



Vallibel

**Trust in
Our Growth**

Our Vision

Ours is a 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 a 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

<u>Financial Highlights</u>	<u>2</u>
<u>Quarterly Highlights</u>	<u>4</u>
<u>Chairman's Statement</u>	<u>6</u>
<u>Managing Director's Message</u>	<u>8</u>
<u>Board of Directors</u>	<u>10</u>
<u>Senior Management Team</u>	<u>14</u>
<u>Management Team</u>	<u>16</u>
<u>Branch Management Team</u>	<u>18</u>
<u>Management Discussion & Analysis</u>	<u>20</u>
<u>Financial Performance Review</u>	<u>28</u>
<u>Risk Management Report</u>	<u>33</u>
<u>Corporate Social Responsibility Report</u>	<u>42</u>
<u>Corporate Governance Report</u>	<u>44</u>
<u>Annual Report of the Board of Directors on the Affairs of the Company</u>	<u>68</u>
<u>Integrated Risk Management Committee Report</u>	<u>72</u>
<u>Directors Statement on Internal Control Over Financial Reporting</u>	<u>73</u>
<u>Audit Committee Report</u>	<u>74</u>
<u>Statement of Directors' Responsibilities</u>	<u>76</u>
<u>Independent Auditor's Report</u>	<u>77</u>
<u>Income Statement</u>	<u>78</u>
<u>Statement of Comprehensive Income</u>	<u>79</u>
<u>Statement of Financial Position</u>	<u>80</u>
<u>Statement of Changes in Equity</u>	<u>82</u>
<u>Cash Flow Statement</u>	<u>83</u>
<u>Notes to the Financial Statements</u>	<u>84</u>
<u>Value Added Statement</u>	<u>150</u>
<u>Sources and Utilisation of Income</u>	<u>151</u>
<u>Information on Ordinary Shares</u>	<u>153</u>
<u>Eight Year Summary</u>	<u>156</u>
<u>Branch Network</u>	<u>160</u>
<u>Glossary of Financial Terms</u>	<u>162</u>
<u>Notice of Annual General Meeting</u>	<u>165</u>
<u>Notes</u>	<u>166</u>
<u>Form of Proxy</u>	<u>167</u>

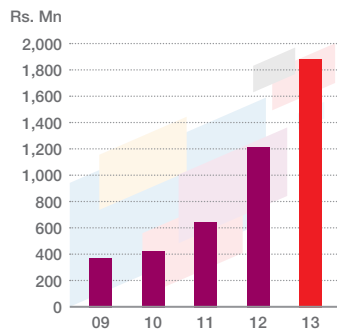
Last year as we took great strides in becoming the trusted name in Sri Lanka for all financial solutions, we had a vision for the future; of development, of creating opportunity and of changing the face of the financial industry. This year, as we experience the rapid growth that comes with the efforts of a committed team, we have developed the various aspects of our company that make us stand out from the rest. Our commitment to customer service, our attention to detail and of course our dedication to winning the hearts and minds of people all over the country as they trust in our growth as we provide the foundation for their own ceaseless development.

Vallibel **Trust in Our Growth**

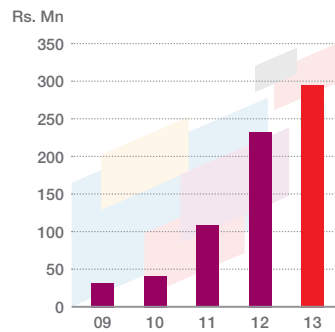


Financial Highlights

Gross Income



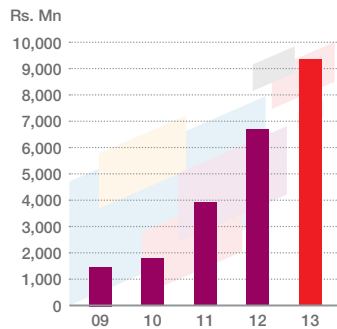
Net Profit



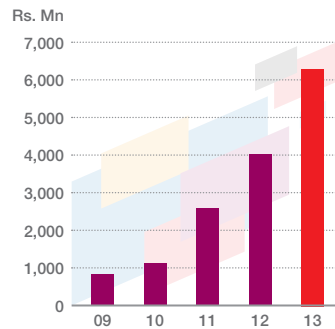
55.24%
Growth of Income

27.41%
Net Profit Growth

Total Assets



Total Deposit Base



39.40%
Growth of Assets

55.75%
Growth of Deposit Base

For the Year Ended 31st March

	2013 Rs.'000	2012 Rs.'000	Change %
Financial Performance			
Gross Income	1,879,396	1,210,634	55.24
Gross Interest Cost	1,008,845	536,825	87.93
Pre-Tax Profit	467,928	388,023	20.59
Income Taxation	134,647	119,461	12.71
Profit After Taxation	294,532	231,176	27.41
Revenue to The Government	173,396	156,847	10.55
Financial Position			
Shareholder's Funds	937,317	684,395	36.96
Total Deposit Base	6,268,210	4,024,406	55.75
Borrowings & Bank Overdraft	1,311,304	1,482,599	(11.55)
Loans & Advances, Lease and Hire Purchase	7,761,345	5,823,673	33.27
Total Assets	9,303,506	6,673,965	39.40
Market Capitalisation	1,175,882	1,612,163	(27.06)
Key Indicators Per Ordinary Share			
Earnings Per Share (Rs.)	7.09	5.56	27.41
Dividends Per Share (Rs.)	1.50	1.00	50.00
Dividend Payout (%)	21.16%	17.97%	17.73
Net Assets Per Share (Rs.)	22.56	16.47	36.96
Market Value Per Share (Rs.)	28.30	38.80	(27.06)
PE Ratio (Times)	3.99	6.97	(42.75)
Key Ratios			
Return on Average Equity (%)	36.32%	39.91%	(8.99)
Return on Average Assets - After Tax (%)	3.69%	4.38%	(15.75)
Interest Cover (Times)	1.46	1.72	(15.03)
Equity / Assets	0.10	0.10	-
Debt plus Total Deposit to Equity (Times)	8.13	8.27	(1.66)
Non Performing Ratio (%) - Gross	3.19%	1.97%	62.20
Non Performing Ratio (%) - Net	1.45%	0.52%	178.80
Statutory Ratios			
Liquid Assets - Minimum Required 10%	15.68%	13.48%	16.32
Core Capital Ratio (%) - Minimum Required 5%	10.28%	10.39%	(1.13)
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	14.28%	14.03%	1.80

Quarterly Highlights

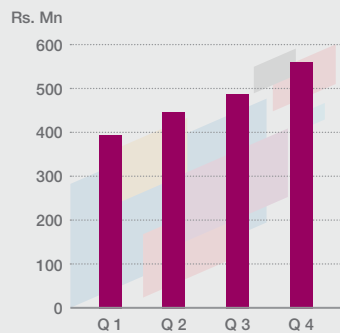
Q 1

- Opened a Branch in Galle on 26th July 2012

Q 1
Rs. Mn

Income for the Quarter	393
Profit for the Quarter	62
Total Assets	7,268
Deposit Base	4,522

Income for the Quarter



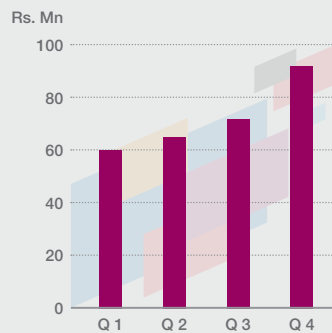
Q 2

- Opened a Branch in Chilaw on 23rd August 2012

Q 2
Rs. Mn

Income for the Quarter	440
Profit for the Quarter	67
Total Assets	8,053
Deposit Base	4,868

Profit for the Quarter



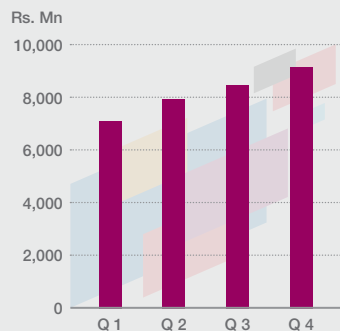
Q 3

- Opened a Branch in Kuliypitiya on 22nd November 2012
- Collection centre at Negombo was upgraded as a fully fledged Branch in December 2012

Q 3 Rs. Mn

Income for the Quarter	491
Profit for the Quarter	73
Total Assets	8,664
Deposit Base	5,457

Total Assets



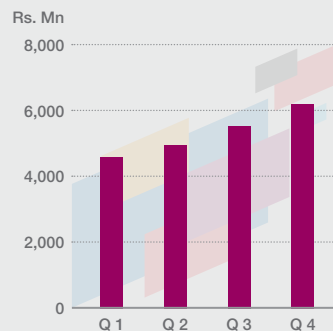
Q 4

- Opened a Branch in Embilipitiya on 21st January 2013
- Commenced Pawning facilities at Maharagama Branch on 28th March 2013
- RAM Ratings (Lanka) Limited upgraded Vallibel Finance to BB+ / NP with stable outlook

Q 4 Rs. Mn

Income for the Quarter	555
Profit for the Quarter	93
Total Assets	9,303
Deposit Base	6,268

Deposit Base



Chairman's Statement



“Any company that would be the flag-bearer for the Vallibel Group would have to prove its worthiness.

As my group's name-bearer and for its youthful but farsighted spirit, Vallibel Finance holds a special place in my heart. ”

Vallibel Finance has, from the inception, shown promise and intent. An impressive start had the finance industry take notice of the advent of a new center of excellence. But your company needed to show its true mettle when pitted against the odds. Any company that would be the flag-bearer for the Vallibel Group would have to prove its worthiness. The spotlight was on Vallibel Finance.

I see last year as the company's fieriest test of character and am elated to see how well it navigated a difficult year for the economy, owning its own feathers in the ultimate flight of success.

Vallibel Finance with its sagacious triumph in a turbulent year proved that Sri Lanka can and will sail into calmer and brighter horizons.

I re-iterate that rebuilding a country battered by a protracted war is a herculean task. Negative forces at play and catastrophic weather pegged our economy down but prudent fiscal measures on the back of aggressive economic activity helped Sri Lanka emerge largely unscathed. The GDP grew encouragingly by 6.4% in 2012, but in a testing year for the country, it was a marginal decrease from the previous year's record breaking run.

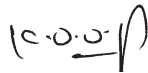
The Banking and Finance industry saw their phenomenal ascendancy moderated to some extent as a result of tightening monetary policy resulting in increased interest rates, a cap on credit growth and an increase in import tariffs to curb rising imports. That it was a difficult year was summed up by a general rise across the board in NPLs. The noteworthy performance of your company should be viewed in this context and that it emerged triumphant despite the impediments is a huge character and fitness certificate for your company's resilience and its growing stature.

The Company recorded creditable growth in profits, asset base, public deposits and branch expansion. Total interest income of Vallibel Finance grew by 61% year-on-year from the Rs. 1,112 Mn recorded as at 31st March 2012, to stand at Rs. 1,792 Mn as at 31st March 2013. Pre-Tax Profit rose to an impressive Rs. 468 Mn as at the end of the fiscal year, ascending 21% from the previous year's figures of Rs. 388 Mn. Profit After Taxation also raised by 27% over the year to stand at Rs. 294 Mn at the end of the year. This Annual Report elaborates further on the overall performance of the Company.

I see Vallibel Finance as a change-agent on an ambitious mission. You will continue to see it breaking new ground, not just by way of branch expansion but with its mandate of reaching out to people who have been marginalised by the financial sector.

The staff is well-trained to emerge as change-agents, empowering people to make full use of the opportunities opening up in the post-war Sri Lanka. It is heartening indeed to see your company making an all-out effort to support the SME sector and this belief in the entrepreneurial prowess of our people should pay rich dividends both for the country and the Company.

As my group's name-bearer and for its youthful but farsighted spirit, Vallibel Finance holds a special place in my heart and I can assure you that the Company will continue to uphold the highest traditions of integrity displaying exemplary acumen and resourcefulness that should see it growing from strength to strength.



K.D.D. Perera
Chairman

Managing Director's Message



“The figures assume significance considering the volatile times in which the performance was tested.

Pre-Tax Profit rose to Rs. 468 Mn from a previous Rs. 388 Mn. In the context, a growth of 21% should be considered encouraging.”

Like iron sharpens iron, an arduous road tests the true character of an institution. The year 2012/2013 afforded that test for your company. It is with prolific elation I bring to your notice that your company cannot only fly on the wings of a giant but has garnered the skills to ride through stormy weather with the kind of flourish that rightfully earns it its own wings.

It was a year of disquiet and impediment for your country. As the political landscape of the country withstood a barrage of international and local pressure, the growing economy found itself in a tight spot, decelerating its pulsating journey

of growth witnessed for consecutive years. But as the going got tougher, your company, I'm proud to say, got going. The proof is in our deposit base, lending portfolio and the asset base; all looking up nicely. But first, more about the road that we traversed!

A repressive global economy finally took its toll on Sri Lanka. Even though the threats of a catastrophic economic meltdown assuaged as the year progressed, recovery was slow and fragile. The weather, literally, was stormy and destructive, inordinately impacting Sri Lanka's GDP growth. The laudable entrepreneurial aspirations of many a Sri Lankan was dampened as the country faced one of its toughest post-war tests. But through all this, your company emerged largely unscathed and with an outlook that displays the tenacity and sagacity it has acquired over the years.

Our expanding branch network, fourteen with four new additions in 2012/2013 was geared to respond to the economic upheaval with our modus-operandi recalibrated to encounter the road ahead. The results were outstanding. The deposit base, the primary barometer of trust the company enjoys among Sri Lankans, rose sharply by 56% to Rs. 6.3 Bn in the year under review from a previous Rs. 4 Bn. Yet again, your company has proven that old-fashioned values coupled with cutting-edge financial know-how can win the hearts and minds of a nation even in tumultuous times.

Year after year, the value of your company, both in terms of the brand equity it revels in and its book value cumulates with an assured consistency and aplomb. Assets base rose by 39% over the year to a steady Rs. 9.3 Bn, on the back of a robustious lending portfolio. The asset base for the previous year stood at Rs. 6.7 Bn. The total lending portfolio grew by 33% to Rs. 7.8 Bn. A closer look shows you that the company's leasing portfolio catapulted to over Rs. 3.9Bn, recording a sharp increase of 54%. Hire purchase and other loans grew by 17% to Rs. 3.8 Bn.

Your company may have sailed through stormy weather in a macro-economic sense but our bottom-line is laced with a harvest that can only come with prudent fiscal management, perseverance and resourcefulness that go on to make a financial powerhouse which will stand the test of time. The figures assume significance considering the volatile times in which the performance was tested.

Pre-Tax Profit rose to Rs. 468 Mn from a previous Rs. 388 Mn. In the context, a growth of 21% should be considered encouraging. Profit After Tax rose 27% to Rs. 294 Mn in 2012/2013 from the previous figure of Rs. 231 Mn.

You'd agree that not all times are good and for many Sri Lankans it was a year of survival pitted against economic upheaval. As business forecasts plummeted some borrowers found it difficult to honor their loan repayments, thus, affecting the NPL performance of the company. We will not shy away from the fact but I can assure you that our processes have been recalibrated as we respond to negative situations and your company is redressing the situation. Encouraging performance in the face of adversity should provide the reassurance our stakeholders look for and make no mistake we will surge ahead.

Negative forces have been successfully mitigated; new opportunities created for the company and its faithful customer base. Together we will grow in the new year as your company continues to grow in stature, building more lasting partnerships.

I will never grow tired of re-iterating the strength we derive, especially through stormy waters, from our parent company. Your company is indeed fortunate to have Mr. Dhammika Perera at the helm. You cannot ask for a captain more astute and exemplary than him as you wade through testing times. What a fine Board of Directors I owe my thanks to; it has been an absolute pleasure working with them. To my

precious staff, faithful stakeholders and all who have come in contact with Vallibel Finance, a profound thank you!

Your company is here for the long haul.



S. B. Rangamuwa
Managing Director

Board of Directors



Mr. K. D. D. Perera
Chairman



Mr. S. B. Rangamuwa
Managing Director



Mr. J. A. S. S. Adhihetty
Director



Mr. W. D. N. H. Perera
Director



Mr. M. D. S. Goonatilleke
Director



Mr. K. D. H. Perera
Director



Mr. Suranimala Senaratne
Director



Mr. R. M. Karunaratne
Director

Board of Directors

01 Mr. K. D. D. Perera
Chairman

He is a well-known, prominent entrepreneur and investor whose business interests include Hydropower Generation, Manufacturing, Hospitality, Entertainment, Banking and Finance.

He is currently the Secretary to the Ministry of Transport, Sri Lanka. He is also the Chairman of Sampath Bank PLC, Vallibel One PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Delmege Limited and Greener Water Limited. He is the Executive Deputy Chairman of L B Finance PLC, Deputy Chairman of Hayleys PLC, Royal Ceramics Lanka PLC and Orit Apparels Lanka (Pvt) Ltd. He is also a Director of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, Hotel Services (Ceylon) PLC, Dipped Products PLC, Horana Plantations PLC, Lanka Walltiles PLC, Lanka Floortiles PLC and Strategic Enterprise Management Agency of Sri Lanka.

He was the former Chairman of the Board of Investment of Sri Lanka.

02 Mr. S. B. Rangamuwa
Managing Director

A fellow of the Chartered Institute of Marketing (UK), and a Chartered Marketer, 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 Unitec, 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.

He started his career with Central Finance PLC. After a stint at Ernst and Young, he joined Mercantile Investments Ltd as a Management Trainee, and held various key positions until his appointment to its Board in 2001 as Director, a position he held until he joined Vallibel Finance PLC in February 2007.

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

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

03 Mr. J. A. S. S. Adhihetty
Director

A well-known professional in the marketing field, he counts over 32 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.

04 Mr. W. D. N. H. Perera
Director

Mr. Nimal Perera joined the Board of Vallibel Finance PLC on 22nd August 2005.

He is a member of the Sri Lanka Institute of Marketing and counts over 30 years of experience in fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management Services.

He is the Chairman of Pan Asia Banking Corporation PLC, Deputy Chairman of Vallibel One PLC, Managing Director of Royal Ceramics Lanka PLC, Executive Director of L B Finance

PLC, Director of Amaya Leisure PLC, Director of Hayleys PLC, Hotel Service (Ceylon) PLC, Talawakelle Tea Estates PLC, Haycarb PLC, Lanka Walltiles PLC, Lanka Floortiles PLC and Horana Plantations PLC.

05 Mr. M. D. S. Goonatilleke
Director

Mr. Goonatilleke joined the Board of Vallibel Finance PLC on 26th August 2005. He is a financial professional with over 26 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, Pan Asia Banking Corporation PLC and Hayleys PLC.

Mr. Goonatilleke possesses 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 Institute of Chartered Accountants, Sri Lanka.

06 Mr. K. D. H. Perera
Director

Mr. Harendra Perera joined the Board of Vallibel Finance PLC on 22nd August 2005. He is a Director of Vallibel Holdings (Pvt) Ltd, Vallibel Lanka (Pvt) Ltd and several other Vallibel companies.

07 Mr. Suranimala Senaratne
Director

Mr. Suranimala Senaratne counts over 35 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.

08 Mr. R. M. Karunaratne
Director

Mr. Rathnayake Mudiyansele 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 – Monetary.

Senior Management Team



Mr. D.G.N. Perera
Deputy General Manager-Credit



Mr. S.K.N.C Jayawardena
Deputy General Manager-
Business Development



Mr. K.D.M. Sameera
Senior Manager-Finance &
Administration



Mr. T.U. Amaraweera
Senior Manager-Assets
Management



Mr. D.M.P.M.B. Dissanayake
Senior Manager-Credit



Mr. Sajeewa Sapukotana
Senior Manager -Business
Development



Mr. L.G.R.De Silva
Senior Manager - Metropolitan Branch

Management Team



 **Mr. R. Mendis**
Manager-Administration



 **Mr. H.B.M.R.D. Bandara**
Manager-Finance




 **Ms. L.S. Wijayananda**
Legal Officer



 **Mr. U.G.K. Udayanka**
Accountant-Payments



 **Ms. E.A.B. De Silva**
Head-Fixed Deposits



 **Mr. H.K.K.C. Harischandra**
Manager-Recoveries



 **Mr. W.R.S. Wickramaratne**
Manager-Credit Administration



 **Mr. K.N. Warnakula**
Manager-Micro Finance



 **Ms. D.D. Wijayathilaka**
Compliance Officer



 **Mr. K.Y.M. Pushpakumara**
Manager-Pawning



 **Mr. Ruwan Wijesooriya**
Assistant Manager - IT



 **Mr. J.D.S.T. Gunasekara**
Assistant Manager-Human
Resources

Branch Management Team



Mr. S.P. Abeywickrama
Manager - Minuwangoda



Mr. A.D.K.S. Amarasinghe
Manager - Aluthgama



Mr. H.W.R. Gunaratne
Manager - Rathnapura



Mr. W.A.A.S. Perera
Manager - Kurunegala



Mr. M.J.I.R. Fernando
Manager - Negombo



Mr. G.D.D. Saminda
Manager - Gampaha




Mr. J.J.P. Mendis
Manager - Galle



 **Mr. S.P.U.W. Kumara**
Manager - Chilaw




 **Mr. S.D. Rathnayake**
Officer In Charge - Kiribathgoda




 **Mr. D.P.K. Muthugala**
Manager - Kuliyapitiya



 **Mr. W.A.G.R.M.N.B.
Amunugama**
Officer In Charge - Kandy



 **Mr. R.A.J.R. Kumara**
Manager - Embilipitiya



 **Mr. R.M.I.U.K. Waidyathilaka**
Officer In Charge - Matara

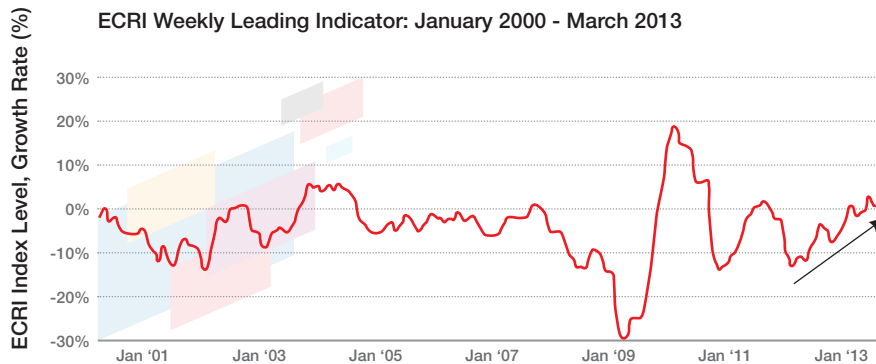
Management Discussion & Analysis

For Vallibel Finance PLC, the 2012-13 financial year has been one of success within a changing landscape. Growth, expansion and thought leadership from our Captains of Industry have been the markers of your company's successful navigation through difficult economic conditions both domestically and abroad.

The Global Economy

The Global economy has seen mixed sentiments in 2012 with generally sluggish national recoveries and soft yet improving consumer confidence.

In the US, leading economic indicators have been moving in the right direction, even though somewhat lethargically. Fourteen consecutive quarters of economic expansion ended in quarter 4 when GDP fell at an annualised rate of 0.1% bringing total growth for 2012 to 2.2%.



Source: ECRI. The ECRI Weekly Leading Index is a measure of leading economic indicators.

That said, details are not as discouraging as the statistic indicates as the drop was primarily driven by a sharp decrease in government spending. The biggest cuts came in military spending in Q4, which tumbled at a rate of 22.2%, the largest drop since 1972. In addition the Federal Reserves have signalled a continuation of its aggressive expansionary monetary policy and low interest rates to help drive growth. US stocks are up for the year along with home values and building permits.

The Eurozone continues to be a fly in the ointment as unemployment remained high (12.1%, March 2013) and private sector indicators gave a bleak outlook. Germany continues to be the strong performer of the group while perennial laggards Spain and Italy have been joined by France at the bottom of the GDP growth charts. Add to this, a messy bailout in Cyprus generally subdued business confidence, the

International Monetary Fund (IMF) has a forecast of 0.3% GDP contraction in 2013. We foresee that European governments will see an increase in pressure to unwind many of the austerity measures that are currently in place.

To summarise, the IMF believes the world economy is running at multiple speeds, with emerging markets and developing economies still strong, but the US doing much better than the Eurozone among developed economies. Global GDP is forecast to grow at 3.3% during 2013 with developing countries forecast to grow at 5.25%, primarily due to resilient consumer demand. In emerging markets and developing economies, the IMF's "World Economic Outlook" report highlights the need to tighten policies and rebuild buffers. The tightening should begin with monetary policy and, when needed, be supported with prudential measures to rein in budding excesses in financial sectors. Also, fiscal balances should be returned to levels that afford room for policy maneuvers, should growth fall below trend in the future.

The Sri Lankan Economy

Sri Lanka's economy sustained a high growth momentum to increase Gross Domestic Product by 6.4% during 2012, however this was slightly down on last year's record high. The enduring peace continued to provide improved consumer and investor confidence in Sri Lanka. Ongoing substantial investment in infrastructure facilities and sustained economic activity in the Northern and Eastern provinces underpinned this growth. Inflation rose sharply from 2.7% in February to finish the year at 9.2% providing an average of 7.6% for the year.

In 2012 the Sri Lankan Government remained committed to the fiscal consolidation process. It did this by implementing measures that reduced the overall fiscal deficit further to 6.4 per cent of GDP in 2012 from 6.9 per cent of GDP in 2011. It also took courageous measures to combat a growing trade deficit. Spiraling demand for imports, softening in the export markets, increases in oil prices and decreasing world commodity prices all conspired to create a severe trajectory for our nation's balance of payments and prompted serious and sustained action from the Central Bank. Monetary Policy was tightened through increased interest rates, a cap on credit growth in the banking sector that was implemented in March 2012 and import tariffs were increased to curb demand for imports.

Sri Lanka's Global competitive index position slipped 10 places this year from 52 to 68 according to the World Economic Forum. Clearly there are further Macroeconomic challenges for the Central Bank in 2013.

Operating Environment

The Non-Bank Financial Institutions (NBFIs) sector consisting of Licensed Finance Companies (LFCs) and Specialised Leasing Companies (SLCs) recorded a growth of 22% in 2012 and comprised of 47 LFCs and 13 SLCs by end 2012. Four companies obtained LFC licenses during the year under the Finance Business Act, No.42 of 2011 (FBA). Further, four SLCs were elevated to LFC status during 2012. Meanwhile, the branch network of the NBFIs sector expanded with 206 branches being

added, raising the total number of branches to 972.

General tariff increases on vehicle imports stunted growth in the NBFIs sector in 2012. Import taxes on three wheelers was raised from 51% to 100%, taxes for diesel cars were raised from 180% to 250% for a car under 1600cc and from a 291% to 350% for a car over 2500 cc. The decrease in vehicle imports due to these higher duties along with the depreciation of the rupee during 2012 affected the growth of the leasing and hire purchase portfolios across the sector.

Within the Micro Finance sector regulatory changes are imminent. A new Microfinance Bill has been drafted and it is expected to be enacted during 2013. Two new Directions were issued to LFCs. While one Direction issued specified guidelines to be adhered to in relation to the information systems security policy, the other Direction specified the upper limit of interest rates that could be offered for deposits mobilised.

Further, the Specialised Leasing Companies were issued directions on assessment of fitness and propriety of directors and key management personnel and changes to definitions in the compilation of key indicators. In order to strengthen the audit process and to meet the required standards, a panel of external auditors was appointed to conduct external audits of Non-Bank Financial Institutions.

Effective from 1st January 2012, all Sri Lanka Accounting Standards converged

with the International Financial Reporting Standards (IFRS). Following convergence with the International Financial Reporting Standards (IFRSs), the Company adopted the new Sri Lanka Accounting Standards (SLFRSs and LKASs) from 1st April 2012. Financial Statements up to 31st March 2012 were prepared in accordance with Sri Lanka Accounting Standards which were in effect up to that date. This is the first report produced by the Company according to IFRS standards.

Operational Performance

Branding Excellence

We are extremely happy to announce that your company has been the proud recipient of various prestigious awards during the course of the year.

Brand Finance Lanka recently released its annual rating of Sri Lanka's most valuable brands for the tenth consecutive year. Again we have been named a Leading Brand of Sri Lanka, ranked within the top 75 listed companies. The "Vallibel" brand has outperformed and secured its position ahead of competitors which have existed decades in Sri Lanka.



Management Discussion & Analysis



Stability Ensured

Vallibel Finance PLC has been rated 'BB+' with a stable outlook by RAM Ratings Lanka. The company's asset quality, performance levels and capitalisation levels have underpinned the rating, while we have been given clear guidance on areas that can be improved to improve the rating next year.

Branch Expansion

2013 has seen rapid, yet continued controlled expansion of your company. Our footprint expanded by 4 branches namely Galle, Chilaw, Kuliyapitiya and Embilipitiya and a notable upgrade of the Negombo office from a collections center to a fully fledged branch. Our selection of niche strategic locations has culminated in a network of 11 branches and 3 collection centers nationwide. In addition, Head Office is undergoing an upgrade. We are annexing a nearby building to provide the infrastructure for continued branch expansion in 2013 and beyond.



New branch opening at Galle



At the Chilaw branch opening

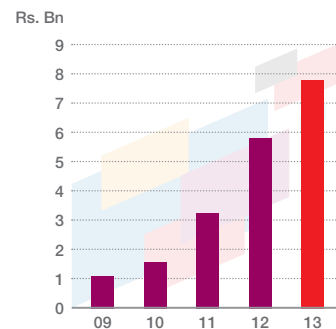


Latest branch opened at Embilipitiya

Product Portfolio and Performance

At Vallibel Finance, we provide a range of financial services, which includes accepting deposits, granting leasing, micro finance facilities, hire-purchase, pawning and other loans & advances. In the year under review, the company's total lending portfolio grew by 33.3%, totalling Rs. 7.8 Bn compared to Rs. 5.8 Bn previous year.

Total Lending



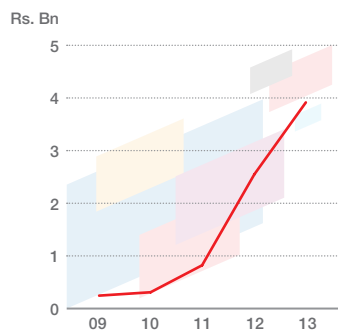
Lease & hire purchase are the key propositions in our lending portfolio.

Leasing

The Company's vehicle and equipment lease portfolio increased by 54% to Rs. 3.96 Bn (from Rs. 2.57 Bn) in 2012/13. While generic leasing products are seen as commodity in the market, we have strived to innovatively tailor our products to suit individual customer needs which include cash flow matching and balloon payments. We see this as a key differentiator in the market place for your Company and a keystone of our success in the year under

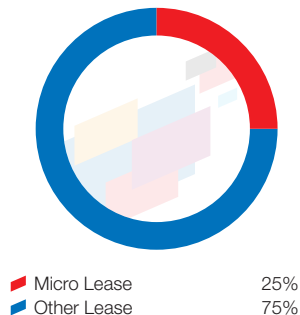
review. Other major contributors to this success include our increased branch network, increased focus on micro leasing facilities and friendly and speedy customer support.

Growth in Lease Portfolio (Assets Growth)



Vallibel Finance has expanded into a new market whereby leases are granted targeting small and medium scale entrepreneurs and low and middle-income earners to support their businesses. This is categorised as the “Micro Finance” segment. This is essentially the same leasing product but coined “Micro Finance” as it is comprised of small leases for purchases such as three wheelers and Motor bikes.

Lease portfolio composition 2013



During the year under review, we granted 5,874 new lease facilities to our customers which is a 53% growth compared to the previous year. From the total leasing facilities granted, micro leasing facilities amounted to 72% predominantly due to the increased focus on this product area from our new Micro Credit Department.

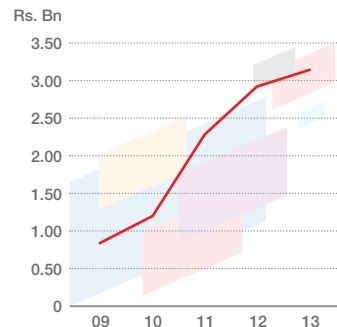
In the year 2012/13, interest income from finance leases amounted to Rs. 825 Mn compared to Rs. 366 Mn of previous year (125% year on year growth).

Hire Purchase

During the year under review, our vehicle Hire Purchase portfolio increased by 7% to Rs. 3.2 Bn from Rs. 2.9 Bn the prior year. A proportion of the decline in the performance of this segment can be attributed to the growth of the lease segment.

With the Budget 2012, Government made amendments to the VAT structure to stimulate domestic economic activity. Accordingly, the importation, supply and manufacture of certain types of machinery and equipment including pharmaceutical machinery, research and development equipment, certain types lorries, trucks, buses and several other types of machinery and equipment were exempted from VAT. This stimulated leasing and as a result we saw a commensurate decrease in the hire purchase of these assets.

Hire Purchase Portfolio - Assets Growth

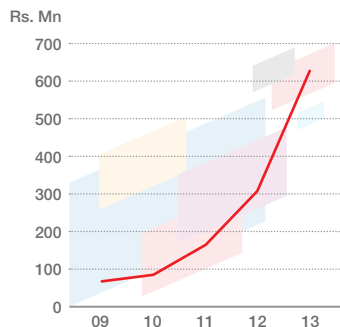


Other Loans & Advances

This area of our business comprises loans against fixed deposits, loans granted utilising investment fund and other loans and advances granted for various niche markets. This other loan and advances portfolio increased 96% to Rs.630 Mn from Rs. 305 Mn in 2011/12.

Management Discussion & Analysis

Portfolio of Other Loans & Advances



Pawning Advances

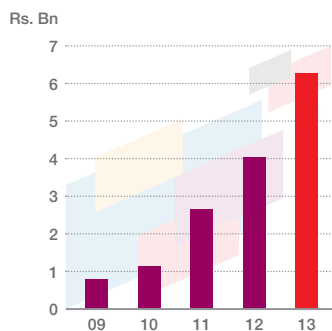
In March 2013, Vallibel Finance expanded its product portfolio by offering gold loan services more commonly known "Pawn Advances". This is a new strategic market for your business and we are proud that we are in a position to understand and respond to the changing needs of a diverse Sri Lankan demography and provide a new revenue stream for Vallibel Finance. The new gold loan service is available to the public from the Vallibel Finance Maharagama branch at No. 126, High Level Road, Maharagama.



Fixed Deposits

The level of fixed deposits held by Vallibel Finance is a direct and strong indication of customer confidence in your business. Fixed Deposits 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 were Rs. 4 Bn last year grew significantly by 56% to reach Rs. 6.2 Bn at end-March 2013. We are proud to say that our Fixed Deposit Base has reached Rs. 6 Bn for the first time in our history.

Growth in Deposits Base



Borrowings

Interest bearing borrowings were decreased by 32% to Rs. 951 Mn compared to Rs. 1.4 Bn in the previous year.

Debenture Issue

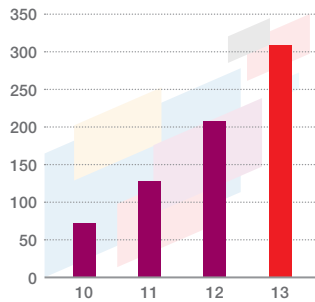
As you are aware, your company is growing at a fast pace. In order to facilitate this rapid growth we have taken steps to further expand the capital base and to be in line with the regulatory requirements imposed by the Central Bank of Sri Lanka on Licensed Finance Companies. In 2012/13, 150,000 Unsecured Subordinated Redeemable Debentures of Rs.1000 each (total of Rs. 150 Mn) were issued to Vallibel One PLC by way of a private placement. The maturity period of the unsecured subordinated redeemable debentures is 5 years at an interest rate of one year gross TB rate plus 4.50% per annum.

Human Capital

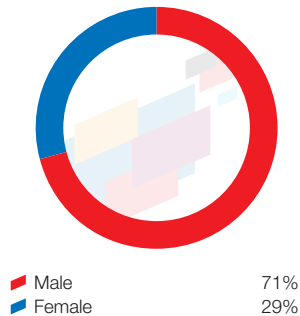
It is a cliché for business leaders to say "Our people are our greatest asset" yet we truly believe that without our human resources we would be a shadow of the great company we have become over these few short years. We continue to strive to inspire and lead our staff in a way that is rewarding for them, their families and all other stakeholders in our business.

The expansion of business operations has seen an uptake in the number of employees at the company with 154 new recruits during the year. This drove our total workforce to 307 people by the end of the financial year. Our commendable growth rate and a snapshot of team demographics can be seen in the following schedules.

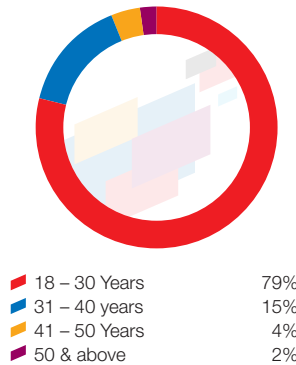
Number of Employees



Gender Analysis



Age Category



As can be seen from the statistics, our team principally consists of members of the younger generation. This conscious strategy of building a team for the future will be one that sees us with a huge competitive advantage in coming years. The Non-Bank Financial Sector has more new players every year but our long term strategy will see us further dominate the industry. With superior skills, industry knowledge and customer relationships our human capital will be a key differentiator over the competition in coming years. Our staff turnover remains extremely low, reflecting our values, high job satisfaction and employees loyal to our Company and its vision.

Training and Development

Continuing the theme of investment for the future, the Company has increased our efforts to advance both our internal and external training programs. During the year under review select employees have been guided

to participate in training programs with such prestigious entities as Central Bank of Sri Lanka, Sri Lanka Institute of Marketing, Chartered Institute of Management Accountants, Inland Revenue Department of Sri Lanka, McQuire Rens & Jones (pvt) Limited, Bar Association of Sri Lanka and Hummingbird International (pvt) Limited. Main areas of focus were operations, legal and regulatory framework, risk management, treasury operations, corporate planning, leadership skills, marketing, customer relations and Information Technology.



Managing Director addressing the staff at Annual Business Review Ceremony at Renuka City Hotel, Colombo

Employee categories	
Senior Management	8
Middle Management	38
Senior Executives	15
Executives / Junior Executives	41
Operational Staff	146
Clerical	29
Inplant Trainees	6
Minor	24
Total	307

Management Discussion & Analysis

Enriching Work Life Balance

Work life balance and extracurricular activities are also a vital part of fostering a health workforce. This year has been no different to previous as Vallibel Finance has supported several exciting and fun-filled events for our team including our annual sports day, our “Vallibel Night” social event in December and the much anticipated Annual Business Review & Reward Ceremony.



Sports Day



Vallibel Night

Marketing & Communications

Product and proposition development has been a key priority for your company this year. Two new additions to our portfolio will add strategic strings to our proverbial bow, and enable us to exploit opportunities that the current macroeconomic climate is presenting.

To help us capitalise on small business growth, particularly within the surging Agriculture sector, we have created a new “Micro Credit” department. This division will concentrate on selling micro leases into the market at a grass

roots level. Additionally we have launched a “Pawn” product. Volatile markets and ongoing high gold prices will see a continued growth in this sector 2013 onwards.

A new sales and marketing initiative has been to better leverage our existing substantial customer base. We are doing this with a four-pronged approach: Increased Marketing/ Sales Staff in existing branches & head office to further customer relationships, expand our geographical footprint to provide more regular and higher quality customer service, targeted campaigns result in cross selling of different products to existing customers and a dedicated new team focused on customer retentions. This is a specialised team with specific skills in managing customer relationships. This has been complemented by a series of tie-ups with other leading suppliers and vendors in the form of joint campaigns, free offers and various other sales promotions. Some of the most popular have been the free insurance campaign for leases, free helmets for bike leases and free water filters for three wheeler leasing.

Additionally we have been leveraging the Vallibel brand through a thorough campaign of outdoor advertising. This has been implemented as hoardings, street name boards and billboards at various strategic locations around the country. This investment has paid off with our continued status as one of the top brands in the nation as decreed by Brand Finance Lanka.



IT Developments

Information Technology (IT) is increasingly becoming an invaluable and powerful tool, driving development, supporting growth, promoting innovation, and enhancing competitiveness. We remain committed to leverage the benefits of IT development to the maximum advantage of Vallibel Finance and it's stakeholders.

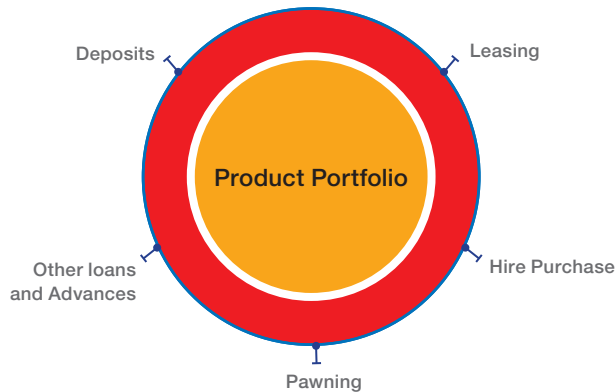
This year saw some landmark developments for us within the technology space, particularly concerned with building on our resilience from an operational perspective. A Disaster Recovery Site was established at Maharagama in December 2012 to ensure continuity of operations should an incident arise. A robust CCTV solution was implemented across our entire estate. The system will help provide a safe environment for our staff and customers ensuring minimal losses. This will be a major deterrent to theft and fraud. A power solution was implemented across all the branches and Head Office in collaboration with a third party.

To drive improved efficiency and transform our cost base we have moved to an open source email solution within the business as well as modified our database management strategy by entering into a new and beneficial Service Level Agreement with our third party maintenance provider.

The Future

2013/2014 is sure to provide a challenging landscape for the financial services industry and the Sri Lankan economy as a whole. Vallibel Finance will continue to use strategic growth, tactical partnerships and empowered stakeholders to navigate those tumultuous economic waters and add value for our shareholders, employees and the society in which we operate.

Financial Performance Review



As the largest contributor to the pie, interest income from leasing amounted to Rs. 824.73 Mn for the year under review, a phenomenal year-on-year increase of 125.47% over the previous years' figure of Rs. 365.78 Mn. The massive increase in income could be attributed to the highly-focused branch expansion strategy initiated by the company during the year under review. Moreover, income from hire purchase activities also jumped 16.54% to generate interest income of Rs. 744.68 Mn for the year. Although only a small component of total interest income, interest income from loans & advances and other ancillary income also grew from Rs. 106.88 Mn in the previous year to Rs. 222.5 Mn in the current year, thereby securing an impressive 108.17% increase for the year under review. Other income comprises mainly of interest earned on fixed deposits with banks and other finance companies, investments in government securities and interest earned from granting personal loans and fixed deposit loans.

Revenue and Profitability

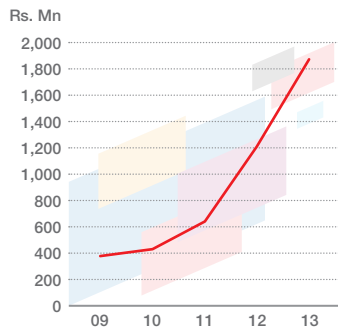
Income

Gross income generated from the Company's product portfolio grew from Rs. 1,210.63 Mn in 2012 to Rs. 1,879.4 Mn in 2013, a striking year-on-year increase of 55.2%. The consistent growth in gross income, witnessed over the past few years is indicative of the company's strengthening position as a leading player among Sri Lanka's financial institutions.

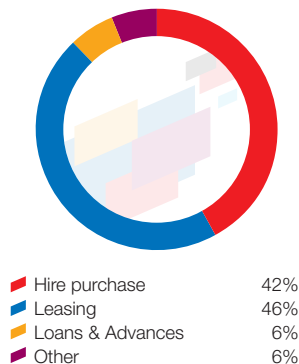
Interest Income

Interest income continues to remain the predominant contributor, accounting for more than 95% of the Company's gross income for the year under review. For the year ended 31st March 2013, Vallibel Finance's interest income reached Rs. 1,791.91 Mn from the Rs. 1,111.64 Mn recorded in the previous year, denoting a sharp increase of 61.2% for the year under review.

Gross Income



Composition of Interest Income 2013

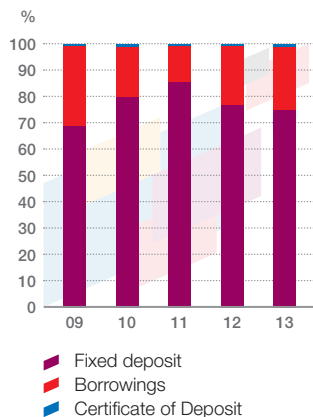


Interest Expenses

Consequently, total interest expenses were also subject to a year-on-year increase of 87.9% from Rs. 536.82 Mn recorded in 2012 to Rs. 1 Bn for the current year. This was primarily driven by a steep year-on-year rise of 84.26% in fixed deposit interest, which translated into Rs. 347.9 Mn for the year under review. Moreover, stemming from our expansion agenda for the year, the company notably increased its borrowings, which led to a sharp 68.85% increase in borrowing expenses amounting to Rs. 188.34 Mn for the current year compared to Rs. 111.78 Mn recorded in the previous year.

In addition, the company issued debentures to the value of Rs. 150 Mn during the year with an extended five year maturity. The related payout of Debenture interest added a further Rs. 45.74 Mn to the borrowing expenses as at 31st March 2013. As always, expenses relating to Certificates of deposit (CD's) remained the smallest component of total interest expenses, although taken individually this particular cost stream did experience growth in excess of 200% for the year, once again signaling the growing customer confidence in the company.

Composition of Interest Expense

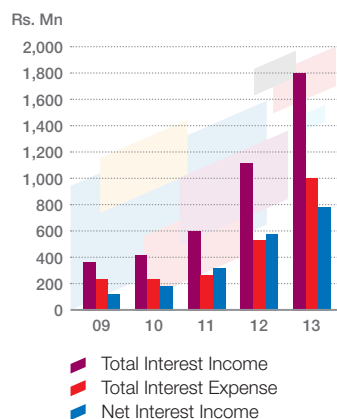


Net Interest Income

A decline in market interest rates during the year, led the Company to generate a favourable maturity gap and realise a gain in net interest income. By effectively matching long term interest earning assets consisting of Leasing and Hire purchase lending against short term

borrowings represented mainly by public deposits, the company managed to generate a 36.2% increase in net interest income for the year, from Rs. 574.81 Mn in 2012 to Rs. 783.07 Mn in the current year.

Net Interest Income



Rs. '000

	2009	2010	2011	2012	2013
Total Interest Income	364,278	413,871	595,383	1,111,638	1,791,914
Total Interest Expense	236,608	233,952	269,556	536,825	1,008,845
Net Interest Income	127,670	179,919	325,827	574,813	783,069

Non-Interest Income

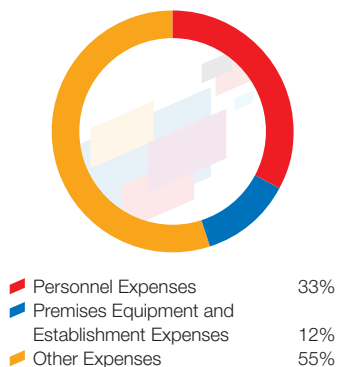
As the Company does not enter into operational lease contracts, non-interest income comprises mainly of insurance administration fees, income from terminations and gains made on disposals of property, plant and equipment. Moreover, Mark to Market valuation on quoted shares or capital gain from sale of quoted shares are also included in non-interest income for the year. Non-interest income for the year registered a 11.6% decline to Rs. 87.48 Mn compared to Rs. 98.99 Mn recorded in the previous year.

Non-Interest Expenses

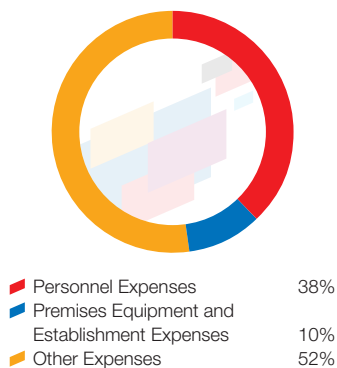
The total non - interest expenses for the year amounted to Rs. 350.94 Mn a year-on-year increase of 39.5% compared to the previous years' figure of Rs. 251.52 Mn.

Financial Performance Review

Composition of Non-Interest Expense 2012



Composition of Non-Interest Expense 2013



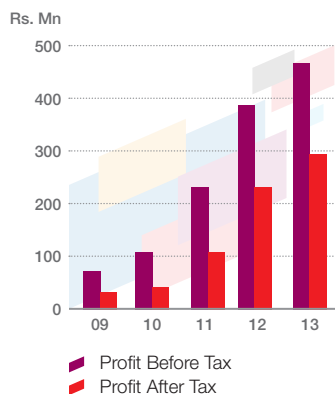
The increase in staff costs is attributed to the Company's recruitment drive initiated during the year. Moreover the company also actively restructured the overall personnel benefit plan leading to a further increase in staff related costs. Triggered by our expansion activities during the year, overhead costs also increased

significantly. Consequently, at the close of the year, the Company's operating cost to operating income ratio also climbed to 40% compared with the 37% recorded in the previous year.

Profitability

VFPLC's Profit before Tax (PBT) grew by 20.6% for the year under review to reach Rs.467.93 Mn compared with the Rs. 388.02 Mn recorded in the previous year. Total government taxes for the year amounted to Rs.173.39Mn, comprising of Rs. 134.65 Mn as corporate income taxes and Rs. 38.75 Mn as VAT on financial services. Accordingly, the profit attributable to shareholders (Profit after Tax) amounted to Rs. 294.53 Mn for the year under review, a notable increase of 27.4% comparative to the Rs. 231.18 Mn recorded in the preceding year.

Profitability

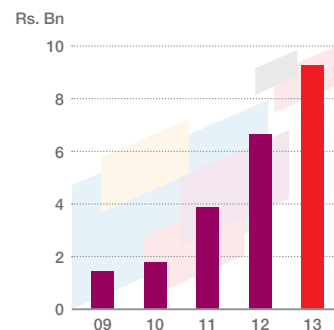


Assets and Liabilities

Total Assets

During the year under review, the Company recorded strong asset growth of 39.4% from Rs. 6.67 Bn in the previous year to hit an all-time high of Rs. 9.3 Bn as at 31st March 2013. Through an efficient asset mix, the company was able to optimise stable asset growth while simultaneously retaining the quality and credibility of the portfolio.

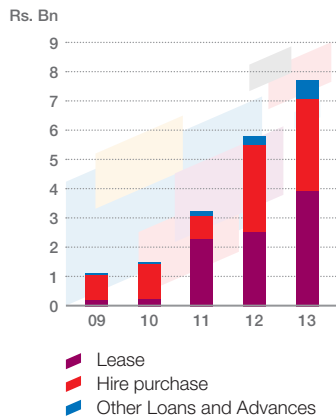
Total Assets



Lending Assets

During the year, the Company's lending portfolio soared by 33.27% to Rs. 7.76 Bn from Rs. 5.82 Bn in 2012. The total finance lease portfolio at the end of the financial year stood at Rs. 3.96 Bn compared to Rs. 2.57 Bn, a rise of 54.14%. Hire Purchase receivable stood at Rs. 3.16 Bn compared to Rs. 2.94 Bn on the previous year, reflecting growth of 7.44%. It is noteworthy that Hire Purchase and Leasing represent 41% and 51% of the total lending portfolio respectively.

Portfolio Distribution for Last Five Years



Asset Quality

Combining prudent lending policies and an intensive recovery strategy, the Company successfully mitigated non-performing loans during the year. The Company's NPL ratio of 1.45% for the year under review is indicative of the success of these aggressive measures.

Liquidity Position

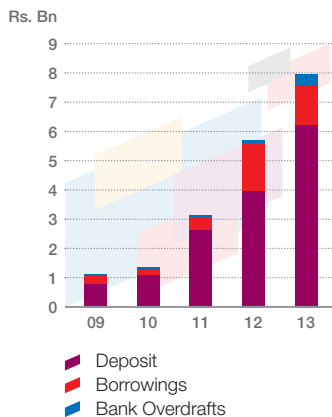
The liquid assets of the Company as at 31st March 2013 consisted of short term funds, investment in government securities, placements with banks and other finance companies, in addition to cash and cash equivalents. Liquid assets of the Company grew from Rs. 540.71 Mn in the previous year to Rs. 983.02 Mn in the current year. The resultant year on year increase of 81.8% greatly enhanced the Company's liquidity position for the year under review. The Company's liquidity

assets to total assets ratio stood at 10.57% (8.10% - 2011/2012) as at the balance sheet date.

Borrowings

The Company's liabilities consist of the deposit base, bank borrowing and other liabilities. Total liabilities for the year amounted to Rs. 8.37 Bn, compared with the Rs. 5.99 Bn recorded in the previous year, a year-on-year increase of 39.7%. A major portion of the funding for the year was obtained from both deposits and borrowings, including overdrafts.

Deposit Base, Borrowings & Overdrafts



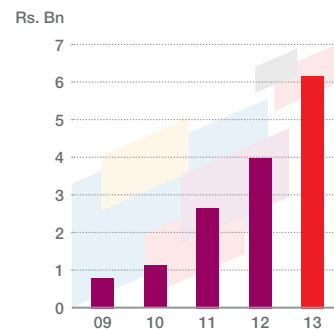
Deposit Base

Public deposits reached Rs. 6.27 Bn as at 31st March 2013, from Rs. 4.02 Bn recorded in the previous year, a staggering 56% year-on-year growth indicative of the growing investor confidence in the company.

Fixed Deposits

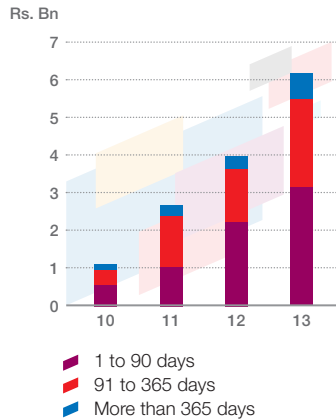
Fixed Deposits for the year amounted to Rs. 6.17 Bn for the year under review compared to the Rs. 3.98 Bn recorded for the previous year, a year-on-year increase of 55.8%. Of the total deposit base, 89% represented deposits with a maturity of less than one year while the remaining 11% are interest bearing deposits with a maturity in cycle that exceeds one year.

Fixed Deposits



Financial Performance Review

Analysis of Fixed Deposits by Maturity Date



Certificates of Deposits

Although just 2% of the total deposit base, the Company's CD portfolio stood at Rs. 94.3 Mn as at 31st March 2013, as against the Rs. 47.67 Mn recorded in the previous year, a phenomenal 97.74% year-on-year growth.

Shareholders' Funds

As the primary contributor to shareholders funds, retained earnings as at 31st March stood at Rs. 405.08 Mn, while total Shareholders' funds amounted to Rs. 937.32 Mn, a 37% increase over the previous years' corresponding figure of Rs. 684.4 Mn.

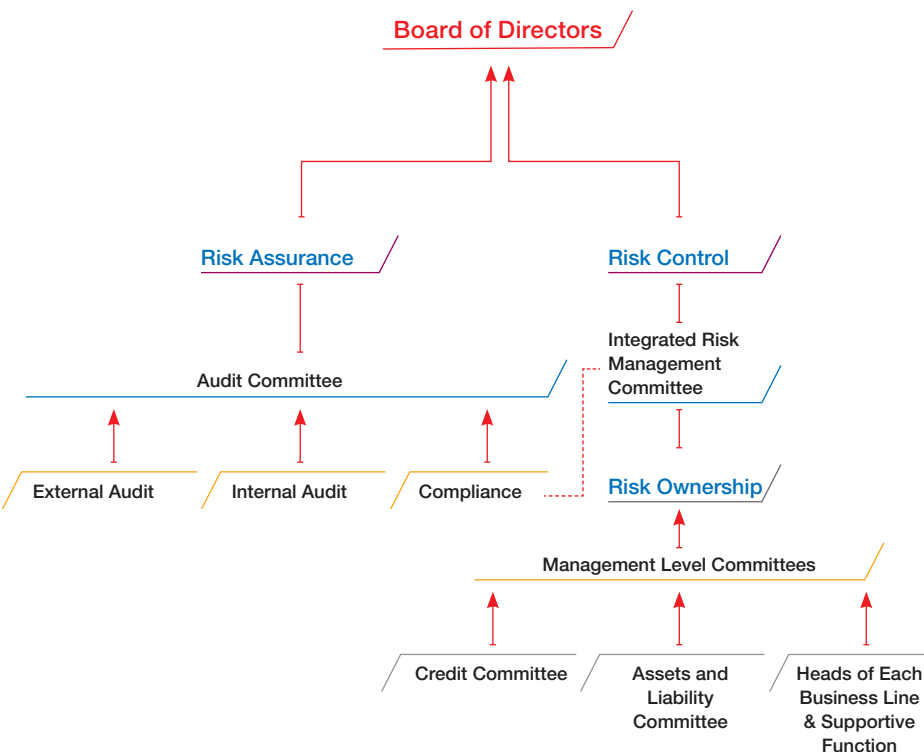
Risk Management Report

Risk Management

Finance business involves inherent risks that must be understood and carefully managed in order to successfully deliver sustainable returns to our stakeholders. Thus, we believe that effective risk management is a fundamental ingredient to our overall operations. In any activity, there is a potential for events and consequences that constitute opportunities for benefit or threats to success of the Company. With the continuous growth momentum, we are highly focused on managing these both upside and downside aspects of risks associated with our business.

Risk Governance

Managing risk is an integral part of every business activity of the Company and an organisation-wide risk management culture is in place with the oversight of the Board of Directors.



The Board of Directors has overall responsibility for the establishment and overseeing of the Company's risk management framework. Accordingly, Board has established following sub committees to assist the Board in discharging its responsibilities.

Audit Committee

The Audit Committee assists the Board of Directors 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.

The Audit 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. 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 and the effectiveness of the Company's internal control and monitoring systems.

Risk Management Report

Integrated Risk Management Committee

The overall risk management has been assigned to the Integrated Risk Management Committee (IRMC) of the Company. IRMC is responsible for developing and monitoring risk management policies and procedures in specified risk areas. 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.

IRMC has established two management level committees namely, the Assets and Liabilities Committee (ALCO) and Credit Committee to manage specified risk areas such as credit risk, liquidity risk, operational risk, etc. Each management level committee meets on a monthly basis to ensure effective identification and management of all risk categories.

The Integrated Risk Management 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.

- 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

Assets & Liability Committee

The Assets and Liabilities Committee (ALCO) 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.

The Asset & Liability management Committee (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.

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.

The ALCO discharges following responsibilities.

- Reviewing and approving 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 processes of the Company.

Credit Committee

The Board of Directors has delegated responsibility for the overseeing of credit risk to Credit Committee of the Company. The Committee's main responsibilities include the following:

- 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 authorisation 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

With the cooperation of the management, the committees make decisions on behalf of the Board. The Committees present vital matters to the Board whenever required and seek for review and approval 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. The risk management techniques and policies are regularly reviewed to ensure they remain appropriate.

Risk Management Framework

The Company's risk management framework has been established to ensure that major risks are effectively identified and managed according to the nature of the risks faced by the Company and our ability to tolerate or manage those risks.



Major risk categories and mitigation strategies

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

Credit Risk Management

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, and arises principally from the Company's loans and advances to customers, lease and hire purchase facilities to customers and investment in debt securities. For risk management reporting purposes the Company considers and consolidates

Risk Management Report

all elements of credit risk exposure (such as individual obligations or default risk and sector risk).

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.

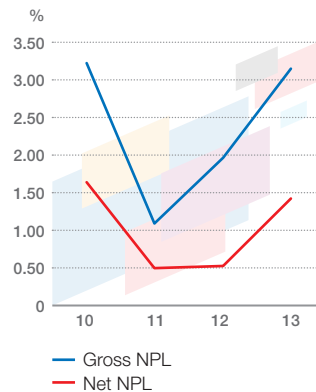
Credit risk is managed within the risk appetite of the Company. Acceptable credit risk identified in a credit application is mitigated through sufficient underlying security. The risk tolerance of the Company is low and therefore all credit is mitigated through sound credit principles, and all lending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

Gross Credit Exposure by Lending Type

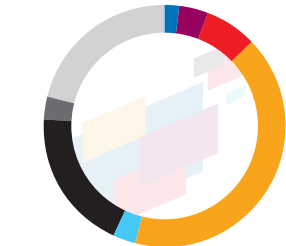
	Rs. '000	
	2013	2012
Lease Rental Receivable	4,011,664	2,595,234
Stock out on Hire	3,248,159	2,999,446
Pawning receivables	1,581	-
Loans against Fixed Deposits	99,681	100,606
Investment Fund Loans	101,621	42,277
Other Loans & Advances	436,096	171,886
Total loan & receivables	7,898,802	5,909,449

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

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

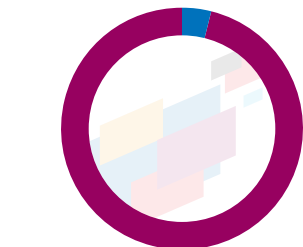


Lease & Hire Purchase Portfolio by Sector - 2013



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

Exposure to Top 20 Customers – 2013



Exposure of Top 20 Customers	4%
Exposure of Other Customers	96%

Maturity Analysis of Lending Portfolio as at 31st March 2013

	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)	1,480,849	1,948,021	3,646,297	686,146	32	7,761,345

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

Credit risk mitigation strategies undertaken by the Company are summarised below.

- 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 standardised 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 authorisation structure for the approval and renewal of credit facilities. Authorisation 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 Credit Committee 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.

Market Risk

Market risk is the possibility of losses to the Company 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.

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.

Liquidity Risk Management

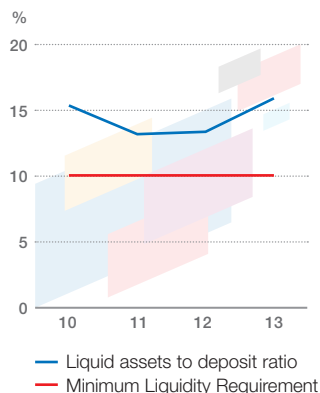
Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities which are settled by delivering cash or other financial assets. The Company may not be able to meet its obligations due to a lack of funds or having to meet these obligations at an excessive cost. This results from maturity mismatch between assets and liabilities.

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.

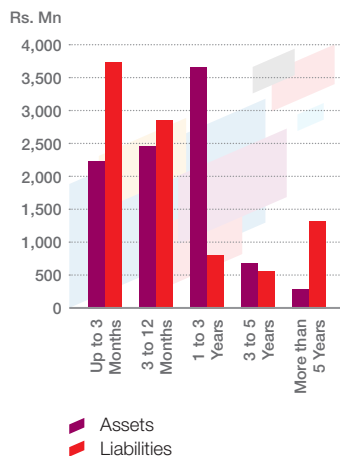
Risk Management Report

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

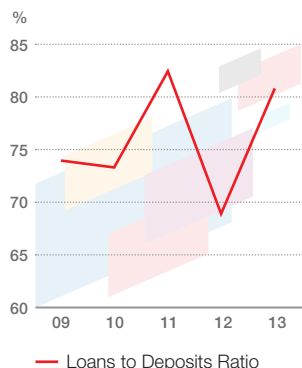
Statutory Liquid Assets Ratio



Maturity Analysis of Assets & Liabilities as at 31st March 2013



Movement in Advance to Deposits Ratio

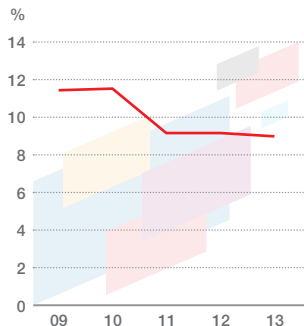


- The Company maintains a portfolio of short-term liquid assets, largely made up of cash and cash equivalents, fixed and calls deposits and short term government securities, to ensure that sufficient liquidity is maintained within the Company. Liquidity profile of financial assets and liabilities of 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 considered 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 Integrated Risk Management Committee. The 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.
- The company continuously maintains healthy deposit renewal ratio at around 90%.

Management of Interest Rate Risk

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

Net Interest Margin



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 benchmark. 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.

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 operations of the Company.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems and external events. Severity of these risks is assessed regularly through identified key risk indicators. 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 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
- Ethical and business standards
- Risk mitigation, including insurance where it is effective.

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. Operational risk management strategies undertaken by the Company are summarised below.

- The Audit Committee and the Integrated Risk Management Committee monitor the operational risk management with the support of Internal Auditors.
- Internal Auditors regularly review the reliability and integrity of financial and operating systems.
- Monthly audits are carried out in order to assess economy, efficiency and effectiveness of each division, functions and activities of the Company.

Risk Management Report

- 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.
- The Audit Committee reviews the adequacy of controls and procedures to address the risk identified through the internal audits.

Legal Risk

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 minimise 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.

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 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.

Reputational risk is the damage to the Company's image among stakeholders. Events that could lead to reputation risk are closely monitored, utilising 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 and procedures, 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.

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 a license from the Central Bank prior to commence finance business and continue 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 adopt changes in laws, regulations and regulatory policy. 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.

Capital Risk Management

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

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

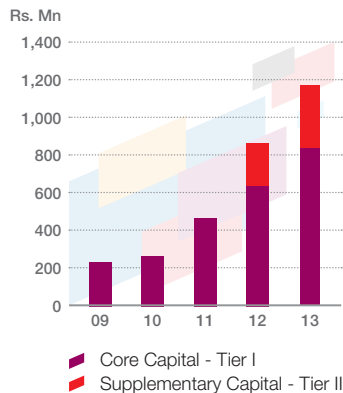
holders without ceasing operations. This ratio is used as an indicator to protect depositors and promote the stability and efficiency of a financial system.

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.

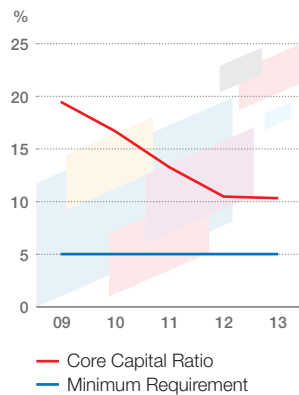
The Company's Capital adequacy ratios as at 31st March 2013 were 10.28% for Tier I and 14.28% for Tier I & II and are above the minimum requirements of the Central Bank of Sri Lanka of a minimum 5% and a minimum 10% respectively. Please refer pages 148 to 149 in the notes to the Financial Statements for detailed breakdown of capital adequacy ratio computation.

As at 31st March	2010	2011	2012	2013
Core Capital Ratio	16.76%	13.22%	10.39%	10.28%
Total Risk Weighted Capital Ratio	16.75%	13.20%	14.03%	14.28%

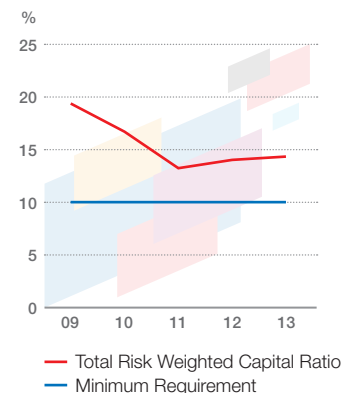
Total Capital Base



Core Capital Ratio



Total Risk Weighted Capital Ratio



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

Corporate Social Responsibility Report

Vallibel Finance has always placed utmost importance on its CSR mandate. We have now taken this one step further and have integrated social responsibility into the daily operations of our business and it is now a key element to supporting the successful development of the company. As we help to support and build the community around us through our philanthropic and community-based development initiatives, so too do we breathe new life and enthusiasm into our own organisation and give our employees a deeper sense of belonging and job satisfaction.

Tuition Endowment

With this year's initiatives we have further built upon those of last year to focus on community health and education as we continue to strive to help build a sound future for a healthy nation. In October 2012 we selected two of the most gifted students in the country to be recipients on our well established scholarship program.

Anjali Upeksha Maduwanthi, All-island first, from Thalathuoya Primary School in Kandy and Rasini Dilinika Madubashini, 7th in Kegalle district, from Kegalle Mayinnoluwa Central School were both top level performers at the year 5 examination level in 2012. In addition to their academic prowess the harsh economic conditions encountered by these students and their families was a key criterion in their selection. Miss Maduwanthi's family depends on income generated from dairy farming alongside assistance from the Samurddhi National Programme for Poverty Alleviation. Both Miss Madhubashini's parents are blind and the family

relies on proceeds from her Father's labours as a lottery seller.

Vallibel Finance has made a commitment to both families and will continue to provide both financial and counseling support on an ongoing basis, ensuring that economic hardships do not stunt the development of two of our Nation's most promising students.



Managing Director presents educational grants to the students



Healthcare Assistance

The Lady Ridgeway Hospital for Children has long been a bastion at the forefront of pediatric care in Sri Lanka and in terms of bed count, it is now considered one of the largest children's

hospitals in the world. The vast number of children treated in the hospital every year has many ailments and corresponding needs however, regardless of affliction they have one common necessity: safe drinking water.

In March 2013, Vallibel Finance continued with its mission to enhance our community by providing a high-capacity Unilever water purifier to the hospital to help speed the recovery of our most precious assets: our children. Children from across the country are treated at the Lady Ridgeway Hospital and we fervently hope our contribution will help the hospital in its endeavor to provide children with safe drinking water.

Another significant contribution in the healthcare space made by your company was to rush to the aid of a child in need. In order to support treatment for a child with facial disfigurement due to a birth defect, Vallibel Finance funded the medical instruments required for this important surgery. We hope that this treatment will have a huge positive impact on the child's future development.



Donation of equipment for safe drinking water for children at Lady Ridgeway Hospital

Workplace Sustainability

Responsible environmental stewardship is not just good for the planet, it is good business as well. Our background in supporting environmentally friendly projects such as hydropower for our sister company Vallibel Power Erathna PLC is well known but perhaps less well known are some of our in house sustainability programs.

Reductions at the employee level, paperless report initiatives, more efficient settings on office printers and responsible procurement are some of the tactics we are pursuing to achieve greater paper reduction. These, coupled with a comprehensive program that has been implemented in each department of every branch in order to reduce, reuse and recycle thereby reducing our environmental footprint and further our desires to be one of the most environmentally conscious companies in Sri Lanka.



Green Initiatives - Waste paper recycling

Corporate Governance Report

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 eight(08) members, seven (07)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 68.

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 two (02) Non Executive Directors, namely Mr. M. D. S. Goonatileke and Mr. S. Senaratne are 'Independent' as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and though not qualifying under paragraph 4 (f) (ii) in the Finance Companies (Corporate Governance) Direction 3 of 2008 upon consideration of all resultant circumstances 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 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 2013, 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. Adhihetty	Non-Executive	11/12
Mr. Nimal Perera	Non-Executive	9/12
Mr. M. D. S. Goonatileke	Independent Non-Executive	10/12
Mr. S. Senaratne	Independent Non-Executive	9/12
Mr. K. D. H. Perera	Non-Executive	12/12

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 70.

The Report of the Audit Committee is given on page 74.

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. M. D. S. Goonatileke, (during the period under review) and consisted of senior management personnel supervising broad risk categories. Mr. Goonatileke stepped down as Chairman with effect from 30th April 2013 and Mr. R. M. Karunaratne was appointed the Chairman of the Committee on the same day. Mr. Goonatileke remains as a Member of the Committee.

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 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.

Corporate Governance Report

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 Standard (LKAS) 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 carry out 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



Anusha Wijesinghe
P W Corporate Secretarial (Pvt) Ltd
Secretaries

21st June 2013

As the prudential regulator, the Central Bank of Sri Lanka (CBSL) has issued a set of Directions on Corporate Governance to promote prudent business behavior and risk management on the part of Regulated Financial Institutions such as banks, finance companies and insurance companies, so that these institutions can meet their financial promises.

The Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission of Sri Lanka (SEC) covers the key aspects such as Directors, Directors' remuneration, Relations with Shareholders, Accountability and Audit and Shareholders.

Further, Colombo Stock Exchange (CSE) has also issued a set of rules that govern the listing of Securities on the Colombo Stock Exchange and continuing listing requirements. These rules are necessary in order to ensure the creation and maintenance of a market in which Securities can be issued and traded in an orderly and fair manner and one which secures the efficiency and confidence of all stakeholders in the operation and conduct of the market.

In terms of Section 2 of the Finance Companies Act No. 78 of 1988, the Monetary Board of the Central Bank of Sri Lanka issued the Finance Companies (Corporate Governance) Direction No. 3 of 2008 which came to effect from 1st January 2009 and applies to every Licensed Finance Company. The Company's commitment with respect to this direction is summarised below:

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>Moving towards compliance.</p> <p>The Board of Directors approves and oversees the strategic objectives mainly through the monthly Board meetings and implementing and communicating such strategic objectives are carried out 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 immediate next three years;	<p>Moving towards compliance.</p> <p>A strategic plan for next three years in place and this will be presented to the Board for approval.</p> <p>Audit Committee and the Integrated Risk Management Committee oversee the risk management aspect of the company within the Board approved Terms of Reference.</p>

Corporate Governance Report

Directions	Extent of Compliance
c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	Complied with. The Board has delegated these responsibilities to its Integrated Risk Management Sub-committee and the committee recommends to the Board the Company's risk management policy, defining the risk appetite, identifying major risks categories, establishing governance structures and implementing systems to measure, monitor and manage the key risks. Please refer to Risk Management report on page 33 and Integrated Risk Management Committee report on page 72 for details.
d) approving a policy of communication with all stakeholders, including depositors, creditors, shareholders 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 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. 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.

Directions		Extent of Compliance
	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;	Moving towards compliance. A succession plan is in place for the Corporate Management team and Board of Directors who are currently defined as "Key Management Personnel" and this will be presented to the Board for approval.
	K) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	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.
	i) understanding the regulatory environment;	Complied with. The Board of Directors monitors the Company's compliance with regulations at the monthly Board meetings and new directions, circulars, etc. issued are made available to the Directors at the Board meetings.
	m) exercising due diligence in the hiring and oversight of external auditors.	Complied with. The Audit Committee carries out this responsibility on behalf of the Board.
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.	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.
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.	Complied with. The Directors are permitted to seek independent professional advice on any matters when deemed necessary at the Company's expense.

Corporate Governance Report

Directions		Extent of Compliance
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.	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.
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.	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.
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.	Such situation has not arisen during the year 2012/2013.
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.	Complied with. The Board publishes, in the Company's Annual Report, an annual Corporate Governance Report setting out the compliance with this Direction. Please refer to Corporate Governance Report on page 44.
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 Board 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. Regular board meetings are held at monthly intervals. Twelve regular meetings were held during the year 2012/2013.
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.

Directions		Extent of Compliance
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, agenda and Board papers are circulated to the Directors 7 days prior to the meeting for regular Board meetings.
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 2012/2013.
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.
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. Directors can inspect the Board Minutes on reasonable notice.

Corporate Governance Report

Directions		Extent of Compliance
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> <ul 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. 	<p>Complied with.</p> <p>Detailed minutes are maintained by the Company Secretary covering these given criteria.</p>
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.	<p>Complied with.</p> <p>The Board comprised of seven Directors as at 31, March 2013. At present eight Directors constitute the Board with the appointment of the new Director, Mr. R. M. Karunaratne on 30, April 2013.</p>
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.	<p>Complied with.</p> <p>The total period of service of all Non Executive Directors is less than 9 years.</p>
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.	<p>Complied with.</p> <p>Mr. S.B. Rangamuwa is the only Executive Director on the Board.</p>

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> <ul 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: <ul 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 two Independent Non-Executive Directors until April 2012. With the appointment of the new Director, Mr. R M Karunaratne on 30, April 2013, the Board now comprises of three Independent Non-Executive Directors.</p>

Corporate Governance Report

Directions		Extent of Compliance
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.	Such situation has not arisen during the year 2012/2013.
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 fields. Please refer section on 'Profiles of the Board of Directors' on pages 12 and 13.
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.	No Directors were appointed to fill casual vacancies during the year 2012/2013.
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 2012/2013.

Directions		Extent of Compliance
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. None of the present Directors have reached 70 years. The Company Secretary maintains records of the age of the Directors.
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. Provided that such director shall not hold office of a director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Moving towards compliance. No Director held office in over 20 companies as at 31, March 2013. The total number of positions held as a Director or any other position in companies/societies/body corporate including subsidiaries or Associate Companies of the Finance Companies are less than 20. Two Directors hold directorships in more than 10 SBEs and they will comply with the requirement in the future.
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.	Complied with. The Board is empowered by the Articles of Association to delegate any of their powers. 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.
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.	Complied with. 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.
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.	Complied with. The positions of the Chairman and the Chief Executive Officer are separated and performed by two different individuals.

Corporate Governance Report

Directions		Extent of Compliance
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. 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". Please refer page 68 under "Directors" in the "Annual Report of the Board of Directors on the Affairs of the Company".</p>
7 (3)	<p>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>	<p>Complied with.</p> <p>The Board is aware that there are no relationships whatsoever, between the Chairman and the Managing Director.</p> <p>Directors Messrs K. D. D. 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>
7 (4)	<p>The chairman shall:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p> <p>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.</p>
7 (5)	<p>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.</p>	<p>Complied with.</p> <p>The Company Secretary circulates formal agenda prior to the Board Meeting. This agenda is approved by the Chairman of the Board.</p>
7 (6)	<p>The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.</p>	<p>Complied with.</p> <p>Board papers covering adequate information of matters to be taken up for discussions are circulated with the Notice of Meeting at least 7 days prior to the meeting.</p>
7 (7)	<p>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.</p>	<p>Complied with.</p> <p>All Directors are encouraged to actively participate in Board's affairs.</p>

Directions		Extent of Compliance
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 being a Non-Executive 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 functions as the apex executive-in-charge of the day-to-day management of the Company's operations and business.
8. Board appointed Committees		
8 (1)	Every finance company shall have at least the two Board committees set out in paragraphs 8(2) and 8(3) hereof. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performance, duties and functions of each committee, at the annual general meeting of the company.	Complied with. Three subcommittees of the Board (Remuneration committee, Audit Committee and Integrated Risk Management committee) have been established which are reporting directly by submitting the minutes to the Board. The Company Secretary functions as the Secretary to these Committees. The Reports of the Audit Committee and Integrated Risk Management committee are given on pages 72 and 74 of this Annual Report.
8 (2)	Audit Committee	
	a) The chairman of the committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied with. The Chairman of Audit Committee is a Non-Executive Director. Qualifications and experience are disclosed in page 13 of the Annual Report.

Corporate Governance Report

Directions	Extent of Compliance
<p>b) The Board members appointed to the committee shall be non-executive directors.</p>	<p>Complied with. 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> <ul 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. As per the Terms of Reference, the Committee has made the following recommendations:</p> <ul style="list-style-type: none"> - The appointment of Messrs KPMG, Chartered Accountants as the External Auditors for audit services in compliance with the relevant statutes. - Implementation of CBSL Guidelines applicable to the Auditors. - Application of relevant Accounting Standards, particularly the adoption of LKAS/SLFRS from 01, April 2012. <p>Complied with the requirement that the engagement of the audit partner does not exceed five years and that the particular audit partner is not re- engaged for the audit before the expiry of three years from the date of the completion of the previous term. The 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. The Committee has obtained the representation 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). The Audit Committee reviewed the nature and scope of the external audit taking in to account of the regulations & guidelines.</p>

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.</p>
<p>f) The committee shall, before the audit commences, discuss and finalise 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>

Corporate Governance Report

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.</p> <p>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 and 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 Financial Department.</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 Key Management Personnel to discuss issues 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 by the external auditor's Management Letter and the management response thereto.</p>

Directions	Extent of Compliance
<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 the year.</p> <p>Internal audit reports and the recommendations pursuant to same are reviewed and discussed by the Committee and necessary actions are taken.</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 with direct reporting to the Board Audit Committee.</p>
<p>k) The committee shall consider the major findings of internal investigations and management's response thereto;</p>	<p>Complied with.</p> <p>The Committee considers the reports on investigations carried out by the Internal Audit on major findings and reviews the actions taken by the management.</p>
<p>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.</p>	<p>Complied with.</p> <p>Two meetings were held with the External Auditors without the Executive Directors and the Key Management Personnel being present.</p>

Corporate Governance Report

Directions	Extent of Compliance
<p>m) The committee shall have:</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p> <p>The terms of reference of the Board Audit Committee include these scope and responsibilities.</p>
<p>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.</p>	<p>Complied with.</p> <p>The Committee meets regularly and gives due notice of the issues to be discussed. The minutes are made and maintained of these Committee meetings.</p>
<p>o) The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> (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. 	<p>Complied with.</p> <p>Please refer Audit Committee Report on page 74.</p>
<p>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.</p>	<p>Complied with.</p> <p>The Company Secretary functions as the Secretary to the Committee and records and maintains detailed minutes of the Committee.</p>
<p>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.</p>	<p>Complied with.</p> <p>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.</p>

Directions		Extent of Compliance
8 (3)	Integrated Risk Management Committee	
	The following shall apply in relation to the Integrated Risk Management Committee:	
	a) The committee shall consist of at least one non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks, The committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied with. Committee consists of a Non-Executive Director (Chairman), Chief Executive Officer, Deputy General Manager, Head of Finance and Senior Manager - Asset Management. 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. A process is in place to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Company on a monthly basis through appropriate risk indicators and management information. Please refer "Risk Management Report" on page 33 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. These 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.
	e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with. The Committee met four times during the year under review.

Corporate Governance Report

Directions		Extent of Compliance
	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 recommendation and risk management reports.
	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.	Complied with. The Committee has established a compliance function to assess the Company's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. 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 Integrated Risk Management Committee.
9. Related party transactions		
9 (2)	<p>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. 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 39 on "Related Party Disclosures" in the Financial Statements.</p> <p>The Company is in the process of developing a policy on related party transactions and strengthening the monitoring mechanism in this regard.</p>

Directions	Extent of Compliance
<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 39 on "Related Party Disclosures" in the Financial Statements.</p>
<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:</p> <ul style="list-style-type: none"> a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of 5 years or more. 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; 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; d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; 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>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>

Corporate Governance Report

Directions		Extent of Compliance
10. Disclosure		
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>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>
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	<p>Complied with.</p> <p>Relevant disclosures are included in page 76 of the annual report under "Statement of Directors Responsibilities".</p>
	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	<p>Complied with.</p> <p>"Directors Statement on Internal Control Over Financial Reporting" is given on page 73.</p>
	c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after March 31, 2010.	<p>Complied with.</p> <p>The Company obtained a certification from the External Auditors on the effectiveness of the internal control mechanism.</p>
	d) Details of directors, including names, transactions with the finance company.	<p>Complied with</p> <p>Please refer pages 12 to 13 for details of Directors, pages 125 to 127 on Related Party Disclosures for transactions with the Company.</p>
	e) Fees/remuneration paid by the finance company to the directors in aggregate, in the Annual Reports published after January 1, 2010.	<p>Complied with.</p> <p>The fees and remuneration paid has been disclosed under short term employment benefits in note 39.2.1 to the Financial Statement.</p>

Directions	Extent of Compliance
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 Transaction in note 39 to the Financial Statement. 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 126 under "Related Party Disclosures" (Compensation to Key Management Personnel).
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 "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 Act and rules and directions issued by the Monetary Board 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 certain procedure based on the recommendations made by them.

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 2013.

General

Vallibel Finance PLC 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, 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 appears on page 77.

Accounting Policies

The Accounting Policies, which are adopted by the Company in the preparation of Financial Statements, are given on pages 84 to 96. 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. J. A. S. S. Adhihetty - Director
 Mr. W. D. N. H. Perera - Director
 Mr. M. D. S. Goonatilleke*/** - Director
 Mr. S. Senaratne* - Director
 Mr. K. D. H. Perera - 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 and S. Senaratne who held office during the period under review, were independent as against the criteria for defining "independence" set out in the Listing Rules.

Mr. R. M. Karunaratne was appointed as an Independent Non-Executive Director to the Board of the Company with effect from 30th April 2013. 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. J. A. S. S. Adhihetty 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 39 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 2013 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 2012).

The number of shares issued by the Company stood at 41,550,600 fully paid ordinary shares as at 31st March 2013 (41,550,600 fully paid ordinary shares as at 31st March 2012).

Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2013 are as follows:

	Shareholding as at 31/03/2013	Shareholding as at 31/03/2012
Mr. K. D. D. Perera	600	600
Mr. S. B. Rangamuwa	115,301	100,000
Mr. J. A. S. S. Adhihetty	600	600
Mr. W. D. N. H. Perera	Nil	Nil
Mr. M. D. S. Goonatileke	600	600
Mr. S. Senaratne	22,600	22,600
Mr. K. D. H. Perera	600	600

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

Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, the 20 largest shareholders of the Company, public holding as per the Listing Rules of the Colombo Stock Exchange are given on pages 153 and 155. Earnings, Dividends, Net Assets per Share, appear on page 03.

Auditors

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

A total amount of Rs. 1,440,000/- is payable by the Company to the Auditors for the year under review which comprise of Rs. 795,000/- as Audit fees and Rs. 645,000/- for Non Audit Services.

The Auditors have expressed their willingness to continue in office. A resolution to reappoint the Auditors and to authorise 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. 417,320/-

Property, Plant and Equipment

Details of Property, Plant and Equipment and changes during the year are given in Note 26 of the Financial Statements.

Material Foreseeable Risk Factors

The section on Risk Management on pages 33 to 41 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 26 of the accounts represent a land of an extent of 15.20 perches with a building situated in No.126, High Level Road, Maharagama acquired in October 2010, which is carried at its 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 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 in terms of the Finance Companies (Assessment of Fitness and Propriety of Directors and Officers Performing Executive Functions) Direction No.03 of 2011, except in respect of the matters referred to in the Annual Corporate Governance Report on pages 47 to 67.

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

An Audit Committee, 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 74.

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. M. D. S. Goonatilleke

Independent Non-Executive Director (Chairman)

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

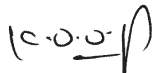
Mr. M. D. S. Goonatilleke, who stepped down as the Chairman of the Integrated Risk Management Committee, remains a Member of the Committee. Mr. R. M. Karunaratne was appointed as the Chairman of the Committee with effect from 30th April 2013.

Annual General Meeting

The Annual General Meeting will be held on Friday 06th September 2013 at 10.00 am at the Winchester Hall of The Kingsbury Hotel, Colombo.

The notice of the Annual General Meeting appears on page 165.

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



Dhammika Perera

Chairman



S. B. Rangamuwa

Managing Director



Anusha Wijesinghe

P W Corporate Secretarial (Pvt) Ltd

Secretaries

21st June 2013

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. M. D. S. Goonatilleke

Independent Non Executive Director (Chairman)

Mr. S. B. Rangamuwa

Managing Director/CEO

Mr. Niroschan Perera

Deputy General Manager

Mr. K. D. Menaka Sameera

Senior Manager - Finance & Administration

Mr. T. U. Amaraweera

Senior Manager - Asset Management

Mr. M. D. S. Goonatilleke stepped down as Chairman with effect from 30th April 2013 and Mr. R. M. Karunaratne was appointed as the Chairman of the Committee on the same day. Mr. Goonatilleke remains as a member of the Committee.

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, during the year under review. The minutes of the IRMC Meetings were tabled at the Board meetings.

The Integrated Risk Management Committee reviewed risk policy frameworks 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.



M. D. S. Goonatilleke

Chairman

Integrated Risk Management Committee

21st June 2013

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. As the current year was the first year of adopting new Sri Lanka Accounting Standards comprising LKAS and SLFRS, processes to comply with new requirements of recognition, measurement, classification and disclosure are being introduced, and as at Balance Sheet date were not fully completed.

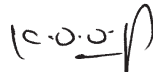
Confirmation

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

External 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



K. D. D. Perera
Chairman



S. B. Rangamuwa
Managing Director



M. D. S. Goonatileke
Chairman – Audit Committee

21st June 2013

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. Goonatilleke, Chartered Management Accountant with over 26 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 seven times during the year. The Company Secretaries function as the Secretaries to the Committee. 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 2014, 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. Goonatilleke
Chairman
Audit Committee

21st June 2013

Financial Reports

Statement of Directors' Responsibilities	<u>76</u>
Independent Auditor's Report	<u>77</u>
Income Statement	<u>78</u>
Statement of Comprehensive Income	<u>79</u>
Statement of Financial Position	<u>80</u>
Statement of Changes in Equity	<u>82</u>
Cash Flow Statement	<u>83</u>
Notes to the Financial Statements	<u>84</u>

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 2013/14, 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

21st June 2013

Independent Auditor's Report



KPMG
 (Chartered Accountants)
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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, which comprise the Statement of financial position as at March 31, 2013, the statement 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 78 to 149 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, 2013 and the financial statements give a true and fair view of the financial position of the Company as at March 31, 2013 and of its financial performance and 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, 21 June 2013.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA	S.T.D.L. Perera FCA
G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA	Ms. B.K.D.T.N. Rodrigo ACA
Principals - S.R.I. Perera ACMA; LLB, Attorney-at-Law, H.S. Goonewardene ACA		

Income Statement

For the Year Ended 31st March	Page No.	Note	2013 Rs.	2012 Rs.	Change %
Gross Income	97	4	1,879,396,483	1,210,633,975	55.2
Interest Income	97	5	1,791,914,232	1,111,638,186	61.2
Interest Expense	98	6	(1,008,844,798)	(536,824,726)	87.9
Net Interest Income			783,069,434	574,813,460	36.2
Fee and Commission Income			31,255,381	21,941,300	42.4
Net Fee and Commission Income			31,255,381	21,941,300	42.4
Net Gain / (Loss) from Trading	98	7	2,386,146	(15,729,559)	(115.2)
Other Operating Income	98	8	53,840,724	92,784,048	(42.0)
Total Operating Income			870,551,685	673,809,249	29.2
Impairment (Charges) / Reversals for Loans and other losses	99	9	(51,678,935)	(34,266,148)	50.8
Net Operating Income			818,872,750	639,543,101	28.0
Operating Expenses					
Personnel Expenses	99	10	(131,946,471)	(81,556,385)	61.8
Premises Equipment and Establishment Expenses			(35,949,026)	(30,857,036)	16.5
Other Expenses			(183,049,067)	(139,106,222)	31.6
Operating Profit Before Value Added Tax	99	11	467,928,186	388,023,458	20.6
Value Added Tax on Financial Services			(38,748,927)	(37,386,342)	3.6
Profit Before Taxation			429,179,259	350,637,116	22.4
Income Tax Expense	100	12	(134,646,817)	(119,460,984)	12.7
Profit for the Year			294,532,442	231,176,132	27.4
Earnings Per Share	101	13	7.09	5.56	

The notes on pages 84 to 149 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	2013 Rs.	2012 Rs.	Change %
Profit for the Year			294,532,442	231,176,132	27.4
Acturial Gains / (Losses) on Retirement Benefit Plans	121	34.1	(59,239)	(61,760)	(4.1)
Total Other Comprehensive Income			(59,239)	(61,760)	(4.1)
Total Other Comprehensive Income for the Year, Net of Tax			(59,239)	(61,760)	(4.1)
Total Comprehensive Income for the Year, Net of Tax			294,473,203	231,114,372	27.4

The notes on pages 84 to 149 are an integral part of these financial statements.

Figures in brackets indicate deductions.

Statement of Financial Position

As at 31st March	Page No.	Note	2013 Rs.	2012 Rs.	1st April 2011 Rs.	Change %
Assets		14				
Cash and Cash Equivalents	105	15.1	239,915,519	79,321,134	65,830,283	202.5
Placements with Banks and Other Finance Companies	105	16	698,087,988	210,974,451	168,758,281	230.9
Financial Investments - Held for Trading	106	17	14,329,011	12,283,156	4,668,076	16.7
Loans and Receivables to Finance Companies	107	18	16,472,400	16,472,400	16,472,400	-
Loans and Receivables to Other Customers	107	19	630,951,875	305,257,922	162,730,107	106.7
Lease Rental and Hire Purchase Receivables	109	20	7,130,393,590	5,518,414,888	3,094,017,562	29.2
Financial Investments - Available for Sale	112	21	203,800	203,800	203,800	-
Financial Investments - Held to Maturity	112	22	281,718,777	251,392,472	125,230,473	12.1
Other Financial Assets	113	23	21,998,111	17,656,274	17,483,526	24.6
Inventories	113	24	-	-	1,900,000	-
Other Assets	113	25	144,989,824	155,102,646	153,404,074	(6.5)
Property, Plant and Equipment	114	26	122,745,654	105,792,958	78,882,526	16.0
Deferred Tax Assets	120	32.4	1,698,960	1,092,818	650,416	55.5
Total Assets			9,303,505,509	6,673,964,919	3,890,231,524	39.4
Liabilities		14				
Bank Overdrafts	105	15.2	360,101,982	82,765,639	49,660,559	335.1
Rental Received in Advance			164,624,028	76,741,268	68,118,105	114.5
Deposits due to Customers	116	27	6,268,210,181	4,024,406,195	2,681,690,969	55.8
Interest bearing Borrowings	116	28	951,201,653	1,399,833,703	449,322,933	(32.0)
Subordinated Term Debts	118	29	399,255,586	232,764,384	-	71.5
Other Financial Liabilities	119	30	41,463,609	38,287,579	69,197,616	8.3
Current Tax Liabilities	119	31	41,938,998	52,416,626	45,973,481	(20.0)
Deferred Tax Liabilities	120	32.3	65,089,176	40,018,009	14,881,409	62.6
Other Liabilities	121	33	68,235,470	38,434,084	35,008,097	77.5
Retirement Benefit Obligations	121	34	6,067,712	3,902,921	2,322,916	55.5
Total Liabilities			8,366,188,396	5,989,570,408	3,416,176,085	39.7

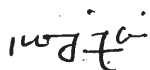
As at 31st March	Page No.	Note	2013 Rs.	2012 Rs.	1st April 2011 Rs.	Change %
Equity						
Stated Capital	122	35	287,153,000	287,153,000	287,153,000	-
Statutory Reserves	123	36	237,580,979	130,551,881	45,356,554	82.0
General Reserve	124	37	7,500,000	7,500,000	7,500,000	-
Retained Earnings	124	38	405,083,134	259,189,630	134,045,885	56.3
Total Equity			937,317,113	684,394,511	474,055,439	37.0
Total Liabilities and Equity			9,303,505,509	6,673,964,919	3,890,231,524	39.4
Net Assets Value Per Share (Rs.)			22.56	16.47	11.41	37.0

The notes on pages 84 to 149 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 ;



K.D.D. Perera

Chairman



S.B. Rangamuwa

Managing Director & CEO

21st June 2013,
Colombo.

Statement of Changes in Equity

	Stated Capital	Statutory Reserves Reserve Fund	Investment Fund	General Reserve	Retained Earnings	Total Equity
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01st April 2011	287,153,000	40,006,382	5,350,172	7,500,000	128,126,231	468,135,785
Effect of Transitional provisions						
Deposits EIR adjustment to Opening Retained Earnings	-	-	-	-	5,919,654	5,919,654
Adjusted SLFRS Balance as at 01st April 2011	287,153,000	40,006,382	5,350,172	7,500,000	134,045,885	474,055,439
Profit for the Year	-	-	-	-	231,176,132	231,176,132
Other Comprehensive Income,net of Tax	-	-	-	-	(61,760)	(61,760)
Dividends	-	-	-	-	(20,775,300)	(20,775,300)
Investment Fund Account Transfers	-	-	37,399,927	-	(37,399,927)	-
Statutory Reserve Transfers	-	47,795,400	-	-	(47,795,400)	-
Balance as at 31st March 2012	287,153,000	87,801,782	42,750,099	7,500,000	259,189,630	684,394,511
Profit for the Year	-	-	-	-	294,532,442	294,532,442
Other Comprehensive Income,net of Tax	-	-	-	-	(59,239)	(59,239)
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	405,083,134	937,317,113

The notes on pages 84 to 149 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	2013 Rs.	2012 Rs.
Cash Flow from Operating Activities				
Interest and Commission Receipts			1,823,046,111	1,129,067,552
Interest Payments			(1,116,848,821)	(506,343,533)
Cash Receipts from Customers			52,348,395	91,542,685
Cash Payments to Employees and Suppliers			(318,765,583)	(223,221,760)
Operating Profit Before Changes in Operating Assets and Liabilities			439,780,102	491,044,944
(Increase) / Decrease in Operating Assets				
Short Term Funds			43,397,576	(21,995,909)
Deposits held for Regulatory or Monetary Control Purposes			(86,661,821)	(196,745,667)
Funds Advanced to Customers			(1,924,168,920)	(2,582,456,977)
Other Short Term Negotiable Securities			(452,573,086)	19,343,729
Increase / (Decrease) in Operating Liabilities				
Deposits from Customers			2,310,987,332	1,275,925,816
Certificate of Deposits			46,609,912	38,454,648
Net Cash (Used in) / Generated from Operating Activities before Income Tax			377,371,094	(976,429,416)
Taxes Paid			(147,614,350)	(130,294,428)
Net Cash (Used in) / Generated from Operating Activities			229,756,744	(1,106,723,844)
Cash Flows from Investing Activities				
Dividends Received	98	7	340,291	57,617
Proceed from Sale of Dealing Securities			-	638,765
Purchase of Dealing Securities	106	17.1	-	(25,000,000)
Proceed from Sale of Property , Plant and Equipment			395,000	6,421,963
Purchase of Property, Plant and Equipment	114	26	(44,174,609)	(48,385,294)
Net Cash Used In Investing Activities			(43,439,318)	(66,266,949)
Cash Flows from Financing Activities				
Issue of Debentures			150,000,000	225,000,000
Net Increase in Borrowings			(411,508,784)	949,151,864
Dividend Paid			(41,550,600)	(20,775,300)
Net Cash Generated from / (Used in) Financing Activities			(303,059,384)	1,153,376,564
Net Increase / (Decrease) in Cash & Cash Equivalents			(116,741,958)	(19,614,229)
Cash & Cash Equivalents at the Beginning of the Year			(3,444,505)	16,169,724
Cash & Cash Equivalents at end of the Year (Note A)			(120,186,463)	(3,444,505)
Note A				
Cash & Cash Equivalents at the end of the Year				
Cash in Hand and at Banks	105	15.1	239,915,519	79,321,134
Bank Overdrafts	105	15.2	(360,101,982)	(82,765,639)
			(120,186,463)	(3,444,505)

The notes on pages 84 to 149 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 providing 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 Limited, which is incorporated in Sri Lanka.

2. BASIS OF PREPARATION

2.1. Statement of Compliance

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which became applicable for financial periods beginning on or after 1st January 2012. The Financial Statements of the Company which comprise the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with these Sri Lanka Accounting Standards (SLFRSs and LKASs) laid down by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of Companies Act No 7 of 2007 and Finance Business Act No. 42 of 2011. These are the Company's first financial statements prepared in accordance with SLFRSs and SLFRS 1 First-time Adoption of Sri Lanka Financial Reporting Standards has been applied.

An explanation of how the transition to SLFRSs has affected the reported financial position, financial performance of the Company is provided in note 48.

The Financial Statements were authorised for issue by the Management on 21st June 2012.

2.2. Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these Financial Statements in accordance with new Sri Lanka Accounting Standards and as per the provisions of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011. 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.

The Board of Directors acknowledges their responsibility as set out in the "Annual Report of the Board of Directors".

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 currency. All financial information presented in Rupees has been rounded to the nearest Rupee. The functional currency is the currency of the primary economic environment in which the company operates.

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.

2.6. Significant Accounting Judgments, Estimates and Assumptions

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. 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 Advances

The Company reviews its individually significant loans and advances 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 advances that have been assessed individually and found to be not impaired and all individually insignificant loans and advances 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, real estate prices indices and the performance of different individual groups).

2.6.4. Impairment Losses on Available for Sale Investments

The Company records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

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

Notes to the Financial Statements

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, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

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. 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.

Financial assets and liabilities are initially measured at their fair value plus transaction costs, except in the case of financial assets and liabilities 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
- The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise have been required under the contract.

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
- 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,

Notes to the Financial Statements

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'.

3.1.3.4 Available for Sale financial Investments

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

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 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.

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. Derecognition of Financial Assets and Financial Liabilities

3.1.5.1. 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.

3.1.5.2. Financial Liabilities

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

When 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.

3.1.6. 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.

3.1.7. 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

Notes to the Financial Statements

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 Company's 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.

3.1.8. 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.

3.1.8.1. Impairment of Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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. Interest income continues to be accrued 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 is recorded as part of 'Interest income'.

3.1.8.2. Impairment of Financial Investments - Available for Sale

For available for sale financial investments, the Company assesses at each Reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available for sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the 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

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a 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 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.

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 income/other expenses in profit or loss.

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.

The Company provides depreciation from the date the assets are available for use up to the date of disposal. 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. 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	15.00% 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 income/other expenses in the Statement of comprehensive income.

3.2.5. Assets Acquired on Finance Lease

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3.3. Intangible Assets

An intangible asset is an identifiable non monetary asset without physical substance held for use in the production or supply of goods or services, for rent to others or for administrative purposes.

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 of the assets can be measured reliably. An intangible asset is initially measured at cost.

Notes to the Financial Statements

Software

All computer software costs incurred, licensed for use by the company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category intangible assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

3.3.2. Subsequent Expenditure

Expenditure incurred on software 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

Intangible assets, except for goodwill, are amortised on a straight line basis in the Income Statement from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Company.

3.3.4. Retirement and Disposal

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal.

3.4. 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.

3.5. Deposits due to Customers

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

3.5.1. 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 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.

3.6. 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.

3.7. 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.

3.8. Employee Benefits

3.8.1. Defined Contribution Plan Employees' Provident Fund and Employees' Trust Fund

A Defined contribution plan is a post-employment benefit 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.

3.8.1.1. Employees' Provident Fund (EPF)

The Company and employees contribute 12% and 8% respectively on the salary of each employee to the Employees Provident Fund.

3.8.1.2. Employees' Trust Fund (ETF)

The Company contributes 3% of the salary of each employee to the Employees' Trust Fund.

3.8.2. Defined Benefit Plan – Retirement Benefit Obligations

Provision has been made for retirement gratuities using "Project Unit Credit" (PUC) method as recommended by LKAS 19 "Employee Benefits". The present value of the defined benefit obligation is determined by discounting the estimated future cash flows based on the actuarial valuation carried out.

The actuarial gains and losses are charged or credited to the Income Statement in the period in which they arise. The assumptions based on which the results of actuarial valuation was determined are included in Notes to the Financial Statements.

The Company expects to carry out actuarial valuation once in every three years. The liability is not externally funded.

However, according to the payment of Gratuity Act No. 12 of 1983, the liabilities for the gratuity payment to an employee arise only on the completion of 5 years of continued service with the Company.

3.8.3. 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.

3.9. Revenue Recognition

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.

Notes to the Financial Statements

3.9.1 Income from Leasing Activities and Hire Purchase Agreements

In terms of the provisions of the Lanka Accounting Standard (LKAS) No.17 "Leases", the recognition of finance income is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivables over the cost of the leased assets constitutes the total unearned finance income at the commencement of the lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed is executed using Effective Interest Rate.

3.9.2 Interest Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income 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. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.9.3. 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.

3.9.4. 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'.

3.9.5. Borrowing Costs

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

3.10. 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'.

3.11. Deferred Taxation

Deferred tax is provided using the balance sheet 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.

3.12. Value Added Tax on Financial Services

VAT on Financial Services is calculated in accordance with the amended VAT Act No. 7 of 2003. 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.

3.13. 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.

3.14. Segment Reporting

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. (Refer note 46)

3.15. 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.

3.16. Investment Fund Account

As proposed in the Budget 2011, an investment fund has been established and operated in the manner described below.

As and when taxes are paid after 1 January 2011, following funds are transferred to the Investment Fund Account and build a permanent fund in the company.

- 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services on the dates as specified in the VAT Act for the payment of VAT.
- 5% of the profits before tax calculated for payment of income tax purposes on dates specified in Section 113 of the Inland Revenue Act for the self assessment payments of tax.

The funds in the Investment Fund Account are utilised in the following manner within three months from the date of transfer to the Investment Fund Account.

- Invest in long-term Government securities and/or bonds with maturities not less than seven years.
- Lend on maturities not less than five years at interest rates not exceeding 5 year Treasury bond rates plus 2%.
- Facilities granted only for the following purposes;
 - I. Long-term loans for cultivation of plantation crops / agriculture crops including fruits, vegetables, cocoa and spices and for livestock and fisheries.
 - II. Factory / mills, modernisation / establishment / expansion.

Notes to the Financial Statements

- III. Small and medium term enterprises;
 - Loans up to Rs. 30 million or
 - Loans over Rs. 10 million to enterprises with an annual turnover less than Rs. 300 million an employee's less than 400
- IV. Information Technology related activities and Business Process Outsourcing.
- V. Infrastructure development.
- VI. Education - vocational training and tertiary education.
- VII. Restructuring of loans extended for the above purposes.

3.18. New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which have been issued but not yet effective as at the reporting date have not been applied in preparing these Financial Statements. None of these is expected to have a significant effect on the Financial Statements of the Company. The extent of the impact has not been determined.

Facilities will only be in Sri Lankan Rupees.

Funds are invested in short term Government securities until the commencement of utilisation of funds as stated above.

Facilities will not be granted for subsidiary companies, associate companies, holding company or any director or any other related party of such RFCs.

3.17. 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) 09 "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.

For the Year Ended 31st March

	2013 Rs.	2012 Rs.
4. GROSS INCOME		
Interest Income (Note 5)	1,791,914,232	1,111,638,186
Fee and Commission Income	31,255,381	21,941,300
Net Gain / (Loss) from Trading (Note 7)	2,386,146	(15,729,559)
Other Operating Income (Note 8)	53,840,724	92,784,048
	1,879,396,483	1,210,633,975
5. INTEREST INCOME		
5.1 Hire Purchase		
Interest Income	647,333,424	580,590,454
Over Due Interest	97,345,239	58,380,543
	744,678,663	638,970,997
5.2 Lease		
Interest Income	722,544,461	334,462,826
Over Due Interest	102,189,335	31,321,118
	824,733,796	365,783,944
5.3 Personal Loans		
Interest Income	72,697,380	37,478,551
Over Due Interest	9,614,019	2,965,259
	82,311,399	40,443,810
5.4 Fixed Deposit Loans		
Interest Income	19,410,143	23,732,534
	19,410,143	23,732,534
5.5 Investment Fund Loans		
Interest Income	10,666,419	2,307,975
Over Due Interest	205,378	-
	10,871,797	2,307,975
5.6 Pawning		
Interest Income	17,205	-
	17,205	-
5.7 Fixed Deposits		
Placement with Banks	55,056,715	21,163,869
Other Finance Companies	14,132,747	4,414,421
	69,189,462	25,578,290
5.8 Staff Loans	112,736	-
5.9 Short Term Loans	5,904,273	-
5.10 Interest on Debentures	3,729,600	3,729,600
5.11 Treasury Bills and Reverse Repos	30,955,158	11,091,036
	1,791,914,232	1,111,638,186

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 3,102,599 (2011/12 - Rs 1,109,103).

For the Year Ended 31st March

	2013 Rs.	2012 Rs.
6. INTEREST EXPENSE		
On Fixed Deposits	760,783,563	412,879,404
On Borrowings	188,738,002	111,778,157
On Finance Leases	1,153,338	1,137,527
On Certificate of Deposits	10,887,958	3,265,254
On Debentures	45,741,203	7,764,384
On Commercial Papers	1,540,734	-
	1,008,844,798	536,824,726
7. NET GAIN / (LOSS) FROM TRADING		
Net mark to Market Gain/ (Loss)	2,045,855	(15,787,176)
Dividend Income	340,291	57,617
	2,386,146	(15,729,559)
8. OTHER OPERATING INCOME		
Early Termination Income	31,655,138	66,438,170
Gain on Advance Payment Realised	-	5,442,281
Gain on Disposal of Property, Plant & Equipment	119,939	3,435,019
Amortised Staff Cost - Interest Income	969,671	-
Other Income	21,095,976	17,468,578
	53,840,724	92,784,048

For the Year Ended 31st March

	2013	2012
	Rs.	Rs.
9. IMPAIRMENT (CHARGES) / REVERSALS FOR LOANS AND OTHER LOSSES		
On Hire Purchase Receivable	(29,551,501)	(13,615,070)
On Lease Receivable	(23,611,956)	(14,373,616)
On Personal Loans Receivable	1,484,522	(6,277,462)
	(51,678,935)	(34,266,148)

10. PERSONNEL EXPENSES

Salaries & Wages	105,951,740	67,270,415
Retirement Benefit Costs (Note 34.1)	2,105,552	1,718,245
Amortised Staff Cost - Personnel Expenses	969,671	-
Contribution to E.P.F.-12%	10,052,170	6,217,375
Contribution to E.T.F.-3%	2,466,453	1,513,344
Staff Welfare	10,400,885	4,837,006
	131,946,471	81,556,385

11. PROFIT BEFORE TAX

Profit Before Tax is stated after charging all the expenses including the following:

Professional Fees	2,417,046	800,032
Advertising & Related Expenses	38,766,898	31,060,146
Donations	417,320	725,718
Directors Emoluments	20,487,233	11,069,275
Depreciation of Property, Plant and Equipment	26,946,852	18,485,252
Auditors Remuneration - Statutory Audit	795,000	580,000
- Other Non Audit Services	645,000	776,136
Staff Expenses (Note 10)	131,946,471	81,556,385

Notes to the Financial Statements

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

	2013 Rs.	2012 Rs.
Current Income Tax Expense on Profits for the Year (Note 12.1)	110,181,791	94,766,786
Deferred Tax Charge for the Year (Note 32.2)	24,465,026	24,694,198
	134,646,817	119,460,984

12.1 Reconciliation of Accounting Profit to Income Tax Expense

Profit Before Taxation	429,179,259	350,637,116
Add : Disallowable Expenses	1,664,575,498	811,358,145
Less : Tax Deductible Expenses	(1,694,082,157)	(823,484,838)
Less : Allowable Credits	(6,166,201)	(57,617)
Assessable Income	393,506,398	338,452,805
Less : Qualifying Payments	-	-
Taxable Income	393,506,398	338,452,805
Current Income Tax Expense @ 28%	110,181,791	94,766,786
	110,181,791	94,766,786

12.2 Reconciliation of Effective Tax Rate

For the Year Ended 31st March

	%	2013 Rs.	%	2012 Rs.
Profit Before Income Taxation		429,179,259		350,637,116
Taxable Income	28.0%	120,170,192	28.0%	98,178,393
Disallowable Expenses	108.6%	466,081,139	64.8%	227,180,281
Tax Deductible Expenses	-110.5%	(474,343,004)	-65.8%	(230,575,755)
Allowable Credits	-0.4%	(1,726,536)	0.0%	(16,133)
Effects on Deferred Taxation	5.7%	24,465,026	7.0%	24,694,198
Total Income Tax Expense	31.4%	134,646,817	34.07%	119,460,984

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	2013 Rs.	2012 Rs.
Profit Attributable to Ordinary Shareholders	294,532,442	231,176,132
Weighted Average Number of Ordinary Shares (Note 13.1.1)	41,550,600	41,550,600
Basic Earnings Per Share	7.09	5.56

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.

Notes to the Financial Statements

14. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

14.1 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	-	-	630,951,875	-	-	630,951,875
Lease Rental and Hire Purchase Receivables	-	-	7,130,393,590	-	-	7,130,393,590
Financial Investments - Available for Sale	-	-	-	203,800	-	203,800
Financial Investments - Held to Maturity	-	281,718,777	-	-	-	281,718,777
Other Financial Assets	-	-	21,998,111	-	-	21,998,111
Total Financial Assets	14,329,011	281,718,777	8,737,819,483	203,800	-	9,034,071,071
Inventories	-	-	-	-	-	-
Other Assets	-	-	-	-	144,989,824	144,989,824
Property, Plant and Equipment	-	-	-	-	122,745,654	122,745,654
Deferred Tax Assets	-	-	-	-	1,698,960	1,698,960
Total Non-financial Assets	-	-	-	-	269,434,438	269,434,438
Total Assets	14,329,011	281,718,777	8,737,819,483	203,800	269,434,438	9,303,505,509

	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	-	164,624,028	-	164,624,028
Deposits due to Customers	-	6,268,210,181	-	6,268,210,181
Interest bearing Borrowings	-	951,201,653	-	951,201,653
Subordinated Term Debts	-	399,255,586	-	399,255,586
Other Financial Liabilities	-	41,463,609	-	41,463,609
Total Financial Liabilities	-	8,184,857,039	-	8,184,857,039
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	-	-	6,067,712	6,067,712
Total Non-financial Liabilities	-	-	181,331,356	181,331,356
Total Liabilities	-	8,184,857,039	181,331,356	8,366,188,396

14.2 Analysis of Financial Instruments by Measurement Basis As at 31st March 2012

	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	-	-	79,321,134	-	-	79,321,134
Placements with Banks and Other Finance Companies	-	-	210,974,451	-	-	210,974,451
Financial Investments - Held for Trading	12,283,156	-	-	-	-	12,283,156
Loans and Receivables to Finance Companies	-	-	16,472,400	-	-	16,472,400
Loans and Receivables to Other Customers	-	-	305,257,922	-	-	305,257,922
Lease Rental and Hire Purchase Receivables	-	-	5,518,414,888	-	-	5,518,414,888
Financial Investments - Available for Sale	-	-	-	203,800	-	203,800
Financial Investments - Held to Maturity	-	251,392,472	-	-	-	251,392,472
Other Financial Assets	-	-	17,656,274	-	-	17,656,274
Total Financial Assets	12,283,156	251,392,472	6,148,097,069	203,800	-	6,411,976,497
Inventories	-	-	-	-	-	-
Other Assets	-	-	-	-	155,102,646	155,102,646
Property, Plant and Equipment	-	-	-	-	105,792,958	105,792,958
Deferred Tax Assets	-	-	-	-	1,092,818	1,092,818
Total Non-financial Assets	-	-	-	-	261,988,422	261,988,422
Total Assets	12,283,156	251,392,472	6,148,097,069	203,800	261,988,422	6,673,964,919

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Others Rs.	Total Rs.
Liabilities				
Bank Overdrafts	-	82,765,639	-	82,765,639
Rental Received in Advance	-	76,741,268	-	76,741,268
Deposits due to Customers	-	4,024,406,195	-	4,024,406,195
Interest bearing Borrowings	-	1,399,833,703	-	1,399,833,703
Subordinated Term Debts	-	232,764,384	-	232,764,384
Other Financial Liabilities	-	38,287,579	-	38,287,579
Total Financial Liabilities	-	5,854,798,767	-	5,854,798,767
Current Tax Liabilities	-	-	52,416,626	52,416,626
Deferred Tax Liabilities	-	-	40,018,009	40,018,009
Other Liabilities	-	-	38,434,084	38,434,084
Retirement Benefit Obligations	-	-	3,902,921	3,902,921
Total Non-financial Liabilities	-	-	134,771,640	134,771,640
Total Liabilities	-	5,854,798,767	134,771,640	5,989,570,408

Notes to the Financial Statements

14.3 Analysis of Financial Instruments by Measurement Basis As at 1st April 2011

	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	-	-	65,830,283	-	-	65,830,283
Placements with Banks and Other Finance Companies	-	-	168,758,281	-	-	168,758,281
Financial Investments - Held for Trading	4,668,076	-	-	-	-	4,668,076
Loans and Receivables to Finance Companies	-	-	16,472,400	-	-	16,472,400
Loans and Receivables to Other Customers	-	-	162,730,107	-	-	162,730,107
Lease Rental and Hire Purchase Receivables	-	-	3,094,017,562	-	-	3,094,017,562
Financial Investments - Available for Sale	-	-	-	203,800	-	203,800
Financial Investments - Held to Maturity	-	125,230,473	-	-	-	125,230,473
Other Financial Assets	-	-	17,483,526	-	-	17,483,526
Total Financial Assets	4,668,076	125,230,473	3,525,292,159	203,800	-	3,655,394,508
Inventories	-	-	-	-	1,900,000	1,900,000
Other Assets	-	-	-	-	153,404,074	153,404,074
Property, Plant and Equipment	-	-	-	-	78,882,526	78,882,526
Deferred Tax Assets	-	-	-	-	650,416	650,416
Total Non-financial Assets	-	-	-	-	234,837,016	234,837,016
Total Assets	4,668,076	125,230,473	3,525,292,159	203,800	234,837,016	3,890,231,524

	Held For Trading (HFT) Rs.	Amortised Cost Rs.	Others Rs.	Total Rs.
Liabilities				
Bank Overdrafts	-	49,660,559	-	49,660,559
Rental Received in Advance	-	68,118,105	-	68,118,105
Deposits due to Customers	-	2,681,690,969	-	2,681,690,969
Interest bearing Borrowings	-	449,322,933	-	449,322,933
Subordinated Term Debts	-	-	-	-
Other Financial Liabilities	-	69,197,616	-	69,197,616
Total Financial Liabilities	-	3,317,990,182	-	3,317,990,182
Current Tax Liabilities	-	-	45,973,481	45,973,481
Deferred Tax Liabilities	-	-	14,881,409	14,881,409
Other Liabilities	-	-	35,008,097	35,008,097
Retirement Benefit Obligations	-	-	2,322,916	2,322,916
Total Non-financial Liabilities	-	-	98,185,903	98,185,903
Total Liabilities	-	3,317,990,182	98,185,903	3,416,176,085

As at 31st March

2013
Rs.

2012
Rs.

01st April 2011
Rs.

15. CASH AND CASH EQUIVALENTS

Cash & Cash equivalents (Note 15.1)	239,915,519	79,321,134	65,830,283
Bank Overdrafts	(360,101,982)	(82,765,639)	(49,660,559)
Net cash and Cash Equivalents	(120,186,463)	(3,444,505)	16,169,724

15.1 Cash at Banks	202,465,392	74,173,565	52,831,258
Cash in Hand	37,450,127	5,147,569	12,999,025
	239,915,519	79,321,134	65,830,283

15.2 Bank Overdrafts	(360,101,982)	(82,765,639)	(49,660,559)
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16. PLACEMENTS WITH BANKS AND OTHER FINANCE COMPANIES

Placements with Banks and Other Finance Companies	698,087,988	210,974,451	168,758,281
	698,087,988	210,974,451	168,758,281

	Institute	Type of Investment	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Placements with Banks	PABC Bank	Fixed Deposit	225,969,452	210,974,451	143,411,059
	Peoples' Bank	Fixed Deposit	230,000,000	-	-
Other Finance Companies	LB Finance	Fixed Deposit	242,118,536	-	25,347,222
			698,087,988	210,974,451	168,758,281

Notes to the Financial Statements

17. FINANCIAL INVESTMENTS - HELD FOR TRADING

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Equity Shares - Quoted (Note 17.1)	14,329,011	12,283,156	4,668,076
	14,329,011	12,283,156	4,668,076

17.1 Investments in Equity Shares

Balance at the Beginning of the year	12,283,156	4,668,076	241,927
Investments during the year	-	25,000,000	2,653,331
Sales proceeds during the year	-	(1,597,744)	-
Gain / (Loss) on revaluation	2,045,855	(15,787,176)	1,772,818
Balance at the End of the year	14,329,011	12,283,156	4,668,076

	No of Ordinary shares	Cost of investment Rs.	Market Price as at 31/03/2013	Market value Rs. as at 31/03/2013	Market Price as at 31/03/2012	Market value Rs. as at 31/03/2012	Market value Rs. as at 01/04/2011
Bank , Finance & Insurance							
Ceylinco Insurance PLC	61	2,415	999.90	60,994	812.40	49,556	44,530
DFCC PLC	1,440	13,274	131.10	188,784	112.60	162,144	247,393
National Development Bank PLC	46	520	165.00	7,590	122.80	5,649	7,829
Union Assurance PLC	98	349	85.70	8,399	90.40	8,859	8,310
Union Bank of Colombo PLC	12,600	735,000	17.00	214,200	17.50	220,500	451,080
Singer Finance (Lanka) PLC	103,000	1,918,331	12.60	1,297,800	16.20	1,668,600	3,759,500
Land & Property							
Cargo Boat PLC	100	4,300	78.00	7,800	84.80	8,480	14,650
Manufacturing							
Regnis Ceylon PLC	1,560	8,190	59.90	93,444	255.60	199,368	134,784
Diversified Holdings							
Free Lanka Capital Holdings PLC	4,980,000	23,402,256	2.50	12,450,000	2.00	9,960,000	-
Total Quoted shares	5,098,905	26,084,635	-	14,329,011	-	12,283,156	4,668,076

18. LOANS AND RECEIVABLES TO FINANCE COMPANIES

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Loans and Receivables to Finance Companies			
Gross Loans and Receivables	16,472,400	16,472,400	16,472,400
Less :- Allowance for Individual Impairment	-	-	-
Net Loans and Receivables	16,472,400	16,472,400	16,472,400
 Debentures - Quoted (Note 18.1)	 16,472,400	 16,472,400	 16,472,400
	16,472,400	16,472,400	16,472,400

18.1 Debentures - Quoted

	No of Debentures	Cost of investment Rs.	Value Rs. as at 31/03/2013	Value Rs. as at 31/03/2012	Value Rs. as at 01/04/2011
LB Finance PLC	15,540	15,540,000	16,472,400	16,472,400	16,472,400
Total Quoted Debentures	15,540	15,540,000	16,472,400	16,472,400	16,472,400

19. LOANS AND RECEIVABLES TO OTHER CUSTOMERS

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Gross Loans and Receivables	638,978,631	314,769,200	165,963,923
Less :- Allowance for Impairment	(8,026,756)	(9,511,278)	(3,233,816)
Net Loans and Receivables (Note 19.1)	630,951,875	305,257,922	162,730,107

Notes to the Financial Statements

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
19.1 Net Loans and Receivables			
19.1.1 Receivable on Loans and advances	428,068,979	162,375,154	97,209,486
19.1.2 Receivable on Loans against fixed deposits	99,680,899	100,605,754	65,520,621
19.1.3 Receivable on Investment Fund Loans	101,620,842	42,277,014	-
19.1.4 Receivable on Pawning	1,581,155	-	-
	630,951,875	305,257,922	162,730,107
19.1.1 Receivable on Loans and advances			
Future receivable	513,355,944	191,263,179	106,475,021
Future interest	(77,260,209)	(19,376,747)	(6,031,719)
Gross loans	436,095,735	171,886,432	100,443,302
Allowance for impairment	(8,026,756)	(9,511,278)	(3,233,816)
Net Receivable on Loans and advances	428,068,979	162,375,154	97,209,486
19.1.2 Receivable on Loans against Fixed Deposits			
Future receivable	99,680,899	100,611,563	65,551,674
Future interest	-	(5,809)	(31,053)
Gross loans	99,680,899	100,605,754	65,520,621
Allowance for impairment	-	-	-
Net Receivable on Loans against Fixed Deposits	99,680,899	100,605,754	65,520,621
19.1.3 Receivable on Investment Fund Loans			
Future receivable	139,786,483	46,188,231	-
Future interest	(38,165,641)	(3,911,217)	-
Gross loans	101,620,842	42,277,014	-
Allowance for impairment	-	-	-
Net Receivable on Investment Fund Loans	101,620,842	42,277,014	-
19.1.4 Receivable on Pawning			
Future receivable	1,581,155	-	-
Future interest	-	-	-
Gross loans	1,581,155	-	-
Allowance for impairment	-	-	-
Net Receivable on Pawning	1,581,155	-	-

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
19.1.5 Allowance for Impairment			
Balance brought forward	9,511,278	3,233,816	2,506,844
Net impairment charge / (reverse) for the year	(1,484,522)	6,277,462	726,972
Balance carried forward	8,026,756	9,511,278	3,233,816

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
20. LEASE RENTAL AND HIRE PURCHASE RECEIVABLES			
20.1 Hire Purchase Receivables	3,164,975,334	2,945,813,875	2,295,194,166
20.2 Lease Rental Receivables	3,965,418,256	2,572,601,013	798,823,396
	7,130,393,590	5,518,414,888	3,094,017,562

20.1 Hire Purchase Receivables			
20.1.1 Future Receivables	4,361,111,061	3,941,357,429	3,121,628,405
Future Interest	(1,112,951,612)	(941,910,941)	(786,416,697)
Gross Hire Purchase Receivables	3,248,159,449	2,999,446,488	2,335,211,708
Allowance for Impairment	(83,184,114)	(53,632,613)	(40,017,542)
Net Hire Purchase Receivables	3,164,975,334	2,945,813,875	2,295,194,166

20.1.2 Hire purchase receivables within one year from Statement of Financial Position date			
Future Receivables	2,017,344,586	1,759,310,139	1,369,605,275
Future Interest	(599,567,880)	(516,272,600)	(424,742,579)
	1,417,776,706	1,243,037,539	944,862,696

20.1.3 Hire purchase receivables after one year but before five years from Statement of Financial Position date			
Future Receivables	2,343,766,474	2,182,047,290	1,752,023,130
Future Interest	(513,383,732)	(425,638,341)	(361,674,118)
	1,830,382,742	1,756,408,949	1,390,349,012

20.1.4 Allowance for Impairment			
Balance brought forward	53,632,613	40,017,542	33,124,991
Net impairment charge / (reverse) for the year	29,551,501	13,615,071	6,892,551
Balance carried forward	83,184,114	53,632,613	40,017,542

Notes to the Financial Statements

20.1.5 Concentration of Credit Risk

Sector wise analysis of Company's Hire purchase portfolio reflecting the exposure to credit risk in the various sectors of the economy is given below :

	2013		2012		01st April 2011	
	Rs.	%	Rs.	%	Rs.	%
Agriculture	63,299,507	2%	58,916,278	2%	45,903,883	2%
Industrial	126,599,013	4%	117,832,555	4%	68,855,825	3%
Tourism	221,548,273	7%	206,206,971	7%	114,759,708	5%
Trading	1,297,639,887	41%	1,207,783,689	41%	1,032,837,375	45%
Transport	94,949,260	3%	88,374,416	3%	68,855,825	3%
Construction	601,345,313	19%	559,704,636	19%	413,134,950	18%
Services	94,949,260	3%	88,374,416	3%	68,855,825	3%
Individual	664,644,820	21%	618,620,914	21%	481,990,775	21%
	3,164,975,334	100%	2,945,813,875	100%	2,295,194,166	100%

As at 31st March

	2013	2012	01st April 2011
	Rs.	Rs.	Rs.
20.2 Lease Rental Receivables			
20.2.1 Future Receivables	5,500,169,778	3,510,556,751	1,067,574,133
Future Interest	(1,488,506,163)	(915,322,335)	(260,490,951)
Gross Lease Rental Receivables	4,011,663,615	2,595,234,416	807,083,182
Allowance for Impairment	(46,245,359)	(22,633,403)	(8,259,786)
Net Lease Rental Receivables	3,965,418,256	2,572,601,013	798,823,396

20.2.2 Lease rental receivables within one year from Statement of Financial Position date

Future Receivables	2,444,569,890	1,410,320,715	471,204,800
Future Interest	(801,749,260)	(469,768,111)	(136,245,945)
	1,642,820,630	940,552,604	334,958,855

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

Future Receivables	3,055,599,888	2,100,236,036	596,369,333
Future Interest	(686,756,903)	(445,554,224)	(124,245,006)
	2,368,842,985	1,654,681,812	472,124,327

As at 31st March

2013
Rs. 2012
Rs. 01st April 2011
Rs.

20.2.4 Allowance for Impairment

Balance brought forward	22,633,403	8,259,786	11,161,141
Net impairment charge / (reverse) for the year	23,611,956	14,373,617	(2,901,355)
Balance carried forward	46,245,359	22,633,403	8,259,786

20.2.5 Concentration of Credit Risk

Sector wise analysis of Company's Lease portfolio reflecting the exposure to credit risk in the various sectors of the economy is given below :

	2013		2012		01st April 2011	
	Rs.	%	Rs.	%	Rs.	%
Agriculture	79,308,365	2%	51,452,020	2%	15,976,468	2%
Industrial	158,616,730	4%	102,904,041	4%	23,964,702	3%
Tourism	277,579,278	7%	180,082,071	7%	39,941,170	5%
Trading	1,625,821,485	41%	1,054,766,415	41%	359,470,528	45%
Transport	118,962,548	3%	77,178,030	3%	23,964,702	3%
Construction	753,429,468	19%	488,794,193	19%	143,788,211	18%
Services	118,962,548	3%	77,178,030	3%	23,964,702	3%
Individual	832,737,834	21%	540,246,213	21%	167,752,913	21%
	3,965,418,256	100%	2,572,601,013	100%	798,823,396	100%

Notes to the Financial Statements

21. FINANCIAL INVESTMENTS - AVAILABLE FOR SALE

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Equity Shares - Unquoted (Note 21.1)	203,800	203,800	203,800
	203,800	203,800	203,800

21.1 Equity Shares - Unquoted

	No. of Ordinary shares	Cost of investment Rs.	Market Value/ Manager's Buying Price Rs. as at 31/03/2013	Market Value/ Manager's Buying Price Rs. as at 31/03/2012	Market Value/ Manager's Buying Price Rs. as at 01/04/2011
Credit Information Bureau of Sri Lanka	38	3,800	3,800	3,800	3,800
Finance House Association	20,000	200,000	200,000	200,000	200,000
Total Unquoted shares	20,038	203,800	203,800	203,800	203,800

22. FINANCIAL INVESTMENTS - HELD TO MATURITY

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Government of Sri Lanka Treasury Bills - Face Value	310,107,099	253,303,908	126,558,241
Less:- Income allocated for future periods	(28,388,322)	(1,911,436)	(1,327,768)
	281,718,777	251,392,472	125,230,473

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
23. OTHER FINANCIAL ASSETS			
Insurance Receivable	15,654,942	12,282,680	10,122,449
Staff Loans (Note 23.1)	6,343,169	5,373,594	7,361,077
	21,998,111	17,656,274	17,483,526
23.1 Staff Loans			
Balance at the beginning of the year	5,373,594	7,361,077	4,601,729
Granted during the year	5,760,000	8,484,700	5,221,960
Recovered during the year	(4,284,734)	(7,534,107)	(2,462,612)
Net change in Prepaid Staff Cost during the year	(505,691)	(2,938,076)	-
Balance at the end of the year	6,343,169	5,373,594	7,361,077

23.2 Staff loan has been granted to 21 employees (2012- 16 employees) during the financial year under consideration.

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
24. INVENTORIES			
Real Estate Stock	-	-	1,900,000
	-	-	1,900,000

25. OTHER ASSETS			
Refundable Deposits	8,880,585	10,519,907	13,226,023
ESC Recoverable	-	17,858,475	7,690,421
Withholding Tax Receivable	7,809,054	3,859,945	2,278,277
VAT Recoverable	93,250,711	87,645,742	48,439,698
Prepaid Staff Cost	3,443,767	2,938,076	-
Advance Payments	2,066,428	12,488,100	64,817,145
Other Debtors	29,539,279	19,792,401	16,952,510
	144,989,824	155,102,646	153,404,074

Notes to the Financial Statements

26. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Freehold Building	Computer Equipment	Furniture & Fittings	Office Equipment
	Rs.	Rs.	Rs.	Rs.	Rs.
Cost					
As at 01st April 2012	30,000,000	4,000,000	15,330,383	50,551,960	15,410,922
Additions	-	-	15,868,362	13,637,045	10,119,226
Disposals/Transfers	-	-	-	-	-
As at 31st March 2013	30,000,000	4,000,000	31,198,745	64,189,005	25,530,148
Accumulated Depreciation					
As at 01st April 2012	-	391,173	4,136,468	13,829,960	4,199,529
Depreciation for the year	-	266,800	4,818,698	13,780,294	4,982,982
Disposals	-	-	-	-	-
As at 31st March 2013	-	657,973	8,955,166	27,610,254	9,182,511
Carrying Amount					
As at 31st March 2013	30,000,000	3,342,027	22,243,579	36,578,751	16,347,637
As at 31st March 2012	30,000,000	3,608,827	11,193,915	36,722,000	11,211,393
As at 31st March 2011					

Based on the assessment of potential impairment carried out internally by the Board of Directors as at 31st March 2013, no provision was required to be made in the Financial statements.

Property, Plant & equipment included fully depreciated assets having a gross amount of Rs.4,206,618 /- as at 31st March 2013 (2011/12 Rs.2,574,678)

There were no capitalised borrowing costs related to the acquisition of Property, Plant & equipment during the year (2011/12 - nil).

There were no restrictions on the title of the Property, Plant & Equipments as at 31st March 2013.

There were no items of Property, Plant & Equipments pledged as security as at 31st March 2013.

There were no items of Property, Plant & Equipments retired from the active use as at 31st March 2013.

There were no temporary idle items of Property, Plant & Equipments as at 31st March 2013.

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.
Maharagama Branch	15.2		30,000,000		
126-5, Highlevel Road, Maharagama.		4,990		4,000,000	657,973

Freehold Motor Vehicles Rs.	Leasehold Motor Vehicles Rs.	Total 2013 Rs.	Total 2012 Rs.	Total 01st April 2011 Rs.
3,480,505	12,795,000	131,568,770	92,567,408	19,999,721
4,549,976	-	44,174,609	48,385,293	72,567,687
(505,000)	-	(505,000)	(9,383,931)	-
7,525,481	12,795,000	175,238,379	131,568,770	92,567,408
709,964	2,508,718	25,775,812	13,684,882	7,234,188
1,178,828	1,919,250	26,946,852	18,485,252	6,450,694
(229,939)	-	(229,939)	(6,394,322)	-
1,658,853	4,427,968	52,492,725	25,775,812	13,684,882
5,866,628	8,367,032	122,745,654	-	-
2,770,541	10,286,282	-	105,792,958	-
				78,882,526

Net Book Value		
2013	2012	01st April 2011
30,000,000	30,000,000	30,000,000
3,342,027	3,608,827	3,875,494

Notes to the Financial Statements

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
27. DEPOSITS DUE TO CUSTOMERS			
Fixed Deposits (Note 27.1)	6,173,912,521	3,976,718,447	2,672,457,870
Certificate of Deposits (Note 27.2)	94,297,660	47,687,748	9,233,099
	6,268,210,181	4,024,406,195	2,681,690,969
27.1 Analysis of Fixed deposits by Maturity Date			
1 to 90 days	3,159,538,697	2,242,271,573	1,047,366,857
91 to 365 days	2,335,915,075	1,395,327,986	1,355,759,795
More than 365 days	678,458,749	339,118,888	269,331,218
	6,173,912,521	3,976,718,447	2,672,457,870
27.2 Analysis of Certificate Deposits by Maturity Date			
1 to 90 days	9,536,960	-	-
91 to 365 days	77,799,085	47,687,748	7,755,132
More than 365 days	6,961,615	-	1,477,967
	94,297,660	47,687,748	9,233,099
28. INTEREST BEARING BORROWINGS			
Institutional Borrowings (Note 28.1)	943,918,946	1,389,457,900	447,603,759
Finance Lease Liabilities (Note 28.2)	7,282,707	10,375,803	1,719,174
	951,201,653	1,399,833,703	449,322,933

28.1 Institutional Borrowings

	As at 01/04/2012	Facility Obtained	Repayments	As at 31/03/2013	Tenure of Loan	Security Offered	As at 01/04/2011
Bank of Ceylon	77,175,549	-	9,225,383	67,950,166	36 - 48 Months	Quoted Shares and personal guarantee of Chairman & Lease Portfolio	170,485,780
Deutsche Bank	90,759,828	-	50,262,961	40,496,867	48 Months	Lease Portfolio	138,700,000
Deutsche Bank	449,399,145	-	197,413,871	251,985,274	48 Months	Lease Portfolio	-
Deutsche Bank	-	171,000,000	56,284,274	114,715,726	17 Months	Lease Portfolio	-
PABC Bank PLC	113,336,265	-	26,050,229	87,286,036	60 Months	Lease Portfolio	138,417,979
PABC Bank PLC	118,000,000	-	24,000,000	94,000,000	60 Months	Lease Portfolio	-
Seylan Bank PLC	439,428,209	-	151,943,332	287,484,877	36 - 48 Months	Lease Portfolio	-
NDB Bank PLC	101,358,904	-	101,358,904	-	03 Months	Lease Portfolio	-
	1,389,457,900	171,000,000	616,538,956	943,918,946			447,603,759

28.1.1 Details of Borrowings

	Amount Rs.	Terms of Repayment	Repayment Terms
Bank of Ceylon	67,950,166	36 - 48 Months	Monthly rentals
Deutsche Bank	40,496,867	48 Months	Monthly rentals
Deutsche Bank	251,985,274	48 Months	Monthly rentals
Deutsche Bank	114,715,726	17 Months	Monthly rentals
PABC Bank PLC	87,286,036	60 Months	Monthly rentals
PABC Bank PLC	94,000,000	60 Months	Monthly rentals
Seylan Bank PLC	287,484,877	36 - 48 Months	Monthly rentals
NDB Bank PLC	-	03 Months	Monthly rentals
	943,918,946		

28.2 Finance Lease Liabilities

	Within 1 Yr	1-5 Yrs	After 5 Yrs	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Lease Payables	3,812,937	4,432,432	-	8,245,369	12,502,205	2,300,398
Interest In Suspense	(648,251)	(314,411)	-	(962,662)	(2,126,402)	(581,224)
	3,164,686	4,118,021	-	7,282,707	10,375,803	1,719,174

Notes to the Financial Statements

29. SUBORDINATED TERM DEBTS

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
Balance as at 1st April	232,764,384	-	-
Additions during the year (Note 29.1)	150,000,000	225,000,000	-
Interest payable	16,491,202	7,764,384	-
Balance as at 31st March	399,255,586	232,764,384	-

29.1 In 2012 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 %	Value as at 31st March 2013
2011 / 2016 - 13.00% p.a.	Annually	19-Dec-11	18-Dec-13	13.00%	100,000,000
2011 / 2016 - 13.00% p.a.	Annually	30-Dec-11	29-Dec-16	13.00%	125,000,000
					225,000,000

In 2013 Company further 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 31 March 2013	Value as at 31st March 2013
2012/2017 - 364 Days TB rate (Gross) + 4.50% Annually		14-Aug-12	13-Aug-17	18.08%	50,000,000
2012/2017 - 364 Days TB rate (Gross) + 4.50% Annually		15-Aug-12	14-Aug-17	18.08%	20,000,000
2012/2017 - 364 Days TB rate (Gross) + 4.50% Annually		27-Aug-13	26-Aug-17	18.08%	80,000,000
					150,000,000

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
30. OTHER FINANCIAL LIABILITIES			
Insurance Payable	41,422,687	37,574,259	25,248,586
Vendor Payable	40,922	713,320	43,949,030
	41,463,609	38,287,579	69,197,616
31. CURRENT TAX LIABILITIES			
Balance as at Beginning of the Year	52,416,626	45,973,481	27,171,641
Income Tax on Current Year Profits	110,181,791	94,766,786	71,629,656
Paid and Set off During the Year	(120,659,419)	(88,323,641)	(52,827,816)
Balance as at end of the Year	41,938,998	52,416,626	45,973,481
32. DEFERRED TAX LIABILITIES			
Deferred Tax Liabilities (Note 32.3)	65,089,176	40,018,009	14,881,409
Deferred Tax Assets (Note 32.4)	(1,698,960)	(1,092,818)	(650,416)
Net Deferred Tax Liabilities (Note 32.1)	63,390,217	38,925,191	14,230,993

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	2013	2012	2011
Property, Plant & Equipment	12,233,191	6,987,965	8,917,384
Lease capital Balance	216,849,017	132,554,360	41,522,244
Legal Termination receivables	3,379,133	3,379,133	2,708,260
Taxable Temporary Differences	232,461,341	142,921,458	53,147,888
Retirement Benefit Obligation	(6,067,712)	(3,902,921)	(2,322,916)
Total Taxable Temporary Differences (net)	226,393,629	139,018,537	50,824,972
Applicable Tax Rate	28%	28%	28%
Net Deferred Tax Liabilities / (Assets)	63,390,216	38,925,191	14,230,993

Notes to the Financial Statements

Taxable / (Deductible) Temporary Differences	2013	2012	2011
32. DEFERRED TAX LIABILITIES CONTD.			
32.2 Deferred Tax Expense			
Effect on change in tax rate			
Liability (Note 32.3)	-	-	(467,262)
Asset (Note 32.4)	-	-	123,557
	-	-	(343,705)
Origination of Deferred tax			
Liability (Note 32.3)	25,071,167	25,136,600	13,012,359
Asset (Note 32.4)	(606,141)	(442,402)	(156,188)
	24,465,026	24,694,198	12,856,171
Total expense charged to Income Statement	24,465,026	24,694,198	12,512,466

	2013		2012		2011	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
32.3 Deferred Tax Liabilities						
Balance as at 1st April	142,921,458	40,018,009	53,147,888	14,881,409	6,675,177	2,336,312
Impact on rate change reversed to Income Statement (Note 32.5)	-	-	-	-	-	(467,262)
Originating during the year	89,539,883	25,071,167	89,773,570	25,136,600	46,472,711	13,012,359
Balance as at 31st March	232,461,341	65,089,176	142,921,458	40,018,009	53,147,888	14,881,409
32.4 Deferred Tax Assets						
Balance as at 1st April	3,902,921	1,092,818	2,322,916	650,416	1,765,100	617,785
Impact on rate change reversed to Income Statement (Note 32.5)	-	-	-	-	-	(123,557)
Originating during the year	2,164,791	606,141	1,580,005	442,402	557,816	156,188
Balance as at 31st March	6,067,712	1,698,960	3,902,921	1,092,818	2,322,916	650,416

32.5 Impact Due to Corporate Income Tax Rate Change

The corporate income tax rate has been reduced to 28% from 35% commencing from year of assessment 2011/12 as per the budget proposals for 2011 announced by the Finance Minister, which was enacted in 2011. Accordingly, deferred tax asset and liability have been computed based on 28% and Rs. 343,705 has been reversed to Income Statement as disclosed in Note 32.2 - Deferred Tax Expense.

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
33. OTHER LIABILITIES			
Other Payables (Note 33.1)	67,634,959	36,969,130	34,684,045
Accrued Expenses	600,511	1,464,954	324,052
	68,235,470	38,434,084	35,008,097

33.1 Other Payables

RMV Payable	727,890	-	966,768
Stamp Duty Payable	12,339,990	7,692,598	6,698,330
Audit Fees Payable	995,871	909,946	490,000
ESC Payable	-	6,671,682	1,997,478
VAT on Financial Services Payable	3,418,444	2,811,249	1,901,836
Staff Welfare Trust Fund	-	322,713	525,623
Customer Deposit	10,818,601	8,390,799	8,648,907
Advance Received	-	80,000	4,641,136
Other Payables	39,334,163	10,090,143	8,813,967
	67,634,959	36,969,130	34,684,045

34. RETIREMENT BENEFIT OBLIGATIONS

Balance as at 1st April	3,902,921	2,322,916	1,765,100
Charge for the Year (Note 34.1)	2,164,791	1,780,005	557,816
Payment during the Year	-	(200,000)	-
Balance as at 31st March	6,067,712	3,902,921	2,322,916

34.1 Expenses on Defined Benefit Plan

Current Service Cost for the Year	1,454,083	1,258,781	565,442
Interest cost for the Year	651,469	459,464	248,883
Recognition of Actuarial (Gain) / Loss	59,239	61,760	(256,509)
	2,164,791	1,780,005	557,816

Notes to the Financial Statements

	2013 Rs.	2012 Rs.	01st April 2011 Rs.
34.2 Assumptions			
Discount Rate	11.0%	10.0%	10.0%
Salary increment	12.0%	12.0%	12.0%

Staff Turnover

20 years	15.0%	15.0%	15.0%
25 years	15.0%	15.0%	15.0%
30 years	9.0%	9.0%	9.0%
35 years	6.0%	6.0%	6.0%
40 years	1.0%	1.0%	1.0%
45 years	1.0%	1.0%	1.0%
50 years	1.0%	1.0%	1.0%

Mortality - GA 1983 mortality Table

Retirement age	55 Years	55 Years	55 Years
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An actuarial valuation of the employee benefit liability as at 31st March 2013 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".

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
35. STATED CAPITAL			
Ordinary Shares (Note 35.1)	287,153,000	287,153,000	287,153,000
No. of shares (Note 35.2)	41,550,600	41,550,600	41,550,600

35.1 Movement of Stated Capital

At the Beginning of the Year	287,153,000	287,153,000	172,753,000
Issued during the Year	-	-	114,400,000
As at the End of the Year	287,153,000	287,153,000	287,153,000

35.2 Movement of no. of Shares

At the Beginning of the Year	41,550,600	41,550,600	15,575,300
Issued During the Year	-	-	5,200,000
Sub- division of 1:1 (Note 35.2.1)	-	-	20,775,300
As at the End of the Year	41,550,600	41,550,600	41,550,600

35.2.1 Sub-division of Shares

On 04th February 2011, each of existing fully paid ordinary share of the Company was subdivided into two ordinary shares in order to facilitate the further market liquidity. Consequent to this subdivision, the number of ordinary shares in issue increased from 20,775,300 to 41,550,600 ordinary shares.

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
36. STATUTORY RESERVES			
Statutory Reserve Fund (Note 36.1)	145,184,628	87,801,782	40,006,382
Investment Fund Account (Note 36.2)	92,396,351	42,750,099	5,350,172
As at the End of the Year	237,580,979	130,551,881	45,356,554

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	2013 Rs.	2012 Rs.	01st April 2011 Rs.
At the Beginning of the Year	87,801,782	40,006,382	18,422,547
Transfers during the Year	57,382,846	47,795,400	21,583,835
As at the End of the Year	145,184,628	87,801,782	40,006,382

36.2 Investment Fund Account

Every Finance Company carrying on the business of supplying of Financial services liable to pay VAT on Financial Services in terms of section 25A-G of the Value Added Tax Act No.14 of 2002 is required to deposit the respective sums in the Investment Fund Account established by the respective Institute as per the Central Bank guidelines under the cover of the letter No. 02/17/800/0014/01 dated 29th April 2011. Deposit an amount equal to 8% of the value addition (profits) computed for financial VAT purposes on the same date of each month that VAT on financial services paid.

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
At the Beginning of the Year	42,750,099	5,350,172	-
Transfers during the Year	49,646,252	37,399,927	5,350,172
As at the End of the Year	92,396,351	42,750,099	5,350,172

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

Sector	Amount Granted Rs.	Outstanding Balance Rs.	Rate of Interest %	Tenure of Loan Years
Infrastructure development	174,375,280	101,620,842	9.13-17.86	1-5

Notes to the Financial Statements

As at 31st March	2013 Rs.	2012 Rs.	01st April 2011 Rs.
37. GENERAL RESERVE			
General Reserve (Note 37.1)	7,500,000	7,500,000	7,500,000
	7,500,000	7,500,000	7,500,000

37.1 General Reserve

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

As at 31st March	2013 Rs.	2012 Rs.
38. RETAINED EARNINGS		
At the Beginning of the Year	259,189,630	128,126,231
Effect of Transitional Provisions	-	5,919,654
Adjusted opening balance	-	134,045,885
Total Comprehensive Income		
Profit for the Year	294,532,442	231,176,132
Other Comprehensive Income	(59,239)	(61,760)
Transfers to Other Reserves	(107,029,098)	(85,195,327)
Dividends	(41,550,600)	(20,775,300)
At the End of the Year	405,083,135	259,189,630

39. RELATED PARTY DISCLOSURES

The Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in **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 pricing model of the Company and is comparable with what is applied to transactions between the Company and its unrelated Customers.

39.1 Transactions with the Group Companies

Name of the Company	Relationship	Nature of Services	Amount Received/(Paid)		Balance as at 31 March	
			2012/13 Rs.	2011/12 Rs.	2013 Rs.	2012 Rs.
Pan Asia Banking Corporation PLC	Affiliate	Term Loan	(26,050,228)	(25,081,715)	87,286,036	113,336,264
		Term Loan	(24,000,000)	118,000,000	94,000,000	118,000,000
		Call Deposits	5,000,000	(70,000,000)	205,000,000	210,000,000
		Current Account	9,109,059	-	9,109,059	-
		Overdraft	(5,451,013)	5,451,013	-	5,451,013
LB Finance PLC	Affiliate	Finance Lease	(709,726)	(530,418)	479,030	1,188,756
		Debentures	-	-	15,540,000	15,540,000
		Fixed Deposit - Invested	215,000,000	25,000,000	240,000,000	-
		Fixed Deposit - Held	-	-	15,000,000	15,000,000
Vallibel One PLC	Affiliate	Fixed Deposit - Held	105,000,000	-	605,000,000	500,000,000
		Debentures	150,000,000	225,000,000	375,000,000	225,000,000
Culture Club Resorts (Pvt) Ltd	Affiliate	Fixed Deposit - Held	-	(12,500,000)	-	-
Amaya Leisure PLC	Affiliate	Fixed Deposit - Held	-	(18,000,000)	-	-
Sampath Bank PLC	Affiliate	Current Account	1,179,184	878,358	2,057,542	878,358

Notes to the Financial Statements

39.2 Transactions with Key Management Personnel

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 immediate family members have been classified as Key Management Personnel of the Company.

The immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective Director for more than 50% of his/her financial needs.

	2013 Rs.	2012 Rs.
39.2.1 Compensation to key management personnel		
Short term employment benefits	20,487,233	11,069,275
Long term employment benefits	-	-
Post employment benefits	-	-
39.2.2 Deposits held by key management personnel		
Mrs.P.I.Perera	17,551,673	16,500,000
Mr.M.D.S.Goonatilleke	8,000,000	3,000,000
Mr.S.Senaratne	1,000,000	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	2,500,000	1,500,000
Mr.K.D.A.Perera	45,212,000	16,000,000
Mr.D.S.Goonatilleke	-	1,200,000
Mr.K.D.H.Perera	56,784,000	40,000,000
Mr.H.K.Perera	5,000,000	-
Miss M.T.D. Perera	5,000,000	-
Mr.P.B.Perera	5,000,000	-
Mr.K.D.D.Perera	1,000,000	1,000,000

39.3 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	2013 Rs.	Rationale for entering Transaction
Pan Asia Banking Corporation PLC	Affiliate	Credit facility obtained of the interest rate of AWPLR+1.5% p.a. for 60 months	30-Sep-10	150,000,000	To meet day to day working capital requirements
Pan Asia Banking Corporation PLC	Affiliate	Credit facility obtained of the interest rate of 14% p.a. for 60 months	29-Feb-12	120,000,000	To meet day to day working capital requirements
Pan Asia Banking Corporation PLC	Affiliate	OD facility at the interest rate of 12.5% p.a. on demand	29-Feb-12	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 15.75% interest for 6 months	26-Jan-13	300,000,000	To support further expansion of business
Vallibel One PLC	Affiliate	Fixed Deposits taken for 15.75% interest for 6 months	26-Jan-13	100,000,000	To support further expansion of business
Vallibel One PLC	Affiliate	Fixed Deposits taken for 15.75% interest for 6 months	26-Jan-13	100,000,000	To support further expansion of business
Vallibel One PLC	Affiliate	Fixed Deposits taken for 15.25% interest for 3 months	28-Feb-13	20,000,000	To support further expansion of business
Vallibel One PLC	Affiliate	Fixed Deposits taken for 15.25% interest for 3 months	31-Mar-13	65,000,000	To support further expansion of business
Vallibel One PLC	Affiliate	Fixed Deposits taken for 15.25% interest for 3 months	26-Jan-13	20,000,000	To support further expansion of business
LB Finance PLC	Affiliate	Fixed Deposits taken for 15.61% interest for 1-3 months	18-Mar-13	240,000,000	To support further expansion of business

Notes to the Financial Statements

40. CAPITAL COMMITMENTS

There are no Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements other than disclosed below.

As at 31st March	2013 Rs.	2012 Rs.
Approved and contracted for	-	1,982,750
Approved and not contracted for	-	3,517,250
	-	5,500,000

40.1 Financial Commitments

The company leases 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	2013 Rs.	2012 Rs.
Less than one year	26,154,806	16,886,636
Between one and five years	125,064,289	93,249,994
More than five years	101,962,511	99,819,325
	253,181,606	209,955,955

41. CONTINGENT LIABILITIES

41.1 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.)	Include Under
Bank of Ceylon	Leases & Hire Purchases Receivable	Long -term Borrowings	535,275,000	Future Rental Receivables
Pan Asia Banking Corporation PLC	Leases & Hire Purchases Receivable	Long -term Borrowings & Bank Overdraft	587,950,588	Future Rental Receivables
Seylan Bank PLC	Leases & Hire Purchases Receivable	Long-term Borrowings & Bank Overdraft	393,465,000	Future Rental Receivables
Deutsche Bank	Leases & Hire Purchases Receivable	Long-term Borrowings	1,328,542,959	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.

42. LITIGATIONS AGAINST THE COMPANY

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

43. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date, no circumstances have been arisen which would require adjustments to or disclosure in the Financial Statements except for, the Board of Directors has declared an interim dividend of Rs.1.50 per share totaling to Rs. 62,325,900.

As required by section 56 of the Companies Act No. 7 of 2007, the Board of Directors of the company satisfied the solvency test in accordance with section 57, prior to recommending the interim dividend. A statement of solvency completed and duly signed by the directors been audited by KPMG.

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. NO. OF EMPLOYEES OF THE COMPANY AS AT THE REPORTING DATE

No. of Employees of the company as at 31st March 2013 is 307 (2012 - 208).

Notes to the Financial Statements

46. 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.

46.1 Business Segments

For the year ended 31 March	Finance Lease		Hire Purchase		Loan & Advances		Investments		Unallocated		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Income From												
External Operations												
Interest	824,734	365,784	744,679	638,971	112,611	66,484	109,891	40,399	-	-	1,791,914	1,111,638
Administration Fees	-	-	-	-	-	-	-	-	31,255	21,941	31,255	21,941
Capital Gains	-	-	-	-	-	-	2,046	(15,787)	-	-	2,046	(15,787)
Dividends	-	-	-	-	-	-	340	58	-	-	340	58
Other	-	-	31,655	66,438	-	-	-	-	22,186	26,346	53,841	92,784
Total Revenue	824,734	365,784	776,334	705,409	112,611	66,484	112,277	40,441	53,441	48,287	1,879,396	1,210,634
Profit Before Tax	-	-	-	-	-	-	-	-	-	-	429,179	350,637
Taxation	-	-	-	-	-	-	-	-	-	-	(134,647)	(119,461)
Profit After Tax											294,532	231,176
Other Information												
As at 31 March												
Segment Assets	3,965,418	2,581,951	3,164,975	2,954,756	630,952	306,340	1,010,812	461,392	531,348	369,525	9,303,506	6,673,965
Segment Liabilities	3,554,379	2,321,853	2,857,755	2,653,102	594,560	274,914	891,083	410,666	468,411	329,036	8,366,188	5,989,570
Net Assets	411,039	260,098	307,220	301,654	36,392	31,426	119,729	50,727	62,937	40,489	937,317	684,395

47. MATURITY ANALYSIS

An analysis of the interest bearing assets and liabilities employed by the company as at 31st March 2013, 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	3 to 12 months	1 to 3 years	3 to 5 years	More than 5 years	Total
Interest Bearing Assets						
Placements with Banks and Other Finance Companies	492,828,082	205,000,000	259,906	-	-	698,087,988
Financial Investments - Held to Maturity	2,000,000	279,718,777	-	-	-	281,718,777
Loans and Receivables to Finance Companies	932,400	15,540,000	-	-	-	16,472,400
Loans and Receivables to Other Customers	471,993,336	73,607,189	40,438,295	44,913,055	-	630,951,875
Finance Lease Receivables	547,015,872	1,020,972,685	2,034,360,838	363,036,924	31,938	3,965,418,257
Hire Purchase Receivables	461,839,939	853,441,326	1,571,498,107	278,195,961	-	3,164,975,333
Total Interest Bearing Assets	1,976,609,629	2,448,279,977	3,646,557,146	686,145,940	31,938	8,757,624,630
Percentage	23%	28%	41%	8%	0%	
Interest Bearing Liabilities						
Interest Bearing Borrowings and Subordinated Term Debts	190,786,991	457,984,233	304,686,015	397,000,000	-	1,350,457,239
Deposits Due to Customers - Public Deposits	3,181,907,315	2,314,163,651	505,947,383	171,894,172	-	6,173,912,521
Deposits Due to Customers - Certificate of Deposits	9,536,960	77,799,085	6,961,615	-	-	94,297,660
Total Interest Bearing Liabilities	3,382,231,266	2,849,946,969	817,595,013	568,894,172	-	7,618,667,420
Percentage	44%	37%	12%	7%	0%	

48. EXPLANATION OF TRANSITION TO NEW SRI LANKA ACCOUNTING STANDARDS (SLASs)

As stated in Note 2.1 , these are the Company's first Financial Statements prepared in accordance with the new Sri Lanka Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS), promulgated by The Institute of Chartered Accountants of Sri Lanka.

The Accounting Policies set out in Note 3 have been applied in preparing the Financial Statements for the year ended 31st March 2013, the comparative information presented in these Financial Statements for the year ended 31st March 2012 and in the preparation of an Opening Statement of Financial Position as at 1st April 2011 (the Company's date of transition).

In preparing its opening new SLAS Statement of Financial Position , the Company has adjusted amounts reported previously in Financial Statements prepared in accordance with the previous SLAS. An explanation of how the transition from previous SLAS has affected the Company's financial position and financial performance is set out in the following tables and notes that accompany the tables.

Notes to the Financial Statements

48.1 Reconciliation of Equity

	Note	Previous SLASS Rs.	01st April 2011 Effect of Transition Rs.	New SLASS Rs.	Previous SLASS Rs.	31st March 2012 Effect of Transition Rs.	New SLASS Rs.
Assets							
Cash and Cash Equivalents		65,830,283	-	65,830,283	79,321,134	-	79,321,134
Placements with Banks and Other Finance Companies	a	165,000,000	3,758,281	168,758,281	210,000,000	974,451	210,974,451
Financial Investments - Held for Trading		4,668,076	-	4,668,076	12,283,156	-	12,283,156
Loans and Receivables to Finance Companies	b	15,743,800	728,600	16,472,400	15,743,800	728,600	16,472,400
Loans and Receivables to Other Customers	c	162,730,107	-	162,730,107	307,625,385	(2,367,463)	305,257,922
Lease Rental and Hire Purchase Receivables	d	3,094,017,562	-	3,094,017,562	5,519,757,168	(1,342,280)	5,518,414,888
Financial Investments - Available for Sale	e	-	203,800	203,800	-	203,800	203,800
Financial Investments - Held to Maturity		125,230,473	-	125,230,473	251,392,472	-	251,392,472
Other Financial Assets	f	-	17,483,526	17,483,526	-	17,656,274	17,656,274
Inventories		1,900,000	-	1,900,000	-	-	-
Other Assets	g	175,578,281	(22,174,207)	153,404,074	174,665,772	(19,563,125)	155,102,646
Property, Plant and Equipment		78,882,526	-	78,882,526	105,792,958	-	105,792,958
Deffered Tax Assets		650,416	-	650,416	1,092,818	-	1,092,818
Total Assets		3,890,231,524	-	3,890,231,524	6,677,674,663	(3,709,742)	6,673,964,919
Liabilities							
Bank Overdrafts		49,660,559	-	49,660,559	82,765,639	-	82,765,639
Rental Received in Advance		68,118,105	-	68,118,105	76,741,268	-	76,741,268
Deposits due to Customers	h	2,596,232,472	85,458,497	2,681,690,969	3,910,612,938	113,793,257	4,024,406,195
Interest bearing Borrowings	i	449,322,933	-	449,322,933	1,398,474,800	1,358,903	1,399,833,703
Subordinated Term Debts	j	-	-	-	225,000,000	7,764,384	232,764,384
Other Financial Liabilities	k	-	69,197,616	69,197,616	-	38,287,579	38,287,579
Current tax liabilities		45,973,481	-	45,973,481	52,416,626	-	52,416,626
Deferred tax liabilities		14,881,409	-	14,881,409	40,018,009	-	40,018,009
Other Liabilities	l	195,583,864	(160,575,767)	35,008,097	201,404,980	(162,970,896)	38,434,084
Retirement Benefit Obligations		2,322,916	-	2,322,916	3,902,921	-	3,902,921
Total Liabilities		3,422,095,739	(5,919,654)	3,416,176,085	5,991,337,181	(1,766,772)	5,989,570,409
Equity							
Stated Capital		287,153,000	-	287,153,000	287,153,000	-	287,153,000
Statutory Reserves		45,356,554	-	45,356,554	130,551,881	-	130,551,881
General Reserve		7,500,000	-	7,500,000	7,500,000	-	7,500,000
Retained Earnings	m	128,126,231	5,919,654	134,045,885	261,132,601	(1,942,971)	259,189,629
Total Equity		468,135,785	5,919,654	474,055,439	686,337,482	(1,942,971)	684,394,510
Total Liabilities and Equity		3,890,231,524	-	3,890,231,524	6,677,674,663	(3,709,742)	6,673,964,919

48.2 Reconciliation of Comprehensive Income

		For the Year Ended 31st March 2012		
	Note	Previous SLASS Rs.	Effect of Transition Rs.	New SLASS Rs.
Gross Income		1,204,948,197	5,685,778	1,210,633,975
Interest Income	(c/d)	1,105,952,408	5,685,778	1,111,638,186
Interest Expense	(h)	(532,671,843)	(4,152,883)	(536,824,726)
Net Interest Income		573,280,565	1,532,895	574,813,460
Fee and Commission Income	(n)	-	21,941,300	21,941,300
Net Fee and Commission Income		-	21,941,300	21,941,300
Net Gain / (Loss) from Trading	(o)	-	(15,729,559)	(15,729,559)
Other Operating Income	(p)	114,782,964	(21,998,916)	92,784,048
Total Operating Income		688,063,529	(14,254,280)	673,809,249
Impairment (Charges) / Reversals for Loans and other losses	(c/d)	(24,870,628)	(9,395,520)	(34,266,148)
Net Operating Income		663,192,901	(23,649,800)	639,543,101
Operating Expenses				
Personnel Expenses		(81,618,145)	-	(81,618,145)
Premises Equipment and Establishment Expenses		(30,857,036)	-	(30,857,036)
Other Expenses	(q)	(154,893,397)	15,787,176	(139,106,222)
Operating Profit Before Value Added Tax		395,824,323	(7,862,624)	387,961,698
Value Added Tax on Financial Services		(37,386,344)	-	(37,386,342)
Profit Before Taxation		358,437,980	(7,862,624)	350,575,356
Income Tax Expense		(119,460,984)	-	(119,460,984)
Profit for the Year		238,976,996	(7,862,624)	231,114,372

Notes to the Financial Statements

Notes to the Reconciliations

(a) *Placements with Banks and Other Finance Companies*

Under previous SLAS "Placements with Banks and other Finance Companies" was recorded at cost and respective interest receivable was classified under "Other Assets". According to new SLAS, the interest receivable on Placements with Banks and other Finance Companies was recognised as part of the placements at the year end as part of the amortised cost.

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest receivable from Other Assets	3,758,281	974,451
	3,758,281	974,451

(b) *Loans and Receivables to Finance Companies*

Investment in debentures of another Finance Company was classified as "Loans and receivables to Finance Companies". This item was previously reported in "Investments in Other Securities". The interest receivable which was recorded under "Other Assets" have been reclassified to respective financial instrument in order to arrive the amortised cost.

Investments in equity securities which were previously classified as "Investments in Other Securities" reclassified under "Financial Investments - Available for Sale"

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest receivable from Other Assets	932,400	932,400
Transfer of investments in equity securities AFS to Financial Investments - Available for Sale	(203,800)	(203,800)
	728,600	728,600

(c) **Loans and Receivables to Other Customers**

Regulatory time based provisioning replaced with the impairment provisioning methodology based on the incurred loss model as per new SLAS requirement.

The impact arising from the change is summarised as follows.

	31st March 2012
	Rs.
Statement of Comprehensive Income	
Reversal of interest in suspense	1,030,514
Reversal of provision for credit losses as per CBSL	2,879,485
Allowance for impairment	(6,277,462)
	(2,367,463)

	01st April 2011	31st March 2012
	Rs.	Rs.
Statement of Financial Position		
New SLAS adjustments		
Reversal of interest in suspense	1,168,121	2,198,635
Reversal of provision for credit losses as per CBSL	2,065,695	4,945,180
Allowance for impairment	(3,233,816)	(9,511,278)
	-	(2,367,463)

(d) **Lease Rental and Hire Purchase Receivables**

Regulatory time based provisioning replaced with the impairment provisioning methodology based on the incurred loss model as per new SLAS requirement.

The impact arising from the change is summarised as follows.

	31st March 2012
	Rs.
Statement of Comprehensive Income	
Reversal of interest in suspense	4,655,264
Reversal of provision for credit losses as per CBSL	21,991,144
Allowance for impairment	(27,988,688)
	(1,342,280)

Notes to the Financial Statements

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
New SLAS adjustments		
Reversal of interest in suspense	8,669,130	13,324,394
Reversal of provision for credit losses as per CBSL	39,608,198	61,599,341
Allowance for impairment	(48,277,328)	(76,266,015)
	-	(1,342,280)

(e) Financial Investments - Available for Sale

Investments in equity securities which were previously classified as "Investments in Other Securities" reclassified under "Financial Investments - Available for Sale"

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of investments in equity securities AFS to Financial Investments - Available for Sale	203,800	203,800
	203,800	203,800

(f) Other Financial Assets

The un-amortised staff cost arising from staff loans being deducted from "Other Financial Assets" transferred to "Other Assets".

There were certain financial assets such as insurance receivables and staff loans included under "Other Assets". These financial assets were transferred to "Other Financial Assets".

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
New SLAS adjustments		
Unamortised staff cost transferred to other assets	-	(2,938,076)
Transfer of other financial assets from other assets	17,483,526	20,594,350
	17,483,526	17,656,274

(g) Other Assets

Under previous SLAS, interest receivable pertaining to loans and receivables was classified under "Other Assets". However as per new SLAS, loans and receivables are measured at amortised cost. Hence the interest receivable which was recorded under "Other Assets" have been reclassified to respective financial instrument in arriving at amortised cost.

There were certain financial assets such as insurance receivables and staff loans included under "Other Assets". These financial assets were transferred to "Other Financial Assets".

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassifications		
Transfer of Placements interest receivable	(3,758,281)	(974,451)
Transfer of Loans and Receivables to Finance Companies interest receivable	(932,400)	(932,400)
Unamortised staff cost transferred from other financial assets	-	2,938,076
Transfer of other financial assets to other financial assets	(17,483,526)	(20,594,350)
	(22,174,207)	(19,563,125)

(h) Deposits due to Customers

Under previous SLAS, "Deposits due to customers" was reported separately and corresponding interest payable was reported under other liabilities. Under new SLAS, "Deposits due to customers" and the respective interest is aggregated together in arriving at amortised cost. Further interest payable on fixed maturity term deposits were calculated based on EIR.

The impact arising from the change is summarised as follows.

	31st March 2012 Rs.
Statement of Comprehensive Income	
EIR adjustment on deposits	(4,152,883)
	(4,152,883)

Notes to the Financial Statements

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest payable from Other Liabilities	91,378,151	115,560,029
New SLAS adjustments		
EIR adjustment on deposits	(5,919,654)	(1,766,772)
	85,458,497	113,793,257

(i) Interest bearing Borrowings

Under new SLAS, interest bearing borrowings are reported at amortised cost by adding back the interest payable to the respective financial instrument. However, under previous SLAS, interest payables were recorded under "Other Liabilities".

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest payable from Other Liabilities	-	1,358,903
	-	1,358,903

(j) Subordinated Term Debts

Under new SLAS, Subordinated term debts are reported at amortised cost by adding back the interest payable to the respective financial instrument. However, under previous SLAS, interest payables were recorded under "Other Liabilities".

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest payable from Other Liabilities	-	7,764,384
	-	7,764,384

(k) Other Financial Liabilities

There were certain financial liabilities included under "Other Liabilities". These financial liabilities were transferred to "Other Financial Liabilities".

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of other Financial Liabilities from other Liabilities	69,197,616	38,287,579
	69,197,616	38,287,579

(l) Other Liabilities

Interest payable on Deposits and borrowings hitherto recognised under "Other Liabilities" has now been reclassified under the relevant financial instrument.

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
Reclassification		
Transfer of interest payable on deposits due to customers	(91,378,151)	(115,560,029)
Transfer of interest payable on interest bearing borrowings	-	(1,358,903)
Transfer of interest payable on subordinated term debts	-	(7,764,385)
Transfer of other Financial Liabilities from other Liabilities	(69,197,616)	(38,287,579)
	(160,575,767)	(162,970,896)

(m) Retained Earnings

The impact arising from the change is summarised as follows.

	01st April 2011 Rs.	31st March 2012 Rs.
Statement of Financial Position		
New SLAS adjustments		
ElR adjustment on deposits	5,919,654	(4,152,883)
Reversal of interest in suspense	9,837,251	5,685,778
Reversal of provision for credit losses as per CBSL	41,673,893	24,870,629
Allowance for impairment	(51,511,144)	(34,266,148)
	5,919,654	(7,862,624)

Notes to the Financial Statements

(n) Fee and Commission Income

Fee and Commission Income which was previously classified under "Other Operating Income" reclassified to "Fee and Commission Income".

The impact arising from the change is summarised as follows.

31st March 2012

Rs.

Statement of Comprehensive Income

Reclassification

Transfer of fee and commission income from other operating income	21,941,300
	21,941,300

(o) Net Gain / (Loss) from Trading

Transfer of loss from trading securities included under Other expenses to Net Gain/(loss) from trading.

The impact arising from the change is summarised as follows.

31st March 2012

Rs.

Statement of Comprehensive Income

Reclassification

Transfer of loss from trading	(15,787,176)
Transfer of dividend income from trading	57,617
	(15,729,559)

(p) Other Operating Income

Transfer of dividend income from trading and fee and commission income to respective categories.

The impact arising from the change is summarised as follows.

31st March 2012

Rs.

Statement of Comprehensive Income

Reclassification

Transfer of dividend income from trading	(57,617)
Transfer of fee and commission income	(21,941,299)
	(21,998,916)

(q) **Other Expenses**

Transfer of loss from trading securities included under Other expenses to Net Gain/(loss) from trading.

The impact arising from the change is summarised as follows.

31st March 2012

Rs.

Statement of Comprehensive Income

Reclassification

Transfer of loss from trading	15,787,176
	15,787,176

49. 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.

Notes to the Financial Statements

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 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
As at 31st March 2012				
Financial Investments - Held for Trading				
Equity Shares - Quoted	12,283,156	-	-	12,283,156
	12,283,156	-	-	12,283,156
Financial Investments - Available for Sale				
Equity Shares - Unquoted	203,800	-	-	203,800
	203,800	-	-	203,800

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 has 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.

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 has 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. Larger 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).

Notes to the Financial Statements

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.

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.

	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	597,425,027	4,173,445	37,380,160	638,978,631
Less : Impairment	-	-	-	(8,026,756)
Lease Rental and Hire Purchase Receivables	7,138,234,178	39,839,141	81,749,745	7,259,823,064
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	21,998,111	-	-	21,998,111
	9,008,384,811	44,012,586	119,129,905	9,034,071,072

Age analysis of Past Due (more than 6 months) but not individually impaired financial assets	6 to 12 months Rs.	12 to 18 months Rs.	More than 18 months Rs.	Total Rs.
Loans and Receivables to Other Customers	4,173,445	-	-	4,173,445
Lease Rental and Hire Purchase Receivables	24,135,433	8,522,116	7,181,592	39,839,141

Analysis of Risk Concentration

Sector wise analysis of the Company's Lease and Hire Purchase portfolios reflecting the exposure to credit risk in the various sectors of the economy are given in the Notes 20.1.5 and 20.2.5 respectively.

(c) Liquidity Risk

Liquidity risk is that which the Company will encounter 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 calls deposits and short term government securities, to ensure that sufficient liquidity 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.

Maturity analysis of the Company's interest bearing assets and liabilities disclosed in the Note 47 to the financial statements.

(d) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices will 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 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.

Interest Rate Sensitivity Analysis

The given below Interest Rate Sensitivity Analysis shows the impact of change in the interest rates to the comprehensive income as at 31st March 2013.

	Market Rates increase by 1% effect to the Interest Income/(Expenses) Rs.	Market Rates drop by 1% effect to the Interest Income/ (Expenses) Rs.
Effect on Interest Bearing Assets	87,576,246	(87,576,246)
Effect on Interest Bearing Liabilities	(76,186,674)	76,186,674
Effect to the Comprehensive Income	11,389,572	(11,389,572)

Equity Risk

Equity risk is the risk that company's investments in equity shares will depreciate because of stock market dynamics causing the 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 2013.

	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
Total	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.

Notes to the Financial Statements

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 and the ratios of the Company are given below:

Capital Adequacy

Total Risk Weighted Assets Computation

	Balance		Risk Weight Factor %	Rs. Risk Weighted Balance	
As at 31st March	2013	2012		2013	2012
Assets					
Cash and Cash Equivalents	239,915,519	79,321,134	0%	-	-
Placements with Banks and Other Finance Companies	698,087,988	210,974,451	20%	139,617,598	42,194,890
Financial Investments - Held for Trading (excluding items deducted from the total Capital)	13,918,437	11,894,863	100%	13,918,437	11,894,863
Loans and Receivables to Finance Companies	16,472,400	16,472,400	100%	16,472,400	16,472,400
Loans and Receivables to Other Customers	630,951,875	305,257,922	100%	630,951,875	305,257,922
Lease Rental and Hire Purchase Receivables	7,130,393,590	5,518,414,888	100%	7,130,393,590	5,518,414,888
Financial Investments - Available for Sale	203,800	203,800	100%	203,800	203,800
Financial Investments - Held to Maturity	281,718,777	251,392,472	0%	-	-
Other Financial Assets	21,998,111	17,656,274	100%	21,998,111	17,656,274
Inventories	-	-	100%	-	-
Other Assets	144,989,824	155,102,646	100%	144,989,824	155,102,646
Property, Plant and Equipment	122,745,654	105,792,958	100%	122,745,654	105,792,958
Deferred Tax Assets	1,698,960	1,092,818	100%	1,698,960	1,092,818
Total Risk Weighted Assets	9,303,094,935	6,673,576,626		8,222,990,249	6,174,083,459

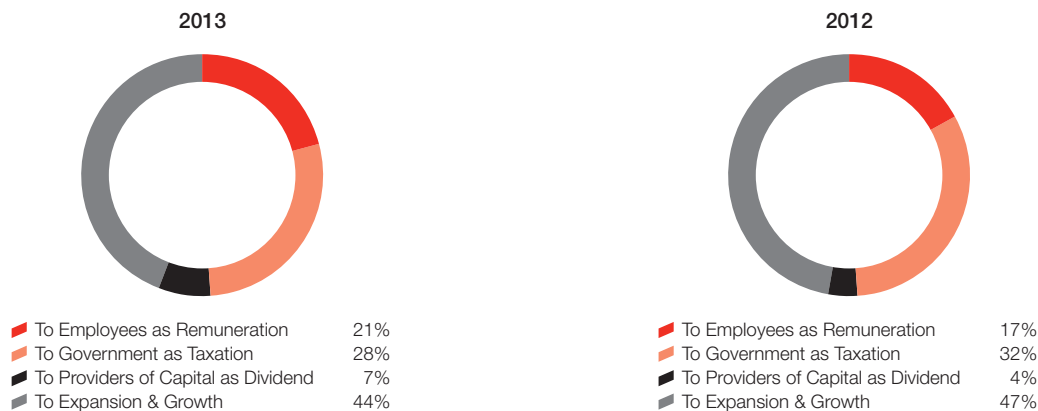
Total Capital Base Computation

As at 31st March	2013	2012
Tier I : Core Capital		
Stated Capital	287,153,000	287,153,000
Statutory Reserve Fund	145,184,628	87,801,782
General Reserve	7,500,000	7,500,000
Retained Earnings	405,083,134	259,189,630
Total Tier I Capital	844,920,762	641,644,412
Tier II : Supplementary Capital		
Eligible Approved Unsecured Subordinated Term Debt	330,000,000	225,000,000
Total Eligible Tier II Capital	330,000,000	225,000,000
Total Capital	1,174,920,762	866,644,412
Deductions		
Investments in capital of other banks	410,574	388,293
Capital Base	1,174,510,188	866,256,119
Computation of Capital Adequacy Ratios		
Core Capital Ratio (Minimum Requirement 5%)	10.28%	10.39%
$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$		
Total Risk Weighted Capital Ratio (Minimum Requirement 10%)	14.28%	14.03%
$\frac{\text{Capital Base}}{\text{Risk Weighted Assets}} \times 100$		

Value Added Statement

	Rs.	2013 %	Rs.	2012 %
Value Added				
Income from Interest Related Activities	1,791,914,232	95%	1,111,638,186	92%
Income from Other Activities	87,482,251	5%	98,995,789	8%
	1,879,396,483	100%	1,210,633,975	100%
Depositors & Lenders	1,008,844,798	81%	536,824,726	74%
Cost of Sales & Services	192,051,241	15%	151,478,005	21%
Impairment Charges for Loans and other losses	51,678,935	4%	34,266,148	5%
	1,252,574,974	100%	722,568,879	100%
Total Value Added	626,821,509		488,065,096	
Distribution of Value Added				
To Employees as Remuneration	132,005,710	21%	81,618,145	17%
To Government as Taxation	173,395,744	28%	156,847,326	32%
To Providers of Capital as Dividend	41,550,600	7%	20,775,300	4%
To Expansion & Growth				
Depreciation	26,946,852	4%	18,485,252	4%
Retained Profits	252,922,603	40%	210,339,073	43%
Total Distribution of Value Added	626,821,509	100%	488,065,096	100%

Value Added Statement

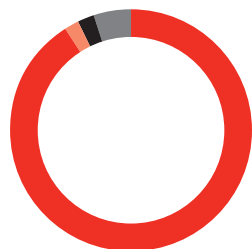


Sources and Utilisation of Income

For the year ended 31st March	Based on Financial Statements Prepared under SLFRS				Based on Financial Statements Prepared under SLAS							
	2013		2012		2011		2010		2009		2008	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Sources of Income												
Loans and Advances	1,719,695,150	91.50	1,137,677,430	93.97	601,671,832	94.06	385,659,784	90.51	325,772,048	86.56	114,383,930	90.81
Government Securities	30,955,158	1.65	11,091,036	0.92	6,370,854	1.00	6,552,639	1.54	3,856,630	1.02	1,507,831	1.20
Commission Income	31,255,381	1.66	21,941,300	1.81	11,024,448	1.72	5,177,608	1.22	4,379,102	1.16	1,173,962	0.93
Other Income	97,490,794	5.19	39,924,210	3.30	20,593,371	3.22	28,703,139	6.74	42,360,973	11.26	8,889,033	7.06
Total	1,879,396,483	100	1,210,633,975	100	639,660,505	100	426,093,170	100	376,368,753	100	125,954,756	100
Utilisation of Income												
To Employees												
Personnel Expenses	132,005,710	7.02	81,618,145	6.74	44,199,129	6.91	30,581,428	7.18	22,010,160	5.85	10,843,443	8.61
To Suppliers												
Interest Paid	1,008,844,798	53.68	536,824,726	44.34	269,555,960	42.14	233,952,166	54.91	236,607,948	62.87	70,323,132	55.83
Other Expenses	192,051,241	10.22	151,478,005	12.51	84,600,953	13.23	28,929,230	6.79	24,995,237	6.64	14,244,499	11.31
Depreciation	26,946,852	1.43	18,485,252	1.53	6,451,106	1.01	3,062,859	0.72	2,356,725	0.63	2,003,440	1.59
Impairment charge /Provision for Credit Losses	51,678,935	2.75	34,266,148	2.83	3,436,577	0.54	22,213,779	5.21	17,577,566	4.67	2,189,126	1.74
To Government												
Value Added Tax and Other Taxes	38,748,927	2.06	37,386,342	3.09	39,568,361	6.19	24,488,195	5.75	14,933,872	3.97	5,929,181	4.71
Income Tax	134,646,817	7.16	119,460,984	9.87	84,142,121	13.15	40,979,923	9.62	25,694,715	6.83	8,955,555	7.11
To Shareholders												
Dividends	41,550,600	2.21	20,775,300	1.72	20,775,300	3.25	7,787,650	1.83	-	-	-	-
Retained Profit	252,922,603	13.46	210,339,073	17.37	86,930,997	13.59	34,097,940	8.00	32,192,530	8.55	11,466,380	9.10
Total	1,879,396,483	100	1,210,633,975	100	639,660,505	100	426,093,170	100	376,368,753	100	125,954,756	100

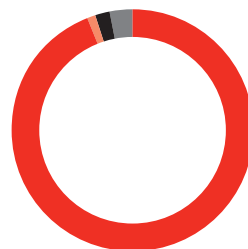
Sources and Utilisation of Income

Sources of Income - 2013



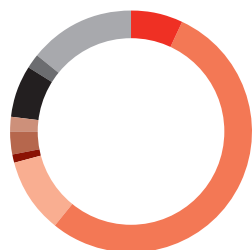
Loans and Advances	91%
Government Securities	2%
Commission Income	2%
Other Income	5%

Sources of Income - 2012



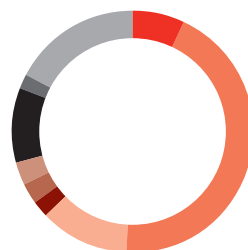
Loans and Advances	94%
Government Securities	1%
Commission Income	2%
Other Income	3%

Utilisation of Income - 2013



Personnel Expenses	7%
Interest Paid	54%
Other Expenses	10%
Depreciation	1%
Impairment charge /Provision for Credit Losses	3%
Value Added Tax and Other Taxes	2%
Income Tax	7%
Dividends	2%
Retained Profit	14%

Utilisation of Income - 2012



Personnel Expenses	7%
Interest Paid	44%
Other Expenses	12%
Depreciation	2%
Impairment charge /Provision for Credit Losses	3%
Value Added Tax and Other Taxes	3%
Income Tax	10%
Dividends	2%
Retained Profit	17%

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.

Share Holder Base

The total numbers of shareholders as at 31st March 2013 were 2,952.

Distribution of Shareholding as at 31st March 2013

Shares	No. of Shareholders	%	No. of Shares	2013	No. of Shareholders	%	No. of Shares	2012
				%				%
Up to 1000	2,073	70.22%	833,186	2.01%	2,165	69.35%	920,841	2.22%
1,001-10,000	750	25.41%	2,517,012	6.06%	831	26.62%	2,699,311	6.50%
10,001-100,000	114	3.86%	3,047,461	7.33%	111	3.55%	3,160,100	7.60%
100,001-1,000,000	12	0.41%	2,535,390	6.10%	13	0.42%	3,239,548	7.80%
Over 1,000,000	3	0.10%	32,617,551	78.50%	2	0.06%	31,530,800	75.88%
	2,952	100.00%	41,550,600	100.00%	3,122	100.00%	41,550,600	100.00%

Categories of Shareholders

Type Of Investor	No. of Holders	No. of Shares	2013	No. of Holders	No. of Shares	2012
			%			%
Local Individuals	2,838	6,444,588	15.51%	3,006	6,811,572	16.39%
Local Institutions	98	34,252,395	82.44%	102	33,591,928	80.85%
Foreign Individuals	15	423,617	1.02%	10	379,100	0.91%
Foreign Institutions	1	430,000	1.03%	4	768,000	1.85%
	2,952	41,550,600	100.00%	3,122	41,550,600	100.00%

Information on Ordinary Shares

20 Major Shareholders as at 31st March 2013

Shareholders	No of Shares	2013 %	No of Shares	2012 %
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%	472,300	1.14%
03. Seylan Bank PLC/M/S Divasa Equity (Pvt) Ltd	1,092,424	2.63%	1,253,800	3.02%
04. George Steuart Teas (Pvt) Ltd	514,275	1.24%	-	0.00%
05. HSBC International Nominees Ltd- UBS AG Singapore Branch (Ex SBC)	430,000	1.03%	430,000	1.03%
06. Seylan Bank PLC/HVA Lanka Exports (Pvt) Ltd	228,148	0.55%	311,148	0.75%
07. Mr. H. Beruwalage	202,800	0.49%	202,800	0.49%
08. Mrs. K.I.A. Hewage	200,000	0.48%	200,000	0.48%
09. Mr. B.A.R. Dissanayake	181,620	0.44%	100,000	0.24%
10. Mr. V.R. Kathiragamattamby	170,000	0.41%	142,000	0.34%
11. Mr. K.D.A Perera	148,246	0.36%	-	0.00%
12. Mr. N. Balasingam	134,900	0.32%	134,900	0.32%
13. Mr. S. B. Rangamuwa	115,301	0.28%	100,000	0.24%
14. Mr. L. D. Wickramasinghe/Mrs. S. S. Wickramasinghe/Ms. L. D. Wickramasinghe	106,900	0.26%	106,900	0.26%
15. Mr. R.R.S. Ananda	103,200	0.25%	103,200	0.25%
16. Mr. A. Tirathdas	100,000	0.24%	100,000	0.24%
17. Codegen International (Pvt) Ltd	100,000	0.24%	-	0.00%
18. Mr. R. Gautam	82,800	0.20%	79,800	0.19%
19. Mr. D.S. Jayaweera	73,000	0.18%	-	0.00%
20. HVA Foods PLC	71,400	0.17%	-	0.00%
	35,580,141	85.63%	34,013,848	81.86%
Others	5,970,459	14.37%	7,536,752	18.14%
Total	41,550,600	100.00%	41,550,600	100.00%

Public holding as at 31st March 2013 - 11,133,299 shares (26.79%)

Market Prices		Quarter Ended				Year Ended
		30.06.2012	30.09.2012	31.12.2012	31.03.2013	31.03.2013
Highest	Rs.	44.50	42.30	43.00	34.50	44.50
Lowest	Rs.	29.50	28.50	30.00	28.10	28.10
Closing	Rs.	31.50	40.00	31.00	28.30	28.30

Eight Year Summary

Based on Financial Statements prepared under SLFRS

For the year ended 31st March

	2013 Rs.	2012 Rs.
Income Statement		
Gross Income	1,879,396,483	1,210,633,975
Interest Income	1,791,914,232	1,111,638,186
Interest Expense	1,008,844,798	536,824,726
Net Interest Income	783,069,434	574,813,460
Net Fee and Commission Income	31,255,381	21,941,300
Other Operating Income	56,226,870	77,054,489
Operating Expenses and provisions	402,623,499	285,785,791
Pre-Tax Profit	467,928,186	388,023,458
Provision for Taxation	173,395,744	156,847,326
Net Profit	294,532,442	231,176,132

As at 31st March

	2013 Rs.	2012 Rs.
Assets		
Cash and Cash Equivalents	239,915,519	79,321,134
Placements with Bank's and Other Finance Companies	698,087,988	210,974,451
Financial Investments - Held for Trading	14,329,011	12,283,156
Loans and Receivables to Finance Companies	16,472,400	16,472,400
Loans and Receivables to Other Customers	630,951,875	305,257,922
Lease Rental and Hire Purchase Receivables	7,130,393,590	5,518,414,888
Financial Investments - Available for Sale	203,800	203,800
Financial Investments - Held to Maturity	281,718,777	251,392,472
Other Financial Assets	21,998,111	17,656,274
Other Assets	144,989,824	155,102,646
Property, Plant and Equipment	122,745,654	105,792,958
Deferred Tax Assets	1,698,960	1,092,818
Total Assets	9,303,505,509	6,673,964,919

As at 31st March

	2013 Rs.	2012 Rs.
Liabilities		
Bank Overdrafts	360,101,982	82,765,639
Rental Received in Advance	164,624,028	76,741,268
Deposits due to Customers	6,268,210,181	4,024,406,195
Interest bearing Borrowings	951,201,653	1,399,833,703
Subordinated Term Debts	399,255,586	232,764,384
Other Financial Liabilities	41,463,609	38,287,579
Current Tax Liabilities	41,938,998	52,416,626
Deferred Tax Liabilities	65,089,176	40,018,009
Other Liabilities	68,235,470	38,434,084
Retirement Benefit Obligations	6,067,712	3,902,921
Total Liabilities	8,366,188,396	5,989,570,408
Shareholders' Funds		
Stated Capital	287,153,000	287,153,000
Statutory Reserves	237,580,979	130,551,881
General Reserve	7,500,000	7,500,000
Retained Earnings	405,083,134	259,189,630
Total Shareholders' Funds & Total Liabilities	9,303,505,509	6,673,964,919

For the year ended 31 March

	2013	2012
Information on Ordinary Shares		
Earnings per Share (Rs.)	7.09	5.56
Net Assets per Share (Rs.)	22.56	16.47
Interest Cover (Times)	1.46	1.72
Return on Shareholders Funds (%)	31.42	33.78
Liquid Assets as a % of Deposits (%)	19.46	13.46
Growth in Income (%)	55.24	89.26
Growth in Interest Expenses (%)	87.93	99.15
Growth in Other Expenses (%)	40.88	106.06
Growth in Profit After Tax (%)	27.41	114.64
Growth in Advances (%)	33.27	78.82
Growth in Deposits (%)	55.75	50.06
Growth on Shareholders' Funds (%)	36.95	30.73

Eight Year Summary

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

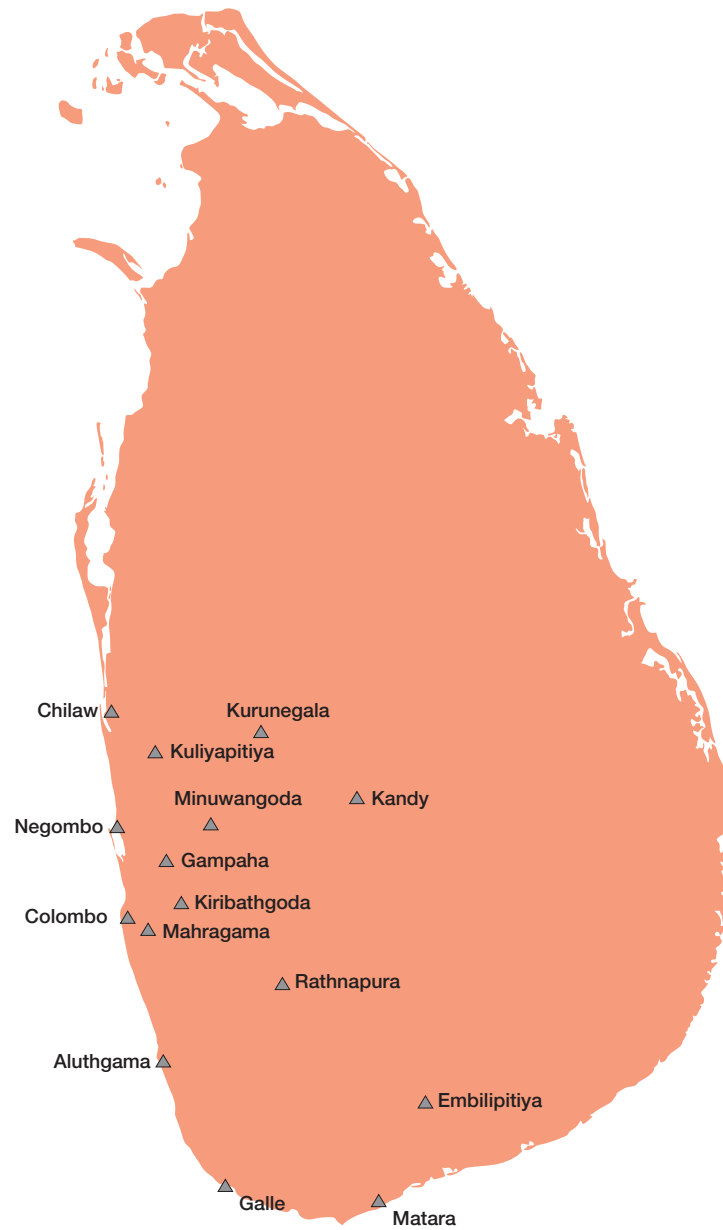
Liabilities						
Bank Overdrafts	49,660,559	87,044,952	12,369,889	10,102,229	-	-
Borrowings	449,322,933	169,214,636	310,382,379	271,687,872	-	-
Deposits From Customers	2,596,232,472	1,139,477,444	820,547,319	473,682,925	31,563,014	29,806,480
Other Liabilities	326,229,359	135,349,881	80,530,880	50,553,303	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

For the year ended 31st 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
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 on 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, Kurunagala Road, Minuwangoda	011-7587587	011-7587589	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
Kuliyaipitiya	No. 111, Kurunegala Road, Aswedduma watha, Kuliyaipitiya	0377-787787	0377-787789	Mr. Dhammika Muthugala
Embilipitiya	No. 103, New Town Road, Embilipitiya	0477-687687	0477-687689	Mr. Janaka Ruwan Kumara



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 other 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 recoverable amount declines below carrying amount.

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 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.

Glossary of Financial Terms

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 will be held on 06th September 2013 at 10.00 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 2013 with the Report of the Auditors thereon.
2. To re-elect Mr. J. A. S. S. Adihetty who retires by rotation in terms of Articles 87 and 88 of the Articles of Association, as a Director.
3. To re-elect Mr. R. M. Karunaratne 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 2014 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

6th August 2013

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) hour prior to the time appointed for the meeting.

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. K. D. D. Perera	or failing him*
Mr. S. B. Rangamuwa	or failing him*
Mr. J. A. S. S. Adhihetty	or failing him*
Mr. W. D. N. H. Perera	or failing him*
Mr. M. D. S. Goonatilleke	or failing him*
Mr. S. Senaratne	or failing him*
Mr. K. D. H. Perera	or failing him*
Mr. R. M. Karunaratne	

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 06th September 2013 and at every poll which may be taken in consequence of the aforesaid Meeting and at any adjournment thereof.

I witness my/our* hand this day of Two Thousand and Thirteen.

.....
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. K. D. D. Perera - Chairman

Mr. S. B. Rangamuwa - Managing Director/CEO

Mr. J. A. S. S. Adhihetty

Mr. W. D. N. H. Perera

Mr. M. D. S. Goonatilleke

Mr. S. Senaratne

Mr. K. D. H. Perera

Mr. R. M. Karunaratne

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.

NDB Bank

Head Office Branch

No.103A, Dharmapala Mawatha

Colombo 07.

Vallibel Trust in
Our **Growth**



 **vallibel** Finance

Annual Report 2012 /13

Vallibel Finance PLC

No. 310, Galle Road,
Colombo 03.