36,538,483)	(28,388,322)
	612,634,968	281,718,777

23 Other Financial Assets

Staff Loans (Note 23.1)	7,912,643	6,343,169
	7,912,643	6,343,169

23.1 Staff Loans

Balance at the beginning of the year	6,343,169	5,373,594
Granted during the year	8,047,000	5,760,000
Recovered during the year	(5,793,183)	(4,284,734)
Net change in Prepaid Staff Cost during the year	(684,343)	(505,691)
Balance at the end of the year	7,912,643	6,343,169

23.2 Staff loans have been granted to 41 employees (2013- 21 employees) during the financial year under consideration.

24 Other Assets

As at 31st March	2014 Rs.	2013 Rs.
Refundable Deposits	11,090,611	8,880,585
Withholding Tax Receivable	15,073,873	7,809,054
Value Added Tax Recoverable	88,027,302	93,250,711
Prepaid Staff Cost	4,128,110	3,443,767
Real State Stock	2,800,000	-
Advance Payments	3,027,500	2,066,428
Other Debtors	41,427,749	22,498,612
	165,575,145	137,949,157

25 Property, Plant and Equipment

	Freehold Land	Freehold Building	Computer Equipment	Furniture & Fittings	Office Equipment	Freehold Motor Vehicles	Leasehold Motor Vehicles	Total 2014	Total 2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost									
As at 01st April 2013	30,000,000	4,000,000	24,529,589	64,189,005	25,530,148	7,525,481	12,795,000	168,569,223	131,568,770
Additions	-	-	8,549,415	27,302,919	15,828,825	465,000	-	52,146,159	37,505,453
Disposals/Transfers	-	-	(2,615,539)	(349,440)	(243,051)	244,268	(2,170,000)	(5,133,762)	(505,000)
As at 31st March 2014	30,000,000	4,000,000	30,463,465	91,142,484	41,115,922	8,234,749	10,625,000	215,581,620	168,569,223
Accumulated Depreciation									
As at 01st April 2013	-	657,973	8,283,544	27,610,254	9,182,511	1,658,853	4,427,968	51,821,103	25,775,812
Depreciation	-	266,800	5,929,699	17,953,001	7,793,863	1,820,142	4,604,011	38,367,516	26,275,230
Disposals/Transfers	-	-	(219,498)	(2,377)	(54,860)	513,749	(2,170,000)	(1,932,986)	(229,939)
As at 31st March 2014	-	924,773	13,993,745	45,560,878	16,921,514	3,992,744	6,861,979	88,255,633	51,821,103
Carrying Amount									
As at 31st March 2014	30,000,000	3,075,227	16,469,720	45,581,606	24,194,408	4,242,005	3,763,021	127,325,987	-
As at 31st March 2013	30,000,000	3,342,027	16,246,045	36,578,751	16,347,637	5,866,628	8,367,032	-	116,748,120

25.1 Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st March 2014, no provision was required to be made in the Financial statements.

25.2 Property, Plant & equipment included fully depreciated assets having a gross amount of Rs. 6,547,965 /- as at 31st March 2014 (2012/13 Rs. 4,206,618).

25.3 There were no capitalised borrowing costs related to the acquisition of Property, Plant & Equipment during the year (2012/13 - nil).

25.4 There were no restrictions on the title of the Property, Plant & Equipment as at 31st March 2014.

25.5 There were no items of Property, Plant & Equipment pledged as security as at 31st March 2014.

25.6 There were no items of Property, Plant & Equipment retired from the active use as at 31st March 2014.

25.7 There were no temporary idle items of Property, Plant & Equipment as at 31st March 2014.

25.8 Details of freehold properties of the Company are given below.

	Extent Perches	Buildings Sq.ft.	Cost of Land Rs.	Cost of Building Rs.	Accumulated Depreciation Rs.	Net Book Value 2014	2013
Maharagama Branch	15.2		30,000,000			30,000,000	30,000,000
126-5, Highlevel Road, Maharagama.		4,990		4,000,000	924,773	3,075,227	3,342,027

Notes to the Financial Statements

26 Intangible Assets

As at 31st March	2014 Rs.	2013 Rs.
Computer Software (Note 26.1)	4,355,878	5,997,534
	4,355,878	5,997,534

26.1 Intangible Assets

Cost		
As at 01st April 2013	6,669,156	-
Additions	-	6,669,156
Disposals/Transfers	-	-
As at 31st March 2014	6,669,156	6,669,156
Accumulated Amortisation		
As at 01st April 2013	671,622	-
Charge for the year	1,641,656	671,622
Disposals/Transfers	-	-
As at 31st March 2014	2,313,278	671,622
Carrying Amount		
As at 31st March 2014	4,355,878	-
As at 31st March 2013	-	5,997,534

27 Deposits due to Customers

Fixed Deposits (Note 27.1)	9,053,071,869	6,173,912,521
Certificate of Deposits (Note 27.2)	246,905,981	94,297,660
	9,299,977,850	6,268,210,181

27.1 Analysis of Fixed Deposits by Maturity Date

1 to 90 days	3,581,325,014	3,159,538,697
91 to 365 days	4,197,371,510	2,335,915,075
More than 365 days	1,274,375,345	678,458,749
	9,053,071,869	6,173,912,521

27.2 Analysis of Certificate of Deposits by Maturity Date

1 to 90 days	44,530,587	9,536,960
91 to 365 days	178,644,715	77,799,085
More than 365 days	23,730,679	6,961,615
	246,905,981	94,297,660

28 Interest bearing Borrowings

Institutional Borrowings (Note 28.1)	538,398,812	943,918,946
Finance Lease Liabilities (Note 28.2)	4,118,025	7,282,707
	542,516,837	951,201,653

28.1 Institutional Borrowings

	As at 31/03/2013 Rs.	Facility Obtained Rs.	Repayments Rs.	As at 31/03/2014 Rs.	Tenure of Loan	Security Offered
Bank of Ceylon	67,950,166	190,000,000	84,061,323	173,888,843	36 - 48 Months	Quoted Shares and personal guarantee of Chairman & Lease Portfolio
Deutsche Bank	40,496,867	-	29,796,965	10,699,902	48 Months	Lease Portfolio
Deutsche Bank	251,985,274	-	231,933,492	20,051,782	48 Months	Lease Portfolio
Deutsche Bank	114,715,726	-	114,715,726	-	17 Months	Lease Portfolio
Deutsche Bank	-	386,450,000	52,691,715	333,758,285	48 Months	Lease Portfolio
PABC Bank PLC	87,286,036	-	87,286,036	-	60 Months	Lease Portfolio
PABC Bank PLC	94,000,000	-	94,000,000	-	60 Months	Lease Portfolio
Seylan Bank PLC	287,484,877	-	287,484,877	-	36 - 48 Months	Lease Portfolio
	943,918,946	576,450,000	981,970,134	538,398,812		

28.1.1 Details of Borrowings

	As at 31st March 2014 Rs.	Terms of Repayment Period	Repayment Terms
Bank of Ceylon	173,888,843	36 - 48 Months	Monthly rentals
Deutsche Bank	10,699,902	48 Months	Monthly rentals
Deutsche Bank	20,051,782	48 Months	Monthly rentals
Deutsche Bank	333,758,285	48 Months	Monthly rentals
	538,398,812		

28.2 Finance Lease Liabilities

	Within 1 Yr Rs.	1-5 Yrs Rs.	After 5 Yrs Rs.	2014 Rs.	2013 Rs.
Lease Payables	3,324,328	1,108,108	-	4,432,436	8,245,369
Interest In Suspense	(298,062)	(16,349)	-	(314,411)	(962,662)
	3,026,266	1,091,759	-	4,118,025	7,282,707

29 Subordinated Term Debts

As at 31st March	2014 Rs.	2013 Rs.
Balance as at 1st April 2013	399,255,587	232,764,384
Movement during the year	498,833,197	166,491,203
Balance as at 31st March 2014	898,088,784	399,255,587

Notes to the Financial Statements

29.1 In 2011 Company issued 225,000 Unsecured Subordinate Redeemable Debentures at the value of Rs.1,000/- each accumulated to Rs.225,000,000/- with maturity of five years at the rate of 13.00% paid by annually. The issue was carried out in two tranches.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity Date	Effective Annual yield % as at 31st March 2014	Amortised Cost as at 31st March 2014 Rs.
2011 / 2016 - 13.00% p.a.	Annually	19-Dec-11	18-Dec-16	13.00%	103,668,494
2011 / 2016 - 13.00% p.a.	Annually	30-Dec-11	29-Dec-16	13.00%	129,095,890
					232,764,384

In 2013 Company issued 150,000 Unsecured Subordinate Redeemable Debentures at the value of Rs.1,000/- each accumulated to Rs.150,000,000/- with maturity of five years at floating rate of 364 Days TB rate (Gross) + 4.50% paid by annually. The issue was carried out in three tranches.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity Date	Effective Annual yield % as at 31st March 2014	Amortised Cost as at 31st March 2014 Rs.
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	14-Aug-12	13-Aug-17	18.08%	54,508,705
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	15-Aug-12	14-Aug-17	18.08%	21,795,606
2012/2017 - 364 Days TB rate (Gross) + 4.50%	Annually	27-Aug-12	26-Aug-17	18.08%	86,804,403
					163,108,715

In 2014 Company further issued 5,000,000 Unsecured Subordinated Redeemable Debentures at the value of Rs.100/- each accumulated to Rs. 500,000,000 with maturity of five years. The debentures are quoted on the Colombo Stock Exchange.

Debenture Category	Interest Payment Frequency	Allotment Date	Maturity Date	Effective Annual yield % as at 31st March 2014	Amortised Cost as at 31st March 2014 Rs.
2014/2019 - 14.75% p.a.	Quarterly	20-Feb-14	20-Feb-19	15.59%	352,170,186
2014/2019 - 15.00% p.a.	Bi-annually	20-Feb-14	20-Feb-19	15.56%	19,889,502
2014/2019 - 15.50% p.a.	Annually	20-Feb-14	20-Feb-19	15.50%	130,155,997
					502,215,685

30 Other Financial Liabilities

As at 31st March	2014 Rs.	2013 Rs.
Insurance Payable	48,884,870	41,422,687
Vendor Payable	-	40,922
	48,884,870	41,463,609

31 Current Tax Liabilities

Balance as at 1st April 2013	41,938,998	52,416,626
Income Tax Provision on Current Year Profits	161,817,912	110,181,791
Paid and Set off During the Year	(115,462,015)	(120,659,419)
Balance as at 31st March 2014	88,294,895	41,938,998

32 Deferred Tax Liabilities

As at 31st March	2014 Rs.	2013 Restated Rs.
Deferred Tax Liabilities (Note 32.3)	74,288,962	65,089,176
Deferred Tax Assets (Note 32.4)	(33,785,748)	(2,142,794)
Net Deferred Tax Liabilities (Note 32.1)	40,503,214	62,946,382

32.1 Recognised Deferred Tax Assets & Liabilities

Deferred tax assets and liabilities are attributable to the following originations of temporary differences;

Taxable / (Deductible) Temporary Differences	2014 Rs.	2013 Rs.
Property, Plant & Equipment	14,436,648	12,233,191
Lease Capital Balance	187,828,196	216,849,017
Legal Termination Receivables	63,052,875	3,379,133
Taxable Temporary Differences	265,317,719	232,461,341
Retirement Benefit Obligation	(12,872,166)	(7,652,838)
Unclaimed Impairment Provisions	(107,791,224)	-
Total Taxable Temporary Differences (net)	144,654,329	224,808,503
Applicable Tax Rate	28%	28%
Net Deferred Tax Liabilities / (Assets)	40,503,214	62,946,382

32.2 Deferred Tax Expense

Origination of Deferred tax

Liability (Note 32.3)	9,199,786	25,071,167
Asset (Note 32.4)	(31,642,954)	(725,822)
	(22,443,168)	24,345,345
Total expense charged / (reversed) to Income Statement	(22,026,298)	24,465,026
Total expense charged / (reversed) to OCI	(416,871)	(119,681)

	Temporary Difference Rs.	2014 Tax Effect Rs.	Temporary Difference Rs.	2013 Tax Effect Rs.
32.3 Deferred Tax Liabilities				
Balance as at 1st April 2013	232,461,341	65,089,176	142,921,458	40,018,009
Originating during the year	32,856,377	9,199,786	89,539,883	25,071,167
Balance as at 31st March 2014	265,317,718	74,288,962	232,461,341	65,089,176
32.4 Deferred Tax Assets				
Balance as at 1st April 2013	7,652,838	2,142,794	5,060,616	1,416,972
Originating during the year	113,010,550	31,642,954	2,592,222	725,822
Balance as at 31st March 2014	120,663,388	33,785,748	7,652,838	2,142,794

Notes to the Financial Statements

33 Other Liabilities

As at 31st March	2014 Rs.	2013 Rs.
Other Payables (Note 33.1)	48,326,466	67,634,959
Accrued Expenses	13,912,751	600,511
	62,239,217	68,235,470

33.1 Other Payables

RMV Payable	1,068,450	727,890
Stamp Duty Payable	13,593,005	12,339,990
VAT on Financial Services Payable	3,317,408	3,418,444
Other Payables	30,347,603	51,148,635
	48,326,466	67,634,959

34 Retirement Benefit Obligations

As at 31st March	2014 Rs.	2013 Restated Rs.
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34.1 Net (Asset) Liability Recognised in Statement of Financial Position

Balance as at 1st April 2013	7,652,838	5,060,616
Charge for the Year (Note 34.2 & 34.3)	5,356,828	2,592,222
Payments during the Year	(137,500)	-
Balance as at 31st March 2014	12,872,166	7,652,838

34.2 Amounts Recognised in Income Statement

Service cost	2,949,664	1,599,491
Net interest on the net defined benefit liability / (asset)	918,340	506,061
	3,868,004	2,105,552

34.3 Amounts Recognised in OCI

Liability (gains) losses due to changes in assumptions	(1,606,276)	(1,177,261)
Liability experience (gains) losses arising during the year	3,095,100	1,663,931
	1,488,824	486,670

34.4 Defined Benefit Obligation Reconciliation

Benefit obligation at end of prior year	7,652,838	5,060,616
Company service cost	2,949,664	1,599,491
Interest cost	918,340	506,061
Actual benefits paid directly by employer	(137,500)	-
(Gain) loss due to changes in assumptions	(1,606,276)	(1,177,261)
Experience (gain) / loss	3,095,100	1,663,931
Benefit obligation at end of year	12,872,166	7,652,838

An Actuarial Valuation of the Employee Benefit Liability as at 31st March 2014 was carried out by Messers Piyal S Goonetilleke and Associates, a firm of professional actuaries.

The valuation has been done using the "Projected Unit Credit Method", which is recommended in the Sri Lanka Accounting Standard - LKAS 19 "Employee Benefits".

34.5 Assumptions

Discount Rate	10.0%	11.0%
Salary increment	10.0%	12.0%
Staff Turnover		
20 years	15.0%	15.0%
25 years	15.0%	15.0%
30 years	9.0%	9.0%
35 years	6.0%	6.0%
40 years	1.0%	1.0%
45 years	1.0%	1.0%
50 years	1.0%	1.0%
Mortality - GA 1983 Mortality Table		
Retirement age	55 Years	55 Years

Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the Employment Benefit Liability measurement.

The sensitivity of the Income Statement and the Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the Profit or Loss & Employment Benefit Obligation for the year.

Increase/(Decrease) in discount rate	Increase/(Decrease) in salary increment	2014	
		Sensitivity effect on Income Statement Increase/(Reduction) in results for the year (Rs.)	Sensitivity effect on Employment Benefit Obligation Increase/(Decrease) in the Liability (Rs.)
1%		1,402,514	(1,402,514)
-1%		(1,699,252)	1,699,252
	1%	(1,652,303)	1,652,303
	-1%	1,392,505	(1,392,505)

35 Stated Capital

As at 31st March	2014 Rs.	2013 Rs.
Ordinary Shares (Note 35.1)	287,153,000	287,153,000
No. of Shares (Note 35.2)	41,550,600	41,550,600

35.1 Movement of Stated Capital

As at the Beginning of the Year	287,153,000	287,153,000
Issued during the Year	-	-
As at the End of the Year	287,153,000	287,153,000

Notes to the Financial Statements

As at 31st March

	2014	2013
	Rs.	Rs.

35.2 Movement of no. of Shares

At the Beginning of the Year	41,550,600	41,550,600
Issued During the Year	-	-
As at the End of the Year	41,550,600	41,550,600

36 Statutory Reserves

As at 31st March

	2014	2013
	Rs.	Rs.

Statutory Reserve Fund (Note 36.1)	205,966,675	145,184,628
Investment Fund Account (Note 36.2)	127,940,255	92,396,351
As at the End of the Year	333,906,930	237,580,979

36.1 Statutory Reserve Fund

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

As at 31st March

	2014	2013
	Rs.	Rs.

As at the Beginning of the Year	145,184,628	87,801,782
Transfers during the Year	60,782,047	57,382,846
As at the End of the Year	205,966,675	145,184,628

36.2 Investment Fund Account (IFA)

Finance Companies are required to transfer 8% of profits calculated for the payment of Value Added Tax (VAT) on financial services and 5% of the profit before tax calculated for the payment of income tax to a fund identified as "Investment Fund Account" (IFA) as per a proposal made in the Government Budget 2011. The guidelines have also been issued by the Central Bank of Sri Lanka on utilisation of funds in this account.

As at 31st March

	2014	2013
	Rs.	Rs.

At the Beginning of the Year	92,396,351	42,750,099
Transfers during the Year	35,543,904	49,646,252
As at the End of the Year	127,940,255	92,396,351

36.2.1 Total Loans granted

The Company has financed several projects utilising funds available in the IFA. The details of loans granted under IFA are as follows:

Sector	Outstanding Balance	Number of Loans Outstanding	Rate of Interest	Tenure of Loans Years
	Rs.		%	
Infrastructure development	49,451,599	5	7.14% - 9.27%	5
	49,451,599			

36.2.2 Investments in Government Securities

	Face Value Rs.	Year of Maturity	Cost of Investment Rs.	Carrying Value Rs.	Rate of Interest %
Treasury Bond	23,000,000	2021	20,288,323	22,754,383	9.00%
Treasury Bond	30,000,000	2021	26,165,130	29,675,812	9.00%
Treasury Bond	27,000,000	2021	23,967,468	26,705,244	9.00%
Treasury Bond	35,000,000	2021	34,235,215	34,625,993	9.00%
Short Term Government Securities	2,000,000	2014	2,000,000	2,000,000	5.25%
	117,000,000		106,656,136	115,761,432	

The Carrying value of the investments in Treasury Bonds using IFA balance was classified as Available for Sale. (Note 21.1)

37 Available for Sale Reserve

As at 31st March	2014 Rs.	2013 Rs.
At the Beginning of the Year	-	-
Net gains / (losses) on remeasuring Available for Sale financial investments	4,054,987	-
As at the End of the Year	4,054,987	-

The Available for Sale reserve comprises the cumulative net change in fair value of available-for-sale financial investments, until the assets are derecognised or impaired.

38 General Reserve

As at 31st March	2014 Rs.	2013 Rs.
General Reserve (Note 38.1)	7,500,000	7,500,000
	7,500,000	7,500,000

38.1 General Reserve

General reserve comprises the amounts appropriated by the Board of Directors as a General Reserve.

39 Retained Earnings

As at 31st March	2014 Rs.	2013 Restated Rs.
At the Beginning of the Year	403,941,844	258,356,090
Total Comprehensive Income		
Profit for the Year	303,910,233	294,532,442
Other Comprehensive Income for the year net of tax	(1,071,953)	(366,989)
Transfers to Other Reserves	(96,325,951)	(107,029,098)
Dividends	(62,325,900)	(41,550,600)
At the End of the Year	548,128,273	403,941,844

Notes to the Financial Statements

40 Related Party Disclosures

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in the Sri Lanka Accounting Standard - LKAS 24 "Related Party Disclosures", the details of which are reported below. The pricing applicable to such transactions is based on the assessment of risk and the pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated Customers.

40.1 Parent & Ultimate Controlling Party

In the opinion of Directors, the Company's immediate and ultimate parent undertaking and controlling party is Vallibel Investments (Private) Limited.

40.2 Transactions with Key Management Personnel (KMPs)

According to Sri Lanka Accounting Standard - LKAS 24 "Related Party Disclosures", Key management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors (including executive and non-executive Directors) and their Close Family Members (CFM) have been classified as Key Management Personnel of the Company.

Close Family Members (CFM) of the KMPs are those family members who may be expected to influence or be influenced by that KMPs in their dealing with the entity. They may include KMPs domestic partner and children of the KMPs domestic partner and dependants of the KMPs and the KMPs domestic partner.

40.2.1 Compensation paid to KMPs

	2014 Rs.	2013 Rs.
Short term employment benefits	16,296,212	20,487,233
Post employment benefits	-	-

40.2.2 Transactions, Arrangements and Agreements Involving KMPs and Their CFMs

	2014 Rs.	2013 Rs.
Deposits Held by KMPs and Their CFMs		
Mrs.P.I.Perera	31,167,979	17,551,673
Mr.M.D.S.Goonatilleke	9,000,000	8,000,000
Mr.S.Senaratne	6,000,000	1,000,000
Miss W.C.Senaratne	1,000,000	1,000,000
Miss P.M.Senaratne	1,000,000	1,000,000
Mr.D.J.Senaratne	3,200,000	2,500,000
Mr.K.D.A.Perera	44,241,813	45,212,000
Mr.K.D.H.Perera	89,404,064	56,784,000
Mr.H.K.Perera	5,000,000	5,000,000
Miss M.T.D. Perera	5,000,000	5,000,000
Mr.P.B.Perera	5,000,000	5,000,000
Mr.K.D.D.Perera	1,000,000	1,000,000

40.2.3 Transactions, Arrangements and Agreements involving Entities which are controlled and/or jointly controlled by the KMPs or their CFMs

Name of the Company	Relationship	Nature of Services	Amount Received/(Paid)		Balance as at 31 March	
			2013/14 Rs.	2012/13 Rs.	2014 Rs.	2013 Rs.
Pan Asia Banking Corporation PLC	Affiliate	Term Loan	(87,286,036)	(26,050,228)	-	87,286,036
		Term Loan	(94,000,000)	(24,000,000)	-	94,000,000
		Call Deposits	(251,165,068)	5,000,000	456,165,068	205,000,000
		Current Account	(20,434,712)	9,109,059	29,543,771	9,109,059
		Overdraft	-	(5,451,013)	-	-
LB Finance PLC	Affiliate	Finance Lease	(479,030)	(709,726)	-	479,030
		Debentures	15,540,000	-	-	15,540,000
		Fixed Deposit - Invested	(185,000,000)	215,000,000	425,000,000	240,000,000
		Fixed Deposit - Held	-	-	15,000,000	15,000,000
Vallibel One PLC	Affiliate	Fixed Deposit - Held	(214,462,534)	105,000,000	390,537,466	605,000,000
		Debentures	-	150,000,000	375,000,000	375,000,000
La - Forteresse (Pvt) Ltd	Affiliate	Fixed Deposit - Held	40,000,000	-	40,000,000	-
Vallibel Power Erathna PLC	Affiliate	Fixed Deposit - Held	49,423,721	-	49,423,721	-
Sampath Bank PLC	Affiliate	Current Account	(4,039,504)	(1,179,184)	6,097,046	2,057,542

From time to time Directors of the Company, or their related entities, may transact with the Company. These transactions are on the same terms and conditions as those entered into by other customers.

40.3 Related Party transactions exceeding 10% of the Equity or 5% of the total Assets of the Entity as per Audited Financial Statements, whichever is lower.

Name of the Related Party	Relationship	Terms of the Transaction	Date	2014 Rs.	Rationale for Entering Transaction
Pan Asia Banking Corporation PLC	Affiliate	OD facility at the interest rate of 12.5% p.a. on demand	30-Sep-10	150,000,000	To meet day to day working capital requirements
Vallibel One PLC	Affiliate	Debentures taken for 13% for 5 year maturity	19-Dec-11 30-Dec-11	225,000,000	To expand the capital base of the company
Vallibel One PLC	Affiliate	Debentures taken for 01 Year Gross T.B Rate + 4.50% for 5 year maturity	14-Aug-12 15-Aug-12 27-Aug-12	150,000,000	To expand the capital base of the company
Vallibel One PLC	Affiliate	Fixed Deposits taken for 9.75% - 13.00% for 03 and 06 Months Maturity	26-Jan-14 to 27-Mar-14	390,537,466	To support further expansion of Business
LB Finance PLC	Affiliate	Investments made in Fixed Deposits for 9.75% - 13.00% for 03 to 12 Months Maturity	13-Nov-13 to 28-Feb-14	350,000,000	To invest excess funds of the Company
Pan Asia Banking Corporation PLC	Affiliate	Investments made in Fixed Deposits for 8.00% - 12.50% for 03 to 12 Months Maturity	9-Sep-13 to 31-Mar-14	456,165,068	To Meet Liquidity Requirements

Notes to the Financial Statements

41 Commitments and Contingent Liabilities

41.1 Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these Financial Statements amounted approximately to;

As at 31st March	2014 Rs.	2013 Rs.
Approved and contracted for	1,000,000	-
Approved and not contracted for	-	-
	1,000,000	-

41.2 Financial Commitments

The Company leases a number of office buildings under operating leases. The leases typically run for a period of 10 years with an option to renew the lease after that date.

As at 31st March	2014 Rs.	2013 Rs.
Less than one year	40,719,586	26,154,806
Between one and five years	161,285,060	125,064,289
More than five years	73,546,251	101,962,511
	275,550,897	253,181,606

41.3 Litigations against the Company

There were no material Litigations & Claims as at the Reporting date which require disclosure in the Financial Statements.

42 Assets Pledged

The following assets have been pledged as securities against the long-term and short-term borrowings that have been disclosed under the Note 28 to the Financial Statements.

Funding institute	Nature of Assets	Nature of Liability	Value of Assets Pledged (Rs.)	Included Under
Bank of Ceylon	Leases & Hire Purchases Receivable	Long -term Borrowings	421,859,856	Future Rental Receivables
Pan Asia Banking Corporation PLC	Leases & Hire Purchases Receivable	Long -term Borrowings & Bank Overdraft	279,578,634	Future Rental Receivables
Seylan Bank PLC	Leases & Hire Purchases Receivable	Long-term Borrowings & Bank Overdraft	251,452,859	Future Rental Receivables
Deutsche Bank	Leases & Hire Purchases Receivable	Long-term Borrowings	1,216,524,652	Future Rental Receivables

In the ordinary course of business the Company enters into transaction that result in the transfer of financial assets to third parties. The information above sets out the extent of such transfers and retained interest in transferred assets.

The Company has transferred future rental receivable of Leases & Hire purchases, but has retained substantially all of the credit risk associated with the transferred assets. Due to the retention of substantially all the risk and rewards on these assets, the company continues to recognise these assets within Lease Rental Receivable and Hire Purchase Receivable.

43 Events After the Reporting Period

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

43.2 The Central Bank of Sri Lanka (CBSL), requested all Finance Companies to take necessary steps to comply with the Financial Sector Consolidation Programme, which was announced consequent to the last budget proposals. Currently the Company is in the process of evaluating suitable options available under this programme.

44 Comparative Figures

The previous year's figures have been re-arranged wherever necessary to confirm to the current year's presentation and disclosure.

45 Segment Reporting

The Company has four reportable segments, as described below, which are the Company's strategic business lines. The strategic business lines offer different products and services, and are managed and monitored separately based on the Company's management and internal reporting structure. For each of the strategic business line, the Company Management reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

- Finance Lease
- Hire Purchase
- Loans and Advances
- Investments

Information regarding the results of each reportable segment is included below. Performance is measured based on segment revenue, as included in the internal management reports that are reviewed by the Company Management. Segment revenue is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

45.1 Business Segments

For the year ended 31 March	Finance Lease		Hire Purchase		Loans & Advances		Investments		Unallocated		Total	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Income From												
External Operations												
Interest	1,229,205	824,734	867,090	744,679	188,777	112,611	166,729	109,891	-	-	2,451,801	1,791,914
Administration Fees	-	-	-	-	-	-	-	-	43,082	31,255	43,082	31,255
Capital Gains	-	-	-	-	-	-	122	2,046	-	-	122	2,046
Dividends	-	-	-	-	-	-	782	340	-	-	782	340
Other	-	-	43,529	31,655	-	-	-	-	31,308	22,186	74,837	53,841
Total Revenue	1,229,205	824,734	910,619	776,334	188,777	112,611	167,633	112,277	74,390	53,441	2,570,624	1,879,396
Profit Before Tax	-	-	-	-	-	-	-	-	-	-	443,003	429,179
Taxation	-	-	-	-	-	-	-	-	-	-	(139,093)	(134,647)
Profit After Tax											303,910	294,532
Other Information												
As at 31 March												
Segment Assets	4,862,964	3,976,112	3,925,564	3,176,214	1,149,653	631,715	1,989,964	1,010,812	650,568	509,096	12,578,713	9,303,949
Segment Liabilities	4,417,026	3,554,379	3,556,261	2,857,755	1,060,758	594,560	1,781,507	891,083	582,419	469,997	11,397,970	8,367,774
Net Assets	445,938	421,733	369,304	318,459	88,895	37,155	208,457	119,729	68,149	39,099	1,180,743	936,175

Notes to the Financial Statements

46 Prior Year Adjustments

LKAS 19 - Employee Benefits (Bound Volume 2013) disallows the use of corridor method but allows immediate recognition of actuarial gain or loss derived from defined benefit obligations through Other Comprehensive Income. The Company adopted the corridor method in previous years. In compliance with LKAS 19 - Employee Benefits (Bound Volume 2013), with effect from 1st April 2012 the Company changed its accounting policy to recognise actuarial gain or loss immediately through Other Comprehensive Income. Accordingly comparative figures for the year ended 31st March 2013 have been restated by following amounts:

	As Previously Reported Rs.	Adjustments	Restated Rs.
Statement of Comprehensive Income for the year ended 31st March 2013			
Profit for the year	294,532,442	-	294,532,442
Actuarial Gains / (Losses) on Retirement Benefit Plans	(59,239)	(427,431)	(486,670)
Deferred Tax effect	-	119,681	119,681
Other Comprehensive Income for the Year, Net of Tax	(59,239)	(307,750)	(366,989)
Total Comprehensive Income for the Year	294,473,203	(307,750)	294,165,452

Statement of Financial Position as at 31st March 2013

Assets			
Deferred Tax Assets	1,698,960	443,834	2,142,794
	1,698,960	443,834	2,142,794
Liabilities			
Retirement Benefit Obligations	6,067,712	1,585,126	7,652,838
	6,067,712	1,585,126	7,652,838
Equity			
Retained Earnings	405,083,134	(1,141,290)	403,941,844
	405,083,134	(1,141,290)	403,941,844

The effect of this application has been accounted for retrospectively, since the adjustment to Statement of Financial Position as at 1st April 2012 is immaterial, three statements of financial position have not been presented.

47 No. of Employees of the Company as at the Reporting Date

No. of Employees of the company as at 31st March 2014 is 433 (2013 - 307).

48 Determination of Fair Value and Fair Value Hierarchy

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a traded price may not be possible. In these circumstances, the Company uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Fair values are determined according to the following hierarchy:-

Level 1:- Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2:- Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
As at 31st March 2014				
Financial Investments - Held for Trading				
Equity Shares - Quoted	5,101,684	-	-	5,101,684
	5,101,684	-	-	5,101,684
Financial Investments - Available for Sale				
Equity Shares - Unquoted	-	-	203,800	203,800
Government of Sri Lanka Treasury Bonds	-	113,761,432	-	113,761,432
	-	113,761,432	203,800	113,965,232
As at 31st March 2013				
Financial Investments - Held for Trading				
Equity Shares - Quoted	14,329,011	-	-	14,329,011
	14,329,011	-	-	14,329,011
Financial Investments - Available for Sale				
Equity Shares - Unquoted	-	-	203,800	203,800
	-	-	203,800	203,800

There were no transfers between Level 1, Level 2 and Level 3 during 2013 and 2014.

49 Fair Value of Financial Instruments Carried at Amortised Cost

The following table summarises the carrying amounts and the company's estimate of fair values of those financial assets and liabilities not presented on the company's statement of financial position at 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. The fair values in the table below may be different from the actual amounts that will be received/ paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions which are not observable in the market.

As at 31st March	2014	
	Carrying amount Rs.	Fair value Rs.
Financial Assets		
Cash and Cash Equivalents	311,612,928	311,612,928
Placements with Banks and Other Finance Companies	1,146,244,786	1,146,244,786
Reverse Repurchase Agreements	112,017,262	112,017,262
Loans and Receivables to Other Customers	1,149,653,055	1,147,659,537
Lease Rental and Hire Purchase Receivables	8,788,528,303	8,900,239,198
Financial Investments - Held to Maturity	612,634,968	610,080,366
Other Financial Assets	7,912,643	7,912,643
	12,128,603,945	12,235,766,720

Notes to the Financial Statements

As at 31st March

	2014 Carrying amount Rs.	Fair value Rs.
Financial Liabilities		
Bank Overdrafts	233,878,618	233,878,618
Rental Received in Advance	136,928,230	136,928,230
Deposits Due to Customers	9,299,977,850	9,299,977,850
Interest Bearing Borrowings	542,516,837	542,516,837
Subordinated Term Debts	898,088,784	892,649,062
Other Financial Liabilities	48,884,870	48,884,870
	11,160,275,189	11,154,835,467

Given below are the methodologies and assumptions used in fair value estimates.

Cash and Cash Equivalents

The carrying amounts of cash and cash equivalents, approximate their fair value as those are short-term in nature and are receivable on demand.

Placements with Banks and Other Finance Companies

The carrying amounts of placements with banks and other finance companies, approximate their fair value as those are short-term in nature. Almost all of these balances have a remaining maturity of less than one year from the reporting date and from that approximately 70% of the portfolio have a remaining maturity of less than six months from the reporting date.

Reverse Repurchase Agreements

These are short-term reverse repurchase contracts which will be matured within twelve months from the reporting date and thus the carrying amounts of such contracts approximate to their fair values.

Loans and Receivables to Other Customers

Fair value of the Loans and Receivables to Other Customers is the present value of future cash flows expected to be received from such loans and receivables calculated based on interest rates at the reporting date for similar types of loans and receivables. The Company calculated the fair value of the Loans and Receivables to Other Customers based on interest rates at the reporting date for similar types of loans and receivables. Accordingly such loans had a fair value of Rs. 1,147,659,537 as at 31st March 2014 as against its carrying value amounted to Rs. 1,149,653,055.

Lease Rental and Hire Purchase Receivables

Fair value of the Lease Rental and Hire Purchase Receivables is the present value of future cash flows expected to be received from such receivables calculated based on interest rates at the reporting date for similar types of receivables. The Company calculated the fair value of the Lease Rental and Hire Purchase Receivables based on interest rates at the reporting date for similar types of receivables. Accordingly such receivables had a fair value of Rs. 8,900,239,198 as at 31st March 2014 as against its carrying value amounted to Rs. 8,788,528,303.

Financial Investments - Held to Maturity

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity, and which were not designated as fair value through profit or loss or as available-for-sale. However for the disclosure purpose the company has calculated the fair value of such assets based on price formula applicable to such instruments at the reporting date. For the treasury bills held under HTM portfolio, fair value has been calculated using the two way quotes published by the Central Bank of Sri Lanka.

Other Financial Assets

Other Financial Assets include the staff loans granted to the employees of the company and these balances have been fair valued as of the reporting date based on the prevailing market rates.

Bank Overdrafts

The carrying amounts of bank overdrafts, approximate their fair value as those are short-term in nature.

Rental Received in Advance

The carrying amounts of rental received in advance, approximate their fair value as those are short-term in nature. Majority of these balances have a remaining maturity of less than one year from the reporting date.

Deposits Due to Customers

More than 86% of the customer deposits have a remaining contractual maturity of less than one year. Customer deposits with a contractual maturity of more than one year are subject to pre-mature upliftment. Amounts paid to customers in the event of pre-mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Interest Bearing Borrowings

62% of the portfolio represents a borrowing obtained within 6 months from the reporting period date. This is a fixed rate borrowing and contracted rate at the time of obtaining borrowing is not materially different to the market rate as at 31st March 2014. Thus the carrying value of this borrowing is a close approximation of the fair value as at the reporting date. Interest bearing borrowings include both fixed rate and floating rate borrowings. Floating rate borrowings represent nearly 33% of the portfolio. Accordingly carrying value of the floating rate borrowings approximate to their fair values as of the reporting date. Rest of the borrowings have a remaining contractual maturity of less than one year. Therefore fair value of interest bearing borrowings approximate to the carrying value as of the reporting date.

Subordinated Term Debts

55% of the portfolio represent debentures issued within 2 months from the reporting date. These are fixed rate debentures and contracted rate at the time of issuing debentures are not materially different to market rate/ceiling rate imposed by CBSL as at 31st March 2014. Thus the carrying value of these debentures are close approximate of the fair value as of the reporting date. Subordinated term debts include both fixed and variable rate debentures. Carrying value of the variable rate debentures approximate to their fair values as at the reporting date. In respect of other fixed rate debentures, fair value has been determined by discounting the future cash flows by the market rate/ceiling rate as at the reporting date for similar instruments.

Other Financial Liabilities

The carrying amounts of other financial liabilities, approximate their fair value as those are short-term in nature.

50 Financial Risk Management

(a) Introduction and Overview

The Company has exposure to following risks from financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk Management Framework

The Board of Directors possess overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has delegated this responsibility to two sub committees of the Board.

The Audit Committee is responsible for monitoring and reviewing risk management policies and procedures and reviewing the adequacy of risk management framework in relation to the risks faced by the company. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The Audit Committee presents vital matters to the Board whenever required and seeks for review and approval of the Board.

Notes to the Financial Statements

The Board has established the Integrated Risk Management Committee (IRMC) which is responsible for developing and monitoring risk management policies and procedures in specified risk areas. With the cooperation of the management, the committees make decisions on behalf of the Board. Senior Management is responsible for implementing the risk management framework by identifying risks and managing those risks with appropriate risk mitigation strategies. Monthly risk review reports are submitted by the respective senior manager who supervises each major category of risk.

(b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For risk management reporting purposes the Company considers and consolidates all elements of credit risk exposure (such as individual obligations or default risk and sector risk).

The Board of Directors delegated responsibility for the overseeing of credit risk to its Company Credit Committee. A separate Company Credit department, reporting to the Company Credit Committee is responsible for management of the Company's credit risk, including:

- Formulating credit policies in consultation with business lines, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities: Authorisation limits are allocated to business line Credit Officers. Large facilities require approval by the Board of Directors as appropriate.
- Reviewing and assessing credit risk.
- Company's Credit Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business line concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances) , and by issuer and market liquidity.

Non-performing Loans and Leasing and Hire Purchase Facilities

Individually non-performing loans and securities are loans and advances and hire purchase facilities for which the Company determines that there is objective evidence of impairment and those for which it does not expect to collect all principal and interest due according to the contractual terms of the loan / hire purchase facility (ies).

Facilities with renegotiated terms

Facilities with renegotiated terms are loans and hire purchase and lease facilities that have been restructured due to deterioration in the borrower's financial position and where the Company has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for Impairment

The main components of this allowance are a specific loss component that relates to individually significant exposures and collective impairment component.

Write-off policy

The Company writes off a loan or a hire purchase and lease facility balance, and any related allowances for impairment losses, when the management of the Company determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The Company holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Maximum Exposure to Credit Risk

Credit Quality by Class of Financial Assets

Credit quality of the company based on the class of financial assets is analysed below.

As at 31st March 2014	Neither past due not individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Cash and Cash Equivalents	311,612,928	-	-	311,612,928
Placements with Banks and Other Finance Companies	1,146,244,786	-	-	1,146,244,786
Reverse Repurchase Agreements	112,017,262	-	-	112,017,262
Financial Investments - Held for Trading	5,101,684	-	-	5,101,684
Loans and Receivables to Other Customers	575,026,619	580,401,450	11,074,127	1,166,502,196
Less : Impairment	-	-	-	(16,849,141)
Lease Rental and Hire Purchase Receivables	2,952,280,287	5,903,349,622	264,159,624	9,119,789,533
Less : Impairment	-	-	-	(331,261,230)
Financial Investments - Available for Sale	113,965,232	-	-	113,965,232
Financial Investments - Held to Maturity	612,634,968	-	-	612,634,968
Other Financial Assets	7,912,643	-	-	7,912,643
	5,836,796,409	6,483,751,072	275,233,751	12,247,670,861

Age analysis of Past Due (i.e facilities in arrears of 1day and above) but not individually impaired financial assets	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loans and Receivables to Other Customers	253,901,893	154,600,355	59,625,292	112,273,910	580,401,450
Lease Rental and Hire Purchase Receivables	1,895,977,653	1,653,407,363	1,119,425,233	1,234,539,373	5,903,349,622
	2,149,879,546	1,808,007,718	1,179,050,525	1,346,813,283	6,483,751,072

As at 31st March 2013	Neither past due not individually impaired Rs.	Past due but not individually impaired Rs.	Individually impaired Rs.	Total Rs.
Cash and Cash Equivalents	239,915,519	-	-	239,915,519
Placements with Banks and Other Finance Companies	698,087,988	-	-	698,087,988
Financial Investments - Held for Trading	14,329,011	-	-	14,329,011
Loans and Receivables to Finance Companies	16,472,400	-	-	16,472,400
Loans and Receivables to Other Customers	331,140,452	250,687,913	57,913,850	639,742,215
Less : Impairment	-	-	-	(8,026,756)
Lease Rental and Hire Purchase Receivables	2,161,267,935	4,993,834,896	126,652,257	7,281,755,088
Less : Impairment	-	-	-	(129,429,473)
Financial Investments - Available for Sale	203,800	-	-	203,800
Financial Investments - Held to Maturity	281,718,777	-	-	281,718,777
Other Financial Assets	6,343,169	-	-	6,343,169
	3,749,479,051	5,244,522,809	184,566,107	9,041,111,738

Notes to the Financial Statements

Age analysis of Past Due (i.e facilities in arrears of 1day and above) but not individually impaired financial assets	Less than 31 days Rs.	31 to 60 days Rs.	61 to 90 days Rs.	More than 90 days Rs.	Total Rs.
Loans and Receivables to Other Customers	682,523,339	76,465,548	45,670,987	46,028,039	250,687,913
Lease Rental and Hire Purchase Receivables	1,350,937,746	1,679,015,646	1,032,022,284	931,859,220	4,993,834,896
	1,433,461,085	1,755,481,194	1,077,693,271	977,887,259	5,244,522,809

Analysis of Risk Concentration

Provincial breakdown for Lease Rental and Hire Purchase Receivables (gross balances) from customers is as follows.

Province	Lease Rental Receivables		Hire Purchase Receivables	
	2014 Rs.	2013 Rs.	2014 Rs.	2013 Rs.
Western	2,975,338,865	2,717,557,537	2,836,425,997	2,534,213,678
Southern	548,573,590	330,363,879	317,628,717	183,885,297
Sabaragamuwa	511,629,616	226,614,907	256,576,989	127,185,416
Central	326,413,072	340,030,114	172,873,662	180,279,762
Uva	93,638,212	41,986,581	85,457,270	35,278,050
Eastern	9,244,353	12,836,572	13,007,512	9,949,746
North Western	540,629,963	314,661,178	351,904,196	163,167,376
North Central	48,211,676	37,535,141	28,530,948	20,297,832
Northern	141,209	771,087	3,563,686	5,140,936
	5,053,820,556	4,022,356,996	4,065,968,977	3,259,398,093

(c) Liquidity Risk

Liquidity risk is that which the Company will encounter in terms of difficulties in meeting obligations associated with its financial liabilities which are settled by delivering cash or other financial assets. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. Finance Division receives information from other business lines regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Finance Division then maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, fixed and call deposits and short term government securities, to ensure that sufficient liquidity is maintained within the Company as a whole. All liquidity policies and procedures are subject to review and approval by Integrated Risk Management Committee. Daily reports cover the liquidity position of the Company. A summary report, including any exceptions and remedial action taken, is submitted regularly to Integrated Risk Management Committee. The Company relies on deposits from customers and borrowing liabilities as its primary sources of funding. While the Company's borrowing liabilities have maturities of over one year, deposits from customers generally have shorter maturities. The short-term nature of these deposits increases the Company's liquidity risk and the Company actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to Liquidity Risk

Exposure to Liquidity Risk is monitored through the Liquid Asset Ratio (LAR) of the Company.

As at 31st March	2014	2013
Liquid Asset Ratio (LAR)		
Average for the year	13.55%	15.00%
Maximum for the year	15.82%	17.38%
Minimum for the year	11.47%	12.87%

Components of the Company's liquid assets used for the purpose of calculating the Statutory Liquid Asset Ratio as at 31st March is given below.

As at 31st March	2014 Rs.	2013 Rs.
Cash in Hand	41,435,765	37,276,406
Balances in Current Accounts free from lien	260,092,829	202,335,857
Deposits in Commercial Banks free from lien	456,165,068	435,000,000
Sri Lanka Government Treasury Bills and Treasury Bonds, maturing within one year, free from any lien or charge	713,898,662	308,107,099
Total Liquid Assets as at end of March	1,471,592,324	982,719,362

An analysis of the interest bearing assets and liabilities employed by the Company as at 31st March 2014, based on the remaining period at the Statement of Financial Position date to the respective contractual maturity date is given below;

	Up to 3 months Rs.	3 to 12 months Rs.	1 to 3 years Rs.	3 to 5 years Rs.	More than 5 years Rs.	Total Rs.
Interest Bearing Assets						
Placements with Banks and Other Finance Companies	309,304,795	836,528,896	411,095	-	-	1,146,244,786
Reverse Repurchase Agreements	112,017,262	-	-	-	-	112,017,262
Financial Investments - Available for Sale	4,300,928	-	-	-	109,664,304	113,965,232
Financial Investments - Held to Maturity	-	612,634,968	-	-	-	612,634,968
Loans and Receivables to Other Customers*	297,727,739	292,056,408	409,989,994	148,936,529	942,385	1,149,653,055
Finance Lease Receivables*	749,956,394	1,373,204,684	2,396,968,058	342,743,612	91,149	4,862,963,897
Hire Purchase Receivables*	526,366,806	986,569,056	1,972,617,935	439,682,053	328,556	3,925,564,406
Total Interest Bearing Assets	1,999,673,924	4,100,994,012	4,779,987,082	931,362,194	111,026,394	11,923,043,606
Percentage 2014	17%	34%	40%	8%	1%	
Percentage 2013	23%	28%	41%	8%	0%	
Interest Bearing Liabilities						
Bank Overdrafts	233,878,618	-	-	-	-	233,878,618
Interest Bearing Borrowings	73,991,369	169,002,675	290,176,466	9,346,327	-	542,516,837
Subordinated Term Debts	23,088,784	-	225,000,000	650,000,000	-	898,088,784
Deposits Due to Customers - Public Deposits	3,581,325,014	4,197,371,510	957,913,676	316,461,669	-	9,053,071,869
Deposits Due to Customers - Certificate of Deposits	44,530,587	178,644,715	23,730,679	-	-	246,905,981
Total Interest Bearing Liabilities	3,956,814,372	4,545,018,900	1,496,820,821	975,807,996	-	10,974,462,209
Percentage 2014	36%	41%	14%	9%	0%	
Percentage 2013	44%	37%	12%	7%	0%	

* Loans and Receivables to Other Customers and Lease Rental & Hire Purchase Receivables are reported net of impairment.

(d) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices that affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Overall authority for market risk is vested in the Integrated Risk Management Committee (IRMC) of the Company.

Notes to the Financial Statements

Interest Rate Risk

Interest Rate Risk arises due to fluctuations in the interest rate resulting in adverse impact to future cash flows or the fair values of financial instruments of the Company.

Rate Sensitive Assets (RSA) and Rate Sensitive Liabilities (RSL)

As at 31st March	2014 Rs.	2013 Rs.
Rate Sensitive Assets (RSA)	11,923,043,606	8,757,624,630
Rate Sensitive Liabilities (RSL)	10,974,462,209	7,618,667,420
GAP (RSA-RSL)	948,581,400	1,138,957,210

Equity Risk

Equity risk is the risk that company's investments in equity shares will depreciate because of stock market dynamics causing company to lose money.

Equity based Investment Portfolio Risk Analysis

The given below Analysis shows the maximum impact of change in the equity prices to the comprehensive income as at 31st March each Financial Year.

	Market Value as at 31st March 2014 Rs.	Lowest Market Value for last 2 years Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value Rs.
Bank , Finance & Insurance	1,246,300	1,081,500	164,800
Diversified Holdings	3,855,384	2,386,667	1,468,717
	5,101,684	3,468,167	1,633,517

	Market Value as at 31st March 2013 Rs.	Lowest Market Value for last 2 years Rs.	Effect to the Comprehensive Income if the market price drops to the lowest value Rs.
Bank , Finance & Insurance	1,777,767	1,451,324	326,443
Land & Property	7,800	5,800	2,000
Manufacturing	93,444	88,920	4,524
Diversified Holdings	12,450,000	6,474,000	5,976,000
	14,329,011	8,020,044	6,308,967

(e) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation

of controls is to address operational risk assigned to senior management within each business line. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial actions.
- Development of contingency plans.
- Training and professional development.
- Risk mitigation, including insurance where it is effective.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business line to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

Capital Management

The Regulatory Capital requirements for the Finance Companies are set by the Central Bank of Sri Lanka.

The details of the computation of risk weighted assets, capital base and the capital adequacy ratios of the Company are given below:

Capital Adequacy

Total Risk Weighted Assets Computation

Assets	Balance		Risk Weight %	Risk Weighted Balance	
	2014	2013		2014	2013
As at 31st March					
Cash and Cash Equivalents	311,612,928	239,915,519	0%	-	-
Placements with Banks and Other Finance Companies	1,146,244,786	698,087,988	20%	229,248,957	139,617,598
Reverse Repurchase Agreements	112,017,262	-	0%	-	-
Financial Investments - Held for Trading (excluding items deducted from the total Capital)	5,101,684	13,918,437	100%	5,101,684	13,918,437
Financial Investments - Available for Sale					
Government of Sri Lanka Treasury Bonds	113,761,432	-	0%	-	-
Unquoted Equities	203,800	203,800	100%	203,800	203,800
Financial Investments - Held to Maturity	612,634,968	281,718,777	0%	-	-
Loans and Receivables :					
Loans against Fixed Deposits	72,618,762	99,680,899	0%	-	-
Loans against Gold and Gold Jewellery (Less than 10% in Total Advances)	62,592,439	1,581,154	0%	-	-
Loans and Receivables to Finance Companies	-	16,472,400	100%	-	16,472,400
Loans and Receivables to Other Customers	1,014,441,854	530,453,406	100%	1,014,441,854	530,453,406
Lease Rental and Hire Purchase Receivables	8,788,528,303	7,152,325,616	100%	8,788,528,303	7,152,325,616
Other Financial Assets	7,912,643	6,343,169	100%	7,912,643	6,343,169
Other Assets	165,575,145	137,949,157	100%	165,575,145	137,949,157
Property, Plant and Equipment	127,325,987	116,748,120	100%	127,325,987	116,748,120
Intangible Assets	4,355,878	5,997,534	100%	4,355,878	5,997,534
Deferred Tax Assets	33,785,748	2,142,794	100%	33,785,749	2,142,794
Total Risk Weighted Assets	12,578,713,619	9,303,538,771		10,376,480,000	8,122,172,031

Notes to the Financial Statements

Total Capital Base Computation

As at 31st March	2014 Rs.	2013 Restated Rs.
Tier I : Core Capital		
Stated Capital	287,153,000	287,153,000
Statutory Reserve Fund	205,966,675	145,184,628
General Reserve	7,500,000	7,500,000
Retained Earnings	548,128,273	403,941,844
Total Tier I Capital	1,048,747,948	843,779,472
Tier II : Supplementary Capital		
Eligible Approved Unsecured Subordinated Term Debt	524,373,974	330,000,000
Total Eligible Tier II Capital	524,373,974	330,000,000
Total Capital	1,573,121,922	1,173,779,472
Deductions		
Investments in capital of other banks	-	410,574
Capital Base	1,573,121,922	1,173,368,898

Computation of Capital Adequacy Ratios

Core Capital Ratio (Minimum Requirement 5%)	10.11%	10.39%
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$$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$$

Total Risk Weighted Capital Ratio (Minimum Requirement 10%)	15.16%	14.45%
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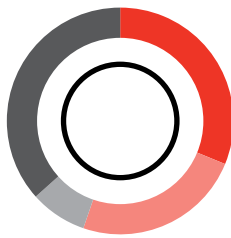
$$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}} \times 100$$

Value Added Statement

	2014		2013	
	Rs.	%	Rs.	%
Value Added				
Income from Interest Related Activities	2,451,800,812	95%	1,791,914,232	95%
Income from Other Activities	118,823,541	5%	87,482,251	5%
	2,570,624,353	100%	1,879,396,483	100%
Depositors & Lenders	1,340,464,712	74%	1,008,844,798	81%
Cost of Sales & Services	250,583,905	14%	192,110,480	15%
Impairment Charges for Loans and Other Losses	210,654,141	12%	51,678,935	4%
	1,801,702,758	100%	1,252,634,213	100%
Total Value Added	768,921,595		626,762,270	
Distribution of Value Added				
To Employees as Remuneration	239,902,299	31%	131,946,471	21%
To Government as Taxation	185,099,891	24%	173,395,744	28%
To Providers of Capital as Dividend	62,325,900	8%	41,550,600	7%
To Expansion & Growth				
Depreciation & Amortisation	40,009,172	5%	26,946,852	4%
Retained Profits	241,584,333	32%	252,922,603	40%
Total Distribution of Value Added	768,921,595	100%	626,762,270	100%

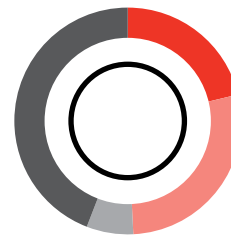
Value Added Statement

2014



■ To Employees as Remuneration	31%
■ To Government as Taxation	24%
■ To Providers of Capital as Dividend	8%
■ To Expansion as Growth	37%

2013



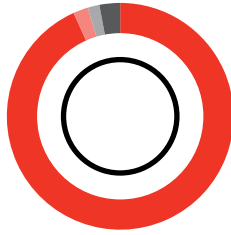
■ To Employees as Remuneration	21%
■ To Government as Taxation	28%
■ To Providers of Capital as Dividend	7%
■ To Expansion as Growth	44%

Sources and Utilisation of Income

For the year ended 31 March	Based on Financial Statements Prepared under SLFRS						Based on Financial Statements Prepared under SLAS			
	2014		2013		2012		2011		2010	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Sources of Income										
Loans and Advances	2,397,529,201	93.27	1,719,695,150	91.50	1,137,677,430	93.97	601,671,832	94.06	385,659,784	90.51
Government Securities	54,271,611	2.11	30,955,158	1.65	11,091,036	0.92	6,370,854	1.00	6,552,639	1.54
Commission Income	43,082,243	1.68	31,255,381	1.66	21,941,300	1.81	11,024,448	1.72	5,177,608	1.22
Other Income	75,741,298	2.94	97,490,794	5.19	39,924,210	3.30	20,593,371	3.22	28,703,139	6.74
Total	2,570,624,353	100	1,879,396,483	100	1,210,633,975	100	639,660,505	100	426,093,170	100
Utilisation of Income										
To Employees										
Personnel Expenses	239,902,299	9.33	131,946,471	7.02	81,618,145	6.74	44,199,129	6.91	30,581,428	7.18
To Suppliers										
Interest Paid	1,340,464,712	52.15	1,008,844,798	53.68	536,824,726	44.34	269,555,960	42.14	233,952,166	54.91
Other Expenses	250,583,905	9.75	192,110,480	10.22	151,478,005	12.51	84,600,953	13.23	28,929,230	6.79
Depreciation & Amortisation	40,009,172	1.56	26,946,852	1.43	18,485,252	1.53	6,451,106	1.01	3,062,859	0.72
Impairment Charge / Provision for Credit Losses	210,654,141	8.19	51,678,935	2.75	34,266,148	2.83	3,436,577	0.54	22,213,779	5.21
To Government										
Value Added Tax and Other Taxes	46,006,899	1.79	38,748,927	2.06	37,386,342	3.09	39,568,361	6.19	24,488,195	5.75
Income Tax	139,092,992	5.41	134,646,817	7.16	119,460,984	9.87	84,142,121	13.15	40,979,923	9.62
To Shareholders										
Dividends	62,325,900	2.42	41,550,600	2.21	20,775,300	1.72	20,775,300	3.25	7,787,650	1.83
Retained Profit	241,584,333	9.40	252,922,603	13.47	210,339,073	17.37	86,930,997	13.59	34,097,940	8.00
Total	2,570,624,353	100	1,879,396,483	100	1,210,633,975	100	639,660,505	100	426,093,170	100

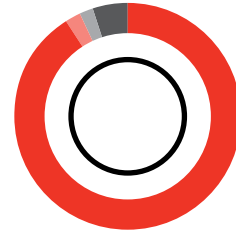
Sources and Utilisation of Income

Sources of Income - 2014



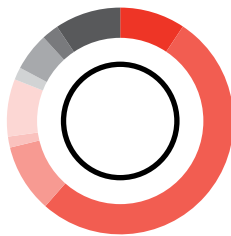
■ Loans and Advances	93%
■ Government Securities	2%
■ Commission Income	2%
■ Other Income	3%

Sources of Income - 2013



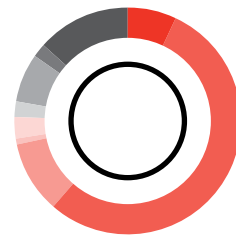
■ Loans and Advances	91%
■ Government Securities	2%
■ Commission Income	2%
■ Other Income	5%

Utilisation of Income - 2014



■ Personnel Expenses	9%
■ Interest Paid	52%
■ Other Expenses	10%
■ Depreciation & Amortisation	2%
■ Impairment Charge / Provision for Credit Losses	8%
■ Value Added Tax and Other Taxes	2%
■ Income Tax	6%
■ Dividends	2%
■ Retained Profit	9%

Utilisation of Income - 2013



■ Personnel Expenses	7%
■ Interest Paid	54%
■ Other Expenses	10%
■ Depreciation & Amortisation	2%
■ Impairment Charge / Provision for Credit Losses	3%
■ Value Added Tax and Other Taxes	2%
■ Income Tax	7%
■ Dividends	2%
■ Retained Profit	13%

Information on Ordinary Shares

Stock Exchange Listing

Vallibel Finance PLC is a Public Quoted Company, the ordinary shares of which were listed on the main board of the Colombo Stock Exchange on 4th May 2010.

Shareholder Base

The total numbers of shareholders as at 31st March 2014 were 2678.

Distribution of Shareholding as at 31st March 2014

Shares	2014		2013	
	No of Shareholders	%	No of Shares	%
Up to 1000	1,885	70.39%	729,006	1.76%
1,001-10,000	681	25.43%	2,269,988	5.46%
10,001-100,000	98	3.66%	2,854,074	6.87%
100,001-1,000,000	11	0.41%	3,079,981	7.41%
Over 1,000,000	3	0.11%	32,617,551	78.50%
	2,678	100.00%	41,550,600	100.00%

Categories of Shareholders

Type of Investor	2014			2013		
	No of Holders	No of Shares	%	No of Holders	No of Shares	%
Local Individuals	2,580	7,099,646	17.09%	2,838	6,444,588	15.51%
Local Institutions	84	34,130,607	82.14%	98	34,252,395	82.44%
Foreign Individuals	14	320,347	0.77%	15	423,617	1.02%
Foreign Institutions	-	-	-	1	430,000	1.03%
	2,678	41,550,600	100.00%	2,952	41,550,600	100.00%

20 Major Shareholders as at 31st March 2014

Shareholders	No of Shares	2014		2013	
		%	No of Shares	%	
01. Vallibel Investments (Pvt) Limited	30,277,000	72.87%	30,277,000	72.87%	
02. Employees Trust Fund Board	1,248,127	3.00%	1,248,127	3.00%	
03. Seylan Bank PLC/M/S Divasa Equity (Pvt) Ltd	1,092,424	2.63%	1,092,424	2.63%	
04. Mr. K.D.A Perera	836,713	2.01%	148,246	0.36%	
05. George Steuart Teas (Pvt) Ltd	514,275	1.24%	514,275	1.24%	
06. Mr. V.R. Kathiragamamby	300,000	0.72%	170,000	0.41%	
07. Mr. S. B. Rangamuwa	203,031	0.49%	115,301	0.28%	
08. Seylan Bank PLC/HVA Lanka Exports (Pvt) Ltd	203,000	0.49%	228,148	0.55%	
09. Mr. H Beruwalage	202,800	0.49%	202,800	0.49%	
10. Mrs. K.I.A. Hewage	200,000	0.48%	200,000	0.48%	
11. Mr. B.A.R. Dissanayake	198,000	0.48%	181,620	0.44%	
12. Dr.T Senthilverl	184,062	0.44%	-	-	
13. Mr. N. Balasingam	134,900	0.32%	134,900	0.32%	
14. Mr. R.R.S Ananda	103,200	0.25%	103,200	0.25%	
15. Mr. A Tirathdas	100,000	0.24%	100,000	0.24%	
16. Codegen International (Pvt) Ltd	100,000	0.24%	100,000	0.24%	
17. Mrs. R B J Tiranagama	86,000	0.21%	-	-	
18. Mr.R Gautam	85,000	0.20%	82,800	0.20%	
19. Mr H K C D E Seneviratne	79,000	0.19%	58,200	0.14%	
20. Mr. D.S Jayaweera	73,000	0.18%	73,000	0.18%	
	36,220,532	87.17%	35,030,041	84.31%	
Others	5,330,068	12.83%	6,520,559	15.69%	
Total	41,550,600	100.00%	41,550,600	100.00%	

Public holding as at 31st March 2014 - 10,175,356 (24.49%)

Market Prices		Quarter Ended				Year Ended
		30.06.2013	30.09.2013	31.12.2013	31.03.2014	31.03.2013
Highest	Rs.	35.10	32.00	30.90	35.10	44.50
Lowest	Rs.	28.00	26.00	28.50	26.00	28.10
Closing	Rs.	30.30	30.00	28.80	29.70	28.30

Information on Listed Debentures

During the year Company issued 5,000,000 Unsecured Subordinated Redeemable Debentures at the value of Rs.100/- each accumulated to Rs. 500,000,000 with maturity of five years. The debentures are quoted on the Colombo Stock Exchange. The raised funds utilised to expand and strengthen the capital base of the company in line with the Company's expansion strategy and to maintain the Capital Adequacy requirements as stipulated by The Central Bank of Sri Lanka.

Market Values of Listed Debentures

Debentures 2014/2019	Highest		Lowest		Period End	
	2014	2013	2014	2013	2014	2013
Fixed - 14.75%	106.00	N/A	106.00	N/A	106.00	N/A
Fixed - 15.00%	N/T	N/A	N/T	N/A	N/T	N/A
Fixed - 15.50%	100.00	N/A	100.00	N/A	100.00	N/A

Interest Rates

Debentures 2014/2019	2014		2013	
	Coupon Rate	Effective Rate	Coupon Rate	Effective Rate
Fixed - 14.75%	14.75%	15.59%	N/A	N/A
Fixed - 15.00%	15.00%	15.56%	N/A	N/A
Fixed - 15.50%	15.50%	15.50%	N/A	N/A

Interest Rates of Comparable Government Securities - Gross Rates

Debentures 2014/2019	2014	2013
Debentures 2014/2019	8.65%	N/A

Interest Yield and Yield to Maturity

Debentures 2014/2019	Fixed - 14.75%		Fixed - 15.00%		Fixed - 15.50%	
	2014	2013	2014	2013	2014	2013
Interest Yield	13.92%	N/A	15.00%	N/A	15.50%	N/A
Yield to Maturity of Last Trade	13.09%	N/A	N/T	N/A	15.53%	N/A

Ratios

	2014	2013
Debt to Equity Ratio (%)	122%	144%
Interest Cover (Times)	1.36	1.46
Liquid Asset Ratio (%) - Minimum Required 10%	15.82%	15.68%

*N/A - Not Applicable and N/T - Not Traded

Nine Year Summary

Based on Financial Statements prepared under SLFRS

For the year ended 31st March

	2014 Rs.	2013 Rs.	2012 Rs.
Income Statement			
Gross Income	2,570,624,353	1,879,396,483	1,210,633,975
Interest Income	2,451,800,812	1,791,914,232	1,111,638,186
Interest Expense	1,340,464,712	1,008,844,798	536,824,726
Net Interest Income	1,111,336,100	783,069,434	574,813,460
Net Fee and Commission Income	43,082,243	31,255,381	21,941,300
Other Operating Income	75,741,298	56,226,870	77,054,489
Operating Expenses and Provisions	741,149,517	402,623,499	285,785,791
Profit Before Taxation	489,010,124	467,928,186	388,023,458
Provision for Taxation	185,099,891	173,395,744	156,847,326
Net Profit	303,910,233	294,532,442	231,176,132

As at 31st March

	2014 Rs.	2013 Rs.	2012 Rs.
Assets			
Cash and Cash Equivalents	311,612,928	239,915,519	79,321,134
Placements with Banks and Other Finance Companies	1,146,244,786	698,087,988	210,974,451
Reverse Repurchase Agreements	112,017,262	-	-
Financial Investments - Held for Trading	5,101,684	14,329,011	12,283,156
Loans and Receivables to Finance Companies	-	16,472,400	16,472,400
Loans and Receivables to Other Customers	1,149,653,055	631,715,458	305,257,922
Lease Rental and Hire Purchase Receivables	8,788,528,303	7,152,325,616	5,518,414,888
Financial Investments - Available for Sale	113,965,232	203,800	203,800
Financial Investments - Held to Maturity	612,634,968	281,718,777	251,392,472
Other Financial Assets	7,912,643	6,343,169	17,656,274
Other Assets	165,575,145	137,949,156	155,102,646
Property, Plant and Equipment	127,325,987	116,748,120	105,792,958
Intangible Assets	4,355,878	5,997,534	-
Deferred Tax Assets	33,785,749	2,142,795	1,092,818
Total Assets	12,578,713,619	9,303,949,343	6,673,964,919

Nine Year Summary

Based on Financial Statements prepared under SLFRS (contd.)

As at 31st March	2014 Rs.	2013 Rs.	2012 Rs.
Liabilities			
Bank Overdrafts	233,878,618	360,101,982	82,765,639
Rental Received in Advance	136,928,230	164,624,026	76,741,268
Deposits due to Customers	9,299,977,850	6,268,210,181	4,024,406,195
Interest bearing Borrowings	542,516,837	951,201,653	1,399,833,703
Subordinated Term Debts	898,088,784	399,255,587	232,764,384
Other Financial Liabilities	48,884,870	41,463,609	38,287,579
Current Tax Liabilities	88,294,895	41,938,998	52,416,626
Deferred Tax Liabilities	74,288,962	65,089,176	40,018,009
Other Liabilities	62,239,217	68,235,470	38,434,084
Retirement Benefit Obligations	12,872,166	7,652,838	3,902,921
Total Liabilities	11,397,970,429	8,367,773,520	5,989,570,408
Shareholders' Funds			
Stated Capital	287,153,000	287,153,000	287,153,000
Statutory Reserves	333,906,930	237,580,979	130,551,881
Available For Sale Reserve	4,054,987	-	-
General Reserve	7,500,000	7,500,000	7,500,000
Retained Earnings	548,128,273	403,941,844	259,189,630
Total Shareholders' Funds & Total Liabilities	12,578,713,619	9,303,949,343	6,673,964,919
For the year ended 31 March			
Information on Ordinary Shares			
Earnings per Share (Rs.)	7.31	7.09	5.56
Net Assets per Share (Rs.)	28.42	22.53	16.47
Interest Cover (Times)	1.36	1.46	1.72
Dividend per Share (Rs.)	-	1.50	1.00
Dividend Payout (%)	-	21.16	17.97
Market Value Per Share	29.70	28.30	38.80
PE Ratio (Times)	4.06	3.99	6.97
Return on Shareholders Funds (%)	25.74	31.46	33.78
Liquid Assets as a % of Deposits (%)	24.69	19.46	13.46
Growth in Income (%)	36.78	55.24	89.26
Growth in Interest Expenses (%)	32.87	87.93	99.15
Growth in Other Expenses (%)	84.08	40.88	106.06
Growth in Profit After Tax (%)	3.18	27.41	114.64
Growth in Advances (%)	27.67	33.27	78.82
Growth in Deposits (%)	48.37	55.75	50.06
Growth in Shareholders' Funds (%)	26.12	36.79	30.73

Based on Financial Statements prepared under SLAS

For the year ended 31st March	2011 Rs.	2010 Rs.	2009 Rs.	2008 Rs.	2007 Rs.	2006 Rs.
Income Statement						
Gross Income	639,660,503	426,093,169	376,368,752	125,954,756	15,208,565	14,213,718
Interest Income	595,382,652	413,871,000	364,278,447	120,993,344	13,178,120	10,146,796
Interest Expenditure	269,555,960	233,952,166	236,607,948	70,323,132	3,321,171	3,297,701
Net Interest Income	325,826,692	179,918,834	127,670,499	50,670,212	9,856,949	6,849,095
Other Operating Income	44,277,851	12,222,169	12,090,305	4,961,412	2,030,445	4,066,921
Operating Expenditure	138,687,765	84,787,295	66,939,687	29,280,508	6,595,547	5,739,382
Profit Before Taxation	231,416,778	107,353,708	72,821,117	26,351,116	5,291,847	5,176,634
Provision For Taxation	123,710,483	65,468,118	40,628,587	14,884,736	1,360,299	1,503,824
Net Profit	107,706,295	41,885,590	32,192,530	11,466,380	3,931,548	3,672,810
As at 31st March						
	2011 Rs.	2010 Rs.	2009 Rs.	2008 Rs.	2007 Rs.	2006 Rs.
Assets						
Liquid Assets	356,060,756	172,712,628	284,252,629	116,588,050	96,997,214	3,957,966
Investments in Dealing Securities	4,668,076	445,727	314,117	2,076,794	2,076,794	29,081,311
Investments in Other Securities	15,743,800	15,540,000	10,540,000	-	-	-
Advances	3,256,747,669	1,551,895,858	1,109,195,424	771,532,338	33,605,481	25,089,347
Other Assets	177,478,281	44,531,957	42,515,016	21,175,310	4,551,971	732,147
Property, Plant & Equipment	78,882,526	12,765,533	9,701,836	10,149,862	1,280,524	532,429
Total Assets	3,889,581,108	1,797,891,703	1,456,519,022	921,522,354	138,511,984	59,393,200
Liabilities						
Bank Overdrafts	49,660,559	87,044,952	12,369,889	10,102,229	-	-
Borrowings	449,322,933	169,214,636	310,382,379	271,687,872	-	-
Deposits From Customers	2,596,232,472	1,139,477,444	820,547,319	473,682,925	31,563,014	29,806,480
Other Liabilities	326,229,359	135,349,881	80,530,880	50,553,303	2,919,325	(511,377)
Total Liabilities	3,421,445,323	1,531,086,913	1,223,830,467	806,026,329	34,482,339	29,295,103
Shareholders' Funds						
Stated Capital/Share Capital	287,153,000	172,753,000	172,753,000	87,753,000	87,753,000	17,753,000
Reserves	180,982,785	94,051,790	59,935,555	27,743,025	16,276,645	12,345,097
Total Shareholders' Funds & Total Liabilities	3,889,581,108	1,797,891,703	1,456,519,022	921,522,354	138,511,984	59,393,200

Nine Year Summary

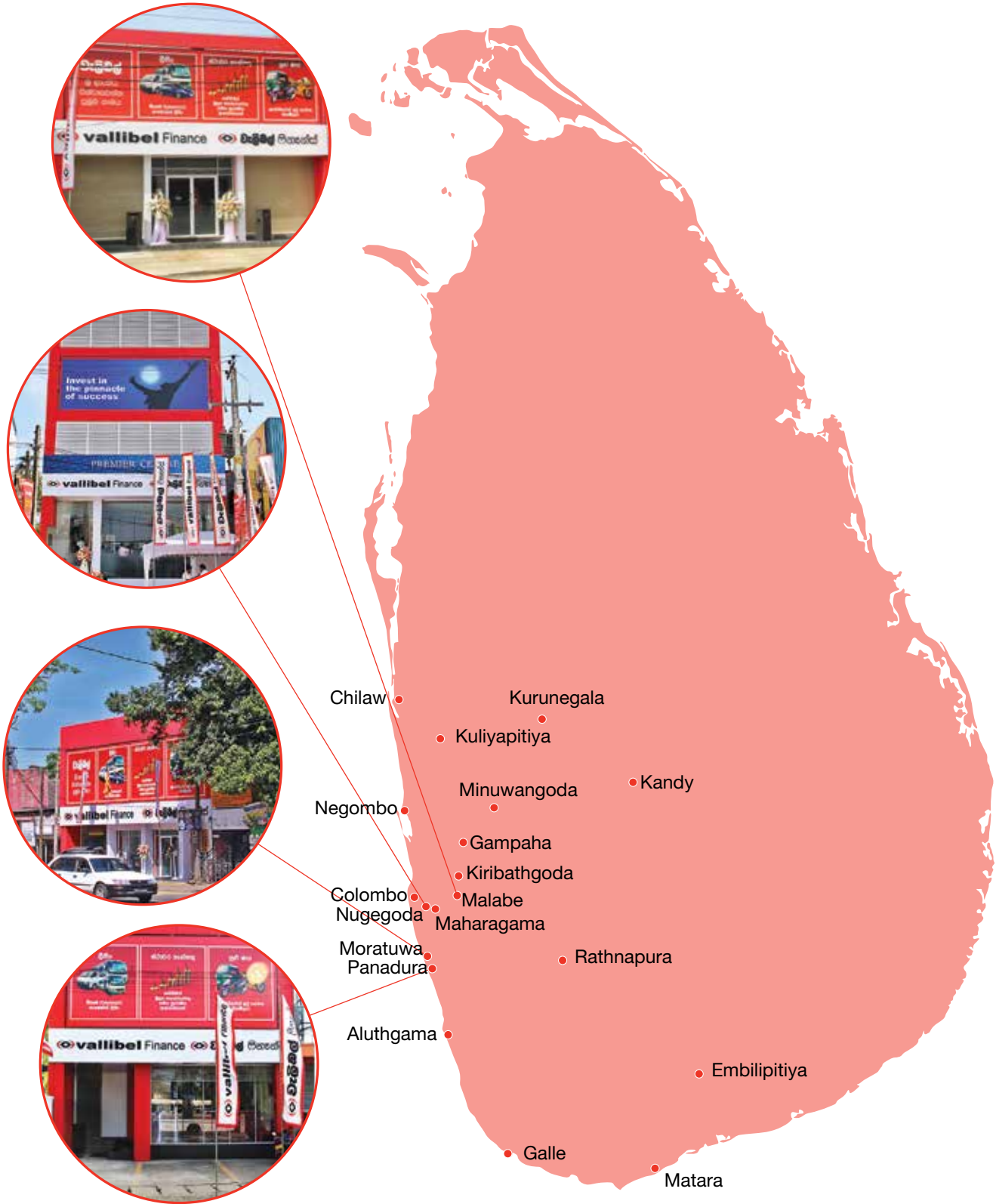
Based on Financial Statements prepared under SLAS (contd.)

For the year ended 31 March	2011	2010	2009	2008	2007	2006
Information on Ordinary Shares						
Earnings per Share (Rs.)	2.63	1.34	2.32	1.31	0.45	2.07
Net Assets per Share (Rs.)	11.27	8.56	14.94	13.16	11.85	16.95
Interest Cover (Times)	1.86	1.46	1.31	1.37	2.59	2.57
Dividend per Share (Rs.)	0.50	1.00	0.50	-	-	-
Dividend Payout (%)	19.29	37.31	21.55	-	-	-
Market Value Per Share	49.50	-	-	-	-	-
PE Ratio (Times)	18.82	-	-	-	-	-
Ratios (%)						
Return on Shareholders Fund (%)	23.01	15.70	13.84	9.93	3.78	12.20
Liquid Assets as a % of Deposits (%)	13.71	15.16	34.64	24.61	307.31	13.28
Growth in Income (%)	50.12	13.21	198.81	728.18	7.00	0.02
Growth in Interest Expenses (%)	15.22	(1.12)	236.46	2,017.42	0.71	(11.35)
Growth in Other Expenses (%)	63.57	26.66	128.62	343.94	14.92	(13.33)
Growth in Profit After Tax (%)	157.14	30.11	180.76	191.65	7.04	58.00
Growth in Advances (%)	109.86	39.91	43.77	2,195.85	33.94	(14.87)
Growth in Deposits (%)	127.84	38.87	73.23	1,400.75	5.89	0.07
Growth in Shareholders' Fund (%)	75.46	14.66	101.47	11.02	245.64	1.52

Branch Network

Branch /Collection Center	Address	Telephone	Fax	Contact Person
Maharagama	No.126-5, High Level Road, Maharagama	011-7487487	011-7487489	Mr. Rohan De Silva
Minuwangoda	No.28/5A, Kurunegala Road, Minuwangoda	011-7587587	011-7587588	Mr. Suren Abeywickrama
Kandy	No.161, D.S.Senanayaka Mawatha, Kandy	081-7687687	081-7687689	Mr. Nishshanka Amunugama
Aluthgama	No.375, Galle Road, Aluthgama	034-7687687	034-7687689	Mr. Chithraka Hettiarachchi
Ratnapura	No.8A, Bodhiraja Mawatha, Ratnapura	045-7687687	045-7687689	Mr. Ranjith Gunaratne
Kiribathgoda	No.121D, Gala Junction, Kandy Road, Kiribathgoda	011-7787787	011-7787789	Mr. Dilshan Rathnayake
Matara	No.274A, Anagarika Dharmapala Mawatha, Matara	041-7687687	041-7687689	Mr. Udaya Waidyathilaka
Kurunegala	No.395, Colombo Road, Kurunegala	037-7687687	037-7687689	Mr. Asinil Perera
Negombo	No.299, St. Joseph's Street, Negombo	031-7687687	031-7687689	Mr. Rohan Fernando
Gampaha	No.55, Yakkala Road, Gampaha	033-7687687	033-7687689	Mr. Saminda Gammanpila
Galle	No. 159, Colombo Road, Kaluwella, Galle	091-7687687	091-7687689	Mr. Jagath Mendis
Chilaw	No. 84, Kurunegala Road, Chilaw	032-7687687	032-7687689	Mr. Wasantha Kumara
Kuliyapitiya	No. 111, Kurunegala Road, Aswedduwa watha, Kuliyapitiya	0377-787787	0377-787789	Mr. Lakmal Kuranage
Embilipitiya	No. 103, New Town Road, Embilipitiya	0477-687687	0477-687689	Mr. Janaka Ruwan Kumara
Moratuwa	No.303/A, Galle Road, Rawathawatta, Moratuwa	0117-807807	0117-807809	Mr. Kalpa Amarasinghe
Malabe	No. 824/C, New Kandy Road, Malabe	0117-387387	0117-387389	Mr. Priyantha Ratnayaka
Panadura	No. 293 A, Galle Road, Panadura	0387-687687	0387-687689	Mr. Ravindra Kumara
Nugegoda	No: 213, High Level Road, Nugegoda	0117-517517	0117-517519	Mr. Lakmal Gabadage

Branch / Collection Centers



Glossary of Financial Terms

Accounting Policies

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

Actuarial Assumptions

An entity's unbiased and mutually compatible best estimates of the demographic and financial variables that will determine the ultimate cost of providing postemployment benefits.

Actuarial Gains and Losses

Actuarial gains and losses comprise the effects of differences between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Actuarial Valuation

Fund value determined by computing its normal cost, actuarial accrued liability, actuarial value of its assets, and other relevant costs and values.

Amortised Cost

The amount at which a financial asset or liability is measured at initial recognition, minus any repayment of principal, minus any reduction for impairment or uncollectibility, and plus or minus the cumulative amortisation using the effective interest method of the difference between that initial amount and maturity amount.

Available-for-Sale

All assets not in any of the three categories, namely, held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category. It does not mean that the entity stands ready to sell these all the time.

Capital Adequacy Ratio (CAR)

The relationship between capital and the risk weighted assets as prescribed by the Central Bank of Sri Lanka developed by modifying International best practices on maintenance of Capital for financial Institutions, to suit the local requirements.

Cash Equivalents

Short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

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

Corporate Governance

The process by which Corporate Institutions are governed. It involves the way in which authority is exercised over the management and the direction of the company, the supervisions of executive roles and the responsibility and accountability towards owners and other parties.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations.

Deferred Tax

Sum set aside in the financial statements for taxation that would become payable/ receivable 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.

Earnings per Share

Net profit after tax divided by the number of ordinary shares in issue.

Effective Income Tax Rate

Provision for taxation divided by the net profit before taxation.

Effective Interest Rate (EIR)

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

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

Fair Value

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

Fair Value through Profit or Loss

A financial asset or financial liability that is held for trading or upon initial recognition designated by the entity as fair value through profit or loss.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Held-to-Maturity Investments

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

Impairment

This occurs when the recoverable amount declines below the carrying amount.

Glossary of Financial Terms

Individually Significant Loan Impairment Provisions

Impairment measured individually for loans that are individually significant to the Company.

Interest Cover

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times Interest is covered by the current year's profits before interest and taxes.

Interest in Suspense

The interest due on non performing assets.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily.

Liquid Assets Ratio

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total deposits.

Market Capitalisation

Number of ordinary shares in issue multiplied by market value of a share and indicates total market value of all ordinary shares in issue.

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 and other asset prices.

Net Assets per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net Interest Income (NII)

The difference between the amounts a financial institution earns on assets such as loans and securities and what it incurs on liabilities such as deposits and borrowings.

Non-Performing Loans

Loans advances and hire purchase/lease finance of which interest or capital is in arrears for six months or more.

Non-Performing Ratio

Total non-performing loans expressed as a percentage of the total loans and advances.

Operational Risk

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

Price Earnings Ratio

Market price of an ordinary share divided by earnings per share.

Projected Unit Credit Method

An actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Related Parties

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

Related Party Transactions

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

Return on Average Assets

Net profit after tax divided by the average assets.

Return on Average Equity (ROE)

Profit after tax less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of off-Balance Sheet assets multiplied by the relevant risk weighting factors prescribed by the Central Bank of Sri Lanka.

Solvency

The availability of cash over the long term to meet financial commitments as they fall due.

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital that consist of revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments that combine characteristics of equity and debt.

Transaction Costs

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.

Value Added

Value of wealth created by providing financial and other related services less the cost of providing such services.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Vallibel Finance PLC will be held on 26th June 2014 at 10.30 am, at the Winchester Hall of The Kingsbury Hotel, 48, Janadhipathi Mawatha, Colombo 01, for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the Affairs of Company and the Statement of Accounts for the year ended 31st March 2014 with the Report of the Auditors thereon.
2. To re-elect Mr. K. D. H. Perera who retires by rotation in terms of Articles 87 and 88 of the Articles of Association, as a Director.
3. To re-elect Mr. K. V. P. R. De Silva in terms of Article 94 of the Articles of Association, as a Director.
4. To re-appoint the retiring Auditors Messrs KPMG, Chartered Accountants as the Company's Auditors and to authorise the Directors to determine their remuneration.
5. To authorise the Directors to determine donations for the year ending 31st March 2015 and upto the date of the next Annual General Meeting.

By Order of the Board
VALLIBEL FINANCE PLC



P W Corporate Secretarial (Pvt) Ltd
Secretaries

23rd May 2014
Colombo

Notes:

1. A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, speak and vote on behalf of him/her.
2. A proxy need not be a shareholder of the Company.
3. The Form of Proxy is enclosed for this purpose.
4. The completed Form of Proxy must be deposited at the Registered Office of the Company; No. 310, Galle Road, Colombo 3, not less than forty seven (47) hours prior to the time appointed for the meeting.

Notes

A series of horizontal dotted lines intended for writing notes.

Form of Proxy

I/We*NIC No.
of
being a shareholder / shareholders* of VALLIBEL FINANCE PLC hereby appoint
.....NIC No.of
..... or failing him*

Mr. Dhammika Perera	or failing him*
Mr. S. B. Rangamuwa	or failing him*
Mr. J. A. S. S Adihetty	or failing him*
Mr. W. D. N. H. Perera	or failing him*
Mr. M. D. S. Goonatileke	or failing him*
Mr. S. Senaratne	or failing him*
Mr. K. D. H. Perera	or failing him*
Mr. R. M. Karunaratne	or failing him*
Mr. K. V. P. R. De Silva	

as my/our* proxy to represent me/us*, to speak 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 26th June 2014 at 10.30 am and at every poll which may be taken in consequence of the aforesaid Meeting and at any adjournment thereof.

	For	Against
1. To receive and consider the Annual Report of the Board of Directors on the Affairs of Company and the Statement of Accounts for the year ended 31st March 2014 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. K D H Perera who retires by rotation in terms of Articles 87 and 88 of the Articles of Association, as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. K V P R De Silva in terms of Article 94 of the Articles of Association, as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the retiring Auditors Messrs KPMG, Chartered Accountants as the Company's Auditors and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Directors to determine donations for the year ending 31st March 2015 and upto the date of the next Annual General Meeting.	<input type="checkbox"/>	<input type="checkbox"/>

I witness my/our* hand this day of Two Thousand and Fourteen.

.....
Signature of Shareholder

*Please delete what is inapplicable.

Note:

1. Instructions as to completion appear on the reverse
2. A Proxy need not be a shareholder of the Company

Form of Proxy

Instructions for Completion

1. Kindly perfect the Form of Proxy by filling in legibly your full name, address and the National Identity Card number and signing in the space provided and filling in the date of signature.
2. The completed Form of Proxy should be deposited at the Registered Office of the Company No. 310, Galle Road, Colombo 03, Sri Lanka, forty seven (47) hours prior to the time appointed for the Meeting.
3. If you wish to appoint a person other than the Chairman or a Director of the Company as your Proxy, please insert the relevant details in the space provided (above the names of the Board of Directors) on the Proxy Form.
4. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney must be deposited at the Secretaries' Office (i.e. P W Corporate Secretarial Limited, No 3/17, Kynsey Road, Colombo 08) for registration.
5. If the appointor is a Company / Incorporated body this Form must be executed in accordance with the Articles of Association / Statute.

Corporate Information

Name of Company

Vallibel Finance PLC

Legal Form

Public Limited Liability Company incorporated in Sri Lanka.
A Finance Company licensed under the Finance Business Act No.42 of 2011.

A Registered Finance Leasing Establishment in terms of Finance Leasing Act No.56 of 2000.

Date of Incorporation

5th September 1974

Company Registration Number

PB 526/PQ

Board of Directors

Mr Dhammika Perera - Chairman
Mr. W D N H Perera - Deputy Chairman
Mr. S B Rangamuwa - Managing Director/CEO
Mr. J A S S Adhihetty
Mr. M D S Goonatilleke
Mr. S Senaratne
Mr. K D H Perera
Mr. R M Karunaratne
Mr. K V P R De Silva

Registered Office/Head office

No. 310,
Galle Road
Colombo 03

VAT registration No.

104040950 7000

Telephone

(+94) 11-2370990

Facsimile

(+94) 11-2375851

Website

www.vallibelfinance.com

Secretaries and Registrars

P W Corporate Secretarial (Pvt) Ltd
No. 3/17, Kynsey Road
Colombo 08.
Telephone: (+94) 11-4640360-3
Fax: (+94) 11-4740588
Email: pwcs@pwcs.lk

External Auditors

KPMG
No. 32A, Sir Mohamed Macan Marker Mawatha
P.O Box 186
Colombo 03
Telephone: (+94) 11-2426426
Fax: (+94) 11-2445872

Internal Auditors

Ernst & Young Advisory Service (Pvt) Ltd
No.201, De Saram Place
P.O Box 101
Colombo 10
Telephone: (+94) 11-2463500
Fax: (+94) 11-2697369

Bankers

Bank of Ceylon
Corporate Branch
No.4, Bank of Ceylon Mawatha
Colombo 01.

People's Bank

Headquarters Branch
No.75, Sir Chittampalam A Gardiner Mawatha
Colombo 02.

Seylan Bank PLC

Cinnamon Gardens Branch
No.4, Baptist Chapel Road
Colombo 07.

Sampath Bank PLC

Headquarters Branch
No 110, Sir James Peiris Mawatha
Colombo 02.

Pan Asia Banking Corporation PLC

Head Office Branch
No.450, Galle Road
Colombo 03.

National Development Bank PLC

Head Office Branch
No.103A, Dharmapala Mawatha
Colombo 07.

Deutsche Bank AG

Colombo Branch
No. 86, Galle Road,
Colombo 03.

Hatton National Bank PLC

Kollupitiya Branch
No. 293, Galle Road,
Colombo 03.



 **vallibel** Finance

Vallibel Finance PLC
No. 310, Galle Road
Colombo 03