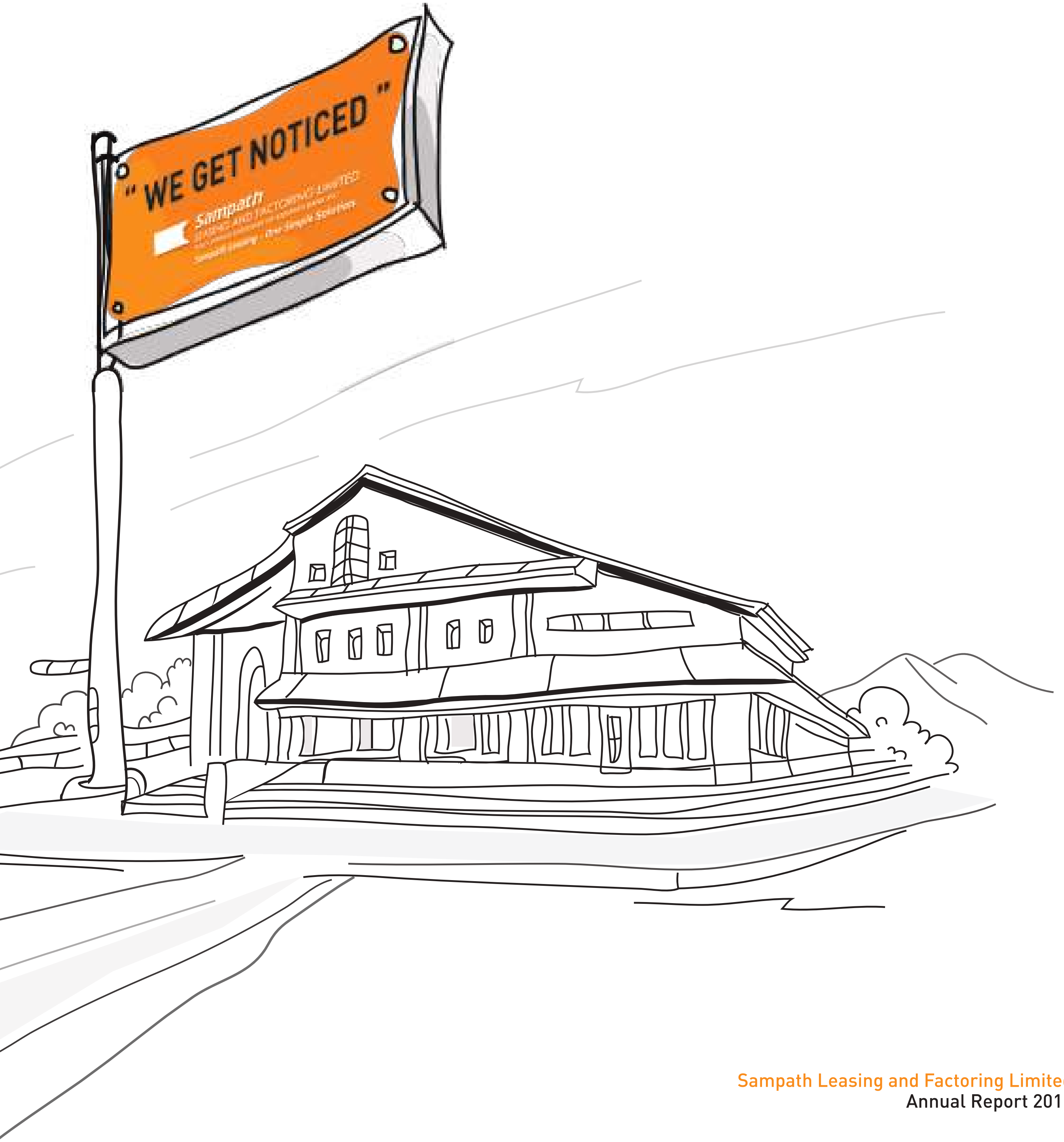

Sampath Leasing and Factoring Limited
Annual Report 2012

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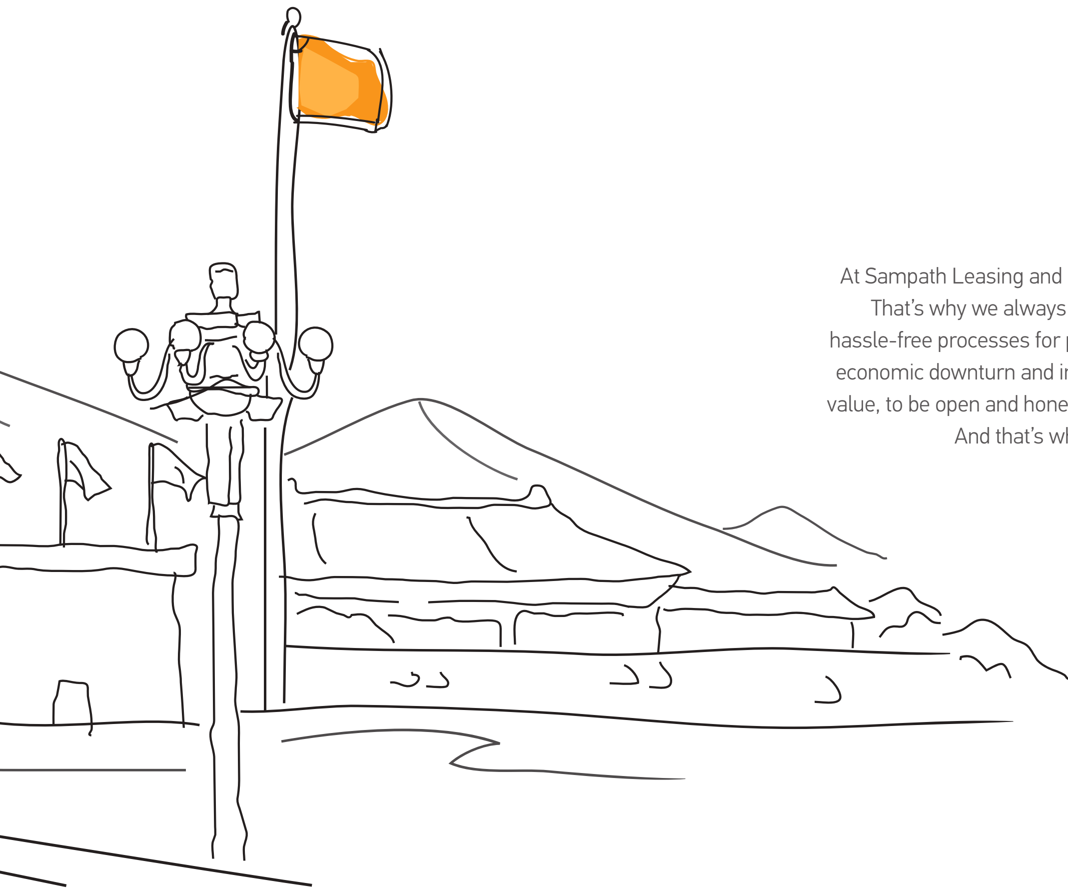
Annual Report 2012

Sampath
LEASING AND FACTORING LIMITED
FULLY OWNED SUBSIDIARY OF SAMPATH BANK PLC
Sampath Leasing - One Simple Solution.



"We get noticed
...for all the right reasons"

At Sampath Leasing and Factoring we believe in standing out from the rest. That's why we always strive to deliver quality service, the best deals and hassle-free processes for people of every strata and it shows. In the midst of economic downturn and industry changes, we have managed to stay true to value, to be open and honest in our work and always provide a human touch. And that's why we get noticed for all the right reasons.

Contents

Financial Reports

Financial and Operational Highlights

	2012 Rs. Mn	2011 Rs. Mn	Change %
Business Volumes for the Year	**3,769.38**	3,124.06	20.66%
Financial Result in the Year			
Interest Income	**1,033.56**	555.33	86.12%
Interest Cost	**617.32**	219.30	181.50%
Net Interest Income	**416.24**	336.03	23.87%
Other Income	**78.52**	53.50	46.77%
Operating Costs	**224.41**	178.37	25.81%
Provision for Impairment	**0.26**	(49.32)	100.53%
Net Income before taxation	**251.99**	244.28	3.15%
Net Income after taxation	**200.24**	198.02	1.12%
Year End Results			
Portfolio Values			
Finance Leases & Hire Purchases	**4,833.54**	3,281.26	47.31%
Factoring	**566.58**	532.46	6.41%
Total	**5,400.13**	3,813.72	41.60%
Assets			
Interest Earning Assets	**5,487.37**	3,813.72	43.89%
Non Interest Earning Assets	**323.15**	310.10	4.21%
Total	**5,810.52**	4,123.82	40.90%
Liabilities & Shareholders' Funds			
Liabilities			
Interest Bearing Liabilities	**4,717.44**	3,211.38	46.90%
Non Interest Bearing liabilities	**216.55**	216.20	0.16%
Shareholders' Funds			
Shareholders' Funds	**876.53**	696.24	25.89%
Total	**5,810.52**	4,123.82	40.90%
Financial Indicators			
Ordinary Shares- Information			
Net Asset per share - Rs.	**16.70**	13.26	25.89%
Earning/(Loss) per share - Rs.	**3.81**	3.77	1.12%
Profitability Indicators			
Return on Average Assets			
Based on Pre Tax Profit	**6.03%**	10.33%	-4.30%
Based on Post Tax Profit	**4.03%**	6.69%	-2.66%
Return on Average Equity(after tax)	**25.46%**	33.16%	-7.69%
Efficiency Indicator			
Cost to Income Ratio	**45.36%**	45.79%	-0.43%
Portfolio Quality			
NPL - 3 Months	**3.14%**	2.68%	0.46%
NPL - 6 Months	**1.79%**	2.19%	-0.40%
Statutory Ratios			
Liquid Assets(%)	**5.97%**	N/A	N/A
Capital Adequacy Ratio			
Tier 1	**17.77%**	16.97%	0.80%
Tier 2	**17.77%**	16.97%	0.80%

Operational Highlights in 2012

Interest Income grew by
86%

Loan Portfolio grew by
42%

Total Assets grew by
41%

NPA Ratio declined to
1.79%

- **Growth in Business Volumes and Total Assets**

Loans & Advances grew by	41.60%
Total Assets grew by	40.90%

Total Assets reached Rs. 5.8 Billion

- **Improved Portfolio Quality**

NPL ratio improved to 3.14% in the 3 months category (In year 2011-2.68%). In the 6 months category NPL ratio declined to 1.79 % (In year 2011-2.19%).

- **Stabilized Profitability**

After Tax Profit increased marginally to Rs. 200 Million.

- **Improved Capital Adequacy**

Capital Adequacy Ratio improved to 17.77% (In year 2011 - 16.97%).

- **Commitment towards better Financial Reporting**

Winner of the Silver Award in the Specialized Leasing Company Category at the Annual Report Awards held under the aegis of ICASL for the 2nd consecutive Year.

- **Credit Rating & Public Image**

Fitch Ratings has assigned Sampath Leasing and Factoring limited an 'A(lka)' National Long-Term rating with a stable outlook.


Sampath
ටුක් ටුක් ලීසිං

Empowering a large and growing community, Tuk Tuk Leasing is a hassle-free option that offers flexibility, ease and customization to a diverse range of customers.

Chairman's Report

"The management of the Company has taken cognizance of the parent bank's strategy and aligned its operations that setting a growth trajectory that would place it as a dominant player in the financial sector."

Chairman's Report

Sampath Leasing and Factoring Ltd has now completed eight years of operation since its inception in year 2005. As at date of this report the company continues to remain a fully owned subsidiary of Sampath Bank PLC. The last three years of operation has been a period of high growth momentum and increased profitability. The company has achieved many milestones and continues to contribute towards the overall success of the Sampath Bank Group.

The management of the Company has taken cognizance of the parent bank's strategy and aligned its operations that setting a growth trajectory that would place it as a dominant player in the financial sector.

The company's principle activities remain fund based and consist of the extension of finance leasing, hire purchase advances and factoring of trade receivables, and of recent the extension of pawning advances. The predominant market segment that we identify when extending our fund based products is the Small and Medium Scale Enterprises (SME Sector) which is closely associated with a small unit size of facility but also requires a broad based channel network. We have taken account of the market segments we chose to operate in and have clustered our geographical foot print accordingly.

Macro Economic Developments in 2012

The country's economy grew by 6.4% in 2012, a decline from the impressive growth rate of 8.3% achieved in 2011. The contributing factor for the declined growth rate in the economy was the sluggish recovery in the global economy giving rise to a lowering in external demand for good and services produced domestically. The industry sector was the predominant contributor towards the growth in 2012 mainly driven by the acceleration in the construction subsector. The service sector in which our company operates witnessed a reduction in the rate of growth in 2012. The rate of growth in the service sector was 8.6% in 2011and was reduced to 4.6% in 2012 mainly due to the reduction in whole sale and retail sale subsector.

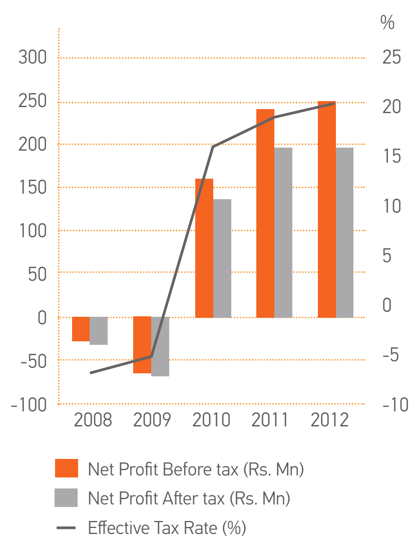
The Non Bank Financial Institutions (NBFI's) which consist of Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) recorded a growth of 22% in 2012 as measured by the overall growth in asset / liabilities during the year. The Central Bank continued to adopt measures to strengthen the risk profiles of NBFI through the introduction of new directives. The growth rate of the NBFI sector which grew by 26% in 2011 reduced to 22% in 2012 mainly due to a decrease in vehicle imports owing to higher excise duty being imposed on vehicle imports since March 2012. This affected the growth in Lease and Hire Purchase portfolios in the NBFI sector.

The Central Bank also introduced a tight monetary policy stance which lead to upward adjustment in interest rates which in turn affected the company's net interest margin.

The budget announcements relating to fiscal policy were helpful towards the importation of certain asset categories such as certain types of machinery, lorries, trucks and busses which were exempted from VAT. This had a bearing on assets leased by us in the above mentioned categories through a lower supply price.

Chairman's Report *contd.*

PBT, PAT (Rs. Mn) & Effective Tax Rate (%)



Company Performance

The growth in pre tax profits in during the year was 3.15% The reported pre tax profit was Rs. 251.99 Mn In 2012 as against Rs. 244.28 Mn in 2011. The post tax profit is reported as Rs. 200.24 Mn in 2012 as against Rs.198.02 Mn in 2011.

Accolades

At the annual report competition conducted under the aegis of Institute of Chartered Accountants of Sri Lanka the company won a silver award under the specialized leasing company category for the second successive year. The company also continued to be rated "A" (in terms of credit risk rating) by the Fitch rating Lanka Ltd, an internationally accredited rating agency.

New Appointment of Directors

I take this opportunity to welcome three new directors to the board of Sampath Leasing and Factoring Ltd. They are namely Mr. Aravinda Perera, Mr. Mohan Abeynaike and Mr. Ranjith Samaranayake. Their business acumen and professional knowledge would certainly add value to an already reputed Board of Directors. A detailed resume of our board is appended else where in this report.

Future Outlook

Plans are underway to migrate the company from being a Specialized Leasing Company to a Licensed Finance Company in the near future. This new status would entail more stringent risk management measures and re-engineering

Mr. Sunil Wijesinha-Deputy Chairman of the company receiving the 'Silver Award' in the Specialised Leasing Company Category at the Annual Report Awards Ceremony held by the ICASL in December 2012.

of our operations to make them aligned with new markets and financial products. The company will focus on observing good Corporate governance and Corporate Social Responsibility with a view to enhancing its corporate standing and public perception.

Appreciation and Thank

I would like to place on record the contribution made by the Department of Supervision of Non Bank Financial Institutions of the Central Bank of Sri Lanka, our auditors, fund arrangers, Bankers, Parent company Sampath Bank PLC, my colleagues on the Board and finally the staff of the company for their contribution towards the company progress.

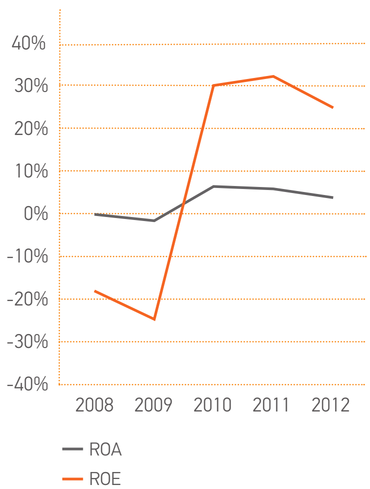
I.W. Senanayake
Chairman

The Chief Executive Officer's Message

Performance

The year 2012 in which NBFIs recorded a growth rate of 22% also witnessed a decline in profits of 27%. The company's profitability although rising marginally did not match the growth momentum achieved in 2011. Profit after tax increased from Rs.198.02 Mn in 2011 to Rs. 200.24 Mn 2012. The Company's ROA and ROE in 2012 was 4.03% (2011-6.69%) and 25.46% (2011-33.16%) respectively.

ROA & ROE (%)



Total assets of the company grew by Rs. 1.69 billion during 2012 an increase of 40.90%. The total assets of the company as at end December 2012 amounted to Rs. 5.81 billion.

Economic Progress

Sri Lankan economy grew at a slower pace in year 2012 as opposed to the high growth momentum maintained in 2011. All key sectors however contributed positively to growth in 2012 and inflation remained at a single digit level throughout the year. The growth in the credit and monetary aggregates decelerated significantly with policy measures introduced at the beginning of the year and with this market interest rates moved upwards. The financial sector expanded during the year despite vulnerabilities arising from fragile conditions in the global financial market. The overall soundness of the financial markets improved in terms of capital and liquidity levels. The branch network of financial institutions also increased during the year thereby facilitating larger credit intermediation. The banking sector continued to dominate the financial sector landscape with its share of assets increasing during 2012. The NBFI sector which consists of LFCs and SLCs also expanded its assets base while increasing its branch network. The Central Bank made all efforts to promote the Risk Management practices within the NBFI sector in order to maintain the overall soundness of these institutions.

Channel Expansion

In terms of channel expansion the company took a stance of reducing its geographical expansion since a deceleration of credit growth was anticipated. Only a single branch was opened during the year in Gangodawila. The future branch strategy would follow a transition of converting the existing windows operated within Sampath Bank branches to fully pledged branch channels. This shift in paradigm is required as the company anticipates converting it self from a SLC to a LFC.

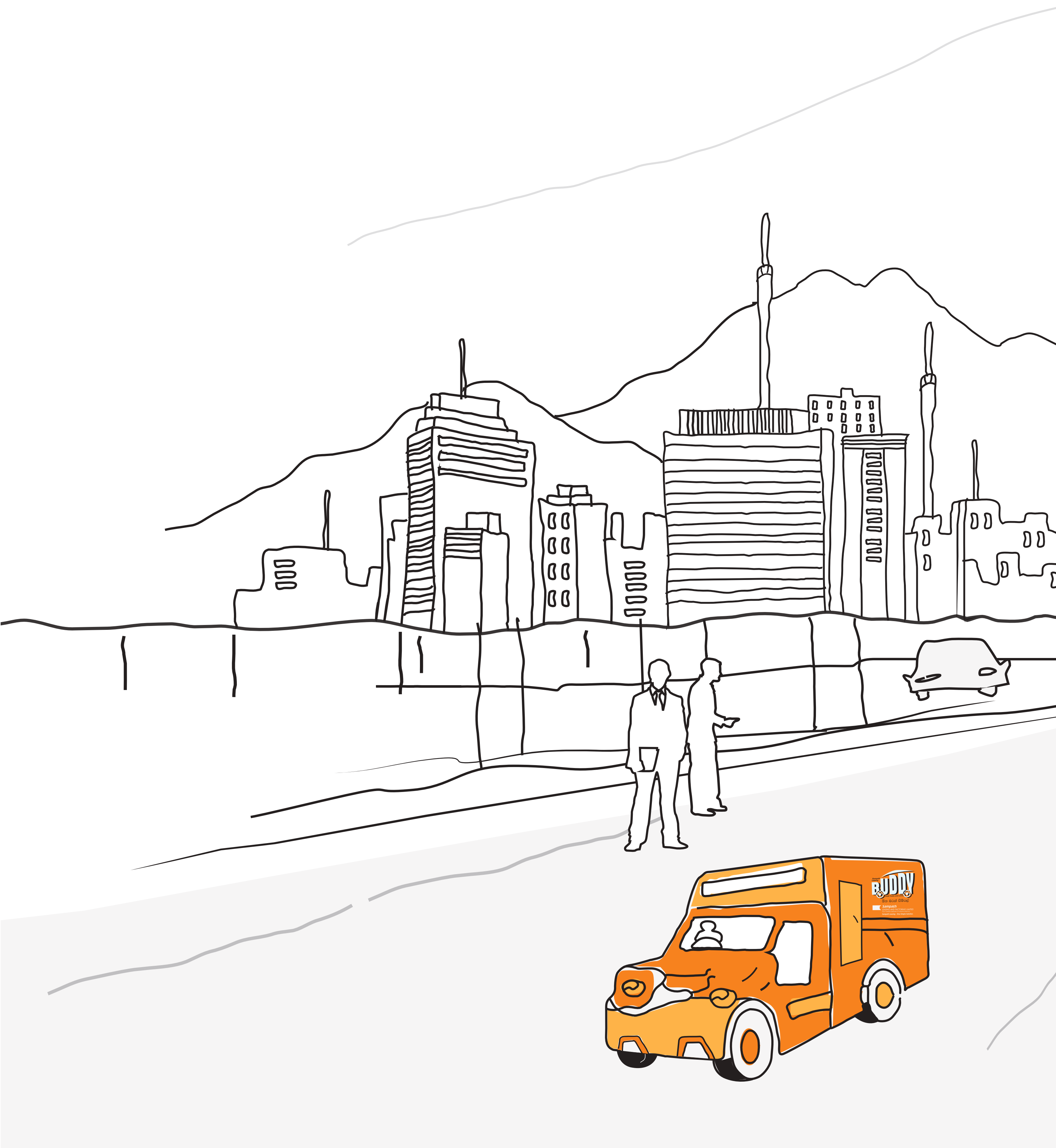
With a view to broad-basing our lending product portfolio a rethink of our strategy was necessitated, in so far as to ensure that the maturity cycle of part of our lending products were short term and high yielding. In this context the company has recently moved to pawing business which is essentially a fund based lending product of shorter maturity than traditional finance leases and hire purchase products. We further sought to increase our fee based income streams through facilitation of vehicle imports on behalf of our customers.

We are also in process of making application to Central Bank of Sri Lanka for a finance company status in order to broad-base our funding lines. In this regard we would have access to public funds in the form of fixed deposits and saving accounts that would supplement the banking lines of credit and other corporate borrowings that we already have access to.

Appreciations

I would like to place my appreciation to the Chairman and the Board of Directors for their guidance given to me in order to face the challenges during the year. Looking back over the years, our performance would not have been possible without diligent oversight and wise guidance provided by them. I would also like to extend my gratitude to the staff of Central Bank of Sri Lanka for their regulatory guidance, and a word of thanks to our external auditors and fund arrangers. Finally I offer my thanks to all the staff of the Company without any reservations since each and every employee is a proud contributor towards the Company performance.

Roshan Nanayakkara
Chief Executive Officer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Sampath Leasing
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Small Trucks and Lorries
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Simplifying the leasing load, this product is ideal for SME's and corporates in expanding their business capacity.

Management Discussion and Analysis

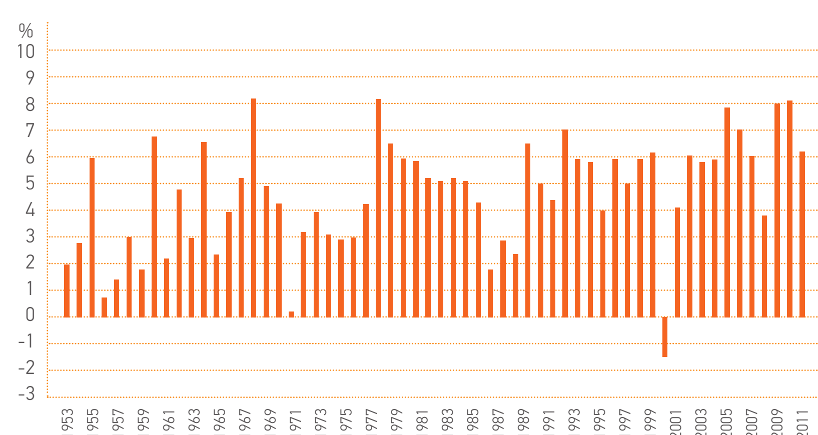
Overall the NBFI sector which comprises of Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) recorded a growth of 22% for the period mainly due to the geographical expansion and the risk mitigation initiatives taken by the Central Bank for the sector. A healthy improvement is shown in terms of the asset quality and the liquidity status while maintaining acceptable profit margins coupled with capital adequacy.

Economic Overview

The main focal points that resulted in the country achieving a growth rate of 6.2 % for the year 2012 compared to the achievement of 8.3 % for the previous year was primarily fueled by the tight policy environment , the sluggish recovery in the global economy which moderated aggregate demand in 2012, the unfavourable weather conditions which disrupted agricultural output and significantly reduced hydro power generation which created a negative impact on value additions while exerting pressure on prices.

The external sector strengthened during the year with the narrowing of the deficits in the trade and current account balances and higher inflows to the capital and financial account leading to a surplus in the balance of payments (BOP). This led the economy towards raising the level of foreign reserves to a comfortable level compared to previous years.

GDP Growth Rate



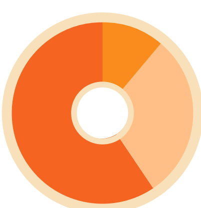
Source : Central Bank of Sri Lanka - Annual Reports

Inflation remained at single digit levels for the fourth year in succession with average annual inflation being reported at 7.6 per cent whereas year-on-year inflation was 9.2 per cent in December 2012.

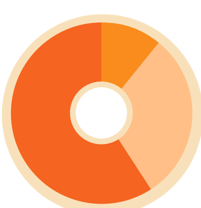
All major economic sectors have contributed positively to the overall economic performance in 2012. The Industry sector was the main driver of growth by marking a 47.1 % contribution to the growth change with the construction sub sector making the most significant level of contribution with a 23.9% of the yearly change, reflecting the massive public investment programme and several private sector real estate projects. Growth in the Services sector moderated largely on account of the slowdown in external trade and the deceleration in the transport sub sector, but the overall share of service sector in the GDP has increased by 1% during the period. Despite adverse weather conditions in the second half of the year, the Agriculture sector performed better in 2012 than in 2011 by depicting a growth rate of 5.8 % compared to the previous year rate of 1.4%.

Comparision of GDP Analysis Graph 2011/2012

GDP Analysis 2011



GDP Analysis 2012

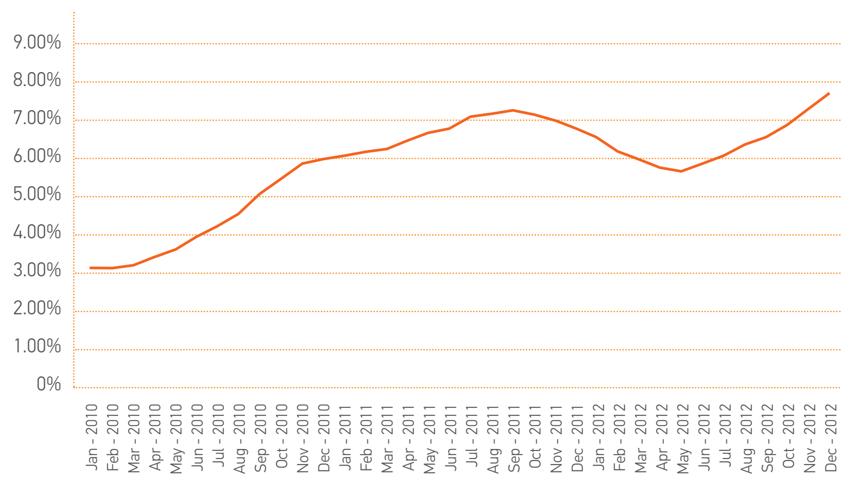


Source : Central Bank of Sri Lanka - Annual Reports

The upward adjustment of energy prices and transport fares in February 2012 to reflect the rise in oil prices in the international oil market, the pass-through of the depreciation of the rupee in the economy, supply disruptions on account of adverse weather conditions that prevailed in major cultivation areas throughout the year and the impact of past high monetary expansion resulted in inflation edging up to end the year at 9.2 per cent compared to the 2011 figure of 4.9%. Even though the annual average inflation has shown a decline during the first five months of the year, it has increased gradually up to 7.6 % due to the changes took place in the later part of the year.

Inflation Trend Chart

GDP Growth Rate



Source : Central Bank of Sri Lanka - Annual Reports

Fiscal Sector Developments

The fiscal policy strategy of the government for the period was primarily focused on strengthening the fiscal consolidation process while maintaining a high level of investment to facilitate sustained economic growth. The government succeeded in reducing the budget deficit to 6.4 per cent of GDP in 2012 from 6.9 per cent of GDP in 2011. Net lending of the government declined from 21.4 per cent of GDP in 2011 to 19.7 per cent of GDP in 2012 while public investment, as a percentage of GDP, was maintained at 5.5 per cent.

Government revenue as a percentage of GDP declined to 13% in 2012 from 14.3% in the previous year, reflecting the slowdown in domestic economic activity and the impact of policy measures adopted.

Management Discussion and Analysis *contd.*

Monetary Sector Developments

Monetary policy was tightened significantly by the government through the policy rates being raised a couple of times and by a ceiling on the growth of rupee credit being imposed in order to stem the high growth in monetary and credit aggregates. Accordingly, the policy interest rates of the Central Bank were increased by 50 basis points in February 2012. A second round of policy tightening was carried out in April, where the Repurchase rate was raised by 25 basis points to 7.75 per cent and the Reverse Repurchase rate was increased by 75 basis points to 9.75%, thus widening the policy interest rate corridor to 200 basis points.

At the same time, to effect a more rapid curtailment of credit, the Central Bank imposed a ceiling on the growth of rupee denominated credit by licensed banks in 2012. A Direction was issued by restricting the growth of credit to 18 per cent while an additional 5 per cent was allowed to banks that brought in funds from abroad to bridge the difference. In view of the asymmetric impact it could have on some banks, alternative limits of Rs. 800 million, or Rs. 1 billion for banks that mobilize funds from abroad, were imposed. In the month of December 2012 same was withdrawn by the regulatory body by allowing the banking sector to enhance the lending book.

Financial Sector Performance

Irrespective of the uncertainties raised in the global financial markets coupled with the movements of the domestic economy, the financial sector has somehow managed to expand during the period of assessment. The cap on credit growth placed in March 2012 created an adverse impact over the credit growth of the sector but has reached an overall improvement in terms of capital and liquidity levels.

The banking sector continued to dominate the financial sector landscape with its share of assets increasing in 2012. Growth of assets of the banking sector remained unchanged from 2011 largely due to the cap on credit growth placed in March 2012 but profitability was higher in 2012. The declining trend in non-performing loans (NPL) observed since 2009 slowed in 2012, largely reflecting the high interest rate environment. The non-bank financial institution (NBFI) sector consisting of Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) expanded its asset base while increasing its branch network with improved soundness of the institutions within the sector.

Within the finance sector, Licensed Finance Companies have marked a growth ratio of almost 52 % mainly due to the fact of some specialized leasing companies getting converted to Finance Companies during the period of evaluation which is the same fact behind the decline of the asset base of Specialized Leasing Companies by 56 % between the time frame of 2011/2012.

Total Assets of the Major Financial Institutions

	2011 (a)		2012 (b)	
	Rs. Bn	Share In Total %	Rs. Bn	Share In Total %
Banking Sector	5,375.6	69.7	**6,381.4**	**70.6**
Central Bank	1,123.4	14.6	**1,279.7**	**14.2**
Licensed Commercial Banks	3,578.5	46.4	**4,359.2**	**48.2**
Licensed Specialised Banks	673.7	8.7	**742.5**	**8.2**
Other Deposit Taking Financial Institutions	427.1	**5.5**	**621.2**	**6.9**
Licensed Finance Companies	352.1	4.6	**536.1**	**5.9**
Co-operative Rural Banks	67.6	0.9	**77.2**	**0.9**
Thrift and Credit Co-operative Societies	7.4	0.1	**7.9**	**0.1**
Other Specialised Financial Institutions	338.8	4.4	**282.8**	**3.1**
Specialised Leasing Companies	137.8	1.8	**60.5**	**0.7**
Primary Dealers	132.7	1.7	**132.7**	**1.5**
Stock Broking Companies	11.3	0.1	**10.8**	**0.1**
Unit Trusts / Unit Trust Management Companies	23.7	0.3	**32.4**	**0.4**
Market Intermediaries (c) (d)	31.2	0.4	**43.9**	**0.5**
Venture Capital Companies	1.5	0.0	**2.5**	**0.0**
Contractual Savings Institutions	1,570.8	20.4	**1,750.2**	**19.4**
Insurance Companies	265.4	3.4	**304.6**	**3.4**
Employees' Provident Fund	1,018.0	13.2	**1,144.0**	**12.7**
Employees' Trust Fund	142.4	1.8	**158.4**	**1.8**
Approved Private Provident Fund	115.1	1.5	**110.3**	**1.2**
Public Service Provident Fund	29.9	0.4	**32.9**	**0.4**
Total	7,712.3	100.0	**9,035.6**	**100.0**

(a) Revised
(b) Provisional
(c) Market Intermediaries include Underwriters , Margin Providers and Investment Managers
(d) "Excluding the assets of Licensed Banks, Licensed Finance Companies and Specialised Leasing Companies which are registered as Market Intermediaries"

Source : Central Bank of Sri Lanka - Annual Report 2012

Industry Review (Non Bank Financial Sector) - NBFI

Overall the NBFI sector which comprises of Licensed Finance Companies (LFCs) and Specialized Leasing Companies (SLCs) recorded a growth of 22% for the period mainly due to the geographical expansion and the risk mitigation initiatives taken by the Central Bank for the sector. A healthy improvement is shown in terms of the asset quality and the liquidity status while maintaining acceptable profit margins coupled with capital adequacy.

Even though the consolidation among players has lead towards strengthening their performance, decrease of vehicle imports due to macro environmental forces has affected the growth of the Leasing & Hire purchase business.

Distribution of Channels

Four new players entered the industry during the year 2012 and the NBFI channel network was expanded by 206 branches with in the year thereby raising the total channel network to 972. Within year 2011 / 2012 period a comparatively significant increase in the channel foot print is visible in North Western province while a relative decline is visible in Western and Southern provinces in which the intensity of competition is significantly high.

Management Discussion and Analysis *contd.*

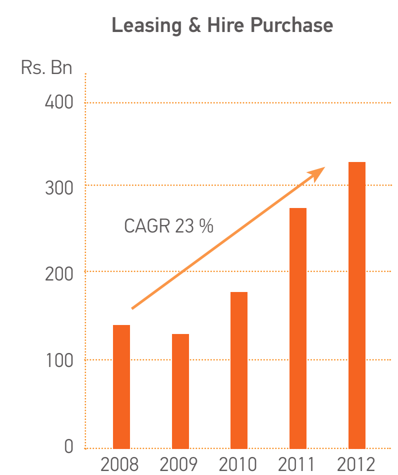
Distribution of NBFIs Channels by Province

Province	End 2011 (a)	End 2012 (b)	Provincial (%) 2011	Provincial (%) 2012 (b)
Western	265	**316**	34.60%	**32.51%**
Southern	91	**112**	11.88%	**11.52%**
Sabaragamuwa	59	**76**	7.70%	**7.82%**
North Western	67	**99**	8.75%	**10.19%**
Central	82	**107**	10.70%	**11.01%**
Uva	43	**52**	5.61%	**5.35%**
North Central	55	**69**	7.18%	**7.10%**
Eastern	60	**78**	7.83%	**8.02%**
Northern	44	**63**	5.74%	**6.48%**
Total	766	**972**	100.00%	**100.00%**

(a) Revised
(b) Provisional

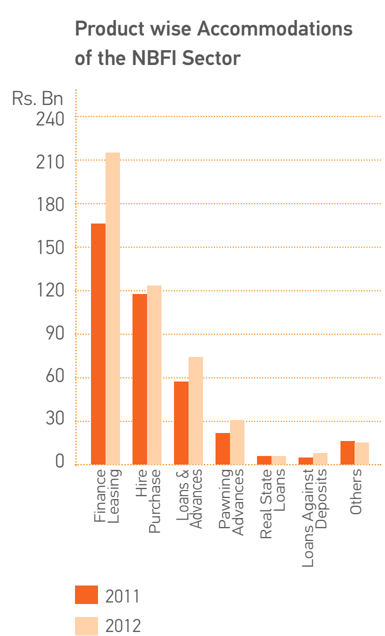
Source : Central Bank of Sri Lanka - Annual Report 2012

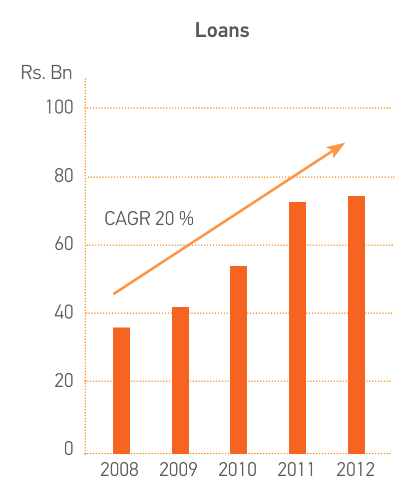
Tabled below are the compounded annual growth rates (CAGR) for the last five years for different products marketed by the NBFI sector.

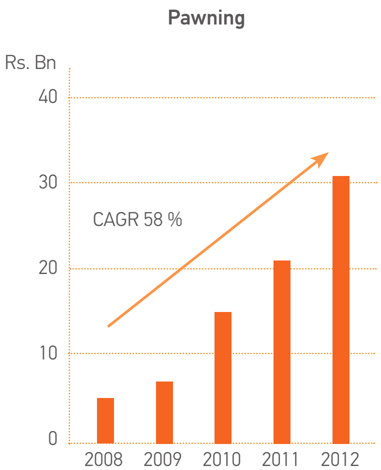


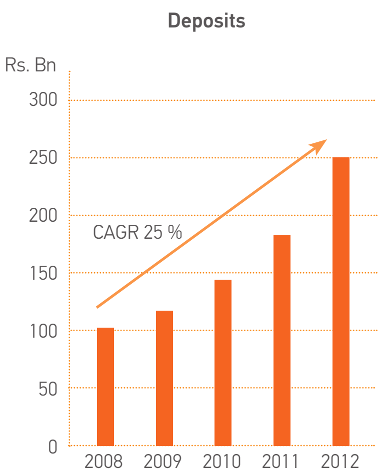
Product-Wise Accomodations of NBFI Sector During 2012

Within the NBFI sector a significant portfolio growth is depicted in Finance Leasing asset category which amounts to 29.5%, Hire Purchase portfolio with a growth of 4.2%, Loan / Advances portfolio an increase of 29.8%, Pawning portfolio a growth of 47.6 % while the Loans against Deposits portfolio has shown the most significant improvement by achieving an overall growth of 60% for the respective period of analysis.









Source: CBSL - Annual Report 2012

Composition of Assets and Liabilities of NBFI Sector

The total asset base of the NBFI sector grew by 22 per cent during 2012 to Rs. 597 billion, following the growth of 26 per cent in 2011. The main contributory factor in the expansion of the asset base was the growth of the accommodations portfolio. Accommodations grew by 21 per cent to Rs. 472 billion by end 2012.

Finance leases, hire purchases and other secured advances were the major sources of accommodations, which accounted for 46 per cent, 26 per cent and 16 per cent, respectively, of the total accommodations. Among the products, loans against deposits, pawning and other secured loans recorded high growth rates of 60 per cent, 47 per cent and 29 per cent, respectively.

Deposits were the major source of funding for the LFCs, while borrowings were the major source of funding for the SLCs. While deposits with LFCs accounted for 43 per cent of the total liabilities of the NBFIs, borrowings of SLCs accounted for 30 per cent of the total liabilities of NBFIs. Reflecting the increased public confidence in the LFC sector, deposits held by LFCs grew by 37 per cent to Rs. 254 billion by end 2012.

Recent conversion of four Specialized Leasing Companies in to Licensed Finance Companies has fuelled the conversion of market borrowings in to deposits in which 98% is represented through time deposits.

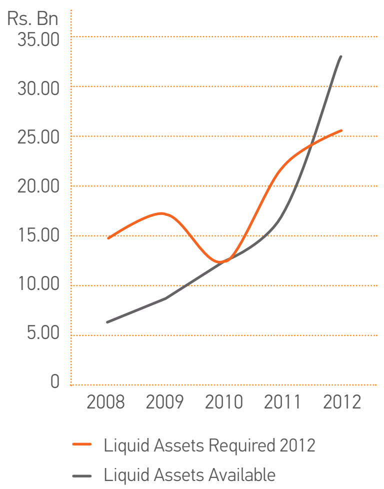
Composition of Assets and Liabilities of NBFIs Sector

Item	2011 (a)		**2012 (b)**		Change (%)	
	Rs. Bn	Share (%)	**Rs. Bn**	**Share (%)**	2011	2012
Assets						
Accommodation	388.4	79.3	**471.7**	**79.1**	46.3	21.4
Finance Leasing	166.1	33.9	**214.9**	**36.0**	89.8	29.4
Hire Purchase	118.4	24.2	**123.0**	**20.6**	23.3	3.9
Investments	13.5	2.8	**15.4**	**2.6**	-46.4	14.1
Others	88.0	18.0	**109.6**	**18.4**	-9.5	24.5
Liabilities						
Total Deposits	186.0	38.0	**254.1**	**42.6**	27.3	36.6
Total Borrowings	171.6	35.0	**176.0**	**29.5**	23.5	2.6
Capital Elements	77.0	15.7	**94.9**	**15.9**	60.1	23.2
Total Funds	434.6	88.7	**525.0**	**88.0**	30.5	20.8
Other	55.3	11.3	**71.6**	**12.0**	1.1	29.6
Total Assets / Liabilities	489.9	100	**596.6**	**100**	26.3	21.8

(a) Revised
(a) Provisional

Source : Central Bank of Sri Lanka - Annual Report 2012

Management Discussion and Analysis *contd.*



Composition of Income & Expenses of NBFI Sector

NBFI sector was able to maintain attractive, healthy profit levels irrespective of the overall decline in profitability due to macro environmental pressure created over them which caused declined vehicle demand based on the duty rates imposed on imported vehicles.

The sector posted a profit after tax of Rs. 15 billion in 2012. In comparison, the profit after tax in 2011 was Rs.19 billion. The decline in profits was mainly due to the 23 per cent decline in non-interest income and the 16 per cent increase in non-interest expenses. The profitability indicators of the NBFI sector, that is, the Return on Assets (ROA) and the Return on Equity (ROE), declined from 6 per cent and 34 per cent, respectively, in 2011, to 4 per cent and 19 per cent in 2012.

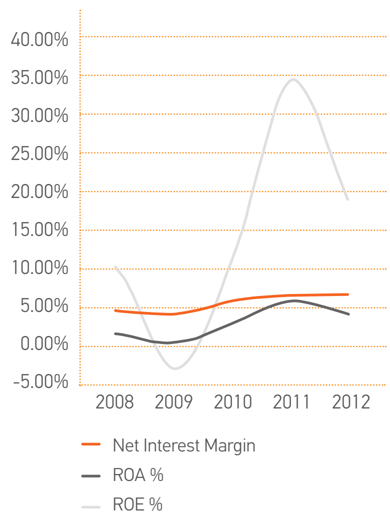
Composition of Income and Expenses of NBFIs Sector

	Amount (Rs. Bn)		Growth			
			2011 (a)		2012 (b)	
Item	2011 (a)	2012 (b)	Amount (Rs. Bn)	%	Amount (Rs. Bn)	%
Interest Income	68.0	92.9	14.8	27.7	24.8	36.5
Interest Expenses	35.1	52.6	5.2	17.4	17.5	49.7
Net Interest Income	32.9	40.3	9.6	40.9	7.4	22.4
Non - Interest Income	17.2	13.3	4.9	39.8	(3.9)	(22.6)
Non - Interest Expenses	26.0	30.1	5.6	27.7	4.1	15.9
Staff Cost	8.7	11.0	2.0	29.3	2.3	26.0
Loan Loss provisions (Net)	(1.4)	1.5	(5.9)	(132.2)	3.0	205.2
Profit Before Tax	25.6	22.7	14.8	137.3	(2.9)	(11.5)
Tax	6.6	6.5	0.7	12.0	(0.1)	(2.4)
Profit After Tax	19.0	14.9	14.1	289.0	(4.1)	(27.1)

(a) Revised
(b) Provisional

Source : Central Bank of Sri Lanka - Annual Report 2012

Profitability Indicators of the NBFIs Sector



Composition of Regulatory Capital of the NBFI Sector

Capital funds of the NBFI sector increased by 27 per cent in 2012 to Rs. 86 billion. In comparison, an increase of 57 per cent was recorded in respect of capital funds of the NBFI sector in 2011. The capital adequacy ratios of the NBFI sector remained above the required minimum levels due to the enhancement of capital funds. The capital adequacy ratio increased to 16 per cent as at end 2012 from 14 per cent as at end 2011.

Composition of Regulatory Capital of the NBFI Sector

	Amount (Rs. Bn)		Composition (%)	
Item	2011 (a)	2012 (b)	2011 (a)	2012 (b)
Tier I : Capital	56.5	75.0	100.0	100.0
Share Capital	41.2	53.4	73.0	71.0
Share Premium	2.7	2.6	5.0	3.0
Statutory Reserve Funds	4.7	6.7	8.0	9.0
General and Other Reserve	13.3	17.0	24.0	23.0
Others	(5.5)	(4.8)	(10.0)	(6.0)
Tier II : Capital	3.4	4.7	100.0	100.0
Revaluation Reserves	2.1	2.5	60.0	53.0
General Provisions	0.6	0.4	16.0	7.0
Subordinated Term Debt	0.7	0.9	21.0	18.0
Others	0.1	1.0	2.0	21.0
Regulatory Adjustments	(4.7)	(2.5)		
Total Regulatory Capital Based	55.2	77.2		

(a) Revised
(b) Provisional

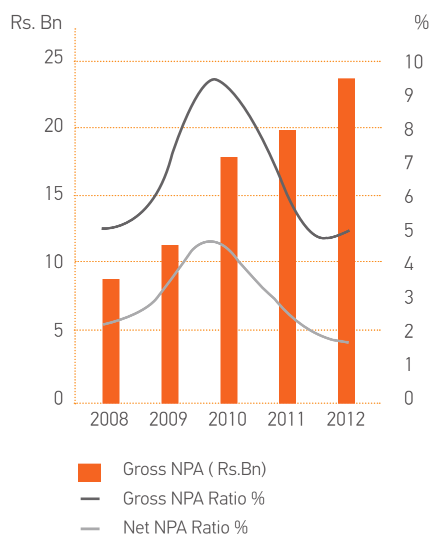
Source : Central Bank of Sri Lanka - Annual Report 2012

Non-Performing Advances of the NBFI Sector

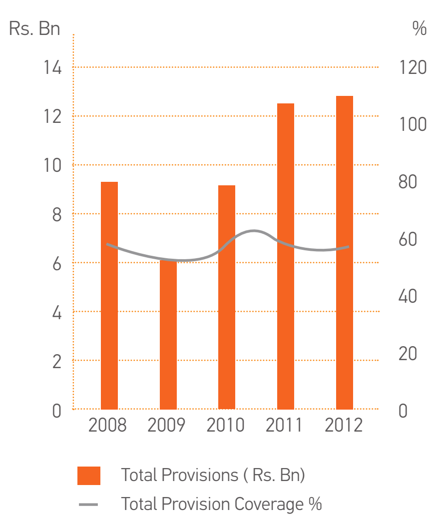
The total amount of non-performing accommodations (NPAs) increased by 19 per cent during 2012 to Rs. 24 billion, from Rs. 20 billion in 2011 and the exposure to NPAs relative to the total loans outstanding declined marginally to 5.0 per cent as at end 2012, from 5.1 per cent as at end 2011, mainly due to the growth of accommodations.

Management Discussion and Analysis *contd.*

Non Performing Advances of the NBFIs Sector



Provision Coverage of the NBFIs Sector



Major Economic Policy Changes and Measures in 2012 Affecting the Leasing Industry

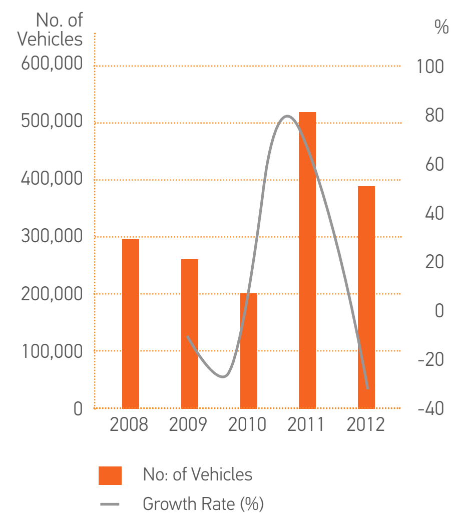
Fiscal Sector		
01 Jan 2012	-	Import or the supply of lorries, trucks, buses were exempted from Value Added Tax (VAT).
31 Mar 2012	-	Excise duty on the importation of motor vehicles, trishaws and motor cycles was increased.
Monetary Sector		
03 Feb 2012	-	The Central Bank's Repurchase rate and Reverse Repurchase rate were increased by 50 basis points each to 7.50 per cent and 9.00 per cent respectively.
12 Mar 2012	-	Licensed banks were required to limit the growth of their rupee denominated credit in 2012 to 18 per cent or Rs. 800 million, whichever is higher, whilst allowing a growth of 23 per cent or Rs. 1 billion, whichever is higher, for those banks raising funds from overseas to fund the additional growth of credit.
05 Apr 2012		The Central Bank's Repurchase rate was further increased by 25 basis points to 7.75 per cent and the Reverse Repurchase rate was increased by 75 basis points to 9.75 per cent.
12 Dec 2012		The Central Bank's Repurchase rate and Reverse Repurchase rate were reduced by 25 basis points each to 7.50 per cent and 9.50 per cent, respectively.
31 Dec 2012	-	The ceiling on credit growth imposed on licensed banks was allowed to expire.
Financial Sector		
Other Financial Institutions		
27 Feb 2012	-	An application rule was issued for new finance companies to be in line with the Finance Business Act, No. 42 of 2011. The annual licensing fees applicable for Licensed Finance Companies (LFCs) were revised.
29 Mar 2012	-	The definition of the core capital used by the Specialised Leasing Companies (SLCs) given in the Direction issued in 2010 was revised to be in line with the definition of core capital under BASEL II.
29 Mar 2012	-	A revised Gearing Ratio Direction was issued to SLCs requiring them to use the core capital as the yard stick for calculating the gearing ratio instead of capital funds since capital funds are comprised of a wider range of reserves including revaluation reserves.
11 Jul 2012	-	Direction on assessment of fitness and propriety of all directors on the board and officers performing executive functions was issued to all SLCs. Liquid Assets Direction issued to SLCs, excluded liabilities to the shareholders, asset-backed long term borrowings and securitization from the total liabilities and off balance sheet amount used to compute the liquidity requirement.

Motor Vehicle Market

New Motor Vehicle registrations underwent depicts a significant decline primarily due to the changes of the import tax and the movement of the exchange rate in an unfavourable manner to vehicle imports. Overall new vehicle registrations declined by 32.2% compared to the 46.3% growth shown in year 2011. All vehicle categories followed the same trend other than Dual Purpose vehicles which marked a 10.4% growth primarily due to the increase in demand for small commercial trucks.

The Private Motor car category declined by as much as 83.5% due to the impact of the duty changes imposed by the government

Trend in New Motor Vehicle Registrations



Salient Features of the Transport Sector

Item			Growth Rate (%)	
	2011	**2012 (a)**	2011	**2012 (a)**
New Registrations of Motor Vehicles (No:)	525,421	**397,295**	46.3	**-32.2%**
Buses	4,248	**3,095**	70.5	**-37.3%**
Private Cars	57,886	**31,546**	150.9	**-83.5%**
Three Wheelers	138,426	**98,815**	61.6	**-40.1%**
Dual Purpose Vehicles	33,518	**37,397**	186.2	**10.4%**
Motor Cycles	253,331	**192,284**	23.7	**-31.7%**
Goods Transport Vehicles	14,818	**12,266**	25.1	**-20.8%**
Land Vehicles	23,194	**21,892**	18.0	**-5.9%**

(a) Provisional

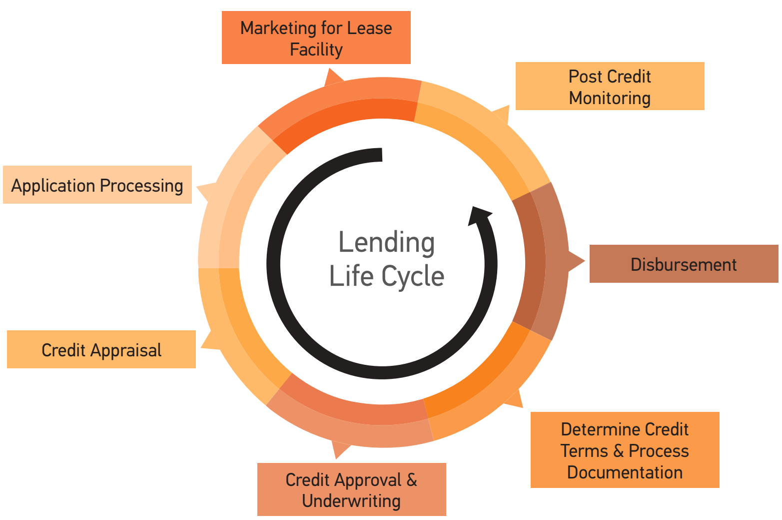
Source : Central Bank of Sri Lanka - Annual Report 2012

Management Discussion and Analysis *contd.*

SLFL Operating Performance in Year 2012

Credit Distribution and Centralized Approvals

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



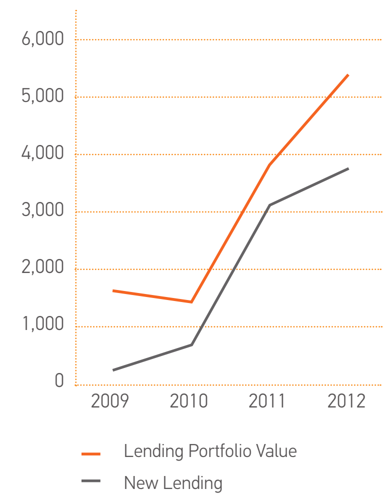
SLFL performance during the year 2012

Product: Finance Lease and Hire Purchase Advances

Finance Leases, Hire Purchase advances and Factoring were the main lending product lines distributed by the company during the financial year 2012. In terms of new accommodations the company extended a total of Rs. 3.77 billion during the year 2012 an increase of 20.66% from the previous year's disbursements .In comparison to the growth in new lending's disbursed during the previous year under review did not result in a vast expansion in terms of new credit disbursements mainly due to an increased duty structure which affected the inflow of new vehicles into the market.

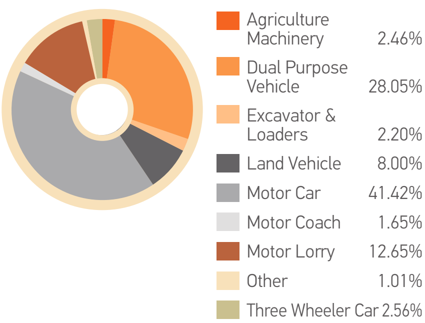
The value of the total lending portfolio increased from Rs. 3.81 billion in 2011 to Rs. 5.40 billion in 2012, an increase of 41.60%.

Lending Portfolio & New Lending-(Rs. Mn)



From a risk management perspective the company sought to have a wider distribution of advances both by the type of asset being financed as well as in achieving a sectoral distribution of advances that was not skewed to any particular sector. A closer analysis of the lending portfolio outstanding as at end December 2012 reveals that from an 'asset type' classification (for finance leases and hire purchase advances) the company advances portfolio is predominantly exposed towards 'cars' and 'dual purpose vehicles' which as at end December 2012 accounted for 41.42% and 25.37% of the lending portfolio value respectively. From a sector wise classification the portfolio concentrations are predominant in the trade sector (30.91% of total portfolio value) and service sector (50.93% of total portfolio value).

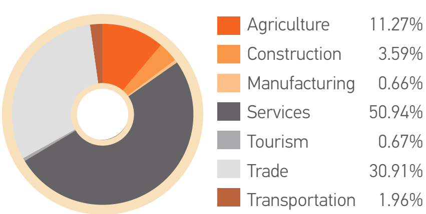
Portfolio Outstanding as at 2012-12-31
Asset Category



	NBFI Sector Average For 2012	Sampath Leasing Achieved in 2012	Sampath Leasing KPI Set for 2012
Growth in Total Assets	21.80%	40.90%	37.66%
NPA Ratio (Gross)	5.00%	1.79%	1.98%
NPA Ratio (Net of Provisions)	1.60%	1.60%	0.63%
Net Interest Margin %	6.80%	9.30%	8.36%
ROA %	4.20%	4.03%	3.59%
ROE %	18.90%	25.46%	24.75%

SLFL market share in respect of total assets in the NBFI sector was 0.84% in year 2011 and has increased to 0.98% as at end December 2012.

Portfolio Outstanding as at 2012-12-31
Sector Analysis



SLFL's Performance Relative to the Industry

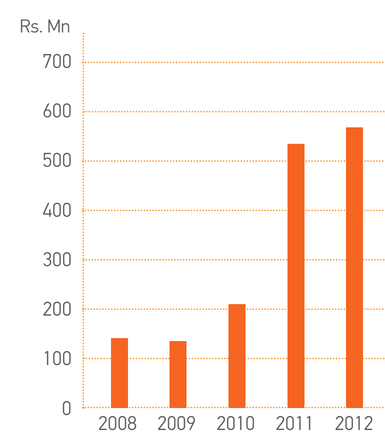
The company's Key Performance Indicators (KPI) relative to the NBFI sector indicates that growth in total assets during 2012 outpaced the industry growth rate. Further KPI of the company such as ROA, ROE were above industry averages. In terms of portfolio quality both the Gross and Net NPA ratios were below industry norms.

Product: Factoring

Factoring Business Growth

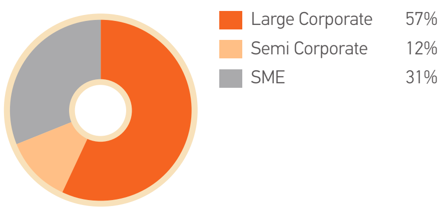
The value of the Factoring portfolio (Funds in Use) grew from being Rs. 536.18 million as at end December 2011 to reach Rs. 566.58 million as at end 2012, a growth of 6.41%. The increased average funds in use month on month resulted in an increase in gross interest income in respect of the Factoring business. Insufficient published information is available regarding industry averages for the Factoring business, but a closer examination of the annual reports of institutions engaged in Factoring shows skewness in the distribution of market share. SLFL Factoring business was stagnant for a considerable period up to end 2009 and attempts are now being made to increase the factoring portfolio growth within defined market segments.

"Funds In Use" Balances (Rs. Mn)



Management Discussion and Analysis *contd.*

Sector Analysis - Factoring Business



Marketing Strategies for product Portfolio

Lease and Hire purchase

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

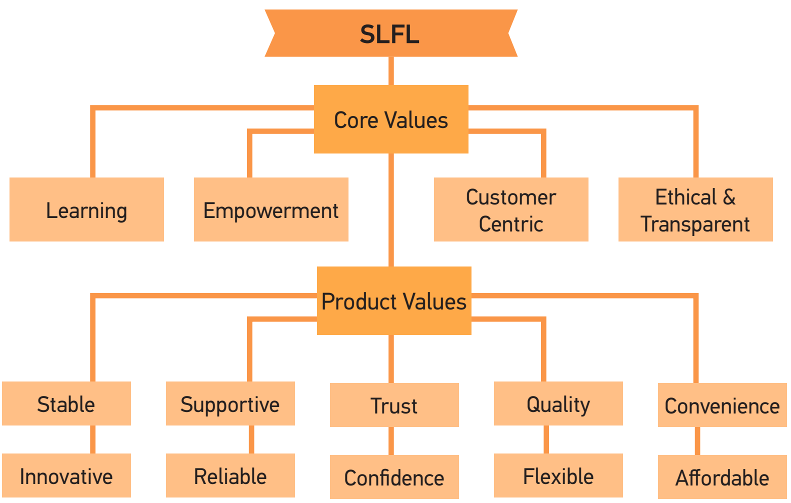
1. No of units leased / hired per month in terms of gaining supplier favouration
2. Effective Rate
3. Required down payment
4. Upfront charges collected
5. Number of direct branches / window offices
6. Service efficiencies
7. Specialization and knowledge of staff
8. Nature of vendor relationships

Brand Identification and Market Positioning Strategy

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

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

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



Factoring

The following key marketing strategies were adapted to each customer segments we chose to operate in and the factoring" facility type" deemed appropriate is tabulated below.

Target Sector	Types of Facilities
SME (Small and Medium Enterprises)	Recourse factoring/ cheque discounting
Semi Corporate Clients	Recourse factoring/ cheque discounting
Corporate Clients	Recourse factoring/ cheque discounting

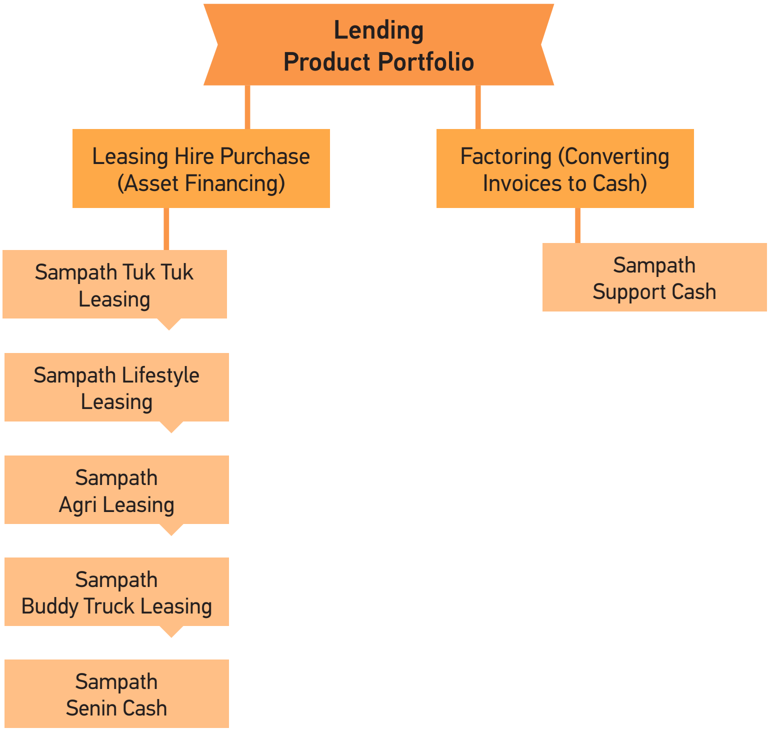
In the context of factoring business, the company seeks to minimize the risk return trade-offs in the shorter term by spreading its client risk. The Company concentrates on three segments of clientele, with varying risk/ return profiles. The main contributor to the incremental business target during the year 2012 were SME clients with a wider spread of debtor risk. The Company also hopes to increase its geographical spread through this market and mark its presence in key cities such as Kandy, Negombo, Galle, and Matara. Further, the Company has had a positive track record with cheque discounting facilities due to its self-liquidating nature and the minimum follow up and monitoring required.

The second contributor to the business target was medium sized companies (Semi Corporate Clients) such as suppliers to super markets – where the debtors of the Company would be reputable businesses. In this instance the debtor risk is low and the company risk would be medium.

The third contributor were the large corporate companies, to which Recourse factoring / cheque discounting facilities are extended. This comprises of the higher quality clients – with a lower risk profile.

Brand Management

Brand management strategy of the company is primarily built around the asset market segmentation and offer differentiation coupled with distinctive marketing communication initiatives aimed at each specific market segment.



Management Discussion and Analysis *contd.*

Sampath TukTuk Leasing

Market Segment
Earn & pay category, SME sector, Domestic Users
Market Size: Large
Asset Suppliers
Main asset suppliers are major brands dominating the market with a proven record on market performance and reputation.
Key Selling Proposition
Customized rental payment facilities / Simple process / Minimum lead time / Free insurance / Availability of assets.

Sampath Buddy Truck Leasing

Market Segment
SME sector / Corporate sector
Market Size:
Average
Asset Suppliers
Selected reputed brands are entertained for leasing and finance facilities.
Key Selling Proposition
Availability of assets / Free insurance / minimum lead time / Customized rental payment facilities.

Sampath Lifestyle Leasing

Market Segment
High net worth individuals / Executive levels employees / SME sector / Corporate sector
Market Size:
Average
Asset Suppliers
Unregistered cars and vans (Specially marketable models).
Key Selling Proposition
Tailor made rental structure / Minimum lead time.

Sampath Senin Cash

Market Segment
Individual / Corporate customers
Market Size:
Large
Asset Suppliers
Registered motor vehicles (marketable models)
Key Selling Proposition
Simple process / Less documentation / Tailor made rental structure / Minimum lead time.

Sampath Agri Leasing

Market Segment
Farmers who have their own lands
Market Size:
Small
Asset Suppliers
Established brand new assets
Key Selling Proposition
Seasonal payment structure / Minimum lead time.

Sampath Support Cash

Market Segment
SME sector / Corporate sector
Market Size:
Small

Key Selling Proposition
Value added support services / Minimum lead time.

Unexpected price drop of Gold in the Pawning market has created a significant level of market uncertainty with regard to the Pawning product which resulted in market players reducing the lending quota against gold articles whilst motivating the existing customer base to redeem current articles pawned by them.

Competitive Landscape

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

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

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

Emerging market competition from Commercial banks to the operations of Factoring has created extended pressure on conventional factoring entities.

Management Discussion and Analysis *contd.*

Channel Expansion & Branch Performance

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

Company	Sampath Leasing and Factoring	Other Larger Peers
Leasing and Hire purchase	■	■
Fixed Deposits/savings		■
Loans/advances/ others		■
Currency related services		■
Micro Finance/Development financing		■
Real Estate		■
Fleet management		■
Islamic Finance		■
Pawning/Gold loans		■
Factoring/working capital	■	■
Trade Finance		■
Margin trading		■
Payment card		■
Wealth management		■
Debt instruments		■

Delivery Channels

Delivery channels used by SLFL are currently limited to branches and mini windows, but would in the near future also include mobile vehicles, tele-based channels and ATMs. Tabulated below are the delivery channel platforms used by SLFL and its larger peers.

Company	Branches & Extension Centres	Mini/Micro branches	Mobile / Propaganda vehicles	Tele based	Electronic / Web based	Mobile based	ATM
Sampath Leasing and Factoring	■	■			■		
Other Larger Peers	■	■	■	■	■	■	■

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

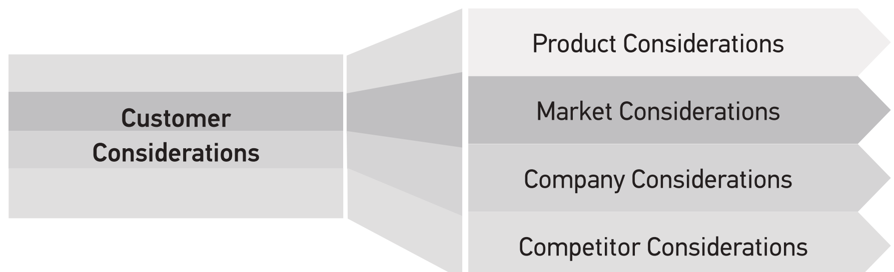
CHANNEL PERFORMANCE ANALYSIS

	Channel Location	Channel Category	Branch Analysis				Performance Ranking			
			Province	District	No of Staff	Age in Months	New Lending Volume	Portfolio Quality	Portfolio Value	Portfolio Per Employee
1	Colombo	Branch	Western	Colombo	75	94.57	1	8	1	16
2	Kandy	Branch	Central	Kandy	9	88.27	3	4	2	8
3	Matara	Branch	Southern	Matara	6	75.80	8	9	9	11
4	Kurunegala	Branch	North Western	Kurunegala	9	77.60	5	5	4	9
5	Ampara	Branch	Eastern	Ampara	5	82.37	9	10	7	6
6	Negombo	Branch	Western	Gampaha	5	78.07	7	6	8	7
7	Nuwara Eliya	Branch	Central	Nuwara Eliya	4	82.23	10	3	10	10
8	Peliyagoda	Branch	Western	Gampaha	4	26.97	6	1	5	2
9	Kalmunai	Branch	Eastern	Ampara	8	23.30	4	1	6	12
10	Anuradhapura	Branch	North Central	Anuradhapura	1	15.60	12	7	11	1
11	Kuliyapitiya	Branch	North Western	Kurunegala	1	15.60	13	1	13	4
12	Kegalle	Window	Sabaragamuwa	Kegalle	1	15.60	14	1	14	5
13	Kohuwala	Window	Western	Colombo	6	23.57	2	2	3	3
14	Gangodawila	Window	Western	Colombo	3	6.30	11	1	12	13
15	Vavuniya	Window	Northern	Vavuniya	1	15.60	15	11	16	14
16	Ratnapura	Window	Sabaragamuwa	Ratnapura	1	15.60	16	1	15	15

Management Discussion and Analysis *contd.*

The customer preference for a specific channel will primarily depend on factors favoured by the customer in terms of convenience and confidence. The company has taken consideration of these factors in the future branch roll out plan.

Primarily following key aspects must be paid attention in terms of managing the channel network with the highest level of operational effectiveness and efficiency.



Portfolio Management and Non Performing advances

Commencing in the year 2010, and continuing the same process during the year under review a conscious decision was made to recoup delinquent accounts that had accumulated during the period 2005 to 2009. With a view to reducing the absolute value of Non Performing advances (NPA's) and improving the NPA ratio a strategic highly intensified approach was made and this reaped dividends with the absolute value of NPA's declining from Rs 207.18 million to reach Rs. 96.56 Mn as at end December 2012. The decline in gross NPA's coupled with a growth in the lending portfolio resulted in the NPA ratio declining to 1.98% as at end December 2012 from being 2.40% as at end December 2011.The Industry average as reported by the CBSL was 5% as at end 2012 and this augurs well for the quality of the company's lending portfolio. The Net NPA ratio increased from 0.38% in 2011 to reach 0.63% as at end 2012 (Industry average =1.90%). In terms of equity cushion and coverage for Net NPA's, SLFL Net NPA's as a percentage of equity funds declined to 3.52% as at end 2012, from being 4.52% as at end 2011. The recovery mechanism follows a somewhat unorthodox model wherein moral suasion coupled with quick reactionary attempts are practiced. Customer grievances are handled by a separate unit in order to provide assistance for rescheduling of delinquent accounts and monitoring of sick advances.

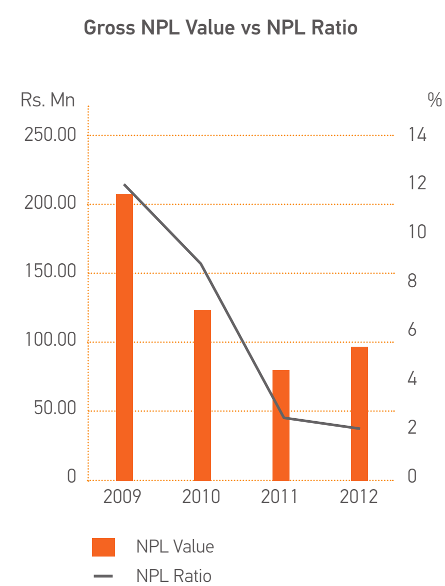
SLFL Market Share

SLFL relative market share with in the NBFI sector in terms of total assets increased from 0.84% in 2011 to 0.97% in 2012. The company is still a relatively small player with in the industry but its relative market share should increase in the ensuing years.

System Model of Sampath Leasing and Factoring Ltd

Information and Communication Technology

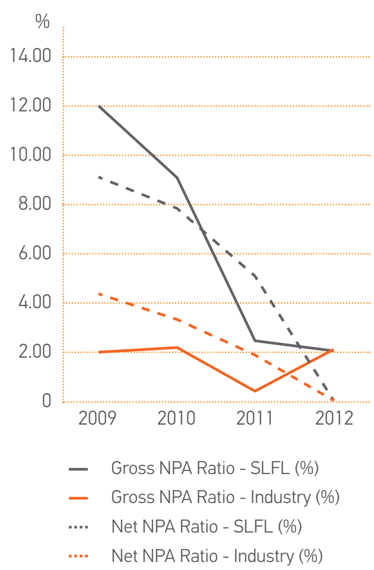
Sampath leasing and Factoring Limited has



SLFL Market Share - As at 31st December 2012

SLFL Market Share	2010	2011	2012
Total Assets of NBFI Sector Rs. Bn	387.9	489.9	596.6
Total assets of SLFL Rs. Bn	1.8	4.1	5.8
SLFL share of total assets in NBFI sector	0.46%	0.84%	0.97%

Gross NPA/Net NPA vs Industry Gross NPA/Net NPA (%)

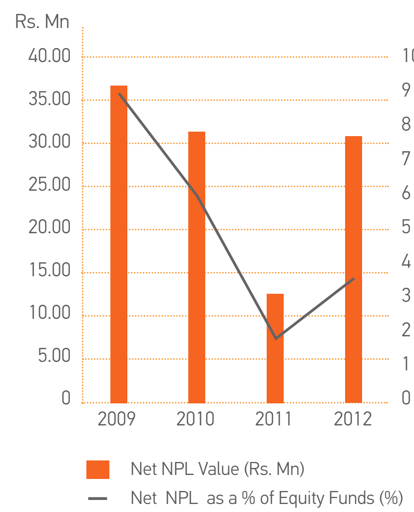


a fully computerized environment with the state-of-the-art technology. Web based software produce real time information to make right decisions at the right time. Information is the major asset in the business world especially in the financial industry today. SLFL has always maintained an effective and efficient information environment with the new expansion of the company. There are many new procedures and guidelines which were introduced with a view to improving the information technology related services as a service department as well as to ensure security of data and networking.

Application software and System Software

SLFL is focused in improving its application software and the System software to improve performance of business and administrative entities of the company.

Net NPL Value & Net NPL as a % of Equity



We believe that the company should have a lawful environment to continue the business. Company insists on legalized software and introduces a Free and open source software to reduce costs of applications.

Hardware, Network Communication infrastructure

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

IT Department of Sampath Leasing and Factoring Limited ensures data security as well as network security. Proper ICT environment enable fast services to internal and external customers.

Future Strategic Outlook

SWOT analysis of Sampath Leasing & Factoring Ltd

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

- Inherited strengths of the company such as corporate brand, cross selling ability, service efficiency and flexibility need to be matched with the available market opportunities to generate the maximum output out of these strengths
- Prevailing weaknesses of the company such as high lending rates, limited approach to market segments and limited branch network needs to be mitigated and converted to strengths
- Existing market opportunities such as opening of North & East provinces, reduction in taxes, general economic growth, expansion of certain economic sectors, influx of new vehicles, increased market demand in the market will have to be concentrated and focused by the business and must take initiatives to capitalize on the same before the market becomes saturated
- Prevailing market threats / challenges such as high NPLs due to credit growth, competition leading to narrow margins, availability and growth of substitute products such as vehicle loans must be converted in to opportunities since they are beyond the direct control of the business in practice.

Management Discussion and Analysis *contd.*

Key Strategic Objectives

a. To gain a top of the mind recall in relevant target markets by being among the most preferred three brands in respective product categories.

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

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

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

e. To maintain a quality lending book which will facilitate to manage a lower NPL ratio than the industry standard by minimizing the non systematic lending risk.

f. To deliver augmented returns to shareholders and to be a preferred entity for investors for their future investments.

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

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

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

j. To achieve overall growth with balanced perspectives in all customer, shareholder, innovative and internal business process performance by redefining the entity as a potential benchmark for other players in the finance industry.

SWOT Analysis

Strengths
- Corporate Brand (Sampath Bank)
- Cross Selling Opportunities
- Service Efficiency
- Flexibility in Service
- Knowledgeable Staff

Weaknesses
- High Rates
- Limited Segments
- Limited Branches
- High Cost of Funds & Gearing
- Limited Promotional activities
- Limited Medium Term Funding

Opportunities
- North & East Provinces
- Tax Reduction
- Economic Growth
- Expansion of Agricultural Sector
- Expansion in Tourism
- Influx of New Vehicles
- Penetration of market via existing branches and Sampath Bank branches
- Increasing awareness levels of the products in the market (eg. Factoring)
- Wider market for products such as factoring with the ceilings imposed on bank lending
- Expanded pawning operations due to banks reaching their risk appetite for this line of business

Threats
- High NPLs
- Competition from the existing market players (commercial banks/ finance companies)
- Substitute Products
- Low cost of funds enjoyed by commercial banks

Seek Finance company license & operate as a Licensed Finance Company

We plan to seek a Finance company license from the Central Bank of Sri Lanka and reposition the company as a Licensed Finance Company.

A Finance company license would give the company access to deposits from customers which would have a positive impact on the cost of funds. A lower cost of funds would boost margins and profitability and provide a strong competitive advantage.

Entry into new lines of business (New Product Launches)

The diversification of services is not only expected to help the company to reduce its reliance on one sector but also help leverage the significant opportunities of other sectors. The strategy is to increase cross-selling opportunities and ensure client retention.

The company is planning to launch several new product lines such as pawning, deposits and small business loans. The company also plans to offer additional downstream products like vehicle parts and other ancillary loans and freight bill discounting. This would enable it to remain in contact with its customers throughout the product life cycle and grow its revenues through opportunities for repeat business and cross-selling.

Expansion of Distribution Footprint

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

This initiative will help the firm to tap the potential geographies untapped, and also contribute towards partly mitigating the risks emerging from increased competition. Company plans to increase the branch network to 39 by FY 2016.

Focus on Brand Building

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

Attracting Human Skills

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

Leveraging Technology to Extend Reach and Control Costs

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

Management Discussion and Analysis *contd.*

Focus on Maintaining Superior Asset Quality and High Profitability

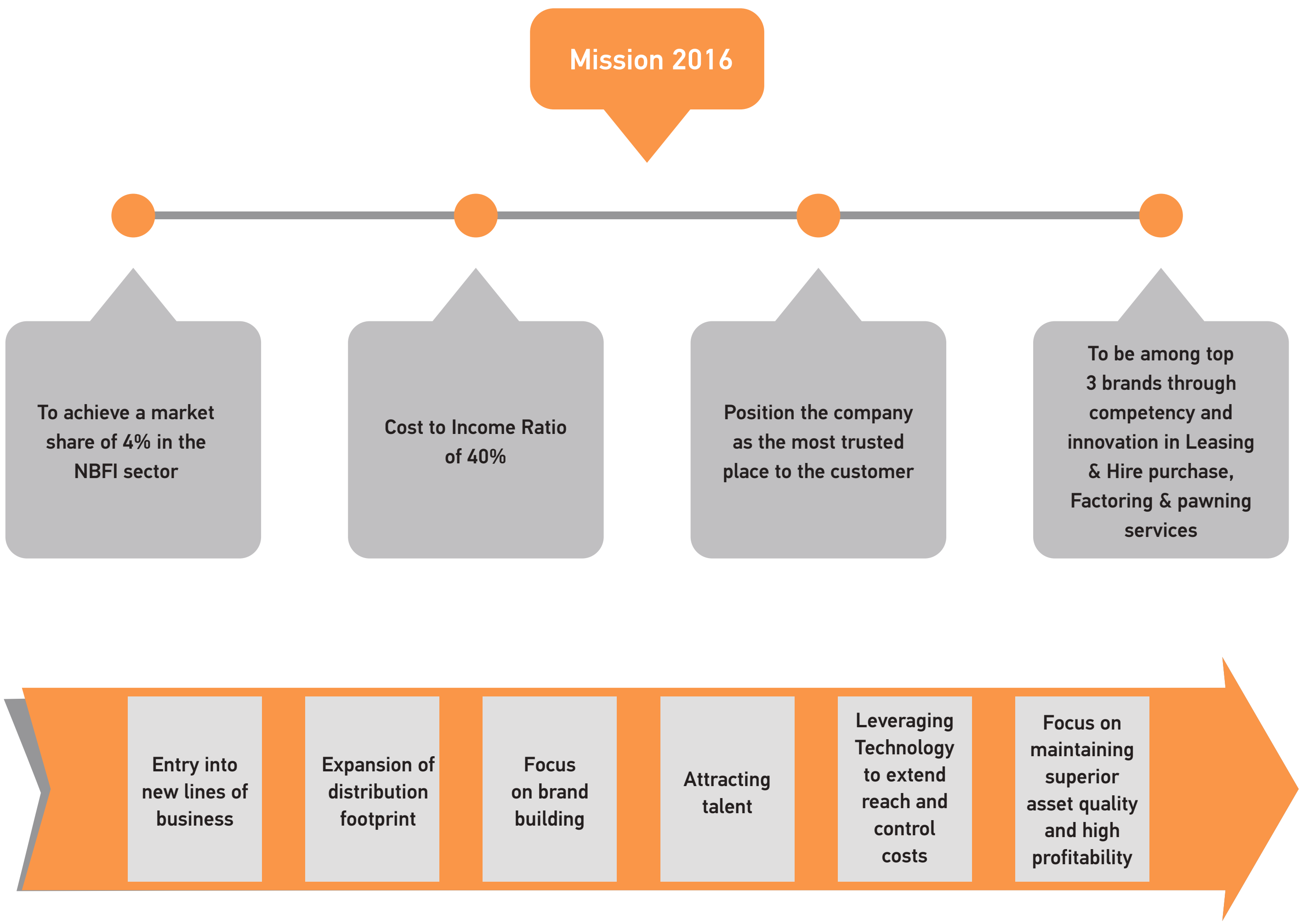
Company's strategy has revolved around maintaining superior asset quality and sustainable profitability through disciplined credit risk management. The company has focused on consistently maintaining discipline in ensuring superior asset quality and high provisions for non-performing Loans (NPLs).

Goals and Objectives

Company has identified a set of financial and non-financial goals to be achieved by 2016.

Parameter	FY16 target	FY12 status	Description
Market Share (% of NBFI)	4% (Top Ten)	1% (Approximately)	Increase Presence
Customer Deposits (Rs Mn)	7,000	-	Expand Funding Base
Revenue (Rs Mn)	5,940	1112	Increase in Top Line
Profit after tax (Rs Mn)	1,126	200.24	Increase in Bottom Line
Cost to Income Ratio (%)	40%	45%	Operational Efficiency

Mission 2016 and Planned Growth Strategy

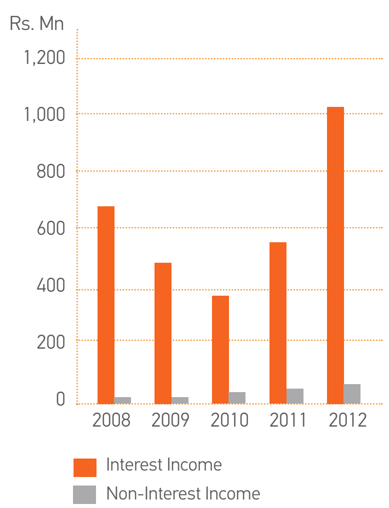


Financial Review

Total Gross Revenue

Total aggregate Gross Revenue increased from Rs. 608.83 million in 2011 to reach Rs. 1,112.08 million in 2012, an increase of 82.66 %. The components of gross revenue consists of items of income that are 'Interest based' and 'Non Interest based'.

Aggregate Gross Revenue (Rs. Mn)



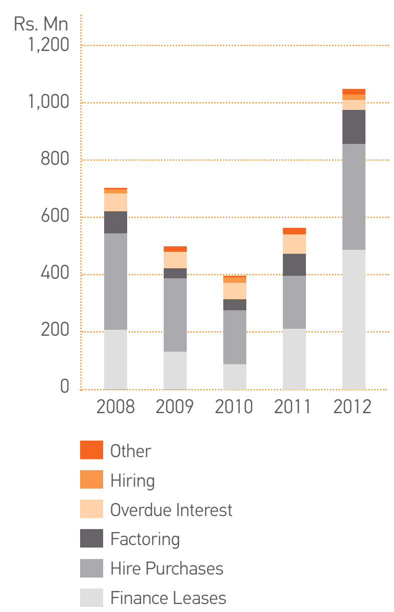
Interest based items of revenue consists of interest income earned from Finance leases, Hire Purchase advances, Factoring advances, Interest on overdue rentals and Hiring related income. Non Interest based sources of Income consists of documentation fees, Insurance commissions received, and other Sundry income. The growth in total revenue is in the main attributed to the growth in Interest based, income streams.

SLFL being a Specialized Leasing Company derives most of its income from interest earned on its Advances Portfolio. The year 2012 witnessed a significant growth in New Lending's and this translated itself to a significant portfolio growth. The proportion of Interest Income to Total Income was 92.94% in 2012 as against 91.21% in 2011.

Interest Income

Interest income increased from Rs. 555.33 million as at end December 2011 to reach Rs.1,033.56 million as at end December 2012, an increase of 86.12.%. A closer look at Interest based income indicates that Interest earned on Finance Leases increased by 130.65 % during 2012. Hire purchase interest income increased by 99.18 %, and factoring interest income increased by 55.98 %.

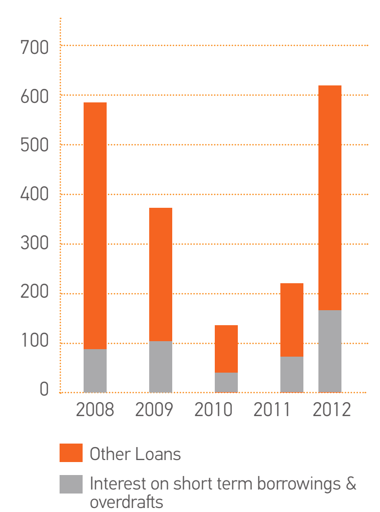
Interest Income Components (Rs. Mn)



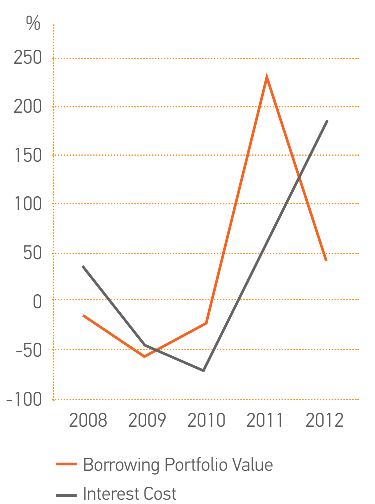
Interest Expenses

Interest expenses increased from Rs. 219.30 million in 2011 to reach Rs. 617.32 million in 2012, an increase of 181.50 %. A significant proportion of the increased interest cost is attributed to an increase in borrowing's required to fund the demand for loanable funds. The components of Interest costs indicate that short term borrowings and overdrafts accounted for 36.44 % of total interest cost for 2012 (2011= 47.19 %). The company has arranged funding lines with commercial banks and other institutional lenders. Further, being a specialized leasing company SLFL is permitted to issue commercial papers and promissory notes. The predominant funding source during 2012 was via banking fund arrangements through the parent company (Sampath bank PLC) and other Commercial banks.

Interest Expenses - (Rs. Mn)



Increase in Borrowing portfolio & Interest cost (%)

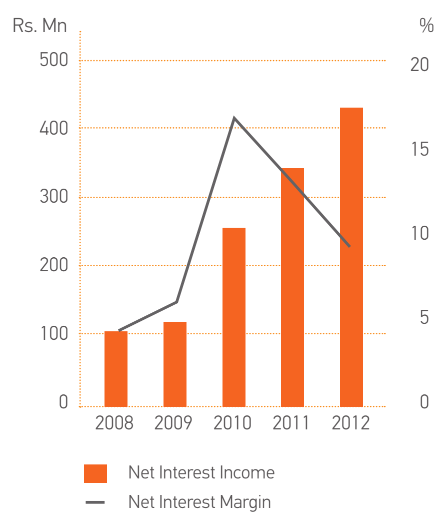


The lending to borrowings outstanding ratio which was 1.19 in 2011 decline to 1.14. as at end 2012. The decline is mainly attributed to the increased debt used to finance new accommodations.

Net Interest Income / Net Interest Margin

Net Interest income increased from being Rs. 345.12 million as at end 2011 to reach Rs. 433.15 million as at end 2012, an increase of 25.51 %. It is interesting to note that the increase in interest cost outpaced the increase in interest income resulting in a marginal decline in the net interest margins. The Net Interest margin settled at 9.30% as at end December 2012, a decline from the achieved NIM of 12.24% in 2011.

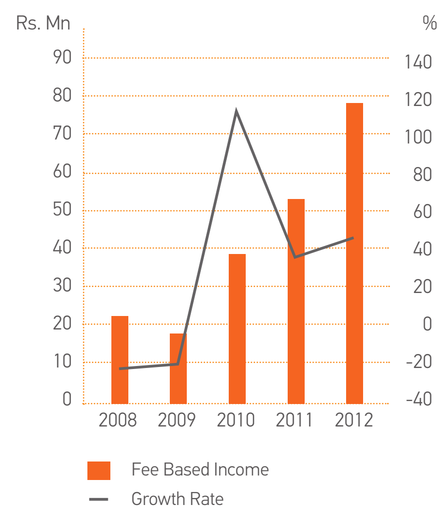
Net Interest Income (Rs. Mn) & Net Interest Margin (%)



Fee Based Income

Fee based or Non Interest based income grew from Rs. 53.50 million as at end 2011 to reach Rs. 78.52 million as at December 2012, an increase of 46.77 %. The objective of increasing fee based income lies in the fact that it provides a cushion for supporting an increase in operational costs. Fee based income is mainly derived at the time of inception of a new lending facility.

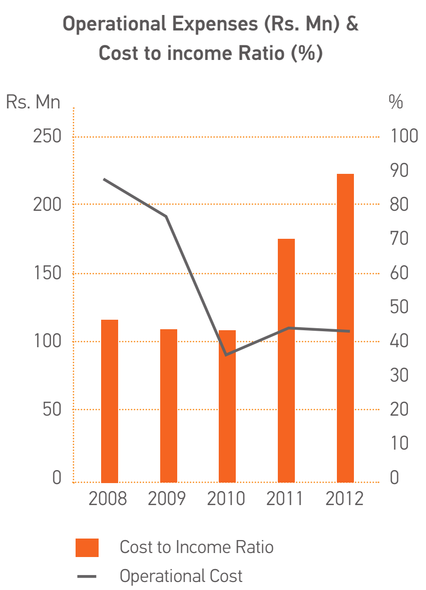
Fee Based Income (Rs. Mn) and Growth Rate (%)

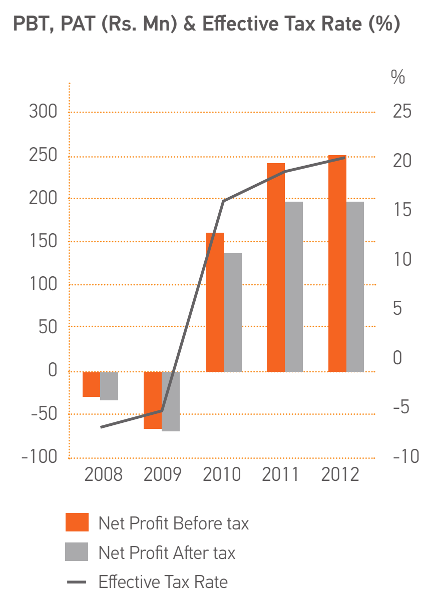


Cost to Income ratio

The Cost to Income ratio decreased marginally to 45.36 % as at end 2012 from being 45.79 % as at end December 2011. The increase in Interest Income and fee based income during the year help to sustain the cost to income ratio at about the same levels, as the previous year. The management sough to focus on the curtailment of Operating expenditure so as to avoid a situation of unnecessary escalation of operating costs during a possible economic downturn.

Financial Review *contd.*



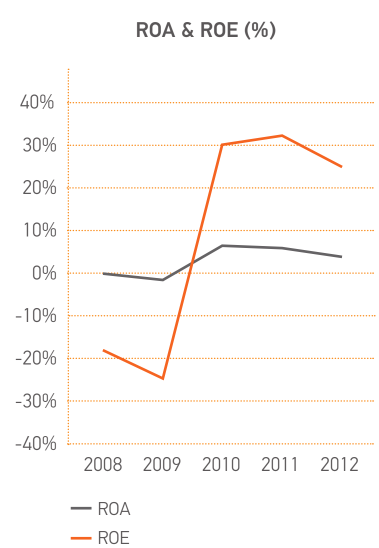


Pre Tax Profits (PBT), Effective tax rate and Post Tax Profits (PAT)

The company attained a Net Profit before taxation of Rs. 251.99 million as against a figure of Rs. 244.28 million achieved in 2011. The increase in pre tax profits was 3.15 % when compared with the previous year. The provision for taxation was Rs. 51.75 million for the year under review thereby reducing the profits after taxation to Rs 200.24 million for the financial year 2012. The profits after taxation reported for the previous year was Rs 198.02 million. The increase in Post tax profits was 1.12% for 2012. Based on the taxation charge made in the accounts the effective tax rate of the company was 20.54 % for 2012 as against 18.94 % for financial year 2011.

Return on Average Total Assets (ROA), and Return on Average Equity (ROE)

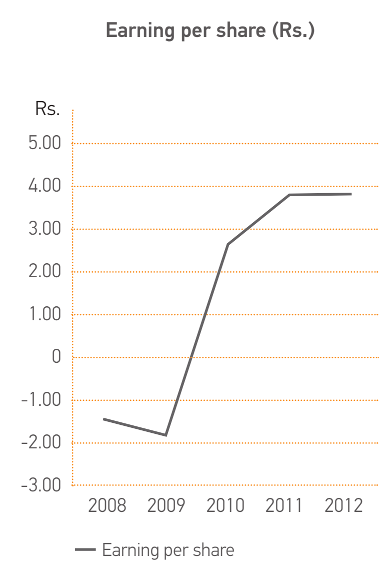
The key financial metrics of ROA and ROE achieved for 2012 was 4.03% (2011 =7.46%) and 25.46% (2011 =33.16%) respectively. ROE was incidentally well above the industry norms.



Earnings Per Share (EPS) and Distribution of Dividends

The EPS for 2012 was Rs, 3.81 per ordinary share in issues an increase from the EPS of 3.77 reported in 2011. The Board of Directors has recommended a final dividend of Rs. 0.41 per share on 52.5 million shares currently in issue. The Dividend pay-out ratio for 2012 would thus amount to 9.30.%, and the dividend cover is at 10.03 times.

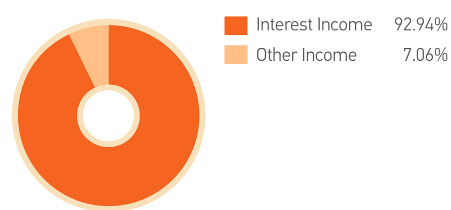
As required by section 56(2) of the Companies Act No. 7 of 2007, the Directors have made an assessment of the Solvency of the company, immediately after the proposed dividends and confirm that the company satisfies the Solvency Test required by the Section 57 of Companies Act No. 07 of 2007. The company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



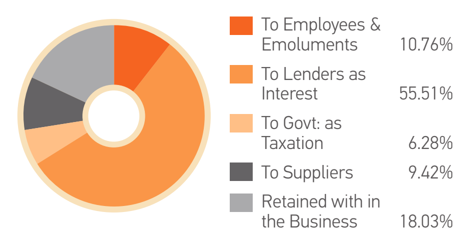
Sources and Distribution of Income

Interest Income represented 92.94% of Total Income for the year 2012 as against 91.21% for the year ended 31 December 2011. In terms of distribution of income, interest costs absorbed 55.51% of Total Income (December 2011= 36.02%).

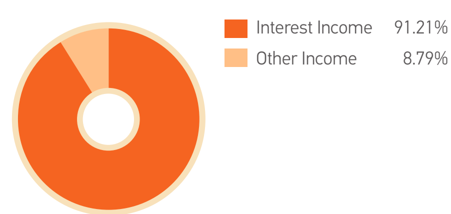
Sources of Income - 2012



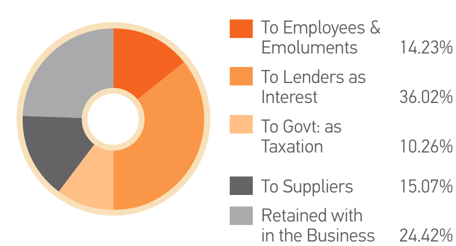
Distribution of Income - 2012



Sources of Income - 2011



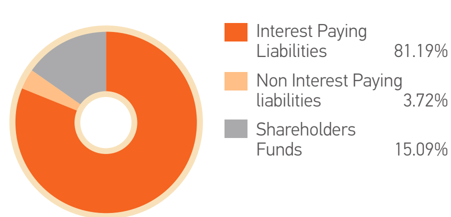
Distribution of Income - 2011



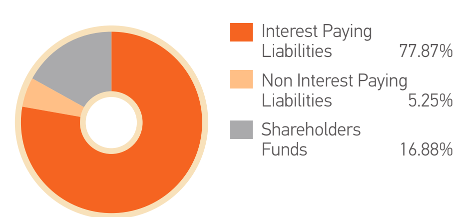
Sources and Uses of Funds

Interest paying liabilities accounted for 81.19% of funding sources for the year 2012, (2011=77.87%). Earning assets on the other hand accounted for 92.94% of funding uses as at December 2012 (December 2011=92.48%).

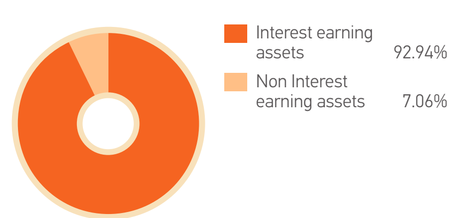
Sources of Funds - 2012



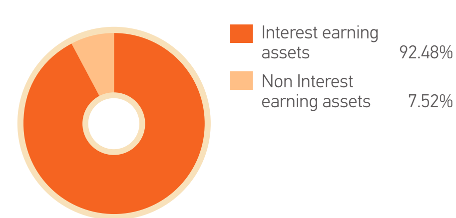
Sources of Funds - 2011



Uses of Funds - 2012



Uses of Funds - 2011



Sustainability Report

Chairman's Message on Sustainability

Sustainability report would provide the insights into the way in which the company addresses the economic, social and environment considerations within the short term and long term business interests. As a financial institution as well as a fully owned subsidiary of Sampath Bank PLC we are mindful that our strategy must fairly address the interests of all our internal and external stakeholders; investors, employees, customers, suppliers, government and society at large. Therefore we always strive to increase shareholder value while at the same time improving the firm's performance on environmental, social, and governance (ESG) dimensions.

In brief sustainability is the capacity to endure. Sustainable development is all about ensuring a better quality of life for everyone, now and for generations to come. We have realized that sustainability depends on our ability to build resilience into the plans and operations that we embark on. In our scope we have defined sustainability not only as an obligation to the community but also as an opportunity to create lasting value across economic, environment and social triple bottom lines.

As a Specialized Registered Leasing Company backed by Sampath Bank PLC; a leading bank among the private sector banks in Sri Lanka, we assure that the delivery of our financial services are made more effectively, and in a flexible manner creating a situation where everyone wins. Our commitment to delivering effective customer service sits firmly at the core of our business model. Great customer service also means supporting our customers in tough times.

The volatility of the finance sector performance due to changes in interest rates, changes in exchange rates, vehicle import taxes and changes in government economic policy are the main concerns of risks which challenge the stability of our business lines. The principle that guides our business decisions is to "take only risks which we can understand and manage, this goes beyond financial risk, and also applies to SLFL's social and environmental considerations. We have to make sure that we will able to tackle challenges arise from the environment. We are aware that doing business responsibly enables us to achieve our own objectives while creating a winning situation for the economy, environment and the community with which we deal.

In the recent past (up to around March 2012) the industry showed signs of continuous growth due to favourable internal and external environmental conditions which got specially affected by the growth in vehicle sales, reduced interest rates, opening up new geographical markets, increase in individual disposable income, flexible credit terms offered by institutes coupled with economic and political stability. A return to interest rates and exchange rates stability coupled with GDP growth would ensure that business stability in leasing sector would show insignificant cyclical changes.

As a financial institution we always strive to meet the obligations of triple bottom lines by creating real value to the stakeholders of our business.

I.W. Senanayake
Chairman

28 June 2013

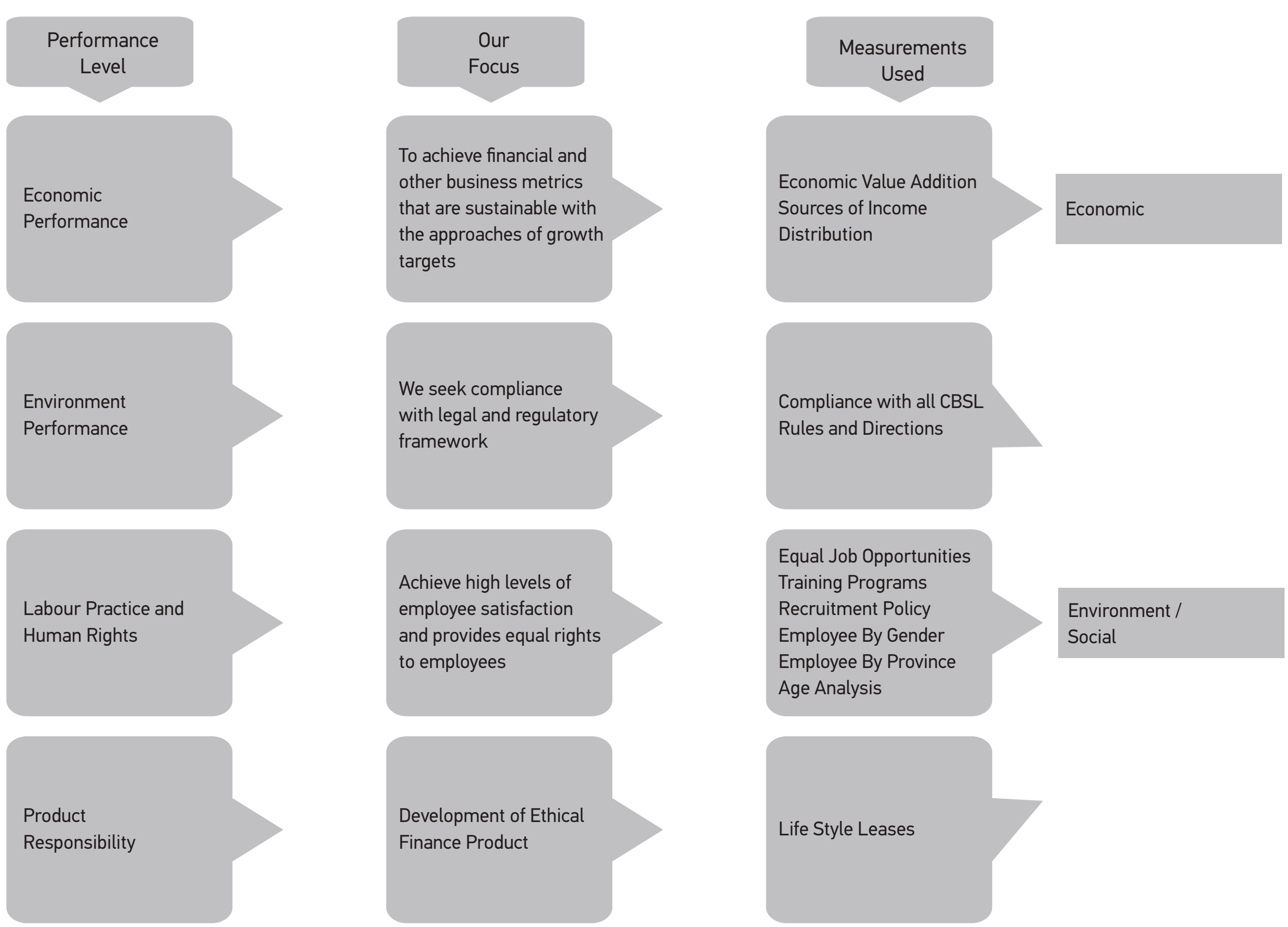
Introduction: About this Report

SLFL's sustainability report supplements the annual report and accounts for the year ended 31st December 2012. The report is addressed primarily to our stakeholders who consist of Sampath Bank PLC (Parent company), Institutional investors, Customers, Employees, Suppliers, the Community and all others who are of importance in the company's approach to sustainability. This report is based on an understanding of our stakeholders' expectations and it demonstrates how we integrate economic, environment and social considerations of sustainability in to our short term and long term business interests.

Hence the entire report on sustainability was built on the following outline.

- Strategy and profile
- Management Approach and Performance indicators, which elicit the information of Economic, Environment and Social performance of Sustainability.

Conceptual Framework



Sustainability Report *contd.*

Strategy and Profile

How We Approach Sustainability

Sampath Leasing and Factoring Ltd as a fully-owned subsidiary of Sampath Bank strives to develop a business strategy which is at congruence with Sampath Bank. In this context we always endeavour to follow ethical business practices that comply with financial, legal and other obligations. We seek to introduce innovative products together with technological enhancements; in a way that increases our contribution to economic, environmental and social factors. We understand that our approach to sustainability is a future investment that will further emphasize our consistency in the market place.

Identifying challengers and opportunities

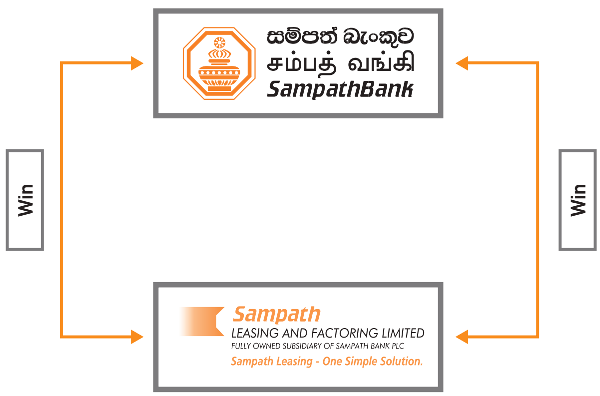
The table below outlines the key challengers and opportunities the company faces during our march towards a sustainable business practice.

Challenges	Addressing Challenges	Opportunities	Addressing Opportunities
Ensure the steps taken to face the challenges from economic volatility should not harm stakeholders' interests	Have a strategic focus with a clear sense of economic movements and adopt risk mitigation strategies that ensure compliance with financial service obligations of Central Bank directives	Extend our service to the North and Eastern provinces which we have not penetrated earlier and introduce more service solutions to presently upsurge agriculture and tourism sectors	Identify the customer needs of each sector and address these with innovative product developments that match the expectancies of each of these segments
			Enhance our service quality that will help strengthen the business relationship with our stake holders
Perceptions and attitude changes of the community coupled with the emergence of new threats that give rise to environmental changes. These would effect create a gap between our strategic plans and stakeholder interests.	Give an equal weight to social and environment obligations parallel to our other obligations in the organizations; strategic plan	Contribution to social and environment practices that ultimately creates a lasting value to our own brand	Extend our help to the social groups which needs our assistance to grow. This includes ;Training of University students who require internship within the company.
			Extend our service to rural economy
			Encourage Eco friendly business practice of the community by providing financial support to those parties

Company Profile & Strategy

Sampath Leasing and Factoring Ltd a wholly owned subsidiary of Sampath Bank was incorporated in March 2005. The main business lines / product groups of SLFL are in fund based financial services and revolve around the distribution of financial leases, hire purchase financing and factoring. These financial products need to be positioned in a very competitive landscape. The Company is registered as Specialized Leasing Company and possesses the brand name 'Sampath' which is synonymous with our parent company Sampath Bank PLC.

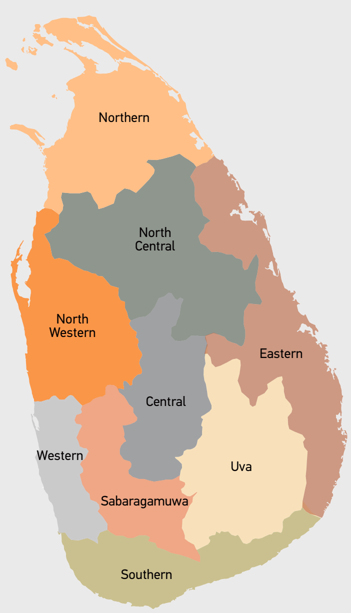
Sampath Group



Existing Branch Network

Channel Penetration Plan - Provincial Basis

Sampath Leasing and Factoring Limited would expand the channel network by following a provincial distribution assigned with specific quantity of resource allocation in terms of number of Staff and number of channels. Each province inherits unique key economic specializations, income patterns, customer buyer behaviours and risk profiles. The Risk Appetite of Sampath Leasing & Factoring limited determines the optimum mix of channels with regard to the provincial channel footprint.



Branch Network Planned for Year 2016

Province	Number of Channels			Channel Representation %	Staff Allocation	Staff Representation %
	Branches	Pawning Centres	Total			
Western	5	6	11	31.43%	168	45.16%
Central	3	1	4	11.43%	35	9.41%
Southern	2	0	2	5.71%	21	5.65%
Eastern	2	4	6	17.14%	38	10.22%
Northern	2	0	2	5.71%	10	2.69%
Uva	1	0	1	2.86%	10	2.69%
Sabaragamuwa	2	0	2	5.71%	20	5.38%
North Central	2	0	2	5.71%	20	5.38%
North Western	3	2	5	14.29%	39	10.48%
Total	22	13	35	100.00%	361	100.00%

Product Mix of SLFL

The Products Mix of SLFL is evident that we are supporting all the segments of the society who need our assistance. For a comprehensive review of our products and the segments served please refer the Management Discussion and Analysis section of this report.

Sustainability Report *contd.*

Governance Structure

The highest governance body of Sampath Leasing and Factoring Ltd is the board of directors that sets the overall strategy and the organizational oversights. The board of directors comprises individuals who possess enormous experience in the field of financial services. The governance structure of the company appears in the 'Corporate Governance Section' of this report and provides in detail the composition of the board together with the committees set up which are statutorily mandated as well as the company's own internal committees. The details regarding the Main board and meetings attended for the year 2012 is also available in this section of the report.

Awards and Accolades

- The Company is rated 'A' with a stable outlook in terms of credit risk rating by Messrs Fitch Ratings Lanka Ltd.
- The Company won the Silver award in the Specialized Leasing company category at the annual report competition held by the Institute of Chartered Accountants of Sri Lanka in December 2012.

Management Approach and Performance Indicators of Sustainability

Conceptual Framework of Sustainability Practices at SLFL

In our approach to sustainability we have realized that the relationship between the three pillars (Society, Economy and Environment) suggests that both the economy and society are constrained by environmental limits. Therefore to sustain in business we have to make a contribution towards not only economic performances but also social and environment development initiatives and include these in our main business plan.

Strategy for Sustainable Business Performance

We always pursue ethical business practices that would meet the terms of social and environment considerations. Therefore we strategically focus on most material issues; the ones that would have the greatest impact on the company's ability to create shareholder value and produce major innovations in products, processes, and business models.

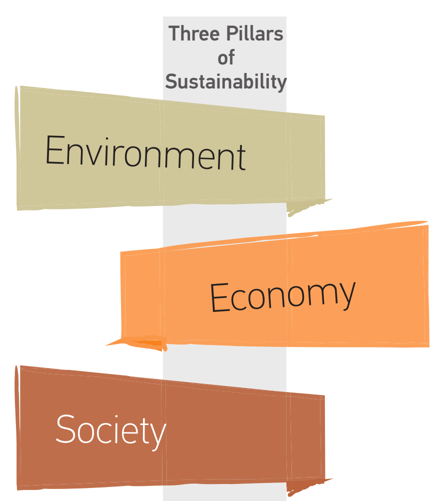
Economic Value Added (EVA)

Responsibility towards economic value addition is the core of the business strategy that adds value to our stakeholders comprising equity holders, customers, employees and finally the entire community.

The company each year undergoes precise financial planning by setting SMART financial goals and objectives. We address the challengers from the leasing and financial industry via accurate and timely assessment of market information. This enables us to identify new market threats and convert them into opportunities which the competitors have not taken in to account.

SLFL achieved the lowest NPL ratio during the year through an attentive monitoring and recovery policy which resulted in more value addition to the company.

Economic value added or the value created in excess of the return to the company increased from Rs. 23.34 million in 2011 to reach Rs. 92.84

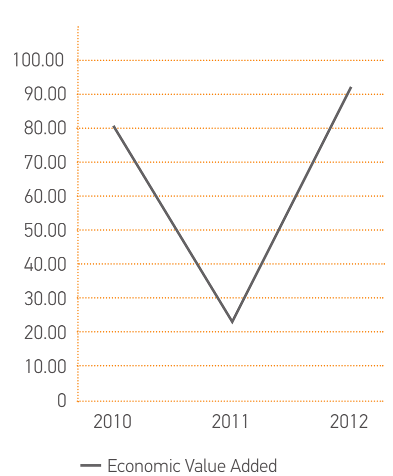


million in 2012. In contrast to the more traditional methods of measuring return EVA measures a fundamental principle of value creation that is related to cash flow, risk and Sustainability of return.

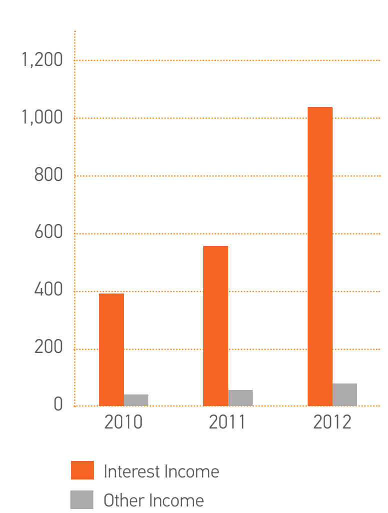
Economic Value Addition

			Rs. Mn
For the Year	2010	2011	**2012**
Invested Equity			
Shareholder's Funds	498	696	**877**
Add: Cumulative Loan Loss Provision at the Year End	228	111	**112**
Total	726	807	**988**
Earnings			
Profit after Tax	136	198	**200**
Add: Loan Losses and Provisions for the Year	(9)	(49)	**-**
Less: Loan Losses Written-Off during the Year	-	68	-
Total	128	80	**200**
Cost of Equity(based on 12 Months Weighted Average	10.49%	9.53%	**13.69%**
Treasury Bill Rate+2% for the Risk Premium)			
Cost of Average Equity	46	57	**108**
Economic Value Added	81.36	23.34	**92.84**

Economic Value Added (Rs. Mn)



Value Added - (Rs. Mn)



Distribution of Income

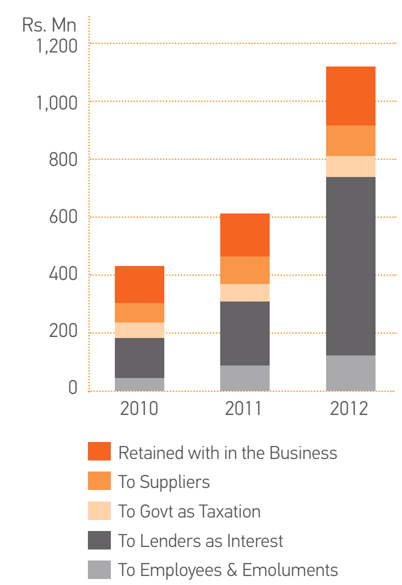
In terms of distribution of income the company seeks to maintain a balance between internal and external stakeholders.

Environment Performance

As per the nature of industry we engage in; we do not have a direct impact with the environment considerations in our business practice. However we always encourage the followings practices that will ensure that we do not cause harm to the environment. These practices include;

- Energy savings
- Water Management
- Reduce paper consumption by reusing of office stationery
- Green Marketing by encouraging and financing environment friendly projects

Distribution of Value Added - (Rs. Mn)



Sustainability Report *contd.*

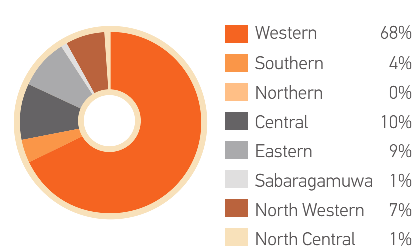
The number of job opportunities were further increased during the year comparable to the geographical expansion of the branch network and window offices. The total number of employees increased from 123 in 2011 to 137 by end 2012.

Since the main activities of our business operations are located in the Western Province, more employees have been recruited from this area. Nevertheless given the proposed branch expansion programmes within the provinces, more employee opportunities would become available in remote areas in the near future.

Employee by Gender

As per the nature of our business more opportunities have been offered for males primarily for marketing activities while more opportunities have been offered to female workers in back offices. The gender mix is currently weighted towards males. This though would change as we consciously make all attempts to give more opportunities for female staff.

Geographical Distribution of Employees



Labour Practices and Human Rights

Employees are the most valuable assets to the company and who take the lead in our march towards prosperity. Hence decent labour practices and human rights advocation enhance the quality of work life and is one of the most significant concerns in our HR practices.

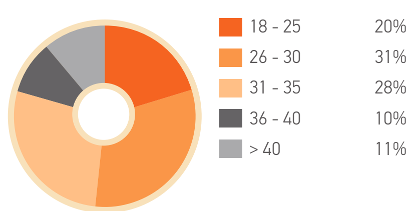
Equal Job Opportunities

SLFL provides equal opportunity for all citizens of the country irrespective of age, gender, religion or caste. The Company serves a larger community covering all ethnic groups of the country and all citizens have an equal opportunity to join hands with us in there career developments.

Employee by Age

The young and energetic workforce drives our business forward. All employees irrespective of age considerations have equal opportunities to rise in their career ladder by improving their own skills and competencies relating to their specific areas of work.

Employees by Age



Training and Education

All new recruits have to undergo a comprehensive induction program that will aid new employees to build their confidence regarding the new job, reduce culture shocks and create a feeling of belonging.

SLFL always encourages professional and academic advancements of all its employees. Further periodic job training programs keep employees informed of the the present and future trends in progress. A detailed and comprehensive training program is designed by the HR division based on a Training needs analysis (TNA).

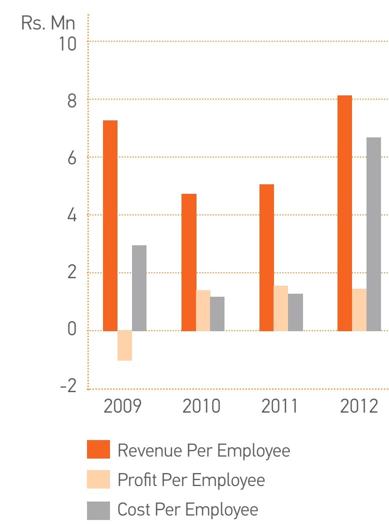
Employee Training

The company is currently designing a remuneration package that takes consequence of performance related aspects that are in synch with the company's strategy and goals. Employee performances are measured on a fair basis focusing on the employees' traits, abilities, knowledge and competencies in the areas they perform.

As an economic creature an employee is attracted towards the salary which he / she receives for the contribution they make towards the organization. Therefore the pay management system is designed on a fair basis prioritizing the employee motivation and increasing the quality of life of the employee.

HR Efficiency Ratio	2009	2010	2011	2012
Revenue Per Employee (Rs. Mn)	7.28	4.7	5.05	8.11
Profit Per Employee (Rs. Mn)	-1.02	1.41	1.56	1.46
Cost Per Employee (Rs. Mn)	2.95	1.19	1.28	6.65

HR Efficiency Ratios (Rs. Mn)



A section of the staff at the 'Annual Sports Day' event organized in September 2012.

Sustainability Report *contd.*

Social Responsibility

CSR Initiatives

The CSR theme for the year was built around the concept of enhancing the academic infrastructure facilities of the educational sector of Sri Lanka by focusing on different levels of Sri Lankan education sector layers and specific concentration was given to motivate and improve the reading habit of students. Following three academic levels / layers were identified for the CSR theme, undertaken in 2012.

a) Primary education (Grade 01 – Grade 05)
b) Secondary Education (Grade 06 – Grade 12)
c) Higher Education (University Level)

As per the government focus on developing Sri Lanka as an Academic Hub in South Asia, it is proposed to initiate CSR projects by identifying the following parties as beneficiaries by covering all three operating geographical regions of the company;

Region	Beneficiary	Location
A	University of Ruhuna - Sri Lanka	Wellmadama, Matara
B	Kagama Maha Vidyalaya	Thalawa, Anuradhapura
C	Athaan Vidyalaya	Nintavur

Matara Branch Manager -Buddhika Ratnayake donating books to the main library of the University of Ruhuna

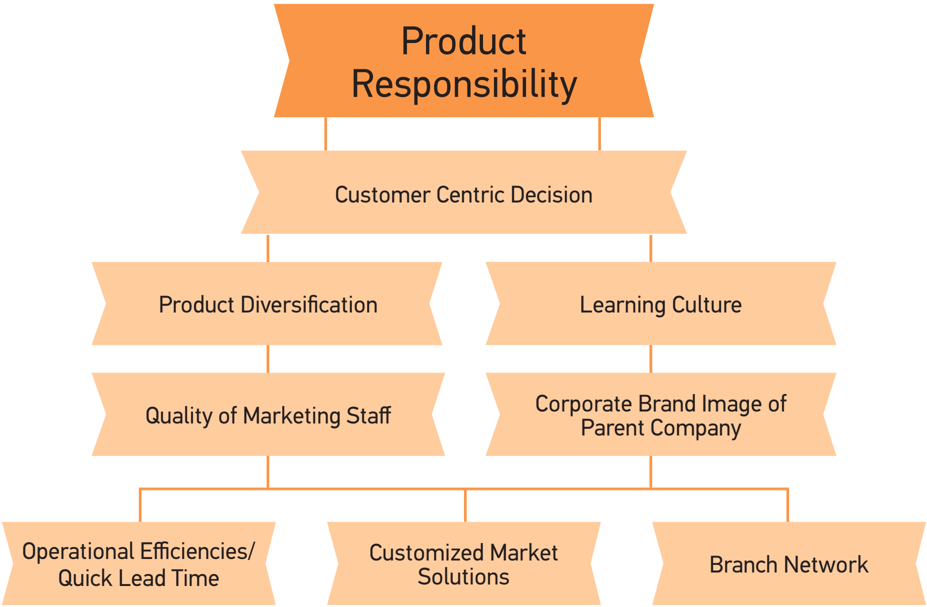
Regional Manager-Thilak Adikari donating books to the student library of Kagama Yaya 9 Maha Vidyalaya - Katiyawa, Anuradhapura

Regional Manager-Thilak Adikari addressing the students of year 11-Kagama Yaya 9 Maha Vidyalaya - Katiyawa, Anuradhapura

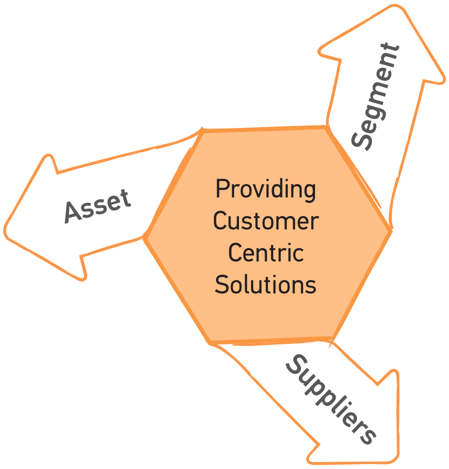
Product Responsibility

In the customer dominant current market place SLFL is always aware that the customer plays the most important role on our way to reaching our desired targets. Hence the customer should be the focal point in everything we do. As a financial institution we always seek to understand customer needs and think of innovative and quality aspects of the services offered to our valuable customers.

Donation of books and furniture to Km/ Al-Athaan Vidyalaya, Nintavur by Regional manager-Mohamed Faiz



Key Differentiators of Product Responsibility



Corporate Governance

Board of Directors

1 **Mr. I.W. Senanayake**
Chairman (Non-Executive Director)

2 **Mr. Sunil G. Wijesinha**
Deputy Chairman (Non-Executive Director)

3 **Mr. Aravinda Perera**
Director (Non-Executive)

4 **Mr. Prasantha Lal De Alwis**
Director (Non-Executive)

5 **Mrs. Anoja Karunaratne**
Director (Non-Executive)

6 **Mr. Mohan A. Abeynaike**
Director (Non-Executive)

7 **Dr. H.S.D. Soysa**
Senior Director (Non-Executive)

8 **Mr. P.M.A. Sirimane**
Director (Non-Executive)

9 **Mr. Ranjith Samaranayake**
Director (Non-Executive)

10 **Mr. Lasantha Senaratne**
Company Secretary

Corporate Governance *contd.*

1 **Mr. Indulakshin Wickramasinghe Senanayake**
Chairman (Non-Independent, Non-Executive Director)

Skills & Experience
Mr. I.W. Senanayake was a former Director of Sampath Bank PLC and held the title of Chairman of the Bank from October 2008 up to end December 2011. He was also a past Honorary Representative for the Singapore Trade Development Board in Sri Lanka .

Appointed to the Board
Appointed as a Director to the Board on 03-03-2005 and has been its Chairman since 22-10-2008.

Membership of Board Sub Committees
Board Integrated Risk Management Committee- Member
Board Corporate Governance Committee - Member

Current Appointments
Chairman and the Chief Executive Officer of IWS Holdings (Private) Ltd. a conglomerate he founded in 1984,with diversified business interests in trading activities such as commodities, automobile franchisers, service and support for the aviation industry, shipping, warehousing and Logistic support services, project management services, Telecommunications, Broadcasting, Information Technology, and Consultancy & Project Management Services for the Telecommunications, Packing and the Food Processing Industries.

He currently serves as a Director of following companies
Sampath Centre Limited, Dynacom Electronics (Pvt)Ltd, I W S Holdings (Pvt) Ltd, Interfreight (Pvt)Ltd, Germania Colombo (Pvt) Ltd , IWS Aviation (Pvt)Ltd, Dynacom Engineering (Pvt)Ltd, IWS Geographical Information Systems(Pvt)Ltd, Regency Automobiles (Pvt)Ltd, IWS Technologies Limited, Interpack (Pvt) Ltd, IWS Logistics (Pvt)Ltd , Precision Mortars (Pvt) Ltd, Universal Auto Assembly (Pvt) Ltd, Dynanet Limited, Art Television Broadcasting Company (Pvt) Ltd, Eurocars (Pvt)Ltd, APL Lanka (Pvt)Ltd, Comexco International (Pvt)Ltd

2 **Mr. Sunil Gamini Wijesinha**
Deputy Chairman (Non-Executive Director)

Skills & Experience:
Mr. Sunil G. Wijesinha holds a MBA from the Post Graduate Institute of Management-University of Sri Jayewardenepura. He is a Fellow Member of the Chartered Institute of Managements Accountants, UK, and an Associate Member of the Institution of Engineers Sri Lanka. Mr. Wijesinha was a Director of Sampath Bank PLC since October 1996 and appointed as Deputy Chairman in October 2008 up to the end of December 2011.

He was a former Chairman /CEO of the Employees' Trust Fund Board, a former Managing Director of Merchant Bank of Sri Lanka PLC and served as the Chairman/ Managing Director of Dankotuwa Porcelain PLC. He counts vast experience in the fields of industry, finance and management consultancy, in both the public and private sectors in Sri Lanka. He has served on the Boards of many state organizations and public and private companies.

Mr. Wijesinha has specialized in Industrial Engineering/Productivity and is a well known proponent of Japanese style management.

Appointed to the Board:
Appointed as a Director to the Board on 22-10-2008.

Membership of Board Sub committees
Board Audit Committee - Member

Current Appointments
Mr. S.G. Wijesinha is the Managing Director, BizEx Consulting (Pvt) Ltd, Chairman of Watawala Plantations PLC and Chairman of United Motors Lanka PLC. He is also the Chairman of the Employers' Federation of Ceylon and serves as the President of the National Chamber of Commerce of Sri Lanka and the Sri Lanka Association for the Advancement of Quality and Productivity. He is a Non Executive Director of DFCC Vardhana Bank, Director Employees Trust Fund, Asiri Surgical Hospitals PLC and CENTEC Ltd. He serves on the National Labour Advisory Council, on the Senior Ministers Advisory Council on Science, Technology and Innovation, and on the Sri Lanka Export Development Board's Advisory Committee on Ceramics and Porcelain.

3 **Mr. Aravinda Perera**
Director (Non-Executive)

Skills & Experience:
Mr. M.Y.A. Perera Counts over 25 years in the Banking sector. He is a Fellow Member of the Chartered Institute of Management Accountants, UK.He is a Chartered Engineer and a member of the Institute of Engineers, Sri Lanka. He obtained a Bachelor of Science degree in Engineering from the University of Moratuwa and a MBA from the University of Sri Jayewardenepura. Previously he functioned as the Chief Operating Officer, Deputy General Manager, Corporate Banking and other roles spanning a career of 25 years at Sampath

Bank. Prior to joining Sampath Bank he held the positions of Senior Project Officer, DFCC and Departmental Manager and Service Engineer at Ceylon Tobacco Company and an Engineer at National Milk Board. He was a former Director of Credit Information Bureau, Sri Lanka and Lanka Clear Pvt Ltd.

Appointed to the Board

Appointed as a Director to the Board on 28-03-2012.

Membership of Board Sub committees

Board Credit Committee –Member

Current Appointments

Managing Director of the Sampath Bank PLC, Director of Lanka Bangla Finance Ltd of Bangladesh, President of Professional Bankers of Sri Lanka.

4 Mr. Prashantha Lal De Alwis
Director (Non-Executive)

Skills & Experience:

Mr. W M Prasantha Lal De Alwis was a Director of Sampath Bank from January 2002 to January 2011.He continues to be an Advisor to the Board of Sampath Bank since January 2011. Mr. De Alwis has been an Attorney-at-Law since 1983 and holds LL.B and LL.M degree in Law from the University of Colombo. He was a former State Counsel at the Attorney General's Department and he was appointed as a President Counsel in November 2012. He is also a member of the Chartered Institute of Marketing UK.

Appointed to the Board :

Appointed as a Director to the Board on 25-02-2011.

Membership of Board Sub committees

HR & Remuneration Committee - Chairman
Board Integrated Risk Management Committee - Member
Board Corporate Governance Committee - Member

Current Appointments

Mr. W M P L De Alwis is a Certified National Trainer in Human Resource Management of the Junior Chamber International and a visiting lecturer of Faculty of Law, University of Colombo, including subjects of Banking in the L.L.M Programme. He currently serves as a Director of Softlogic Holdings and member of Board Management –Kadiragamar Institute of International Relations and Strategic Studies.

5 Ms. Anoja Karunaratne
Director (Non-Executive)

Skills & Experience

Ms. Anoja Karunaratne currently serves as the Group Chief Risk Officer of Sampath Bank PLC. She is a Fellow Member of the Chartered Institute of Management Accountants (UK) 1977. She has completed over 30 years experience in the banking sector having held senior positions at Hatton National Bank, and Banque IndoSuez Colombo branch. She also served as a consultant for ICIC Bank Colombo branch for a period of three years prior to joining Sampath Bank.

Appointed to the Board

Appointed as a Director to the Board on 19-04-2010.

Membership of Board Sub committees

Board HR /Remuneration Committee - Member
Board Audit Committee - Member
Board Integrated Risk Management Committee - Member
Board Corporate Governance Committee - Member

6 Mr. M.A. Abeynaike
Director (Non–Executive)

Skills & Experience

Mr. Abeynaike was a Director of Sampath Bank PLC from July 1995 to December 2011.He was a past President of the Institute of Chartered Accountants of Sri Lanka and a member of the Securities & Exchange Commission of Sri Lanka . Mr. M A Abeynaike has been Chairman / Director of several Companies and public sector organizations. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka .

Appointed to the Board

Appointed as a Director to the Board on 28-03-2012.

Membership of Board Sub committees

Board Integrated Risk Management Committee - Chairman
Board Credit Committee - Member
Board Audit Committee - Member

Current Appointments

Chairman of Asia Pacific Investments (Pvt)Ltd .

7 Dr. H.S.D. Soysa
Senior Director (Independent and Non-Executive)

Skills & Experience

Dr. Dilanjan Soysa obtained his Bachelor of Science Degree (B.Sc) with first class honours in chemistry from the University of Ceylon, Colombo and Masters (M.A) and Doctoral Degrees (PhD) in Chemistry from the University of Southern California, Los Angeles, USA .

Corporate Governance *contd.*

Also he has Parts I, II, III Institute of Chartered Managements Accountants, U K.

Dr. Soysa started his working career in the financial services Sector in Sri Lanka when he joined Grindlays Bank PLC, where he was an Executive Officer. He has held several key corporate positions which included Management Consultant, Development Financial Coloration of Ceylon Ltd and Citi Bank. In 2002 he joined the Commercial Leasing Company Ltd as it's General Manager/CEO and served in that position until his retirement in 2010.

Appointed to the Board:

Appointed as a Director to the Board on 01-01-2011.

Membership of Board Sub committees

Board Credit Committee - Chairman
Board Audit Committee - Member
Board Integrated Risk Management Committee - Member
Board Corporate Governance Committee - Member

Current Appointments

Dr. H S D Soysa is a Director of Shalsri Investments (Pvt) Ltd ,STK Engineering (Pvt) Ltd, Maskeliya Plantations PLC, Kelani Paper Convertors (Pvt) Ltd ,Asian Centre for Lease Education (Pvt)Ltd and serves as the alternate director of Packserve (Pvt) Ltd.

8 Mr. P.M.A. Sirimane
Director (Non-Executive)

Skills & Experience

Mr. Sirimane is a Fellow Member of Institute of Chartered Accountants of Sri Lanka and holds a MBA with Distinction from the University of Swinburne Victoria Australia.

He has held several key corporate positions which included Chief Financial Officer, Sri Lanka Telecom PLC and Managing Director/Chief Executive Officer, Mercantile Leasing Limited.

Appointed to the Board

Appointed as a Director to the Board on 03-08-2010.

Membership of Board Sub committees

Board Audit Committee-Chairman
Board Corporate Governance Committee - Chairman
Board Integrated Risk Management Committee - Member
HR /Remuneration Committee - Member

Current Appointments

He currently serves as a Director/Chief Financial Officer of E.B Creasy & Co PLC and some of its subsidiaries. He also holds several other Directorships.

9 Mr. Ranjith Samaranayake
Director (Non-Executive)

Skills & Experience

Extensive experience as Head of Finance & Planning at National Savings Bank, Commercial Bank PLC and Sampath Bank. Counts over 37 years experience of managing finance in the financial services sector. Holds a Bachelor of Commerce (Accountancy Special) Degree from the University of Peradeniya.

Previously functioned as an Accountant (Grade III) in the National Savings Bank from January 1975 to August 1979. He joined Commercial Bank of Ceylon Ltd and held the position of Senior Deputy General Manager -Finance & Planning on retirement.

Appointed to the Board

Appointed as a Director to the Board on 28.12.2012.

Membership of Board Sub committees

Board Credit Committee-Member

Current Appointments

Group Chief Financial Officer and an Executive Director of Sampath Bank PLC

10 Mr. Lasantha Senaratne
Company Secretary

Mr. Senaratne is an Attorney at Law, and holds LL.B and LL.M from University of Colombo. Also he is a Fellow Member of Institute of Bankers Sri Lanka and has obtained the MBA from the University of Colombo.

Mr. Senaratne counts 24 years experience in Sampath Bank PLC. He started his career at Sampath Bank PLC as a Banker in 1989, and thereafter worked as a Legal officer and currently he serves as the Company Secretary for Sampath Leasing & Factoring Ltd, Sampath Centre Limited & Sampath Information Technology Solutions Limited. He also serves as the Assistant Company Secretary for Sampath Bank PLC and SC Securities Pvt Ltd.

Corporate Management Team


1


2


3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5


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8

1. **Roshan Nanayakkara** - Chief Executive Officer
2. **Rajeev De Silva** - Chief Operating Officer
3. **Dilum Rathnayake** - Head of Marketing
4. **Anura Fernando** - Head of Recoveries & Operations
5. **Randhil Siriwardene** - Head of Factoring
6. **Hasuni Gayasha** - Head of Finance
7. **Rohana Dissanayake** - Head of Deposits
8. **Sajeewa Dodanwatte** - Senior Manager Credit

Corporate Governance *contd.*

Other Key Managers

Bathiya Samaraweera
Senior Manager - Sales and Marketing

Damith Shaminda
Internal Auditor

Mohamed Faiz
Regional Manager

Hisham Ziard
Regional Manager

Thilak Adikari
Regional Manager

Mathisha Hewavitharana
Manager-Product Development

Ajantha Kumara
Manager-Pawning

Other Key Managers

8

Sampath Himendra
Manager-Operations

9

Samanmali Wijeratne
Manager-Legal

10

Manjula Balasuriya
Manager-IT

11

James Peiris
Manager-Strategic Marketing-Factoring

12

Mahesh Ganithage
Manager Portfolio-Factoring

13

Shehan Atapattu
Manager Operations/Marketing-Factoring

14

Dadira Peiris
Assistant Manager-Administration

Corporate Governance *contd.*

Branch Managers


1
Indika Rajapakshe
Branch Manager-Kohuwala


2
Susantha Watudura
Manager Leasing-Gangodawila


3
Amila Shanaka
Manager Leasing-Head Office


4
Bandara Medagoda
Branch Manager-Kandy


5
Senerath Bandara
Branch Manager-Kurunegala


6
Amila Kumara
Branch Manager-Negombo


7
Thushara Amarasekara
Manager-Import and Supply

Branch Managers

Manjula Jayathilake
Branch Manager-Nuwara Elliya

Anura Jayasinghe
Branch Manager-Peliyagoda

Sujeewa Jayawardene
Assistant Manager-Ampara

Mohamed Primsath
Branch Manager-Kalmunai

Ananda Jayakodi
Officer in Charge-Kegalle

Nadun Bandara
Officer in Charge-Kuliyapitiya

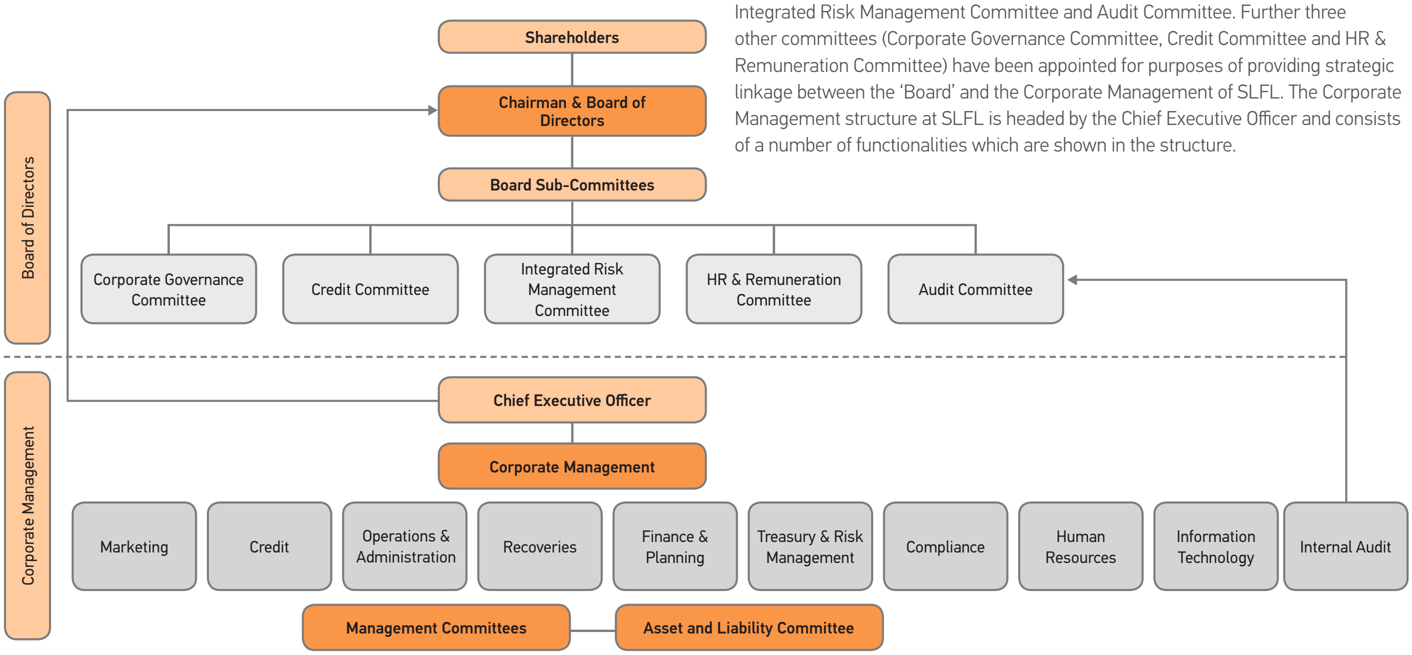
Anuruddha Dissanayake
Officer in Charge-Anuradhapura

Buddhika Ratnayake
Branch Manager-Matara
(Not in the Picture)

Corporate Governance *contd.*

Governance Structure of the Company

The Governance structure at SLFL consists at the apex the Chairman and Board of Directors who have being appointed by the parent Company Sampath Bank PLC. The Board has appointed a series of Committees that are mandated by statute, namely Integrated Risk Management Committee and Audit Committee. Further three other committees (Corporate Governance Committee, Credit Committee and HR & Remuneration Committee) have been appointed for purposes of providing strategic linkage between the 'Board' and the Corporate Management of SLFL. The Corporate Management structure at SLFL is headed by the Chief Executive Officer and consists of a number of functionalities which are shown in the structure.



Attendance of Directors for Board and Committee Meetings for the year 2012

Name of the Director	Board	Audit Committee	Integrated Risk Management Committee	Corporate Governance Committee	Credit Committee	HR & Remuneration Committee
Total number of Meetings held for the year	**13**	**5**	**6**	**2**	**1**	**7**
Attendance by Directors						
Mr. I W Senanayake	11		4	1		
Mr. S G Wijesinha	13	5				
Dr. H S D Soysa	12	4	6	2	1	
Mr. P M A Sirimane	13	5	4	2		7
Ms. M A Karunaratne	11	appointed with effect from 22.10.2012	6	2		6
Mr. W M P L De Alwis	13		6	2		6
Mr. M A Abeynaike*	9	3	1		1	
Mr. M Y A Perera*	10				1	
Mr. R Samaranayake**	1					

Note *Mr. Abeynaike and Mr. Perera were appointed to the Board on 28.03.2012.
**Mr. Samaranayake was appointed to the Board on 28.12.2012.

Directors Membership in Committees

Name of the Director	Board	Audit Committee	Integrated Risk Management Committee	Corporate Governance Committee	Credit Committee	HR & Remuneration Committee
Mr. I W Senanayake	Chairman		✓	✓		
Mr. S G Wijesinha	✓	✓				
Dr. H S D Soysa	✓	✓	✓	✓	Chairman	
Mr. P M A Sirimane	✓	Chairman	✓	Chairman		✓
Ms. M A Karunaratne	✓	✓	✓	✓		✓
Mr. W M P L De Alwis	✓		✓	✓		Chairman
Mr. M A Abeynaike	✓	✓	Chairman		✓	
Mr. M Y A Perera	✓				✓	
Mr. R Samaranayake	✓				✓	

Sampath Leasing and Factoring Limited

Main Board

Name	Position in the Company
Mr. I W Senanayake	Chairman (Non-Independent, Non-Executive Director)
Mr. S G Wijesinha	Deputy Chairman (Non-Independent, Non-Executive Director)
Mr. M A Abeynaike	Member (Independent, Non-Executive Director)
Dr. H S D Soysa	Member (Independent, Non-Executive Director)
Ms. M A Karunaratne	Member (Non-Independent, Non-Executive Director)
Mr. W M P L De Alwis	Member (Independent, Non-Executive Director)
Mr. P M A Sirimane	Member (Independent, Non-Executive Director)
Mr. M Y A Perera	Member (Non-Independent, Non-Executive Director)
Mr. R Samaranayake	Member (Non-Independent, Non-Executive Director)

Corporate Governance *contd.*

Members of the Board Audit Committee

Name	Position in the Company
Mr. P M A Sirimane	Chairman (Director - Sampath Leasing and Factoring Ltd)
Mr. S G Wijesinha	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. M A Abeynaike	Member (Director - Sampath Leasing and Factoring Ltd)
Dr. H S D Soysa	Member (Director - Sampath Leasing and Factoring Ltd)
Ms. M A Karunaratne	Member (Director - Sampath Leasing and Factoring Ltd)

Members of the Board Interegated Risk Management Committee

Name	Position in the Company
Mr. M A Abeynaike	Chairman (Director - Sampath Leasing and Factoring Ltd)
Mrs. M A Karunaratne	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. I W Senanayake	Member (Director - Sampath Leasing and Factoring Ltd)
Dr. H S D Soysa	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. W M P L de Alwis	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. P M A Sirimane	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. A R Nanayakkara	Member (CEO - Sampath Leasing and Factoring Ltd)
Mr. R De Silva	Member (Chief Operating Officer -Sampath Leasing and Factoring Ltd)
Ms. W K H Gayasha	Member (Head of Finance - Sampath Leasing and Factoring Ltd)
Mr. R G Siriwardena	Member (Head of Factoring-Sampath Leasing and Factoring Ltd)
Mr. N D Ratnayake	Member (Head of Marketing-Sampath Leasing and Factoring Ltd)
Mr. S B Dodanwatte	Member (Senior Manager-Credit - Sampath Leasing and Factoring Ltd)
Mr. N A D Shaminda	Member (Internal Auditor - Sampath Leasing and Factoring Ltd)
Mr. B L M M Balasuriya	Member (Manager-IT - Sampath Leasing and Factoring Ltd)

Members of the Board Corporate Governance Committee

Name	Position in the Company
Mr. P M A Sirimane	Chairman(Director - Sampath Leasing and Factoring Ltd)
Mr. I W Senanayake	Member (Chairman - Sampath Leasing and Factoring Ltd)
Dr. H S D Soysa	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. W M P L De Alwis	Member (Director - Sampath Leasing and Factoring Ltd)
Mrs. M A Karunaratne	Member (Chief Risk Officer Sampath Bank PLC & Director – SLFL)

Members of the Board Credit Committee

Name	Position in the Company
Dr. H S D Soysa	Chairman (Director - Sampath Leasing and Factoring Ltd)
Mr. M A Abeynaike	Member (Director - Sampath Leasing and Factoring Ltd)
Mr. M Y A Perera	Member (Managing Director - Sampath Bank PLC & Director – SLFL)
Mr. R Samaranayake	Member (Director - Sampath Leasing and Factoring Ltd)

Members of the Board HR /Remuneration Committee

Name	Position in the Company
Mr. W M P L De Alwis	Chairman (Director - Sampath Leasing and Factoring Ltd)
Mr. P M A Sirimane	Member (Director - Sampath Leasing and Factoring Ltd)
Mrs. M A Karunaratne	Member (Chief Risk Officer - Sampath Bank PLC and Director – SLFL)

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
The Responsibilities of the Board of Directors	
Procedures carried out to ensure the safety and the soundness of the Company	
2 (1) (a) approving ,overseeing and communicating all Strategic Objectives and Corporate Values	Board approved Strategic Objectives and Corporate values are in place. Our Corporate values mainly consist of the following areas. • Customer centric • Ethical and Professional behaviour • Empowerment of Employees • Learning Culture Strategic Organization Plan and Organization values have been communicated through out the Company via Corporate, Senior, Middle and Lower level of management. Progress regarding implementation of strategies and corporate values are monitored periodically by the Board of Directors.
2 (1) (b) Approving the overall business strategy	Comprehensive Business Strategy which includes the risk policy, risk management procedures and measurable goals for 2012/2014 has been approved by the Board of Directors. The Company is moving towards achieving the Strategic Objectives.
2 (1) (c) Identification and Management of Risk	Board has formed BIRMC which consists of Six Directors, CEO, Senior Managers, Managers and Heads of the Departments with the purpose of identification and Management of Risk involved in the Business. The contents of the BIRMC reports are submitted to Main Board for their review.
2 (1) (d) Communication policy with Stakeholders	Board approved Stake holder Communication Policy is in place and Company adheres to the policy in managing communications and relations with its stakeholders. Board of Directors, officers and employees comply with the policy in order to ensure effective communication and to achieve the best interest of our stakeholders including customers.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
2 (1) (e) Internal Control Systems and MIS Policy of the Company	Internal Control Systems are being monitored by Internal Audit Department under the supervision of the Board Audit Committee. Internal Audit Department will strengthen the audit coverage to ensure that all operational areas of the company are covered under their scope. Audit plan of the Internal Audit Department covering all operational areas has been submitted to Audit Committee and the Audit Committee has approved the same. MIS Policy has been approved by BIRMC and Board Audit Committee. It will be submitted to the Main Board. Board will carry out a comprehensive exercise reviewing the adequacy and integrity of Company's Management Information System.
2 (1) (f) Key Management Personnel	Boards of Directors of SLFL, Chief Executive Officer and Chief Operation Officer have been identified as the Key Management Personnel in the Company.
2 (1) (g) Authority and Key Responsibilities for the Board and for the Key Management Personnel	The Board has approved the "Code for Board of Directors and Board Sub Committees" which defines the general and statutory duties and responsibilities of the Board of Directors. Authority and key responsibilities of the Key Managerial Persons will be defined once the Company becomes a finance company and it will delegate more responsibilities to each KMPs . The Board is responsible for formulation of Strategy and Policies, oversight Risk and Corporate Governance, ensuring satisfactory management of resources of the company, monitors progress towards achieving the objectives and plans etc. The Key Management Personnel are responsible for smooth functioning of the Company and they head the main operations in the company. Delegation authority levels for KMPs have been approved by the Board.
2 (1) (h) Oversight Affairs in the Company	The Board ensures the oversight affairs of the Company by Key Management Personnel. The CEO attends all Board meetings and from time to time the Key Management Persons have been called for Board Meetings to review the performance or targets achieved by the company.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
2 (1) (i) (1) Selection, Nomination & Election of Directors/ KMPs	Appointment of members to the Board is done in concurrence with the parent company Board, Sampath Bank PLC. KMPs are appointed by the Board of Directors of SLFL.
2 (1) (i) (11) Management of conflict of interest	A procedure is in place for the Directors to declare the nature of their interest and there is a process to avoid conflict of interest under section 94 and 95 of Company's Article.
2 (1) (i) (111)Identification of weaknesses and implementation of changes	Board Evaluation Forms are designed in a way to identify the key areas to be improved and this has been summarized and presented to Board HR & Remuneration Committee which will be submitted to the Main Board. Board of Directors have opportunities to deliver their valuable and innovative suggestions and feed back.
2 (1) (j) Succession Plan for KMPs	Succession plan for the key Management Personnel will have to be initiated once the company converts to a Finance Company. Mr. I W Senanayake was appointed as the Chairman of the Company and Mr. S G Wijesinha was appointed as the Deputy Chairman.
2 (1) (k) Regular Meetings with the KMPs to review policies, establishment Communication lines and monitoring the progress towards corporate objectives	CEO is called for monthly Board Meetings to review policies and monitor progress towards the corporate objectives. Respective Department Heads are called for Board Meetings to present Board Papers. Number of meetings held by the Company is set out on page 62 of the Annual Report.
2 (1) (l) Relevant measures to understand the Regulatory Environment	All directions issued by CBSL have been presented to the Board Members by the Company Secretary on a regular basis for their knowledge and guidance. When a new direction is issued, the CEO does a presentation to the Board on the impact of such directions.
2 (1) (m) Exercise of due diligence in the Hiring & Supervision of External Auditors	External Auditors were appointed by our shareholders as stipulated under Company's article 142 and oversight of External Auditors are carried out by the Board Audit Committee (BAC) since the external auditors' report direct to the Board Audit Committee. Rotation of the partner is monitored and done by the company to maintain a high standard of transparency within the system.
2 (2) Appointment of Chairman and CEO	Chairman and the Chief Executive Officer have been appointed by the Board of Sampath Leasing and Factoring Ltd. (SLFL) and the two positions are held by two veterans in the market with a high standard of independency.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
Functions and responsibilities of the Chairman and the CEO	The Chairman of our Board is a Non –Executive, Non Independent Director possessing extensive experience in the field of finance. He is entrusted with the following functions and responsibilities. (1) Provide leadership to the Company and Board of Directors. (2) To ensure that the Board works effectively and discharges its responsibilities. (3) To ensure that all key and appropriate issues are discussed by the Board, in a timely manner. (4) To Ensure that all directors are properly briefed on issues arising at board meetings and ensure that directors receive adequate information in a timely manner. (5) To Encourage all directors 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 Company. (6) To Facilitate the effective contribution of non-executive directors in particular and ensure constructive relationship among non-executive directors. (7) Not to engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever. Functions and responsibilities of the CEO have been defined in his job description which has to be approved by the HR and Remuneration committee and finally by the Board.
Functions and Responsibilities of CEO	CEO of our Company possess the required knowledge and experience .Functions and responsibilities of the CEO have been identified and defined in his job description while fulfilling the Corporate Governance Requirements.
2 (3) Obtain independent professional advice	A Board approved procedure is in place to enable Directors, upon reasonable request to seek independent professional advice in appropriate circumstances whenever necessary, at the expense of the Company.
2 (4) Interests of Directors	As per Articles 94 and 95 of company's Article of Association, there is a procedure/ requirement in place for the Director to declare their nature of interest and abstain from voting on any Board Resolution in relation to a matter in which he/she or any of his/her close relation or a concern in which a director has a substantial interest. Directors of the Company are independent from business transactions and have no concerns over Company matters.
2 (5) Formal schedule for matters	"Code for Board of Directors and Board sub committees" is approved by the Board and defines the functions and matters specifically reserved to the Board.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
2 (6) Unable to meet obligations and solvency of the company	Members of the Board are well informed and acquainted with the requirement to inform the Director of the Department of Non Bank Supervision with regard to the situation of the company where Company is unable to meet its obligations and is about to become insolvent. During the year 2012 such a situation has not arisen.
2 (7) Inclusion of Corporate Governance Report in Annual Report	Board has published its Annual Corporate Governance Report in pages 52 to 81 in the Annual Report 2012.
2 (8) Scheme of self assessment for Board	A scheme of self assessment for Directors has been adopted and Board annually appraises their performance to ensure that they are discharging their responsibilities effectively and efficiently. The Company Secretary has obtained the evaluation forms from all the Directors as at the year end 2012 and they are in the custody of the Company Secretary. Summary of the Board Performance Evaluations is tabled at the HR & Remuneration sub committee.
3. Meetings of the Board	
3 (1) Regularity of Board Meetings	The Board dedicates adequate time for Meetings. Board Meetings are held monthly and if necessity arises the Board will have special meetings. Board of Directors of the Company has met regularly and held 13 Board Meetings during the year 2012 which included one special meeting.
Obtaining Board consent through circulation of written or electronic resolutions	A Board approved procedure which restricts obtaining consent through the circulation of written or electronic resolutions /papers is in place. However all such circulated papers (if any) will be tabled at the immediate following board meeting.
3 (2) Procedure to include matters and proposals in the agenda	Board approved procedure is in place to enable all Directors to include matters and proposals in the agenda for regular board meetings.
3 (3) Notice for Board Meetings and Other Meetings	At the beginning of the year Annual Meeting calendars are submitted to all Board Members as a practice, which gives reasonable notice for the meetings enabling all Directors to prepare themselves to attend such meetings.
3 (4) Directors who have not attended at least 2/3 of the meetings in the period of 12 months	Our Board of Directors fully complied with the requirement and each of the Directors in our Board was acquainted about their attendance. Detail of Directors’ Attendance in accordance with the Corporate Governance Direction No 04 of 2009 is set out on page 62 of this report.
3 (5) Company Secretary	The Board has appointed the Company Secretary who possesses the required qualification as stated in No 07 of 2007 Companies Act and he gives the secretariat services to the Board and all subcommittee meetings and carries out other functions specified in the statutes and other regulations.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
3 (6) Preparing the agenda for Board Meetings	Chairman has delegated to the Company Secretary the function of preparing the agenda for Board Meetings. This is further confirmed by the section 1.11 of the Code for Board of Directors and Board Sub Committees.
3 (7) Procedure for Directors to have access to advice and service of the Company Secretary	Board approved procedure is in place to enable all Directors to have access to advice and services of the Company Secretary to ensure all Board procedures, applicable laws, rules, directions and regulations are followed.
3 (8) Maintenance of the Minutes of Board Meetings	Board Minutes with sufficient information are maintained by the Company Secretary as per the Corporate Governance requirement.
Inspection of Minutes	Board approved procedure is in place for the Directors to inspect the minutes as and when required.
3 (9) Minutes of the Board Meetings Contents of the Board Minutes a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the 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 matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) Board's knowledge and understanding of the risks to which the relevant establishment is exposed and an overview of the risk management measures adopted; and the decisions and board resolutions	The Company Secretary is responsible for maintaining minutes of the Board Meetings and ensuring that Board Minutes are recorded in sufficient detail.
4. Composition of the Board	
4 (1) Number of Directors in the Board of the Company	Board comprises of Nine directors which is within the statutory range. Mr. M.Y.A Perera and Mr. M.A Abeynaike were appointed to the Board in March 2012 and Mr. R Samaranayake was appointed in December 2012 with the approval of the CBSL and within other statutory compliances.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
4 (2) Period of Service of a director	Nine years rule was enforced by the CBSL. This requirement is monitored by the Company however since the company was incorporated in 2005 no directors has yet exceeded nine years of service.
4 (3) Executive Directors	There are no Executive Directors in the Board of the Company.
4 (4) Number of Independent non executive Directors in the Board	The Company has four Independent non executive Directors out of nine Non Executive Directors. The composition of Board of Directors is published on page 63 of the Annual Report.
4 (5) Existence of Alternate Directors	Mr. P M A Sirimane, Independent Non Executive Director and Mr. S G Wijesinha, Non executive Director were appointed as alternates to Mr. S G Wijesinha and Mr. I W Senanayake respectively. This was informed to the Central Bank of Sri Lanka.
4 (6) Process for appointing non executive directors.	A Board approved procedure is in place for appointing Non-Executive directors. Non Executive Directors posses required skills and experience in the fields of Banking, Finance, and Leasing. Summary of their profile with their educational, professional and relevant experience are set out in pages 54 to 56 of the Annual Report.
4 (7) Quorum of the Board Meetings	Board approved paper is in place which stipulates the quorum as the number of members require to participate at a board meeting to be not less than 50% of the total registered directors of the company and out of this quorum at least one third should include non-executive directors. This complies with the Corporate Governance requirements and this quorum has been complied at all Board Meetings held during the year 2012.
4 (8) Composition of the Board	Composition of the Board, by category of directors, including the names of the Chairman, Non-Executive Directors and Independent Non-Executive Directors has been disclosed on page 63 of the Annual Report.
4 (9) Appointment of New Directors	A Board approved transparent procedure is in place for appointing new Directors. In practice the appointment of new Directors take place with the recommendation and consent of the Board of Directors of Sampath Bank PLC.
4 (10) Appointment of Directors to fill casual vacancies	As per Company's Article 91, the Board has power to appoint directors to fill a casual vacancy be subject to election by shareholders at an Annual General Meeting. Mr. R Samaranayake was appointed in December 2012 with Central Bank approval and will be re elected at the coming Annual General Meeting.
4 (11) Resignation/Removal of Directors	No directors have resigned or removed from office during the year 2012.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
5. Criteria to Assess the Fitness and Propriety of Directors	
5 (1) Age Limit of a Director	None of the present Directors of the Company are above the age of 70 years.
5 (2) Directors of more than 20 companies/societies/ bodies corporate/10 specified business entities.	As per declarations given by the Directors, none of the Directors holds office as a Director of more than 20 Companies and none of the Directors holds office of a Director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities.
6. Management functions delegated by the Board	
6 (1) Delegated Authority	Operational matters have been delegated to CEO & COO. The Board periodically reviews the matters delegated to the management to ensure delegation is acted upon with controls. Delegated Authority of the Company has been revised and Board of Directors has approved same.
6 (2) Review the Delegation Process	The Board periodically reviews functions and matters delegated to the management
7. The Chairman and the Chief Executive Officer	
7 (1) Separated roles for Chairman and Chief executive Officer	Roles of Chairman and CEO are separate and held by two individuals appointed by the Board in order to maintain high level of independency and to avoid conflict of interest.
7 (2) Appointment of an Independent non executive director as a chairman and appointment of senior director	Chairman is a Non Executive Non Independent Director. Hence Dr. H S D Soysa ,an Independent Director has been appointed as the Senior Director to the Board Designation of the Senior Director is disclosed on page 55 of the Annual Report.
7 (3) Name of the Chairman and the Chief Executive Officer Identification and Disclose relationship between Chairman ,CEO and Board Members	Names of the Chairman and the CEO is published in the 'Corporate information' section of this Annual Report and there is no relationship between the CEO and the Chairman of the Company. Monitoring is done by the Company to identify relationship between Chairman and the Chief Executive Officer and the members of the board.
7 (4) Chairman's Activities (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Chairman's key Functions and the key responsibilities have been approved by the Board. Self evaluation process of the company ensures that the said requirements are fulfilled.
7 (5) Chairman's responsibility of preparing the Agenda	The Chairman has delegated the function of preparing the agenda to company secretary.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
7 (6) Timely submission of Board papers and directors are properly briefed on issues arising at board meetings	This requirement is evidence by the "Code for Board of Directors and Board sub committees" . Board Papers and the agenda are circulated to the Board Members prior to the Board Meetings allocating Board Members to study the contents of the board papers. At present Company Secretary submits online Board papers.
7 (7) Board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the relevant establishment	A self involvement process is in place that encourages all directors to make a full and active contribution to the Board's affairs and effective leadership of Chairman. Board of Directors ensure collective responsibility of the Board and they ensure that the best decisions are made where the interest of our stake holders are protected.
7 (8) Board has a self evaluation process that assesses the contribution of non-executive directors.	Evaluation process covers the contribution of Non-Executive Directors as well.
7 (9) The chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Chairman directly or indirectly does not engage in the supervision of Key Management Personnel or any other executive duties.
7 (10) Communication with share holders	Company is a 100% owned subsidiary of Sampath Bank PLC. Effective communication is maintained with the Bank (Parent Company) through Mr. M.Y.A Perera, Mrs. M.A. Karunaratne and Mr. R Samaranayake who have been appointed to the Company's Board to look into the interest of the parent company.
7 (11) CEO function as APEX –Executive of the Company	CEO 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) Sub Committees	Company has established Five Board Committees namely Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board HR & Remuneration Committee, Board Corporate Governance Committee, Board Credit Committee with the approval of the Main Board. Performance , duties and functions of each committee have been disclosed in the Annual Report in pages 82 to 85.
Audit Committee	
8 (2) (a) Chairman of the Audit Committee-Non executive	Mr. P M A Sirimane who is a Fellow member of the Institute of Chartered Accountants of Sri Lanka has been appointed as a Chairman of the Audit Committee and he is an Independent Non Executive Director.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
8 (2) (b) Majority of the Board Audit Committee are non executive Directors	Board Audit Committee consists of five directors and all five members are Non Executive Directors. Members of the BAC are Mr. P.M.A Sirimane - Chairman, Dr. H.S.D Soysa, Mr. S.G Wijesinha, Mr. M.A Abeynaike and Mrs. M.A.Karunaratne.
8 (2) (c) (i)The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	Committee has recommended the re appointment of the External Auditor for audit services for the year ended 31.12.2012 and have been appointed at the AGM of the company.
8 (2) (c) (ii) The implementation of the Central Bank guidelines issued to auditors from time to time;	Members of the Board Audit Committee have discussed with the Auditors, matters relating to submission of Corporate governance report along with their annual report compliance with CBSL Direction No. 4 of 2009 and compliance with the internal control process on Financial reporting.
8 (2) (c) (iii) The application of the relevant accounting standards; 8 (2) (c) (iv) The service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the 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.	Financial Statements for the year ended 31st December 2012 have been prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS). Auditors' fees have been disclosed in the Directors Report for year 2012. No resignation or dismissal of the auditor has taken place during the year 2012.
8 (2) (d) The committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.	Engagement Letter submitted to the BAC evidence the Auditor's independence and further they report direct to the Board Audit committee. Their report on the financial statements of the company for the year 2012 indicates that the audit is carried out in accordance with SLAuS.
8 (2) (e) A policy on the engagement of external auditor for Non Audit Service	The Audit committee sets out the policy for the engagement of External Auditor to provide non- audit services.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
8 (2) (f) Nature and scope of the Audit	Letter of engagement of the External Auditor's for the Financial Year ended 31st December 2012 has been submitted to the Board Audit Committee to discuss • Service period, audit fee and any resignation or dismissal of the auditor; • Service period of the Audit partner • Nature and scope of the external audit
8 (2) (f) (i) Assessment of level of compliance and management's internal controls over financial reporting	The Board is responsible for establishing a sound framework of internal controls and monitoring its effectiveness on a continuous basis. The system of internal controls is evaluated by the audit committee and Directors' Statement on Internal Controls Over Financial Reporting given in pages 85 & 99 of the Annual Report.
8 (2) (f) (ii) preparation of financial statements according to the relevant standards and reporting obligation	In preparation of annual financial statements, Company has strictly complied with the requirements of the companies Act No 07 of 2007, Leasing Act No.56 of 2000 and are prepared and presented in conformity with Sri Lanka Financial Reporting Requirements.
8 (2) (f) (iii) the coordination between auditors	External Auditors have being invited to the Audit Committee meeting discussions and Committee also meets External Auditors in absence of the Executive Management.
8 (2) (g) Reviewing the financial information by Audit Committee include the rest of the points (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) In respect of the annual financial statements the significant adjustments arising from the audit.	Quarterly and year end financials have been presented to the BAC by the CEO. Monthly financials have been presented to the main board by the CEO in consultation with GCFO. Present formats are fairly comprehensive in presenting monthly financial statements.
8 (2) (h) Meeting with the External Auditors in the absence of key management personnel	Committee held one meeting with external auditors without the executive management being present to discuss issues of the company.
8 (2) (i) The external Auditors Management Letter	Board Audit Committee has reviewed the external auditor's management letter for the year ended 31.12.2011 and management responses thereto

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
8 (2) j -Internal Audit Functions	
i. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;	The Board Audit committee has discussed and finalized the nature and the scope of the audit, with the external auditors in accordance with SLAuS.
ii. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department	The Audit Committee has review and approved internal audit program. Internal Audit reports have been submitted to the committee with the Management comments.
iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department.	Performance appraisal of the Head of Internal Audit has been carried out by Chairman –Audit Committee.
iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Such an incident has not taken place during the year.
v. Check that the committee is appraised 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;	Such an incident has not taken place during the year.
vi. Check that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Internal Auditor directly reports to the Board Audit Committee and Internal Audit function is governed by the Internal Audit Charter. The Internal Audit Charter is approved by the Audit Committee. Further internal auditor is a qualified Chartered Accountant and has skills and experience in the field.
8 (2) (k) Major Findings on internal investigations and management's response	There were no major internal investigations held during the year

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
8 (2) (l) attendance for the Audit committee meetings External Auditors' meeting with out the Executive Directors	Apart from the members of the board audit committee CEO, Internal Auditor representatives of External auditors' attend the BAC meetings. There are no executive directors in the board of the company. One meeting was held with the external auditors without the executive staff.
8 (2) (m) Authority of Board Audit Committee	BAC approved Terms of Reference is in place which clearly state the required authority of the BAC as required which has been approved by the Board.
8 (2) (n) Number of meetings	There were five BAC meetings during the year 2012 Meetings are scheduled at the beginning of the year and the members were informed and Notice for the BAC was sent five days prior to BAC Meetings.
8 (2) (o) Disclosure in the Annual Report	Board has disclosed the activities of BAC ,No of meetings and attendance of BAC members is disclosed in the Annual Report on page 62.
8 (2) (p) Secretary of the Board Audit Committee	Secretary of the Audit Committee is the Company secretary and detailed minutes of such meetings are maintained by the company secretary.
8 (2) (q) Investigation on possible improprieties in financial reporting internal control or other related matters- whether Whistle Blowing policy in place	Company has the Board approved a Whistle Blowing Policy to report on in financial reporting internal control or other related matters.
Board Integrated Risk Management Committee (BIRMC)	
(a) Composition of BIRMC	As required by the corporate governance direction issued by CBSL. BIRMC consists of key management personnel who supervise the credit, market, liquidity, operational and strategic risks of the company.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
(b) Assessment of Risk	BIRMC has an appropriate process to assess all risks, including credit, market, and liquidity, operational and strategic risks to the relevant establishment on a monthly basis through appropriate risk indicators. Company have had six BIRMC meetings during the year to make sure that the company is in line with the Risk requirements Risk Management Reports submitted by the CEO to the BIRMC has addressed the credit risk, Interest rate risk and the liquidity risk of the company in detail. Company has set risk tolerance limits for credit risk such as NPL ratio, assets concentration limits, sector and branch, value wise movements in arrears buckets, Arrears to capital ratio, net exposure and net NPL to Equity ratio etc. Liquidity risk has been monitored through risk tolerance limits such as cash balance, volatile liability dependency ratio and cumulative gaps as a Percentage (%) of cumulative liabilities etc. Tolerance limits for interest rate risk has been set through weighted lending rates, lending to borrowing ratio and net interest yield ratio. Operational risks and strategic risks also have been identified by the company on an informal basis There are no subsidiary or associate companies to SLFL.
(c) Review the adequacy and effectiveness of management level committees of quantitative and qualitative Risk	BIRMC has set specific quantitative and qualitative risk limits for all management level committees such as the Credit committee and the Asset-liability committees (ALCO).
(d) The committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	ALCO is responsible for identifying interest rate risk, liquidity risk and other interest and liquidity related risks. ALCO has analyzed lending portfolio through indicators such as average yield, average net interest cost, and net interest yield. Interest rates were analyzed through month end AWPLR, Money market rates and 6 & 12 months Treasury Bill rates. BIRMC reviews the risk indicators which have gone beyond the specified quantitative and qualitative risk limits against the set limits on a monthly basis through the Risk management Report submitted to the BIRMC by the CEO. Committee has requested the CEO to highlight only the exceptional situations which have gone beyond specified limits and submit a report to the committee.

Corporate Governance *contd.*

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
(e) Number of times the committee has met at least quarterly.	BIRMC held five meetings during the financial year 2012.
(f) Action for officers who fail to identify risk	The Committee shall recommend appropriate actions to be taken against officers responsible for failure to identify specific risks and take prompt corrective actions recommended by the committee.
(g) Submission of Risk assessment report to the main Board	Committee submits BIRMC minutes to the subsequent board meeting seeking the board's views and specific directions. Further, chairman of the BIRMC briefs the main Board, on significant issues and decisions taken up at the risk meeting at the subsequent board meeting.
(h) The committee has establish a compliance function to assess the Relevant establishment's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Summary of monthly reports on regulatory compliance submitted to CBSL (online as well as manual submissions) and statutory payments such as VAT, WHT, and PAYE tax. Income tax, EPF, ETF etc. made to statutory authorities is presented to the Board on a monthly basis. At present internal auditor is functioning as the Compliance Officer and the Company has decided to recruit a Compliance Officer in the near future.
9. Related Party Transactions	
9 (2) A documented procedure to avoid conflict of interest	A Board approved documented procedure is in place which speaks of types of related parties , types of related party transactions and favourable treatment granted to said parties
9 (3) Transactions with related parties	A documented procedure approved by the board is in place . All related party transactions have been disclosed in the Financial Statements. No accommodation has been granted to Directors and/or their close relatives. Monitoring of such transactions and retrieving the data through the branch network of the company is to be implemented and strengthened during the year 2013.
9 (4) Process to monitor "More Favourable Treatment"	A documented process which speaks on more favourable treatment is in place .This will ensure that the company does not engage in such transactions in a manner that would grant such related parties "more favourable treatment" than that accorded to other constituents of the company carrying on the same business with the company. Monitoring of such transactions and retrieving the data through the branch network of the company is to be implemented and strengthened during the year 2013.

Central Bank Corporate Governance Requirements as per the (Corporate Governance) Direction No 4 of 2009	Sampath Leasing and Factoring Alignment
10. Disclosures	
10 (1) Audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standard.	Annual Financial statements and periodical financial Statements are prepared in accordance with the applicable accounting standards. It is not mandatory to publish financial statements.
10 (2) Disclosures required to include in the Annual Report	
10 (2) (a) The 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	This has been disclosed in the “Independent Auditor’s Report” appearing on page 103 of the Annual Report.
10 (2) (b) Internal Control Report	Effectiveness of the Companies internal control mechanism has been certified by the Directors on page 99 of the Annual Report under the heading “Directors’ Statement on Internal Controls Over Financial Reporting”.
10 (2) (c) Certification on the effectiveness of the internal control mechanism by external auditors	The auditors’ certification on the effectiveness of the internal control mechanism has been obtained and disclosed on page 99 of the Annual Report under the heading “Directors’ Statement on Internal Controls Over Financial Reporting”.
10 (2) (d) Details of the Directors including names and transactions	The company had no transactions with any of its directors during the year.
10 (e) Directors’ fees and Remuneration	The fees & remuneration paid has been disclosed on page 96 of the Annual Report under the heading “Annual Report of the Board of Directors on the affairs of the company”.
10 (f) Accommodation granted for related parties	Company has not given facilities or accommodations to directors and their related parties.
10 (g) Aggregate values of remuneration paid for KMPs and aggregate values of transaction of the company with KMPs	Disclosed in note 36 to the financial statements appearing on page 144 of the Annual report.
10 (h) Details of Compliance with prudential requirements, regulations, laws and internal controls and measures relevant to non compliance	Details of compliance & non-compliance would be highlighted in the Directors statement on Internal Controls over Financial reporting on page 99 of the annual report.
10 (i) Certification of the Compliance by External Auditors	Board has obtained auditors’ confidential letter to the management (auditors’ factual findings report) issued by External Auditors.

Committee Reports

Board Credit Committee Report

Composition

This Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of a membership of four Directors. The Chief Executive Officer presents himself at the meeting by invitation.

Following members serves on the Credit Committee. Brief profile of each member of the committee is given in pages 54 to 56 of this report.

1. Dr. H.S.D. Soysa (Chairman) - Non-Executive Director
2. Mr. M.A. Abeynaike - Non-Executive Director
3. Mr. Aravinda Perera - Non-Executive Director
4. Mr. R. Samaranayake - Non-Executive Director

Quorum

A minimum of three directors is the quorum for the credit committee meeting. However, the committee has the power to make the quorum beyond three, but not to reduce it below, the stipulated number.

Performance

The Chairman of the Credit Committee in consultation of the Company Secretary fixes committee meetings as and when necessary and meetings are held on a need basis. The Company Secretary also acts as the secretary to the committee meetings. Urgent credit proposals are approved by Circulation.

Duties & Role

Credit Committee is vital in establishing best practices in relation to credit policies and practices as well as recommending same to the Board of Directors. Board of Directors have derived the scope and authority of the Committee and set out the following responsibilities. This Committee is also responsible for maintaining a high quality lending portfolio with a low delinquency ratio.

1. Review of credit policy / limit changes for each sector of the economy.

Review of Credit Proposals and approve them within the limits delegated by Board of Directors. This includes evaluation assessment and review of credit policy changes initiated by management, pricing of lending proposals and making recommendations to the Board for approval where the limit exceeds that delegated to the Credit Committee.

Further the credit policy is assessed in terms of statutory requirements prescribed by regulatory/ supervisory authorities. Continuous assessment of portfolio/ sector reviews based on the management/ industry information Credit risks of new products are assessed in terms of Credit Risk Management perspective.

2. Ensures Sound Credit Administration and Monitoring Process

Delegated limits are assigned based on approved credit approval framework Establish sound controls to address credit risks. This includes setting up of credit risk exposure limits etc. Assessment of periodic portfolio reviews in order to assess portfolio performance.

Review of the Committee

The Board undertakes a regular review of the Committee's performance, objectives and responsibilities.

On behalf of the Credit Committee

H S D Soysa
Chairman – Board Credit Committee

25 June 2013

Integrated Risk Management Committee Report

The board is primarily responsible for risk management initiatives. Integrated Risk Management sub-committee has been established and delegated risk management responsibilities. This Committee plays vital role in establishing best practices in relation to risk policies and practices within the company.

The committee is aimed at fulfilling the requirement set out in the Finance Leasing Direction No. 4 of 2009 on Corporate Governance for Finance Leasing Establishments issued by Central Bank of Sri Lanka (CBSL) under Finance Leasing Act, No. 56 of 2000.

Composition

This Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of membership of 6 Non Executive Directors, Chief Executive Officer and key functional managers supervising finance, internal audit, credit, market, operational and strategic risks. Following members served on the committee during the year 2012.

1. Mr. M.A. Abeynaike (Chairman) - Non-Executive Director
2. Mrs. M.A. Karunaratna - Non-Executive Director
3. Mr. I.W. Senanayake - Non Executive Director
4. Dr. H.S.D. Soysa - Non-Executive Director
5. Mr. W.M.P.L. De Alwis - Non-Executive Director
6. Mr. P.M.A. Sirimane - Non-Executive Director
7. Mr. A.R. Nanayakkara - Chief Executive Officer
8. Mr. Rajeev De Silva - Chief Operating Officer
9. Ms. W.K. Hasuni Gayasha - Head of Finance
10. Mr. R.G. Siriwardana - Head of Factoring
11. Mr. N.D. Rathnayaka - Head of Marketing
12. Mr. S.B. Dodanwatte - Senior Manager - Credit
13. Mr. N.A.D. Shaminda - Internal Auditor
14. Mr. B.L.M.M. Balasuriya - Manager - IT

Quorum

A minimum of three directors is the quorum for the integrated risk management committee meeting. However, the committee has the power to make the quorum beyond three, but not reduce it below the stipulated number.

Meetings held

The committee held 06 meetings during the year under review. In compliance with Finance Leasing (Corporate Governance) Direction No. 4 of 2009, all key management personnel were invited and attended the meetings. The company secretary also acts as the secretary to the committee meeting.

Duties & Role

Board of Directors have derived the scope and authority of the committee and set out following responsibilities.

1. On going assessment of risk management aspects which include credit, market, liquidity, operational and strategic risks through various risk indicators and management information.
2. Review adequacy and effectiveness of all management level committees such as Asset and Liability Committee (ALCO) and Credit Committee to address specific risks and manage same with the quantitative and qualitative limits specified by the committee
3. Take prompt corrective actions to mitigate the effects of specified risks which is beyond prudential levels in accordance with company policies, regulatory and supervisory requirement.
4. Assessment of all aspects of risk management including updated Business Continuity Plan
5. Take appropriate actions against officers responsible for failure to identify specific risks and prompt corrective actions as recommended by the committee/ or directed by Department of Supervision of Non- Bank Financial Institutions of Sri Lanka.
6. Establishment of compliance function within the company to ensure compliance with all applicable laws and regulations, regulatory guidelines, internal controls and approved policies on all areas of business operation.
7. Establishment and review of Risk Management Framework within the company. These include periodic review of risk exposures and risk measurement methodology and promote proactive risk management culture within the company.

Committee Reports *contd.*

Review of the Committee

During the year 2012, the BIRMC supported execution of overall business strategy within a set of prudential risk parameters. The Board undertakes a regular review of the committee's performance, objectives and responsibilities.

On behalf of the Integrated Risk Management Committee.

M.A. Abeynaike
Chairman – Integrated Risk Management Committee

26 June 2013

Audit Committee Report

The Audit Committee comprises Four Independent Non Executive directors. The Committee is chaired by Mr. P.M.A Sirimane, who is a Fellow member of the Institute of Chartered Accountant of Sri Lanka.

The members of the Audit Committee are;

Mr. P.M.A. Sirimane -
Chairman, Independent Non Executive Director

Mr. S.G. Wijesinha -
Member, Independent Non Executive Director

Mr. M.A. Abeynaike -
Member, Independent Non Executive Director

Dr. H.S.D. Soysa -
Member, Independent Non Executive Director

The secretary of the company functions as the secretary to the Audit Committee.

The Audit committee empowered to examine the adequacy and effectiveness of internal control systems, review the statutory accounts and financial statements, assess compliance with regulatory requirements, review internal audit reports and recommend appointments and remuneration of the external auditors.

During the Financial Year Ended 31st December 2012, Five Audit Committee was held and The Chairman, Directors of the Board, Chief Executive Officer, Head of Internal Audit of Sampath Bank PLC, External Auditors and Internal Auditor also attended these meetings by invitation.

Proceedings of the Audit Committee Meeting were reported regularly to the Board.

On behalf of the Audit Committee:

P.M.A Sirimane
Chairman

25 June 2013

Enterprise Risk Management

Risks are prevalent in all aspects of leasing business and the environment in which in the Company operates. Rapidly evolving regulations demanded a more proactive and forward looking risk management philosophy understood throughout the organization. SLFL sees risk as opportunities to be exploited while maintaining the values created. We manage the principle risks faced by us in order to strike a fair balance and duality between the risk return trade-off.

Objectives of SLFL'S Risk Policy

In determining our risk policy a holistic approach has been taken with a view to ensure that risks faced by the company would follow an integrated approach. Risk tolerance recommendations would be carefully measured and tabulated before setting any policy guidelines for risk appetites of the company. The setting of tolerance limits would be done periodically on a monthly basis based on the principle of dissecting enterprise wide risk elements (such as credit risk, interest rate risk etc), and observation of trends / concentrations in each of these elements of risk.

- SLFL developed a risk policy based on the risk – return trade off in order to optimize net interest income and net interest yields. The philosophy used in framing risk policies ensure that profit maximization would not be the sole objective of the organization, but the intentions of management would be in achieving a sustainable profit year on year; that would not dilute due to cyclical swings in key macro economic variables.
- Balance sheet management; within the context of asset liability management would be focused on so as to strike a balance between risk and return whilst ensuring that tolerance levels are set for credit risk, interest rate risk, liquidity risk and operational risk.

Governance Aspects of Risk

Effective governance structure is a pre-requisite in achieving sustainable growth. SLFL's governance framework consists of board of directors, senior managements' oversight, BIRMC & other related committees, namely, credit, audit, corporate governance & HR. SLFL's Board and Management has a shared understanding of risk philosophy and appetite in achieving strategic objectives. Governance structure supports the integrity, effectiveness and transparency of the risk management process.

Risk Management Framework of the company is designed in such a way to encourages functional managers to identify specific risks and take prompt corrective actions.

Integrated Risk Management Framework (IRMF)

Integrated Risk Management Committee

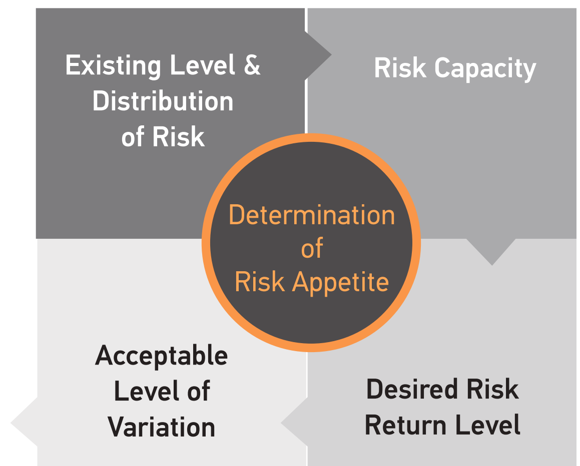
Integrated Risk Management sub-committee has been established and delegated risk management responsibilities. This Committee plays a vital role in establishing best practices in relation to risk policies and practices within the company and fulfils the requirements set out in the Finance Leasing (Corporate Governance) Direction, No. 4 of 2009 issued by Central Bank of Sri Lanka under Finance Leasing Act No.56 of 2000.

The committee is responsible for advising the board on high level risk related matters, risk governance and for non-executive oversight of risk management, compliance with regulatory requirements and internal controls which are relevant to risk management (other than over financial reporting).

SLFL'S Risk Strategy

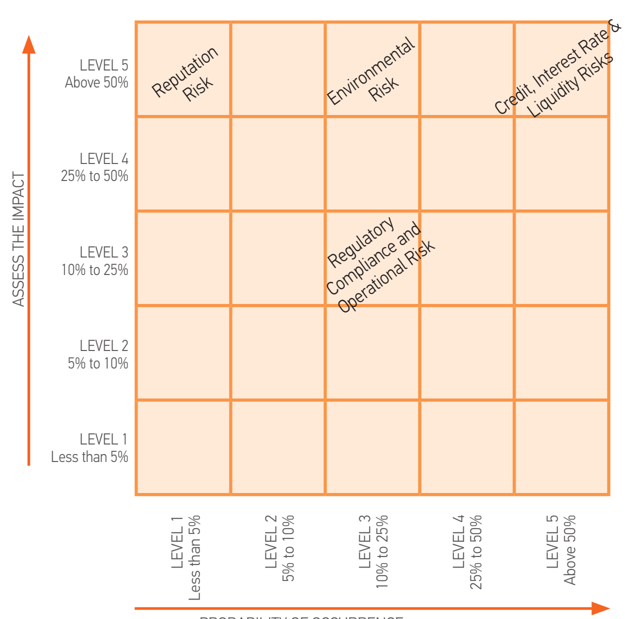
SLFL believes that the company's strategy must be linked to risk management in order to identify and manage risks even in highly uncertain environments. This is of paramount importance in creating values and protecting the values created. SLFL's Enterprise Risk Management (ERM) process is aimed at ensuring achievement of its set of objectives with reasonable assurance.

Risk Management Strategy is an integrated business process which incorporates all of risk management processes, activities, tools, techniques and policies adopted within the company. The risk strategy sets the parameters for the entire risk management framework and sets the communication channels. It is implemented by the executive management.



Risk Grid

SLFL' has placed all identified risks within a risk grid and placement of same would be dependent on the severity/ impact along with the frequency of occurrence. Risk management strategy would then be changed according to where same is placed with the grid. Hence, this performs a vital role in risk management process.



Enterprise Risk Management *contd.*

Managing Risk at SLFL

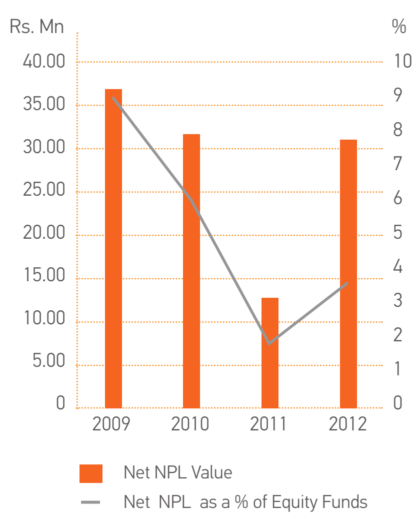
Credit Risk

Credit risk is closely tied to the potential return, the most notable being that the yields on portfolios correlate strongly to their perceived credit risk. The strategy of SLFL is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

Measurements Of Credit Risk

It is imperative for the company to analyze the credit risk before extending finances to a customer base. Identification of existing or potential credit risks to which the company is exposed to is vital for an effective risk management mechanism. Modelling credit risk is a challenge that the company faces and in particular a structured approach is required for the quantification and management of credit risk.

Net NPL Value (Rs. Mn) & Net NPL as a % of Equity (%)



Essentially, most companies use information on various borrower characteristics such as borrower character (reputation), capital (leverage), capacity (volatility of earnings) and collateral, the so-called 4 "Cs" of credit, to reach a largely subjective judgment (i.e., that of an expert) as to whether or not to grant a credit facility.

SLFL deploys various measurements techniques to in order to assess the credit risk in broader terms. Credit Risk Policy of SLFL seeks to achieve the following.

- Maintaining benchmark NPL ratios for different classes of assets and sector exposures. Further an overall benchmark NPL ratio would be set as a tolerance level by observing the industry NPL average and the NPL ratios of the company (by sector and assets) over a period of time. These Limits would be set by benchmarking company ratios with Industry averages.
- Exposures would be set for assets category and sector exposures by observing the NPL ratios and loss given default values for asset type and sector. Further exposures would be set for single clients based on the concentration risk parameters. The Value of LGD (Loss given default) would be calculated for asset, sector and Client concentrations. In setting concentration limits for branches movements in the arrears buckets on a monthly basis would be monitored, and a benchmark set for the Arrears to Capital ratio.
- As a further measure concentration limits would be set for Repossessed stocks by observing the concentration of lending assets in repossessed stocks and movements / net realizable value of repossessed assets.
- In addition to setting a risk appetite for the overall NPL ratio, the company would also set tolerance limits for Net NPL to Equity ratio & Provision Coverage.

Market Risk (Interest Rate Risk & Liquidity Risk)

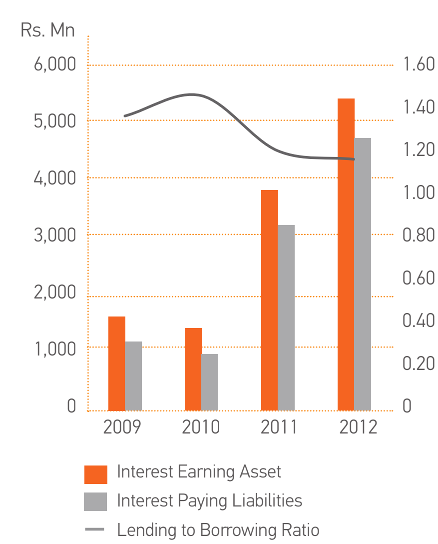
SLFL faces challenges in managing interest rate of the company whilst maintaining sustainable Net Interest Margin.

Interest Rate Risk

Interest rate risk refers to the variability in value borne by an interest-bearing asset, due to variability of interest rates. Asset liability management is the commonly used term for the complete set of techniques used to manage interest rate risk within a general ERM framework.

The fluctuation of interest rates is an external factor which is beyond the control

Interest Earning Asset , Interest Paying Liabilities & Lending to Borrowing Ratio



of the company. SLFL though is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

YIELD CURVE ANALYSIS- This analysis is presented by differences between short-term and long-term interest rates. Short-term rates are normally lower than long-term rates, and leasing companies earn profits by borrowing short-term money (at lower rates) and investing in long-term assets (at higher rates). But the relationship between short-term and long-term rates can shift quickly and dramatically, which can cause erratic changes in revenues and expenses. Further they may give rise to a mismatch in asset / liability maturities.

RE-PRICING FREQUENCY - This is presented by assets and liabilities that re-price at different times and rates. For instance, a loan obtained by the leasing company at a variable rate will generate more Net interest income when rates decline and less interest income when rates rise.

Interest Rate Risk and Tolerance Levels

In setting the Tolerance levels for Interest rate risk, SLFL uses the following metrics.

1. Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
2. Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
3. Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels.

Measurement of Interest Rate Risk on Income Statement and Balance Sheet

There are a number of methodologies that would be used by SLFL to measure Interest rate risk and their effect on Net Interest Income. A suitable model that captures the changes in interest rates and their effect on Net Interest Income is shown below. Changes are made to the cost of variable rated borrowings and the impact on Net Interest Income is measured.

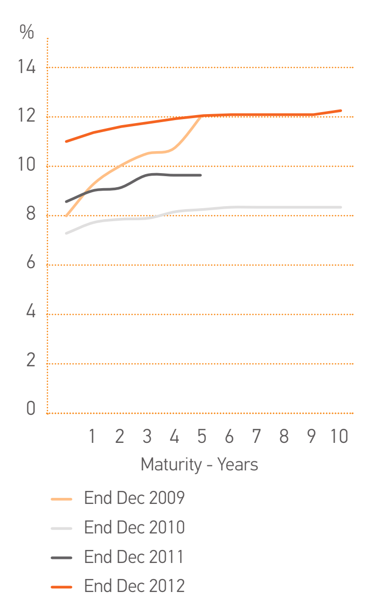
Internal Measurements

1. **Gross Interest Yields and Net Interest Yields on all categories of Lending Products** This information is time series based and provides trends on the average yield for the lending portfolio.
2. **Measurement of the Future Yield on the Lease / HP & Other Lending Products** The Future Yield on the Lending Portfolio and the average months to maturity of the lending portfolio gives the direction of future Gross Interest Income.
3. **Lending to Borrowing Ratio** The Lending to Borrowing ratio has a bearing on Net Interest Income and Net Interest Yields. An upward movement in the Lending to Borrowing ratio results in a marked improvement in Net Interest Income and the Net Interest Yield.

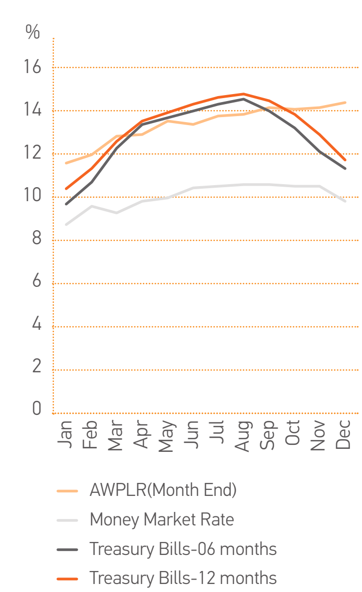
External Measurements

1. Trends in Money Market rates: This provides information re movement in key interest rate indicators, and provides a base for prediction of changes in interest rate movements.

Secondary Market Yield Curve for Government Securities



Interest Rate Trend -% (2012)



Enterprise Risk Management *contd.*

2. CBSL Policy change and changes in Key Interest rates: The effect of a CBSL policy change such as a reduction in the REPO & Reverse REPO rates have an effect on the overall structure of market rates and the direction in which interest rates would behave in the future.
3. Change between 4 Y T bond rate and 3 m T Bill rate and rate of general inflation: It is the CBSL task to stop inflation, and they do it by implementing restrictive monetary policy, taking money out of the system and raising interest rates. This sets the stage for recession, when consumers run out of credit and the cost of borrowing rises so high it squeezes corporate profits.

Risk Based and Marginal Costing Pricing Model

SLFL follows a Marginal Transfer Pricing Model based on the incremental cost of borrowed funds when setting the minimum rate of interest on a Finance Lease, Hire Purchase or Factoring & other products. In setting the incremental cost of borrowed funds, for medium term lending and Short term lending AWPLR, money market loan rates are used as proxy.

Liquidity Risk

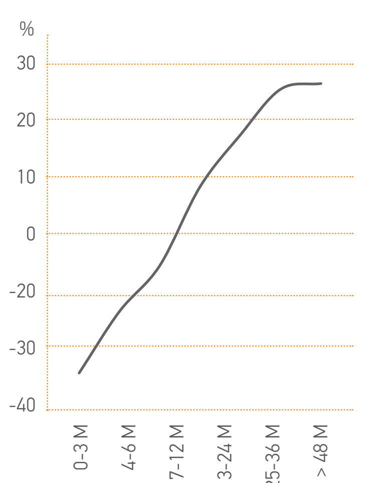
Liquidity risk refers to the availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. There are many causes of liquidity risk, but in the main they could be attributed to mismatch of Asset / Liabilities, unavailability of sufficient funding sources of ideal maturities and lowered collection index due to rising NPL's

Liquidity Risk Tolerance Levels

In setting the Tolerance levels for Liquidity risk, SLFL uses the following metrics.

1. Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
2. Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
3. Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks.

Cumulative Gap as a % of Cumulative Liabilities



Liquidity Risk Measurements

The following tools are used in the measurement of liquidity risk of SLFL.

1. Available Lines of Credit and their maturities in relation to the expected Lending maturities, and cash resources to cover future lending.
2. Gap Analysis, Cumulative Gap Analysis, and Cumulative Gaps as a percentage of Cumulative liabilities.
3. Volatile Liability Dependency ratio (Portion of the Lending Portfolio financed by Short Term borrowings).

Operational Risk

Operational risk is the risk arising from execution of a company's business functions. The concept of operational risk is broad and focuses on the risks arising from the people, systems and processes through which a company operates. Definition of operational risk contained in the Basel II regulations is widely used. This states that operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Key events that ground the operational risks are;

1. Internal Fraud - misappropriation of assets, tax evasion, bribery
2. External Fraud- theft of information, hacking damage, third-party theft and forgery
3. Business Disruption & Systems Failures - utility disruptions (eg. Power/ communication/ transport), software failures, hardware failures
4. Loss of Key Management Personnel
5. Clients, Products, & Business Practice- market manipulation, antitrust, service quality problems, account churning

6. Execution, Delivery, & Process Management - data entry errors, accounting errors, failed mandatory reporting
7. Damage to Physical Assets - natural disasters, terrorism

Measurements of Operational Risk

It is relatively difficult to identify or assess levels of operational risk and its many sources. In practical terms, most organizations accept that their people, processes and systems are imperfect, and that losses will arise from errors and ineffective operations. The size of the loss they are prepared to accept, because the cost of correcting the errors or improving the systems is disproportionate to the benefit they will receive, determines their appetite for operational risk. Determining appetite for operational risk is a discipline which is still in its infancy.

SLFL has developed an Operational Risk Management framework which include identification, measurement, and monitoring, reporting, control and mitigation. Continuous Review and Upgrading of Business Continuity in conjunction with Sampath Bank PLC, reviews by Audit & Integrated Risk Management Committees, periodic SWOT & PEST factor analysis are under the operating risk measures. A comprehensive Business Continuity Plan (BCP) is in place comprising risk identification, measurement, monitoring and mitigation of operational risks. Emergency Response Team, Damage Assessment Team and Operations Management Team have been appointed to respond and implement effective preventive and recovery guidelines to ensure the uninterrupted service to the stakeholders.

Regulatory and Compliance Risk

01. Board papers submission on monthly basis covering all compliance & regulatory aspects. These papers have three broader categories.
    Statutory Compliance
    Compliance Certificate
    Net assets position of the company

Reputation Risk

02. Detailed 'Communication Policy' addressing any reputation risk
03. Company's Code of Business conduct & Ethics
04. Honest and ethical conduct
05. Ethical handling of actual or apparent conflicts of interest between personal and professional relationships
06. Provision of full, fair, accurate, timely and understandable disclosure in periodic reports
07. Compliance with all applicable rules and regulations that apply to the Company
08. Web Browsing and Review of News Papers to identify any reputation risks to the company

Enterprise Risk Management *contd.*

Risk Tolerance Level Setting Worksheet

Tabulated below are the risk tolerance levels and policies set for the last two months of financial year 2012, for the following risk components; Credit risk, Interest rate risk, and Liquidity risk.

Table1: Risk Tolerance Levels Set For the Month (Risk Console)

Risk Type	Risk Measures	Currently Maintained		Policy/ Tolerance Level Set		
Credit Risk	NPL Ratios (6m basis)	December 2012	1.98%	Not More than 3.00%		In Compliance
	Asset Concentration	Asset		Concentration: Actual as at 31.12.2012	Concentration: Limit Set	Compliance
		Agriculture Machinery		2.46%	2.50%	✓
		Air Compressor		0.03%	1.00%	✓
		Backhoe Loader		0.02%	1.00%	✓
		Dual Purpose - (Tata Batta)		2.68%	3.50%	✓
		Dual Purpose Vehicle		25.37%	26.00%	✓
		Excavator		2.18%	2.00%	x
		Land Vehicle		8.00%	8.00%	✓
		Motor Car		41.42%	43.00%	✓
		Motor Coach		1.65%	1.00%	x
		Motor Cycle		0.05%	1.00%	✓
		Motor Lorry		12.65%	12.00%	x
		Other		0.93%	1.00%	✓
		Three Wheeler Car		2.56%	3.50%	✓
		Total		**100.00%**		

Risk Type	Risk Measures	Currently Maintained	Policy/ Tolerance Level Set		
Credit Risk	Sector Concentration	**Sector**	**Concentration**		
			Actual as at 31.12.2012	**Limit Set**	**Compliance**
		Agriculture	11.27%	11.00%	x
		Construction	3.59%	3.50%	x
		Manufacturing	0.53%	0.50%	x
		Mining & Quarrying	0.13%	0.00%	x
		Services	50.93%	52.00%	✓
		Tourism	0.67%	6.00%	✓
		Trade	30.91%	30.00%	x
		Transportation	1.98%	2.00%	✓
		Total	**100.00%**		
	Branch concentration	**Branch**	**Concentration**		
			Actual as at 31.12.2012	**Limit Set**	**Compliance**
		Ampara	6.80%	6.50%	x
		Anuradhapura	2.15%	2.50%	✓
		Gangodawila	1.93%	2.00%	✓
		Head Office	24.45%	24.00%	x
		Kegalle	1.46%	1.50%	✓
		Kalmunai	6.96%	7.00%	✓
		Kandy	10.85%	11.00%	✓
		Kohuwala	9.89%	9.00%	x
		Kurunegala	9.27%	9.50%	✓
		Kuliyapitiya	1.47%	1.50%	✓
		Matara	5.80%	6.50%	✓
		Negombo	6.61%	8.00%	✓
		Nuwaraeliya	3.94%	4.00%	✓
		Peliyagoda	7.27%	8.00%	✓
		Ratnapura	0.61%	0.50%	x
		Vavuniya	0.54%	0.50%	x
		Total	**100.00**		

Enterprise Risk Management *contd.*

Risk Type	Risk Measures	Currently Maintained	Policy/ Tolerance Level Set		
Credit Risk	Top 20 Clients Concentration		**Actual as at 31.12.2012**	**Limit Set**	**Compliance**
		Lease & HP	4.78%	5.0%	✓
		Factoring	78.11	70%	x
	Arrears to Capital Ratio		4.03%	Reduce to 3.50%	x
	Repossessed Stocks				
	No of Vehicles		15	Not above 30	✓
	Net Exposure		Rs. 27.08 Mn. (0.56% of lending portfolio value)	Less than 1% of lending portfolio (Current value Rs. 48.25 Mn)	✓
	Net NPL/ Equity		3.49%	Below 5.00%	✓
	Provision Coverage		68.12%	Not Below 60% *Note: Industry Average was 56.40% as at end December 2012*	✓
Interest rate Risk	**Weighted Lending Rates**	**Currently Maintained**	**Tolerance Limits Set**	Compliance	
	Finance Leases	25.42%	25.50% (Weighted Average) – Floor Rate	x	
	Hire Purchase	25.72%	25.80%(Weighted Average) – Floor Rate	x	
	Factoring	24.89%	24.89%(Weighted Average) – Floor Rate	✓	
	Lending to borrowing Ratio	1.21	1.20	✓	
	Net Interest Yield	6.80%	6.50%	✓	

Risk Type	Risk Measures	Currently Maintained	Policy/ Tolerance Level Set	
Liquidity Risk	Cash balance set at	3 months of new lending	1.7 months of new lending	✓
	Volatile liability dependency ratio	17.89%	20%	✓
	Cumulative gaps as a % of Cumulative Liabilities			
	Months	**Cumulative Gap- 2012**	No Tolerance Limit Set	
	0-3 M	(32.99%)		
	4-6 M	(20.30%)		
	7-12 M	(10.87%)		
	13-24 M	5.39%		
	25-36 M	16.08%		
	37-48 M	25.51%		
	> 48 M	26.68%		
Core Capital		Actual as at 31.12.2012	Mandated Limit (as per CBSL Directive)	
	Tier 1	17.77%	5%	✓
	Tier 2	17.77%	10%	✓

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

Your Directors have pleasure in presenting their Annual Report on the state of Affairs together with the Audited Financial Statements for the year ended 31st December 2012 of Sampath Leasing and Factoring Limited.

Brief Introduction of Sampath Leasing and Factoring Limited

Sampath Leasing and Factoring Limited (SLFL) has established on 03rd March 2005 as a fully owned subsidiary of Sampath Bank PLC .The Company presently consists of nine Directors. In terms of the branch network, SLFL has nine stand alone branches and seven service windows located within Sampath Bank branches. The total staff strength of the company as at the end December 2012 is 125. (123 as at December 31, 2011).

Values of the Company

SLFL has four values which are identified with the acronym "CEEL". They are Customer Centric, Ethical & professional standards, Empowerment of employees and Learning Culture.

Principal Business Activities of the Company

The Company's principal activities are in principal extension of fund based lending and include Finance Leases, Hire Purchase advances & Factoring.

Company's performance within the Year 2012

The company has continued its growth momentum in year 2012 by recording pre-tax profit of Rs.251.98 Million and an after tax profit of Rs.200.23 Million. Prudent management of assets and liabilities enhanced the net interest income & total operating income. Net fee and commission income rose to Rs. 22.78 Million in year 2012 reflecting a growth of 57% .The total asset base has grown from Rs. 4.12 Billion in year 2011 to Rs. 5.81 Billion in year 2013, a growth rate of 42%. The Cost to Income ratio improved to 45.35%, as against 45.78% in year 2011.

Board of Directors

The Board comprises of nine directors which is within the statutory range under Finance Leasing (Corporate Governance) Direction No. 04 of 2009 issued by Central Bank of Sri Lanka.

The Board of Directors of Sampath Leasing & Factoring Limited consists of a Chairman, Non Executive Directors and Independent Non Executive Directors with financial and commercial experience.

The names of the directors of the company during the period of 1st January 2012 to 31st December 2012 were as follows.

NAME	DATE OF APPOINTMENT
Mr. I W Senanayake	2005.03.03 appointed as chairman on 22.10.2008
Mr. S G Wijesinha	22.10.2008
Ms. M A Karunaratne	19.04.2010
Mr. P M A Sirimane	03.08.2010
Dr. H S D Soysa	01.01.2011
Mr. W M P L De Alwis	25.02.2011
Mr. M Y A Perera	28.03.2012
Mr. M A Abeynaike	28.03.2012
Mr. R Samaranayake	28.12.2012

Mr. M Y A Perera and Mr. M A Abeynaike were appointed as Non Executive Directors with effect from 28th March 2012 and Mr. R Samaranayake was appointed as a Non Executive Director with effect from 28th December 2012.

Mr. S G Wijesinha was appointed as an Alternate Director to Mr. I W Senanayake with effect from 23rd November 2012 and Mr. P M A Sirimane is continuing as an alternate Director to Mr. S G wijesinha.

All directors have given affidavits and declaration under Finance Leasing (Assessment of Fitness and propriety of all Directors on the Board and officers performing executive functions) Direction No 03 of 2012.

In accordance with the section 85 of the Articles of Association, Mr. I W Senanayake, Dr. H S D Soysa and Mr. W M P L De Alwis retire by rotation and being eligible for re-election, and offer themselves for re-election with the unanimous support of the Board. In accordance with section 91 of the Articles of Association Mr. R Samaranayake will be re-elected. None of the present Directors of the Company are above the age of 70 years.

Board Sub Committees

The Company has established five Board Sub Committees namely Board Audit Committee (BAC), Board Integrated Risk Management Committee (BIRMC), Board HR & Remuneration Committee, Board Corporate Governance Committee and Board Credit Committee.

Committee	Members Name	No of Meetings
Audit Committee	Mr. P M A Sirimane - *Chairman* Mr. S G Wijesinha Mr. M.A. Abeynaike Dr. H S D Soysa Ms. M A Karunaratne	Five
Board Integrated Risk Management Committee	Mr. M A Abeynaike - *Chairman* Mrs. M A Karunaratne Mr. I W Senanayake Dr. H S D Soysa Mr. W M P L De Alwis Mr. P M A Sirimane **Members from the Company** Mr. A R Nanayakkara Ms. W K Hasuni Gayasha Mr. R De Silva Mr. R G Siriwardana Mr. N D Rathnayaka Mr. S B Dodanwatte Mr. N A D Shaminda Mr. B L M M Balasuriya	Six
Board Corporate Governance Committee	Mr. P M A Sirimane - *Chairman* Mr. I W Senanayake Dr. H S D Soysa Ms. M A Karunaratne Mr. W M P L De Alwis	Two
Board HR & Remuneration Committee	Mr. W M P De Alwis - *Chairman* Mr. P M A Sirimane Ms. M A Karunaratne	Seven
Board Credit Committee	Dr. H S D Soysa - *Chairman* Mr. M Y A Perera Mr. M A Abeynaike Mr. R Samaranayake	One

Directors' Meetings

The Board meets the CEO once a month at the Board Meetings to review among other matters the operational and financial performance of the Company, and to direct and refocus business strategy and policy.

When necessity arises the Board of Directors will have special Board Meetings.

Company has established five Board Sub Committees and meetings of the same were held as scheduled at the beginning of the year

The Board has dedicated adequate time for Meetings. Board of Directors of the company has met regularly and held 13 Board Meetings during the year 2012 which included one special meeting.

Details of Board Meetings and Board Sub Committee meetings are set out in the Annual Report.

Directors' interest in contracts and proposed contracts

None of the Directors has direct or indirect interest in contracts or proposed contracts connected with the company's business.

Interest Register

The Interest Register is maintained by the Company as per section 168(1)(e) of the Companies act No 07 of 2007.The related entries were recorded in the Interest Register and is available for inspection.

Remuneration and other benefits of Directors

The company has made a net payment of Rs. 8.19 Million (Gross Payment- Rs.9.75 Million) being Directors' fee and attendance fee for Board Meetings and Committee Meetings .As a policy Directors' fees are decided by the Sampath Bank Board .

Directors' Interest in the shares of the Company Mr. I W Senanayake, Mr. S G Wijesinha, Mr. M Y A

Annual Report of the Board of Directors on the State of Affairs of the Company *contd.*

Perera, Mr. W M P L De Alwis and Mr. R Samaranayake hold one share each of the Company.

Shareholdings

The company has 8 shareholders, details of which are appended below

Shareholders of the Company

Name	No of Shares	% of issued share capital
Mr. I W Senanayake	One	>0.001%
Mr. M Y A Perera	One	>0.001%
Mr. S G Wijesinha	One	>0.001%
Mr. L J K Hettiaratchi	One	>0.001%
Mr. W.M.P.L. De Alwis	One	>0.001%
Mr. R Samaranayake	One	>0.001%
Mr. S Sudarshan	One	>0.001%
Sampath Bank PLC	52,499,993	99.99%
Total	**52,500,000**	

Donations

No donations were made by the Company during the year 2012.

Compliance with Laws and Regulations

The Company is in compliance with all laws and regulations applicable to the company including Finance Leasing Act No. 56 of 2000, Consumer Credit Act 29 of 1982, Inland Revenue Act No.10 of 2006 & amendments thereto and have not engaged in any activity contravening any laws and regulations, governing the business.

Corporate Governance

Details of Corporate Governance report is set out in the Annual Report.

Dividend

The Directors are pleased to recommend the payment of final dividend of Rs.0.41/-per share on 52.5 Million Ordinary Shares of the company for the year ended 31st December 2012 and the total Gross Dividend amount would be Rs 21.525 Million.

Auditors

M/S Ernst & Young are functioning as Company's Auditors from the inception of the company and they have given their consent to continue in office for the ensuing year, as per section 158 of Company's Act No 07 of 2007.

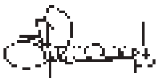
Audit Fee

M/s Ernst & Young were paid Rs. 1.325 Million as auditors' fees by the company.

Secretaries

Mr. R L S Senaratne is the Company Secretary who possesses the required qualification as stated in the No 07 of 2007 Companies act ,has been serving the board since 01st January 2008

For and on Behalf of the Board of Directors



I W Senanayake
Chairman

S G Wijesinha
Deputy Chairman

SAMPATH LEASING AND FACTORING LIMITED

29 May 2013

Directors Statement on Internal Control Over Financial Reporting

Responsibility

In line with the Leasing Act Direction No. 04 of 2009, 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 Sampath Leasing and Factoring Ltd, ("the 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 Controls 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 documented process and the internal controls over financial statements and the process identified so far has not revealed any significant weaknesses over such controls for financial reporting.

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

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.

By order of the Board

I.W. Senanayake
Chairman

P.M.A. Sirimane
Chairman-Board Audit Committee

SAMPATH LEASING AND FACTORING LIMITED

27 June 2013


Agri

Sampath Leasing
Agri
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Supporting agriculture, the building blocks of the nation, this has been a boon for farmers; a stepping stone for continued success.

Financial Reports

Independent Auditor's Report

ERNST & YOUNG

Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka
Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com

HMAJ/WDPL/WDRT/DM

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SAMPATH LEASING AND FACTORING LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of Sampath Leasing and Factoring Limited ("Company"), which comprise the statement of financial position as at 31 December 2012, and the income statement and statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal 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 31 December 2012 and the financial statements give a true and fair view of the Company's financial position as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

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

18 March 2013
Colombo

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

Balance Sheet

As at 31st December	Note	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets				
Cash and Bank Balances	14	**32,586**	29,520	5,322
Securities purchased under Repurchase Agreements		**5,341**	4,045	-
Investments in Fixed Deposits	16	**87,246**	-	-
Factoring Receivables	15	**566,584**	532,458	210,444
Lease Receivables	17	**2,678,159**	2,027,939	479,427
HP Receivable	18	**2,155,384**	1,253,322	731,548
Other Debtors & Prepayments	19	**216,531**	201,127	284,578
Financial Instruments- Available for Sale	20	**56**	56	56
Intangible Assets	21	**4,506**	5,608	9,273
Property, Plant & Equipment	22	**63,401**	69,021	77,021
Inventories		**726**	719	469
Deferred Taxation Asset	25	**-**	-	1,782
Total Assets		**5,810,520**	4,123,815	1,799,920
Liabilities				
Bank Overdraft		**62,124**	-	32,340
Debt Instruments Issued and Other borrowed funds	23	**4,655,317**	3,211,375	939,992
Other Payables	24	**152,769**	175,845	296,760
Deferred Taxation Liability	25	**40,842**	15,753	-
Income Taxation Payable	26	**18,814**	21,705	30,445
Retirement Benefit Obligations	27	**4,128**	2,895	2,156
Total liabilities		**4,933,994**	3,427,573	1,301,693
Shareholders' Funds				
Stated Capital	28	**525,000**	525,000	525,000
Statutory Reserve Fund	29	**26,738**	16,726	7,107
Investment Fund Reserve		**29,988**	12,841	-
Accumulated Profit/ (Loss)		**294,800**	141,675	(33,880)
Total Shareholders' Funds		**876,526**	696,242	498,227
Total Liabilities and Shareholders' Funds		**5,810,520**	4,123,815	1,799,920

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

Chief Executive Officer

Group Chief Financial Officer

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

Chairman

Director

Accounting Policies & Notes from pages 109 to 145 form an integral part of these Financial Statements.

15 March 2013
Colombo

Income Statement

Year ended 31 December 2012	Note	2012 Rs.'000	2011 Rs.'000
Interest and Income		**1,033,557**	555,329
Interest Expenses		**(600,406)**	(210,207)
Net Interest Income	6	**433,151**	345,122
Fee and Commission Income		**39,695**	23,570
Fee and Commission Expenses		**(16,911)**	(9,089)
Net Fee and Commission Income	7	**22,784**	14,481
Other Operating Income	8	**38,827**	29,929
Total Operating Income		**494,761**	389,532
Impairment (Charges) / Reversal for loans and other losses	9	**(262)**	49,324
Net Operating Income		**494,499**	438,856
Operating Expenses			
Personnel Costs	10	**(119,639)**	(86,615)
Other Operating Expenses	11	**(104,773)**	(91,751)
Operating Profit before Value Added Tax on Financial Services		**270,087**	260,490
Financial Services VAT		**(18,100)**	(16,207)
Profit before Taxation from Operations		**251,987**	244,283
Taxation	12	**(51,752)**	(46,268)
Profit for the Year		**200,235**	198,015
Earnings Per Share (Rs)	13	**3.81**	3.77

Accounting Policies & Notes from pages 109 to 145 form an integral part of these Financial Statements.

Comprehensive Income

Year ended 31 December 2012	2012 Rs.'000	2011 Rs.'000
Profit for the Year	**200,235**	198,015
Other Comprehensive Income	-	-
Total Other Comprehensive Income	**200,235**	198,015
Attributable to :		
Equity Holders of the Parent Company	**200,235**	198,015

Accounting Policies & Notes from pages 109 to 145 form an integral part of these Financial Statements.

Statement of Changes in Equity

Year ended 31 December 2012	Stated Capital Rs'000	Retained Earnings Rs'000	Statutory Reserve Fund Rs'000	Investment Reserve Fund Rs'000	Total Rs'000
Balance as at 31 December 2010	525,000	(33,880)	7,107	-	498,227
Net Profit/ (Loss) for the Year	-	198,015	-	-	198,015
Transfer to Statutory Reserve	-	(9,619)	9,619	-	-
Transfer to Investment Reserve	-	(12,841)	-	12,841	-
Balance as at 31 December 2011	525,000	141,675	16,726	12,841	696,242
Net Profit/ (Loss) for the Year	-	200,235	-	-	200,235
Transfer to Statutory Reserve	-	(10,012)	10,012	-	-
Dividend Declared	-	(19,950)	-	-	(19,950)
Transfer to Investment Fund Reserve	-	(17,148)	-	17,148	-
Balances as at 31 December 2012	525,000	294,800	26,738	29,989	876,527

Accounting Policies & Notes from pages 109 to 145 form an integral part of these Financial Statements.

Cash Flow Statement

Year ended 31 December 2012	2012 Rs. '000	2011 Rs. '000
Cash Flow from Operating Activities		
Profit/ (Loss) before Taxation	**251,987**	244,283
Interest & Similar Expenses	**600,406**	210,207
Fee & Commission Expenses	**16,911**	9,089
Provision for Impairment	**262**	(49,324)
Provision for /(Reversal of) Staff Gratuity	**1,669**	1,012
Provision for Depreciation	**13,990**	16,917
Amortisation of Software	**3,211**	3,668
Profit on sale of motor vehicle	**(314)**	(521)
	636,136	191,048
Operating Profit before Working Capital Changes	**888,123**	435,331
(Increase)/Decrease in Leased Assets	**(647,022)**	(1,529,589)
(Increase)/Decrease in Hire Purchase Debtors	**(900,633)**	(489,956)
(Increase)/Decrease in Factoring Debtors	**(34,015)**	(316,671)
(Increase)/Decrease in Inventories	**(7)**	(250)
(Increase)/Decrease in Other Receivables	**(20,402)**	78,506
Increase/(Decrease) in Other Payables	**(33,040)**	(126,620)
	(1,635,118)	(2,384,580)
Cash Generated from Operations	**(746,995)**	(1,949,249)
Interest paid	**(663,958)**	(199,724)
Gratuity Paid	**(436)**	(273)
Income Tax Paid	**(19,594)**	(31,766)
Net Cash Inflow/(Outflow) from Operating Activities	**(1,430,984)**	(2,181,012)
Cash Flow from Investing Activities		
Investments in Fixed Deposits	**(87,246)**	-
Purchase of Property, Plant & Equipment	**(12,052)**	(11,519)
Proceeds from Sale of Property, Plant & Equipment	**1,887**	3,120
Net Cash Inflow/(Outflow) from Investing Activities	**(97,411)**	(8,399)
Net Cash Inflow/(Outflow) before Financing Activities		
Cash Flow from Financing Activities		
Net Proceeds from Long Term Loans/ Securitizations	**93,115**	1,750,407
Net Proceeds from Debenture	**330,000**	100,000
Repayment of Finance Lease Obligations	**-**	(1,751)
Net Proceeds from Short Term Borrowings	**1,067,468**	401,339
Dividend Paid	**(19,950)**	-
Cash Flow from Financing Activities	**1,470,633**	2,249,995
Net Increase/(Decrease) in Cash and Cash Equivalents	**(57,762)**	60,583
Cash & Cash Equivalent at the beginning of the year	**33,565**	(27,018)
Cash and Cash Equivalents at end of the Period	**(24,196)**	33,565
Analysis of the Cash and Cash Equivalents at the end of the period		
Investment in REPO	**5,341**	4,045
Cash and Bank balances	**32,586**	29,520
Bank Overdraft	**(62,124)**	-
	(24,196)	33,565

Accounting Policies & Notes from pages 109 to 145 form an integral part of these Financial Statements.

Notes to the Financial Statements

Year ended 31 December 2012

1. Corporate Information

1.1 General

Sampath Leasing & Factoring Limited ("The Company") was incorporated as a Public Company on 03rd March 2005. The Company is incorporated and domiciled in Sri Lanka and the registered office of the Company is located at No.110, Sir James Pieris Mawatha, Colombo 02.

1.2 Principal Activities and Nature of Operations

The company provides comprehensive range of financial products which comprises of Leasing & Hire Purchase of plant, machinery, equipment, vehicles, Debt Factoring and hiring of Vehicles.

1.3 Parent Enterprise and Ultimate Parent Enterprise

The Company's parent undertaking is Sampath Bank PLC. The Company's ultimate parent undertaking and controlling party is Sampath Bank PLC, which is incorporated in Sri Lanka.

1.4 Directors' Responsibility Statement

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

1.5 Date of Authorization

The Financial Statements of the Company for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 30th January 2013.

The staff strength of the company as at December 31, 2012 was 125 (123 as at December 31, 2011).

2. Basis of Preparation

2.1 Statement of compliance

The Financial Statements of the Company (Balance Sheet, Income Statement, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows together with Accounting Policies and Notes) as at 31st December 2012 are prepared in accordance with Sri Lanka Accounting Standards (SLFRSs) as laid down by the Institute of Chartered Accountants of Sri Lanka in compliance with the requirements of the Companies Act No. 07 of 2007. Sri Lanka Accounting Standards (SLFRS) comprise Accounting Standards both Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards.

For all periods up to and including the year ended 31st December 2011, the Company has prepared its financial statements in accordance with locally generally accepted accounting practice (SLAS). These financial statements for the year ended 31st December 2012 are the first the company prepared in accordance with SLFRSs. These SLFRSs are in effective from January 1, 2012 and comparatives also re-measured. Hence the date of transition to SLFRS is January 1, 2011.

2.2 Basis of Measurement

The Financial Statements of the Company are prepared in Sri Lanka Rupees on a historical cost basis. No adjustments have been made for inflationary factors.

2.3 Functional and presentation currency

The financial statements are presented in Sri Lanka Rupees Thousands, except when otherwise indicated.

2.4 Presentation of financial statements

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 33.

2.5 Materiality & Aggregation

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

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expenses are not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies.

2.6 Comparative Information

The accounting policies have been consistently applied by the Company with those of the previous financial year in accordance with LKAS 01 Presentation of Financial Statements except those resulted to change as the revision or application of new SLFRS. Further comparative information is reclassified wherever necessary to comply with the current presentation.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Notes to the Financial Statements *contd.*

Judgements

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

3.1 Useful life-time of the Property and equipment

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

3.2 Taxation

The Company is subject to income taxes and other taxes including VAT on financial services.

Significant judgment was required to determine the total provision for current, deferred and other taxes pending the issue of tax guidelines on the treatment of the adoption of SLFRS in the financial statements and the taxable profit for the purpose of imposition of taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these financial statements.

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

Estimates and assumptions

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

3.3 Going concern

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

3.4 Impairment losses on Loans and Advances (Leases, Hire Purchases and Factoring receivables)

The Company reviews its individually significant loans and advances at each statement-of-financial-position date to assess whether an impairment loss should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

3.5 Impairment of available for sale investments

The Company reviews its debt securities classified as available for sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

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

3.6 Deferred tax assets

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

3.7 Defined benefit plans

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

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

4. Summary of Significant Accounting Policies

The significant accounting policies applied by the company in preparation of its financial statements are included in below. The accounting policies set out below have been applied consistently to all periods presented in theses financial statements and in preparing the opening SLFRS statement of financial position at January 1, 2011 for the purpose of transition to SLFRS, unless otherwise indicated.

4.1 Financial Assets and Financial Liabilities – initial recognition and subsequent measurement

Financial assets within the scope of LKAS 39 are classified as Securities purchased under Repurchase Agreements, Factoring Receivables, Lease Receivables, HP Receivables and available-for-sale financial assets.

Financial liabilities within the scope of LKAS 39 are classified as Bank Overdraft, Debt Instruments Issued and Other borrowed funds and Other Payables.

(i) Date of recognition

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

(ii) Initial measurement of Financial Assets and Financial Liabilities

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

(iii) Available for sale financial assets

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

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

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

(iv) Debt issued and other borrowed funds

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

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

(v) 'Day 1' profit or loss

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

(vi) Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

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

Notes to the Financial Statements *contd.*

4.2 Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

(ii) Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

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

4.3 Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not de-recognised from the statement of financial position as the Company retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'repurchase agreements', reflecting the transaction's economic substance as a loan to the Company. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR. Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within 'reverse repurchase agreements', reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

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

4.4 Impairment of financial assets

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

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

Individually assessed Loans and Advances

For financial assets carried at amortised cost (such as loans and advances to customers as well as held to maturity investments), the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

The criteria used to determine that there is such objective evidence includes:

- known cash flow difficulties experienced by the borrower;
- past due contractual payments of either principal or interest;
- breach of loan covenants or conditions;
- the probability that the borrower will enter bankruptcy or other financial realisation; and

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 the loss is recognised in the income statement.

The impairment allowances on individually significant accounts are reviewed more regularly when circumstances require. This normally encompasses re-assessment of the enforceability of any collateral held and the timing and amount of actual and anticipated receipts. Individually assessed impairment allowances are only released when there is reasonable and objective evidence of a reduction in the established loss estimate.

Collectively assessed loans and advances
Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogeneous groups of loans that is not considered individually significant.

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

The collective impairment allowance is determined after taking into account:

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

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

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

- Net flow Rate method

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

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

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

These additional macro and portfolio risk factors may include:

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

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

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

(ii) Available for sale financial investments
For available for sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of 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. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

Notes to the Financial Statements *contd.*

(iii) Renegotiated loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original Effective Interest Rate (EIR) as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(iv) Collateral repossessed or where properties have devolved to the Company

The Company's policy is to determine whether a repossessed or devolved asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Company's policy. The assets held by Company for temporary periods pending unexecuted auctions or any suitable recovery methods are not shown as investment properties.

4.5 Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet 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 asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Balance Sheet.

4.6 Finance and operating leases

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

Finance lease

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

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

Operating lease

All other leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'Property, plant and equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired. When the Company is the lessee, leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'other operating income', respectively.

4.7 Recognition of income and expenses

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

(i) Interest Income and Interest Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities.

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.

(ii) Fee and commission income

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Dividend income

Dividend income is recognised when the Company's right to receive the payment is established.

(iv) Net trading income

Results arising from trading activities include interest income or expense and dividends for financial assets.

4.8 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value, and are used by the company management of its short term commitments.

For the purpose of the Statement of Cash Flow, Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted current accounts with Company's on demand or with an original maturity of three months or less.

4.9 Property and equipment

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

Recognition and measurement

Cost Model

Property and equipment is stated at cost or valuation excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Subsequent Cost

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

Depreciation

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The rates of depreciations based on the estimated useful lives are as follows:

Category of Asset	Period of Depreciation
Office Equipment	16.67% p.a.
Computer Equipment	16.67% p.a.
Furniture and Fittings	12.50% p.a.
Motor Vehicles	12.50% p.a.
Fixtures	20.00% p.a.

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

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is de-recognised.

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

De-recognition

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the income statement in the year the asset is de-recognised.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

4.10 Intangible assets

The Company's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition,

Notes to the Financial Statements *contd.*

intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Useful life of Intangible Assets

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

Amortization

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

The Class of Intangible Assets	Useful Life	Amortisation Method
Computer software	4 Years	Straight line method

4.11 Impairment of non–financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4.12 Retirement Benefit Obligations

(i) Gratuity

All the employees of the company are eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983.

Employees those who have resigned or whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act No. 12 of 1983 at the rate of one half of the Gross Salary applicable to the last month of the financial year in which the employment is terminated or resigned, for each year of completed service, for those who have served in excess of 5 years.

The method of calculation of retirement benefit obligation has changed to actuarial valuation method and changes in accounting policy have been retrospectively accounted. The comparative statements for 2010 have been restated to confirm to changed policies.

Recognition of Actuarial Losses / Gains

Actuarial losses / gains to be recognized in this year's retirement expense is calculated according to the 10% corridor method.

Expected Return on Assets

Expected return on assets is zero as the plan is not pre funded.

Interest Cost

Interest cost is the expected increase due to interest during the period in the present value of the plan liabilities because the benefits are one year closer to settlement.

Funding Arrangements

The Gratuity liability is not externally funded.

(ii) Defined contribution plan

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

The Company contributes to the following Schemes:

Employees' Provident Fund

The Company and employees contribute 12% and 8% respectively of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Company's Provident Fund is an approved fund under the Employees' Provident Fund Act.

Employees' Trust Fund

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

4.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

4.14 Taxes

Income Tax expense comprises of current and deferred tax. Income tax expense is recognized in the Income Statement.

(i) Current Taxation

Current tax assets and liabilities consists of amounts expected to be recovered from or paid to the Commissioner General of Inland

Revenue in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the amendment thereto, at the rates specified in Note 12 to the Financial Statements.

(ii) Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries and Associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences. Carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax asset are reassessed at each Balance Sheet date and are recognise to the extent that is probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Balance Sheet date.

(iii) Value Added Tax on Financial Services (VAT)

The base for the computation of Value Added Tax on Financial Services is the accounting profit before tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rates. The computations are done in accordance with 25A of VAT Act No.7 of 2002 and amendments thereto.

4.15 Dividend on Ordinary Shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the company's shareholders. Interim dividends are deducted when they are declared and no longer at the discretion of the company.

Dividends for the year that are approved after the reporting date as an event after the reporting date.

4.16 Events after the Balance Sheet Date

All material events after the Balance Sheet events have been considered where appropriate adjustments or disclosures are made in respective notes to the financial statements.

4.17 Statement of Cash Flows

The Cash flow statement is prepared using the indirect method, as stipulated in LKAS 7- "Statement of Cash Flows". Cash and cash equivalents comprise cash in hand, cash at bank, bank overdrafts and investments in REPO.

4.18 Sri Lanka Accounting Standards effective from 01st January 2013

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka that have an effective date in the future. Those SLFRS will have an effect on the accounting policies currently adopted by the Company and may have an impact on the future financial statements.

(i) SLFRS 9 -Financial Instruments: Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities.

(ii) SLFRS 13 -Fair Value Measurement

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

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

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

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

Notes to the Financial Statements *contd.*

The Company will adopt these standards when they become effective. Pending a detailed review, the financial impact is not reasonably estimable as at the date of publication of these financial.

5. FIRST- TIME ADOPTION OF LKAS AND SLFRSs

These financial statements, for the year ended 31st December 2012, are the first the company has prepared in accordance with SLFRSs. For periods up to an including the year ended 31st December 2011, the Company has prepared in accordance with local generally accepted accounting practice (Sri Lanka Accounting Standards).

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

5.1 *Notes to the Reconciliation of Equity as at 1st January 2011 and 31st December 2012*

Note A

Impairment allowances

Specific and general provisions for bad debt were previously recognized under SLASs. The impairment approach under SLFRSs differs to SLASs, as general provisions are no longer permitted and impairment losses can only be provided for when there is objective evidence of an incurred loss. In accordance with the impairment calculation methodology as set out in IAS 39, the Company's provisioning level has decreased by Rs. 4.35 million as at 1st January 2010 and by Rs. 20.14 million as at 31 December 2011.

Note B

Initial Transaction costs

Initial transaction cost relevant to the promissory notes and securitization have been amortized on straight line basis. In order to amortize the initial transaction cost on EIR basis, it has been reclassified to the respective borrowing components.

Note C

Recognition of interest on EIR basis

The Interest has been accrued according to the SLFRs on EIR basis which has been carried out on straight line basis under SLASs.

Note D

Reclassification of Interest Payable

The interest payable component has been reclassified to the respective financial liabilities in order to recognize total liability on EIR basis.

Note E

Reclassification of Other Income

Following Income which we have previously classified under Other Income were re-classified to Fee & Commission Income.

- Documentation Charges
- Insurance Commission
- Income from Sourcing of Vehicles

Note F

Reclassification of Interest Expense

Guarantee Fee which is previously is re-classified under Interest Income has now been re-classified to Fee & Commission Expenses.

Note G

***Reclassification* of Other Income**

Interest Income Staff Loan has been re-classified under Interest Income & Refer Note E for the components of Other Income, reclassified to Fee & Commission Income.

Note H

***Retained* earnings**

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

	1-Jan. 2011	31-Dec. 2011
Impact of provision reversals of Lease, Hire Purchase and factoring	110,899	83,244
Impact of interest in suspense reversals of Lease, Hire Purchase and factoring	54,463	48,004
Impact of impairment of Lease, Hire Purchase and factoring	(161,004)	(111,107)
EIR adjustments on borrowed Funds	692	(2,204)
Impact on Depreciation	-	247
Impact on Deferred Tax	(6,465)	(7,822)
Impact of Financial Services VAT & Income Tax	-	(6,153)
Net Impact	**(1,415)**	**4,209**

Note I

***Exemption* Applied**

SLFRS 1 First- time adoption of Sri Lanka Accounting Standards allows first time adopters certain exemptions from the retrospective application of certain SLFRS.

The company has elected to disclose the following amounts prospectively from the date of transition (IFRS ordinarily requires the amounts for the current and previous four annual periods to be disclosed):

(i) The present value of the defined benefit obligation, the fair value of the plan assets and the surplus or deficit in the plan; and

(ii) The experience adjustments arising on the plan liabilities and the plan assets.

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

5.2 Reconciliation of Balance Sheet as at 01 January 2011 (Date of transition to SLFRSs)

Year ended 31 December 2012	Note	SLAS Rs. '000	Remeasurements/ Reclassifiactions Rs. '000	SLFRS/ LKAS Rs. '000
Assets				
Cash and Bank Balances		5,322	-	5,322
Factoring Receivables	A	215,685	(5,241)	210,444
Lease Receivables	A	468,550	10,877	479,427
HP receivable	A	732,826	(1,278)	731,548
Other Debtors & Prepayments	B	285,203	(625)	284,578
Financial Instruments-Available for Sale		56	-	56
Intangible Assets		9,273	-	9,273
Inventories		469	-	469
Property, Plant & Equipment		77,021	-	77,021
Deferred Taxation Asset		8,246	(6,465)	1,782
Total Assets		1,802,651	(2,732)	1,799,920
Liabilities				
Bank Overdraft		32,340	-	32,340
Debt Instruments Issued and Other Borrowings	C	895,515	44,477	939,992
Other Payables	D	342,552	(45,794)	296,760
Income Taxation Payable		30,445	-	30,445
Retirement Benefit Obligations		2,156	-	2,156
Total liabilities		1,303,008	(1,317)	1,301,693
Shareholders' Funds				
Stated Capital		525,000	-	525,000
Statutory Reserve Fund		7,107	-	7,107
Accumulated Profit/ (Loss)	H	(32,465)	(1,415)	(33,880)
Total Shareholders' Funds		499,642	(1,415)	498,227
Total Liabilities and Shareholders' Funds		1,802,651	(2,732)	1,799,920

Notes to the Financial Statements *contd.*

5.3 Reconciliation of Balance Sheet as at 31 December 2011

Year ended 31 December 2012	Note	SLAS Rs. '000	Remeasurements/ Reclassifiactions Rs. '000	SLFRS/ LKAS Rs. '000
Assets				
Cash and Bank Balances		29,520	-	29,520
Securities purchased under Repurchase Agreements		4,045	-	4,045
Factoring Receivables	A	536,183	(3,725)	532,458
Lease Receivables	A	2,013,735	14,204	2,027,939
HP receivable	A	1,243,659	9,663	1,253,322
Other Debtors & Prepayments	B	202,834	(1,707)	201,127
Financial Instruments-Available for Sale		56	-	56
Intangible Assets		5,608	-	5,608
Inventories		719	-	719
Property, Plant & Equipment		68,774	247	69,021
Total Assets		4,105,133	18,682	4,123,815
Liabilities				
Debt Instruments Issued and Other Borrowings	C	3,145,510	65,865	3,211,375
Other Payables	D	240,150	(64,305)	175,845
Deferred Taxation Liability		7,931	7,822	15,753
Income Taxation Payable		16,614	5,091	21,705
Retirement Benefit Obligations		2,895	-	2,895
Total liabilities		3,413,100	14,473	3,427,573
Shareholders' Funds				
Stated Capital		525,000	-	525,000
Investment Fund Reserve		12,841	-	12,841
Statutory Reserve Fund		16,726	-	16,726
Accumulated Profit/ (Loss)	E	137,466	4,209	141,675
Total Shareholders' Funds		692,033	4,209	696,242
Total Liabilities and Shareholders' Funds		4,105,133	18,682	4,123,814

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

5.4 Reconciliation of Income Statement for the year ended 31 December 2011

For the year ended 31 st December	Note	SLAS Rs. '000	Remeasurements/ Reclassifiactions Rs. '000	SLFRS/ LKAS Rs. '000
Interest Income	A	567,666	(12,337)	555,329
Interest Expenses	C	(216,399)	6,192	(210,207)
Net Interest Income		351,267		345,122
Fees and Commission Income	E	-	23,570	23,570
Fees and Commission Expenses	F	-	(9,089)	(9,089)
Net Fee and Commission Income		-	14,481	14,481
Other Operating Income	G	53,808	(23,879)	29,929
Total Operating Income		405,075	(9,398)	389,532
Impairment (Charges)/Reversal for loans and other losses	A	-	49,324	49,324
Net Operating Income		405,075	39,926	438,856
Operating Expenses				
Personnel Costs		86,615	-	86,615
Loan Losses and Provisions		(20,892)	20,892	-
Other Operating Expenses		91,998	(247)	91,751
Operating Profit before Valued Added Tax on Financial Services		247,354	60,571	260,490
Financial Services VAT		(15,145)	(1,062)	(16,207)
Profit before Taxation from Operations		232,209	59,509	244,283
Taxation		(39,820)	(6,448)	(46,268)
Profit for the year		192,389	53,061	198,015

Notes to the Financial Statements *contd.*

Year ended 31 December 2012

6. INTEREST INCOME

	2012 Rs.000	2011 Rs.000
Lease Income	**479,568**	207,921
Hire Purchase Income	**364,841**	183,172
Hire Rental Income	**16,129**	22,615
Factoring Income	**115,593**	72,709
Interest Income- Fixed Deposit	**20,272**	-
Interest Income- REPO	**290**	156
Interest on Overdue Rentals	**36,860**	68,603
Interest Income- Staff Loan	**4**	153
Total Interest Income	**1,033,557**	555,329
Interest Expenses		
Short Term Borrowings & Overdrafts	**164,887**	70,308
Long Term Borrowings	**253,910**	116,087
Commercial Papers/ Promissory Notes	**80,086**	19,592
Securitisation Loans	**59,066**	4,043
Finance Leases	**-**	107
Interest on Debentures	**42,457**	70
Total Interest Expenses	**600,406**	210,207
Net Interest Income	**433,151**	345,122

7. FEE AND COMMISSION INCOME

	2012 Rs.000	2011 Rs.000
Documentation Charges	**10,552**	11,923
Insurance Commission	**15,185**	7,634
Income from Sourcing of Vehicles	**13,958**	4,013
Total Fee and Commission Income	**39,695**	23,570
Fee and Commission Expenses		
Guarantee Fee	**16,911**	9,089
Total Fee and Commission Expenses	**16,911**	9,089
Net Fee and Commission Income	**22,784**	14,481

8. OTHER OPERATING INCOME

Year ended 31 December 2012	2012 Rs.000	2011 Rs.000
Profit on Cancellations	**27,625**	22,867
Profit on Disposal of Motor Vehicles	**314**	521
Recovery of Bad Debts Written Off	**6,974**	2,048
Sundry Income	**3,913**	4,493
Total Other Operating Income	**38,827**	29,929

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

Finance Leases	**(541)**	(17,598)
Hire Purchase	**915**	(26,230)
Factoring Receivable	**(113)**	(5,342)
Other Loans	**-**	(154)
	262	(49,324)

10. STAFF COSTS

Salary & Bonus	**103,301**	75,212
Contribution to Defined Contribution Plan	**9,895**	7,036
Gratuity Charge/ (Reversals) for the Year	**1,669**	1,012
Others	**4,774**	3,355
	119,639	86,615

11. OTHER OPERATING EXPENSES

Directors' Emoluments	**9,750**	1,510
Auditors' Remuneration	**1,200**	800
Non- Audit fees to Auditors	**1,389**	575
Professional & Legal Expenses	**8,221**	3,795
Depreciation on Property, Plant & Equipment	**13,992**	16,917
Amortization of Intangible Assets	**3,211**	3,665
Office Administration & Establishment Expenses	**57,658**	44,048
Advertising Expenses	**4,063**	4,782
VAT Write Off	**-**	7,434
Others	**5,288**	8,225
	104,773	91,751

Notes to the Financial Statements *contd.*

12. TAXATION

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

Year ended 31 December 2012	2012 Rs.000	2011 Rs.000
Income Statement		
Current Income Tax		
Income Tax for the year	**26,270**	23,642
Under/ (Over) Provision of Current Taxes in respect of Previous Years/ SLFRS Adjustments	**394**	5,091
Deferred Tax		
Deferred Taxation Charge/ (Reversal) (Refer Note 25)	**25,088**	17,535
	51,752	46,268

12.2 A reconciliation between tax expenses and the product of accounting profit multiplied by the statutory tax rate is as follows.

Year ended 31 December 2012	2012 Rs.000	2011 Rs.000
Accounting Profit Before Income Taxation	**251,986**	232,209
At the statutory income tax rate of 28%	**70,556**	65,019
Tax effect of Non deductible Expenses	**10,524**	12,391
Tax effect of Other allowable Credits	**(40,264)**	(40,754)
Tax Effect of Exempt Income	**(400)**	(283)
Tax Effect of Losses Claimed	**(14,146)**	(12,731)
At the effective income tax rate of 10.31% (10.18%- 2011)	**26,270**	23,642

The Company's income is taxed at the rate of 28% during the Years 2012 & 2011.

13. EARNINGS PER ORDINARY SHARE

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

For the year ended 31 st December	2012 Rs.000	2011 Rs.000
Profit/ (Loss) attributable to Ordinary Shareholders (Rs. 000)	**200,235**	198,015
Weighted Average Number of Ordinary Shares during the year	**52,500,000**	52,500,000
Earnings per Ordinary Share-(Rs.)	**3.81**	3.77

As at 31 December	2012 Rs.000	2011 Rs.000	2010 Rs.000
Cash at Bank	**32,430**	29,377	5,224
Cash in Hand	**156**	143	98
	32,586	29,520	5,322

15. FACTORING RECEIVABLES

Factoring Debtors	**605,694**	571,258	254,020
Less : Individual Impairment	**(38,397)**	(38,045)	(42,647)
Collective Impairment	**(713)**	(755)	(929)
Net Factoring Receivable	**566,584**	532,458	210,444

16. INVESTMENTS IN FIXED DEPOSITS

Fixed Deposits	**87,246**	-	-
	87,246	-	-

17. LEASE RENTALS RECEIVABLES

Gross Lease rentals receivables	**3,676,400**	2,766,174	730,545
Less: Unearned Income	**(952,258)**	(685,954)	(132,876)
Less: VAT Suspense	**(6,552)**	(7,136)	(7,799)
Less: Prepaid Rentals	**(1,561)**	(3,410)	(5,686)
Less: Security Margin	**(41)**	(708)	(44,811)
Less: Individual Impairment Charges	**-**	-	-
Less: Collective Impairment Charges	**(37,829)**	(41,027)	(59,947)
Total lease rentals receivable (Note 17.1 & 17.2)	**2,678,159**	2,027,939	479,427

Lease receivables include receivables amounting to Rs. 2,082,074,943/90 that have been assigned under a securitization funding arrangement.

Notes to the Financial Statements *contd.*

17.1 As at 31st December 2012

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Lease Receivables	1,337,450	2,338,950	-	3,676,400
Less: Unearned Income	(458,379)	(502,033)	-	(960,412)
	879,071	1,836,917	-	2,715,988
Less: Provision for Impairment (Collective)	(13,164)	(24,665)	-	(37,829)
	865,907	1,812,252	-	2,678,159

17.2 As at 31st December 2011

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Lease Receivables	868,020	1,890,386	7,768	2,766,174
Less: Unearned Income	(305,404)	(390,818)	(986)	(697,208)
	562,616	1,499,568	6,782	2,068,966
Less: Provision for Impairment (Collective)	(12,215)	(28,682)	(130)	(41,027)
	550,401	1,470,886	6,652	2,027,939

17.3 Movement in Impairment Charges

Specific Provisions As at 31 December 2012	Lease Rs. '000	HP Rs. '000	Factoring Rs. '000	Repossession Lease Rs. '000	Repossession HP Rs. '000	Other Loans Rs. '000	Total Rs. '000
Impairment Charges at the beginning of the year	41,024	25,662	38,801	2,996	2,460	109	111,052
Recoveries during the Year	-	-	564	-	-	-	564
Unwinding Impact	-	-	(143)	-	-	-	(143)
Provision for Impairment (Charge)/ Reversal during the Year	(3,195)	(1,429)	(112)	2,654	2,344	-	262
Impairment Charges at the end of the year	37,829	24,233	39,110	5,650	4,804	109	111,735
Specific Provisions As at 31 December 2011							
Impairment Charges at the beginning of the year	59,947	57,480	43,576	36,063	30,632	549	228,247
Write off during the Year				(34,392)	(33,761)	(285)	
Recoveries during the Year			828				828
Unwinding Impact			(261)				(261)
Provision for Impairment (Charge)/ Reversal during the Year	(18,923)	(31,818)	(5,343)	1,325	5,589	(154)	(49,324)
Impairment Charges at the end of the year	41,024	25,662	38,800	2,996	2,460	110	179,490

18. HIRE PURCHASE RENTALS RECEIVABLES

Year ended 31 December 2012	2012 Rs.000	2011 Rs.000	2010 Rs.000
Gross hire purchase rentals receivables	**3,058,078**	1,683,609	991,856
Less: Unearned Income	**(878,344)**	(404,625)	(202,829)
Less: Pre Paid Rentals	**(117)**	-	-
Less: Collective Impairment	**(24,233)**	(25,662)	(57,480)
Total Hire Purchase rentals receivable (Note 18.1 & 18.2)	**2,155,384**	1,253,322	731,547

Hire Purchase receivables include receivables amounting to Rs. 1,195,348,957/60 that have been assigned under a securitization funding arrangement.

18.1 As at 31st December 2012

	1 Year Rs. '000	1- 5 Year Rs. '000	More than 5 Year Rs. '000	Total Rs. '000
Gross Lease Receivables	1,114,933	1,933,387	9,758	3,058,078
Less: Unearned Income and Other Deductions	(403,284)	(474,412)	(764)	(878,460)
	711,649	1,458,975	8,994	2,179,618
Less: Collective Impairment	(7,649)	(16,483)	(102)	(24,234)
	704,000	1,442,492	8,892	2,155,384

18.2 As at 31st December 2011

Gross Lease Receivables	619,738	1,063,872	-	1,683,610
Less: Unearned Income	(192,206)	(212,420)	-	(404,626)
	427,532	851,452	-	1,278,984
Less: Collective Impairment	(811)	(17,551)	-	(25,662)
	426,721	833,901	-	1,253,322

18.3 Non Performing Advances included in Lease Rentals Receivables and Stock out on Hire are as follows.

	2012		2011	
	Rs'000	Rs'000	Rs'000	Rs'000
Gross Receivable	**58,181**	**38,640**	68,061	41,830
Less: VAT Suspense	**(6,552)**	**-**	(6,737)	-
Collective Impairment	**(37,829)**	**(24,233)**	(41,027)	(25,662)
	13,800	**14,407**	20,297	16,168

Notes to the Financial Statements *contd.*

As at 31 December	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000
19. OTHER DEBTORS AND PREPAYMENTS			
VAT Receivable	**100,722**	111,778	143,877
Other Debtors and Prepayments	**115,809**	89,349	140,701
	216,531	201,127	284,578
20. FINANCIAL INSTRUMENTS- AVAILABLE FOR SALE			
Un-Quoted			
Credit Information Bureau	**56**	56	56
	56	56	56
21. INTANGIBLE ASSETS			
Cost as at 01st January	**14,661**	14,661	4,595
Additions and Improvements	**2,109**	-	10,066
Cost as at 31st December	**16,770**	14,661	14,661
Amortisation as at 01st January	**9,053**	5,388	1,723
Amortisation for the year	**3,211**	3,665	3,665
Accumulated amortisation as at 31st December	**12,264**	9,053	5,388
Net book value as at 31st December	**4,506**	5,608	9,273

22. PROPERTY, PLANT AND EQUIPMENT

	Balance As at 01.01.2012 Rs.	Additions /Transfers /Acquisitions Rs.	Disposals Rs.	Balance As at 31.12.2012 Rs.
22.1 Gross Carrying Amounts				
Fixtures	**5,916**	2,002	-	**7,918**
Office Furniture	**6,733**	1,622	-	**8,355**
Office Equipment	**5,835**	571	-	**6,406**
Motor Vehicles	**7,990**	1,481	135	**9,336**
Motor Vehicles (Hiring)	**69,179**	-	15,286	**53,893**
Computer Equipment	**15,213**	4,267	-	**19,480**
Total Value of Depreciable Assets	**110,866**	9,943	15,421	**105,388**

22.2 Depreciation

	Balance As At 01.01.2012 Rs.	Charge for the year/ Transfers Rs.	Disposals Rs.	Balance As at 31.12.2012 Rs.
Fixtures	**2,337**	1,133	-	**3,470**
Office Furniture	**2,997**	946	-	**3,943**
Office Equipment	**3,277**	787	-	**4,064**
Motor Vehicles	**2,751**	935	135	**3,551**
Motor Vehicles (Hiring)	**19,262**	8,435	13,712	**13,985**
Computer Equipment	**11,220**	1,754	-	**12,974**
	41,844	13,990	13,847	**41,987**

22.3 Net Book Values

As at 31st December	2012 Rs.	2011 Rs.	2010 Rs.
Fixtures	**4,448**	3,580	1,330
Office Furniture	**4,412**	3,736	2,912
Office Equipment	**2,342**	2,557	1,684
Motor Vehicles	**5,785**	5,239	3,442
Motor Vehicles (Hiring)	**39,908**	49,916	62,480
Motor Vehicles (Leased)	**-**	-	1,508
Computer Equipment	**6,506**	3,993	3,664
	63,401	69,021	77,021
Total Carrying Amount of Property, Plant & Equipment	**63,401**	69,021	77,021

22.4 During the financial year, the Company acquired Property, Plant & Equipment to the aggregate value of Rs. 9.94 Million (2011 Rs. 11.52 Million). Cost of fully depreciated assets of the company as at 31st December 2012 is 17.131 Million (2011 Rs. 4.85 Million).

Notes to the Financial Statements *contd.*

22.5 The useful lives of the assets is estimated as follows

As at 31st December	2012 Rs.	2011 Rs.	2010 Rs.
Fixtures	**05 Years**	05 Years	05 Years
Furniture & Fittings	**08 Years**	08 Years	08 Years
Office Equipments	**06 Years**	06 Years	06 Years
Motor Vehicles	**08 Years**	04 Years	04 Years
Computer Equipments	**06 Years**	06 Years	06 Years

Useful life time of Motor Vehicles changed to 8 years effective from 01st January 2012, as to be in consistent with the Group policy.

23. DEBT INSTRUMENTS ISSUED & OTHER BORROWED FUNDS

As at 31st December	2012 Rs.000	2011 Rs.000	2010 Rs.000
Commercial Papers/ Promissory Notes (23.3)	**1,120,274**	106,622	90,641
Debentures (23.4)	**437,207**	100,070	-
Loans (23.1)	**2,313,839**	2,617,233	836,930
Securitizations (23.2)	**783,997**	387,450	10,670
Finance Lease Obligations	**-**	-	1,751
	4,655,317	3,211,375	939,992

23.1 Loans as at 31st December 2012

	Payable within 1 Year Rs.000	Payable after 1 Year Rs.000	Total Rs.000
Short Term Loans	432,756	-	432,756
Long Term Loans	687,395	1,193,688	1,881,083
	1,120,151	1,193,688	2,313,839

23.2 Securitization Payables as at 31st December 2012

Securitization- Capital Payable	518,988	265,009	783,997
	518,988	265,009	783,997

23.3 Commercial Papers/ Promissory Notes as at 31st December 2012

Commercial Papers/ Promissory Notes	1,148,129		1,148,129
Less: Interest in Suspense	(27,855)		(27,855)
	1,120,274	-	1,120,274

23.4 Debentures as at 31st December 2012

Debenture - Capital Payable	92,707	344,500	437,207
	92,707	344,500	437,207

24. OTHER PAYABLES

As at 31st December	2012 Rs.000	2011 Rs.000	2010 Rs.000
Vendor Payable	**81,215**	127,312	123,056
VAT Payable	**-**	-	117,897
Other Payables	**71,554**	48,533	55,807
	152,769	175,845	296,760

25. DEFERRED TAXATION

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

	Balance Sheet			Income Statement	
	2012 Rs.000	2011 Rs.000	2010 Rs.000	2012 Rs.000	2011 Rs.000
Deferred Tax Liability					
Capital Allowances for tax purposes	**81,164**	75,847	45,123	**5,316**	30,724
	81,164	75,847	45,123	**5,316**	30,724
Deferred Tax Assets					
Defined Benefit Plans	**1,156**	811	1,210	**(345)**	399
Tax Losses	**39,166**	59,283	45,695	**20,117**	(13,588)
	40,322	60,094	46,905		
Deferred income tax charge/(reversal)	**25,089**	17,535	(1,782)	**25,088**	17,535
Net Deferred Tax Liability	**40,842**	15,753	(1,782)		

26. INCOME TAXATION PAYABLE

As at 31st December	2012 Rs.	2011 Rs.	2010 Rs.
As at beginning of the year	**21,705**	30,445	-
Tax Paid	**(19,600)**	(31,766)	(7,329)
Adjustment (ESC/ WHT etc.)	**(9,955)**	(5,707)	3,051
Provision for the year (Note 12)	**26,664**	23,642	34,723
SLFRS Adjustment	**-**	5,091	-
As at the end of the year	**18,814**	21,705	30,445

Notes to the Financial Statements *contd.*

27. RETIREMENT BENEFIT OBLIGATIONS

As at 31st December	2012 Rs.	2011 Rs.	2010 Rs.
Net accrued/ (Pre-paid) Liability	**2,895**	2,156	3,589
Benefit Expenses for the Year	**1,669**	1,012	(1,011)
Gratuity Paid during the Period	**(436)**	(273)	(422)
Balance at the end of the year	**4,128**	2,895	2,156

27.1 Expenses on Defined Benefit Plan

Current Service Cost for the year	**1,227**	765	581
Interest cost for the year	**442**	247	213
Recognition of Transition Liability/ (asset)	**-**	-	(1,805)
(Gain)/Loss arising from changes in the assumptions of the previous year	**-**	-	-
	1,669	1,012	(1,011)

27.2 Assumptions

Discount Rate	**11%**	10%	9%
Salary increment	**10%**	9%	9%
Retirement age	**55 Years**	55.25 Years	55.29 Years

28. STATED CAPITAL

Issued and Fully Paid-Ordinary shares	2012 No of Shares	2012 Rs.000	2011 No of Shares	2011 Rs.000	2010 No of Shares	2010 Rs.000
At the beginning of the year	**52,500,000**	**525,000**	22,500,000	225,000	22,500,000	225,000
Issued during the year	**-**	**-**	30,000,000	300,000	30,000,000	300,000
At the end of the year	**52,500,000**	**525,000**	52,500,000	525,000	52,500,000	525,000

The Authorised Capital and Par Value Concept in relation to shares were abolished by the Companies Act No. 07 of 2007. The total amount received by the Company or due and payable to the Company in respect of the issue and calls of the shares are referred to as stated capital.

Stated Capital

The holders of ordinary shares are entitled to receive a dividend as declared from time to time and are entitled to one vote per share at meetings of the Company.

Retained Earnings

This represents the undistributed earnings held by the Company to be used in the Company's operations. This could be used to absorb future possible losses or dividends payable.

29. STATUTORY RESERVE FUND

The Reserve Fund is maintained in compliance with the Central Bank Direction No. 5 of 2006 issued to specialised leasing companies. As per the said Direction, every registered Finance Leasing Establishment shall maintain a reserve fund, out of the net profit after the payment of tax of each year, before any dividend is declared. A sum equivalent to not less than 5 percent of such profits should be transferred until the amount of the Reserve Fund is equal to 50 percent of the issued and paid up ordinary share capital of the relevant establishment; and further a sum equivalent to not less than 2 percent of such profits until the amount of Reserve Fund is equal to the issued and paid- up ordinary share capital of the relevant establishment.

As at 31st December	2012 Rs.000	2011 Rs.000	2010 Rs.000
At the beginning of the year	**16,726**	7,107	288
Profit transferred during the year	**10,012**	9,619	6,819
At the end of the year	**26,738**	16,726	7,107

30. INVESTMENT FUND RESERVE

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

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

As at 31st December	2012 Rs.000	2011 Rs.000
At the beginning of the year	**12,841**	-
Profit transferred during the year	**17,147**	12,841
At the end of the year	**29,988**	12,841

30.1 Utilisation of Investment Fund Account (IFA)

Balance available for utilization as at 01st January 2012	**5,051**	-
Total transfers to IFA	**17,147**	12,841
Total approved loans granted	**(15,544)**	(7,790)
Total Investments in Government Securities	**(5,075)**	(4,011)
Balance available for utilization as at 31st December 2012	**1,579**	1,040

Notes to the Financial Statements *contd.*

30.2 Total loans granted

		Interest rates	Tenure	Number of Loan Granted	Total amount outstanding
(a) Cultivation of Agriculture / Plantation corps	2012	11.55% -17.72%	5 Years	6	12,433
	2011	11.44% -11.55%	5 Years	4	5,693
(b) Factory/Mills modernisation		-	-	-	-
(c) Small and Medium Enterprises		-	-	-	-
(d) Information Technology and BPO		-	-	-	-
(e) Infrastructure Development		-	-	-	-
(f) Education		-	-	-	-
(g) Housing		-	-	-	-
(h) Construction of hotels and related purposes		-	-	-	-
(i) Restructuring of loans extended for above purposes		-	-	-	-
			10		18,126

30.3 Investments in Government Securities

	Face Value	Year of Matrurity	Cost of Investment	Outstanding (Rs. 000)
(a) Treasury Bonds over 5 years	-	-	-	-
	-	-	-	-
(b) Treasury Bills				
Investment in REPO	5,341	2013	5,295	5,341
	5,341	2013	5,295	5,341
Total Investments in Government Securities	5,341	2013	5,295	5,341

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is the comparison, by class, of the carrying amounts of fair values of the company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non- financial assets and non- financial liabilities.

	2012		2011	
	Carrying Amount Rs'000	Fair Value Rs'000	Carrying Amount Rs'000	Fair Value Rs'000
Financial Assets				
Cash and Bank Balances	**32,586**	**32,586**	29,520	29,520
Securities purchased under Repurchase Agreements	**5,341**	**5,341**	4,045	4,045
Investments in Fixed Deposits	**87,246**	**85,460**	-	-
Loans & advances to customers				
Factoring Receivables	**566,584**	**552,375**	532,458	519,419
Lease Receivables	**2,678,159**	**2,556,975**	2,027,939	2,004,514
HP receivable	**2,155,384**	**2,119,622**	1,253,322	1,243,332
Other Debtors & Prepayments	**201,298**	**201,298**	201,127	201,127
Financial Instruments- Available for Sale	**56**	**56**	56	56
	5,726,655	**5,553,713**	4,048,467	4,002,013
Financial Liabilities				
Bank Overdraft	**62,124**	**62,124**	-	-
Debt Instruments Issued and Other borrowed funds	**4,655,317**	**4,655,317**	3,211,375	3,211,375
	4,717,441	**4,717,441**	3,211,375	3,211,375

32. RISK MANAGEMENT DISCLOSURES

32.1 Introduction

Risk is inherent in a financial business and such risks are managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Company's continuing profitability and each individual within the Company is accountable for the risk exposures relating to his or her responsibilities.

The Company is exposed to credit risk, interest rate risk, liquidity risk, operational risk, the latter being subdivided into regulatory & compliance risk, reputation risk and environmental risk. The independent risk control process does not include business risks such as changes in the environment, technology and industry.

The Company's policy is to monitor those business risks through the Company's strategic planning process.

32.2 Risk Management Structure

The board is primarily responsible for risk management initiatives. Integrated Risk Management committee, which is a sub-committee of the board has been established and delegated risk management responsibilities. This Committee plays a vital role in establishing best practices in relation to risk policies and practices within the company.

The quantum and level of risks that the company is willing to accept is decided at the Board Risk Committee level, and the decisions made by this committee is communicated to the Board of Directors. The Board ratifies the risk policies and risk tolerance levels agreed at the Integrated Risk Management Committee meetings.

The committee fulfils the requirement set out in the Finance Leasing Direction No. 4 of 2009 on Corporate Governance for Finance Leasing Establishments issued by Central Bank of Sri Lanka (CBSL) under Finance Leasing Act, No. 56 of 2000.

This Committee consists of such number of members, as the board may determine from time to time. The committee currently consists of membership of 5 Directors, Chief Executive Officer and key management personnel supervising broad risk categories, i.e. credit, market, liquidity, operational and strategic risks.

In addition to the BIRM Committee, Risk Management function is managed by Risk Management Unit (RMU). RMU is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with the Risk Committee to ensure that

Notes to the Financial Statements *contd.*

procedures are compliant with the overall framework. RMU is also responsible for monitoring compliance with risk principles, policies and limits across the Company. This unit also ensures the complete capture of the risks in risk measurement and reporting systems. Exceptions are reported on a monthly basis, where necessary, to the Risk Committee, and the relevant actions are taken to address exceptions and any areas of weakness.

The Company's policy is to ensure that risk management processes throughout the Company are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Company's compliance with the procedures. Internal Audit division discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

32.3 Risk measurement & Reporting System and Risk Mitigation

The positioning map of each risk component is placed within the risk grid. Tolerance levels are set by using sustainable measurements and these are discussed at risk management meetings. The risk console indicates the severity of each component of risk. Tabulated below is the Risk Console that is used in identification of Key Risks and Risk Measures taken by the company together with mitigates suggested.

Financial Risks		Risk Measures	Mitigates
Credit Risk	**1. Default Risk** Potential loss due to borrower/ counterparty unable or unwilling to meet its obligations **2. Concentration Risk** Credit Exposure being concentrated to few sectors/ groups (insufficient diversification)	• Probability of Default • Loss Given Default • Sector / Asset / Client / Branch Concentrations of Lending Portfolio • Concentrations in Repossessed assets • Macro Credit Portfolio risk measures such as a) Provision Coverage b) Net NPL as a % of Equity Funds	• Board approved credit policies/ procedures/ framework and annual review • Delegated authority levels/ segregation of duties • Setting Prudential limits on maximum exposure - Overall NPL Ratio setting based on risk appetite - Credit Limit Exposures (for Asset Type and Sector) that takes account of NPL / Infection ratios and movement in NPL ratios - Concentration limits for clients/ groups, asset types • Monitoring of exposures against the limits • Trend analysis reported to BIRMC Strict compliance with CBSL Guidelines
Interest rate risk	Adverse effect on Net Interest Income	• Net Interest Yield and Movement in Net Interest Yield • Lending to Borrowing Ratio • Tracking of Movements in Money Market rates • Marginal Cost of funds / Risk based Pricing • Gaps in asset Liability Re-Pricing • Cumulative Gaps as a % of Cumulative Liabilities	• Setting of Marginal Pricing with Risk Premiums for Different classes of Lending assets • Setting of Lending to Borrowing ratios • Gaps limits for structural liquidity, • Liquidity contingency planning and Limits of minimum stocks of high quality liquid assets • Volatile Liability Dependency measures • Balance sheet ratios
Liquidity Risk	Inability to meet obligations as they fall due	• Gaps in dynamic liquidity flows • Stocks of high quality liquid assets	

32.4 Credit Risk

Credit risk refers to the risk that borrowers will default on any type of debt by failing to make payments they are obligated to do. The risk of loss of principal or loss of a financial reward stems from a borrower's failure to repay a loan or otherwise meet a contractual obligation. The risk is primarily that of the lender and includes lost principal and interest, disruption to cash flows, and increased collection costs. The loss may be complete or partial and can arise in a number of circumstances.

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

32.4.1 Impairment Assessment

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

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

Individually assessed allowances

The Company determines the allowances appropriate for each individually significant loan on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract.

Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments.

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry–specific problems).

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

Notes to the Financial Statements *contd.*

32.4.2 Credit Quality by Class of Financial Assets

As at 31st December	Note	Neither Past Due Nor Impaired	Past Due Not Impaired Rs'000	Individually Impaired Rs'000	Total 2012 Rs'000	Percentage Rs. '000
Assets						
Cash and Bank Balances	9	32,586	-	-	**32,586**	0.56%
Securities purchased under Repurchase Agreements		5,341	-	-	**5,341**	0.09%
Investments in Fixed Deposits	11	87,246	-	-	**87,246**	1.50%
Factoring Receivables	10	542,643	47,888	15,163	**605,694**	10.39%
Lease Receivables	12	2,099,555	616,433	-	**2,715,988**	46.60%
HP receivable	13	1,785,888	393,729	-	**2,179,617**	37.40%
Other Debtors	14	201,298	-	-	**201,298**	3.45%
Financial Instruments- Available for Sale	15	56	-	-	**56**	0.00%
TOTAL		4,754,613	1,058,050	15,163	**5,827,826**	100.00%

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

	Past Due but Not Impaired				
	Less than 30 days 2012 Rs'000	31 to 60 days 2012 Rs'000	61 to 90 days 2012 Rs'000	More than 91 days 2012 Rs'000	Total Rs'000
Factoring Receivables	2,412	39,149	6,327	-	47,888
Lease Receivables	375,762	146,236	24,702	69,733	616,433
HP receivable	221,210	98,761	17,308	56,450	393,729

32.4.3 Guarantees

	On Demand	Less than 03 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Rs'000 Total
Undrawn Commitments to Lend	203,655	-	-	-	-	203,655
	203,655	-	-	-	-	203,655

32.4.4 Analysis of Risk Concentration

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

Purposewise Breakdown	FINANCE LEASES Rs' 000	HIRE PURCHASE Rs' 000	FACTORING Rs' 000	FD's Rs' 000	OTHER Rs' 000	TOTAL Rs' 000
Industry	21,704	10,150	213,100	-	-	244,954
Agriculture	435,416	108,797	-	-	-	544,213
Trade	716,734	769,422	236,935	-	-	1,723,091
Transport	73,348	58,217	4,419	-	-	135,984
Construction	149,309	32,576	1,515	-	-	183,400
Services	1,281,648	1,176,222	110,615	-	-	2,568,485
Government					5,341	5,341
Financial Institutions				87,246		87,246
Others	-	-	-	-	233,941	233,941
Total	2,678,159	2,155,384	566,584	87,246	239,282	5,726,654

32.5.1 INTEREST RATE RISK

"Interest rate risk refers to the variability in value borne by an interest-bearing asset, such as a loan or a bond, due to variability of interest rates. In general, as rates rise, the price of a fixed rated bond or Loan Portfolio will fall, and vice versa. Asset liability management is a common name for the complete set of techniques used to manage interest rate risk within a general enterprise risk management framework.

The fluctuation of interest rates is an external factor which is beyond the control of the company. SLFL though is affected by movements in interest rates to the extent that its asset / liability mismatches gives rise to interest paying liabilities being re-priced faster than its interest earning assets. This in turn affects Net Interest income and Net Interest Yields.

Interest rate risk analysis is almost always based on simulating movements in one or more yield curve. The strategy of SLFL is not to eliminate risk, but to maintain the same within pre-determined acceptance levels.

In setting the Tolerance levels for Interest rate risk, the following metrics are used.

- Minimum Net Interest Spread: In order to maintain the required Net Interest Spread at the budgeting level the required ROA, ROE are inputs. Further the NPL ratios for different categories of assets are used as a proxy for setting the risk premium.
- Setting the proportion of Variable Rated Borrowing's within the Overall Borrowing Mix. This would be set by using the extent to which Budgeted Net Interest Income (NII) is affected by the extensive use of Variable Rated Borrowings.
- Setting the Lending to Borrowing ratio in order to maintain gearing at the desired levels.

INTEREST RATE SENSITIVITY

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

Notes to the Financial Statements *contd.*

Currency of Borrowings/ Advance	Increase (Decrease) in 2012	Sensitivity of Profit or Loss basis points 2012	Rs. Million Sensitivity of Equity 2012
Long Term Loans linked to AWPLR	+1/ (-1)	18.34/ (18.34)	18.34/ (18.34)

The base ratio considers in the Interest Rate Sensitivity Analysis is the AWPLR. Since 70.13 % of total borrowings are linked to AWPLR, the above sensitivity ratio indicates the impact on Income Statement and to Equity.

32.5.2 INTEREST RATE RISK

INTEREST RATE RISK EXPOSURE ON NON TRADING FINANCIAL ASSETS & LIABILITIES

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

	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/12/2012 Rs'000
ASSETS						
Cash and Bank Balances	32,586					32,586
Securities purchased under Repurchase Agreements	5,341					5,341
Investments in Fixed Deposits	87,246					87,246
Loans & advances to customers						
Factoring Receivables	566,584					566,584
Lease Receivables	285,284	580,622	1,361,983	450,270	-	2,678,159
HP receivable	227,076	476,920	1,057,390	385,104	8,894	2,155,384
Other Debtors	97,481	100,721	2,849	247	-	201,298
Financial Instruments- Available for Sale	-	-	-	-	56	56
TOTAL ASSETS	1,301,598	1,158,263	2,422,222	835,621	8,950	5,726,654
LIABILITIES						
Bank Overdraft	62,124	-	-	-	-	62,124
Debt Instruments Issued and Other borrowed funds	3,465,009	553,800	633,509	3,000	-	4,655,318
Other Payables	152,771	-	-	-	-	152,771
TOTAL LIABILITIES	3,679,904	553,800	633,509	3,000	-	4,870,213
TOTAL INTEREST SENSITIVITY GAP	(2,378,307)	604,463	1,788,713	832,621	8,950	856,440

32.6 LIQUIDITY RISK

"Liquidity risk refers to the availability of sufficient cash balances to meet new lending targets as well as provide a flow of net liquid assets to meet contractual borrowings and other commitments. Liquidity risk is financial risk due to uncertain liquidity. An institution might lose liquidity if its credit rating falls, it experiences sudden unexpected cash outflows, or some other event causes counterparties to avoid trading with or lending to the institution. A firm is also exposed to liquidity risk if markets on which it depends are subject to loss of liquidity.

The Company has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.
Company assesses available lines of credit, GAP analysis and volatile liability dependency ratio in order to assess the liquidity risk. In setting the Tolerance levels for Liquidity risk, the following metrics are used.

- Available Lines of Credit (reckoned in months of new lending) to be set at a level equal to future lending targets. Further the maturities of the available lines of credit are matched with the average lending maturities.
- Cumulative Gaps as a % of Cumulative maturing Liabilities to be set in accordance with industry norms as well as considering re-pricing risks associated with maturing assets and liabilities.
- Volatile Liability Dependency ratio to be set at a level that does not affect short term liquidity and re-pricing risks (Interest bearing liabilities maturity within 01 year as a percentage of total lending assets).

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

32.6.1 STATUTORY LIQUID ASSET RATIO

As per the requirements of Finance Leasing (Liquid Assets) Direction No. 04 of 2012, Company has to maintain minimum liquid assets, not less than 5% of Total Liabilities and Off Balance Sheet items excluding liabilities to Shareholders, securitizations & Asset backed Long Term Borrowings.

As at 31st December 2012, the Company maintained Statutory Liquid Asset ratio at 5.97%.

Notes to the Financial Statements *contd.*

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

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

	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/12/2012 Rs'000
ASSETS						
Cash and Bank Balances	32,586					32,586
Securities purchased under Repurchase Agreements	5,341					5,341
Investments in Fixed Deposits	87,246					87,246
Loans & advances to customers						-
Factoring Receivables	566,584					566,584
Lease Receivables	427,447	910,002	1,824,451	514,499	-	3,676,399
HP receivable	343,763	771,171	1,480,037	453,350	9,758	3,058,079
Other Debtors & Prepayments	97,481	100,721	2,849	247	-	201,298
Total Financial Assets	1,560,448	1,781,894	3,307,337	968,096	9,758	7,627,533
LIABILITIES & EQUITY						
Bank Overdraft	62,124	-	-	-	-	62,124
Debt Instruments Issued and Other borrowed funds	1,790,948	1,061,174	1,648,321	154,875	-	4,655,318
Other Payables	152,771	-	-	-	-	152,771
Total Financial Liabilities	2,005,843	1,061,174	1,648,321	154,875	-	4,870,213
	(445,396)	720,720	1,659,016	813,221	9,758	2,757,319

32.7 OPERATIONAL RISK

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

33. MATURITY ANALYSIS (CONTRACTUAL)

An analysis of interest bearing assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows.

	Up to 03 Months Rs'000	03-12 Months Rs'000	01-03 Years Rs'000	03-05 Years Rs'000	Over 05 Years Rs'000	Total as at 31/12/2012 Rs'000	Total as at 31/12/2011 Rs'000
ASSETS							
Cash and Bank Balances	32,586	-	-	-	-	32,586	29,520
Securities purchased under Repurchase Agreements	5,341	-	-	-	-	5,341	4,045
Investments in Fixed Deposits	87,246	-	-	-	-	87,246	-
Factoring Receivables	566,584	-	-	-	-	566,584	532,458
Lease Receivables	285,284	580,622	1,361,983	450,270	-	2,678,159	2,027,939
HP receivable	227,079	476,920	1,057,388	385,104	8,893	2,155,384	1,253,322
Other Debtors & Prepayments	106,714	100,721	2,849	247	6,000	216,531	201,127
Financial Instruments- Available for Sale	-	-	-	-	56	56	56
Intangible Assets	-	-	-	-	4,506	4,506	5,608
Property, Plant & Equipment	-	-	-	-	63,401	63,401	69,021
Inventories	726	-	-	-	-	726	719
TOTAL ASSETS	1,311,559	1,158,263	2,422,221	835,621	82,856	5,810,520	4,123,815
LIABILITIES							
Bank Overdraft	62,124	-	-	-	-	62,124	-
Debt Instruments Issued and Other borrowed funds	1,790,948	1,061,174	1,648,321	154,875	-	4,655,318	3,211,375
Other Payables	152,769	-	-	-	-	152,769	174,792
Deferred Taxation Liability	-	-	-	-	40,842	40,842	15,753
Income Taxation Payable	6,500	12,314	-	-	-	18,814	16,614
Retirement Benefit Obligations	-	-	-	-	4,128	4,128	2,895
TOTAL LIABILITIES	2,012,341	1,073,488	1,648,321	154,875	44,970	4,933,994	3,421,429

34. CONTINGENT LIABILITIES

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

35. POST BALANCE SHEET EVENTS

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

Notes to the Financial Statements *contd.*

36. RELATED PARTY TRANSACTIONS

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

36.1 Transactions with Key Managerial Personnel

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

36.1.1 No Short Term Employment benefits was paid to Key Managerial Personnel during the year except for the Directors fees and expenses amounting to Rs.17,473,782/- for the year 2012 (2011- Rs.6,210,000/-).

36.1.2 No post employment benefits were paid to key management personnel during the year.(2011- Nil).

36.1.3 No loans or advances were given to Key Managerial Personnel and their close family members during the year.(2011- Nil).

36.1.4 No borrowing through debt instruments were made from or no investments made by key management personnel during the year 2012. (2011- Nil).

36.2 Transactions with Group Companies

Company	Nature of Facility	2012 Rs'000	2011 Rs'000
Sampath Bank Limited	**Balance outstanding of Credit Facilities**		
	Short Term Loans	**370,000**	650,000
	Term Loan	601,000	825,990
	Bank Overdrafts	19,000	-
		990,000	1,475,990
	Accommodations as a percentage of Capital Funds (Refer Note a) below)	**112.95%**	**213.28%**
	Interest Paid	198,291	99,220
	Rentals Paid	1,150	1,048
	Bank Guarantees on Credit Facilities	17,100	9,088
	Fixed Deposits	87,246	-
	Interest on Fixed Deposits	20,272	-
Sampath Information Technology Solutions Ltd			
	Hardware/Software maintenance paid	1,826	1,910
	Advance payment to Software	6,000	-

Note a) capital funds as of the date of Balance Sheet is Rs. 876.52 Mn and Rs.696.24 Mn for year 2012 and 2011 respectively.

Calculation of capital funds is made as per the directions issued by Central Bank of Sri Lanka.

37. CAPITAL

The Company maintains an activity managed capital basis to cover risks inherent in the business and meet the capital adequacy requirements of Central Bank of Sri Lanka. The adequacy of the company's capital is monitored based on the measures, rules and ratios adopted by Central Bank of Sri Lanka.

Capital Management

The primary objective of Company's capital management policy are to ensure that the company complies with externally imposed capital requirements and healthy capital ratios in order to support its business and to maximize shareholders' value.

Five Year Summary

INCOME STATEMENT FIVE YEAR SUMMARY

	Rs' Million 31-Dec-12 Income & Expenses	% of Total Operating Income	Rs' Million 31-Dec-11 Income & Expenses	% of Total Operating Income	SLFRS Rs' Million 31-Dec-10 Income & Expenses	% of Total Operating Income	Rs' Million 31-Dec-09 Income & Expenses	% of Total Operating Income	Rs' Million 31-Dec-08 Income & Expenses	% of Total Operating Income
Interest & Similar Income	**1,034**	**208.90%**	555	142.56%	388	132.27%	491	353.39%	693	523.44%
Less: Interest & Similar Expenses	**600**	**121.35%**	210	53.96%	130	44.23%	368	265.03%	583	440.72%
Net Interest Income	**433**	**87.55%**	345	88.60%	258	88.04%	123	88.37%	109	82.72%
Fee & Commission Income	**40**	**8.02%**	24	6.05%	9	3.24%	5	3.69%	10	7.41%
Fee & Commission Expenses	**17**	**3.42%**	9	2.33%	4	1.39%	2	1.54%	-	0.00%
Net Fee & Commission Income	**23**	**4.61%**	14	3.72%	5	1.85%	3	2.15%	10	7.41%
Other Operating Income	**39**	**7.85%**	30	7.68%	30	10.12%	13	9.48%	13	9.87%
Total Operating Income	**495**	**100.00%**	390	100.00%	293	100.00%	139	100.00%	132	100.00%
Impairment (Charges)/ Reversal for loans and other losses	**0**	**0.05%**	(49)	-12.66%	(9)	-2.95%	96	69.12%	45	34.15%
Net Operating Income	**495**	**99.95%**	439	112.66%	302	102.95%	43	30.88%	87	65.85%
Operating Expenses										
Personnel Costs	**120**	**24.18%**	87	22.24%	45	15.33%	40	28.69%	47	35.58%
Other Operating Expenses	**105**	**21.18%**	92	23.55%	66	22.39%	69	49.46%	70	53.20%
Operating Profit Before Value Added Tax on Financial Services	**270**	**54.59%**	260	66.87%	191	65.23%	(66)	-47.27%	(30)	-22.93%
Financial Services VAT	**18**	**3.66%**	16	4.16%	29	9.74%	2	1.33%	1	0.86%
Profit before Taxation from Operations	**252**	**50.93%**	244	62.71%	163	55.50%	(68)	-48.60%	(31)	-23.79%
Taxation	**52**	**10.46%**	46	11.88%	26	9.02%	4	2.69%	2	1.75%
Profit for the Year	**200**	**40.47%**	198	50.83%	136	46.47%	(71)	-51.29%	(34)	-25.54%

BALANCE SHEET FIVE YEAR SUMMARY

	31-Dec-12 Rs. Million	% of Assets	31-Dec-11 Rs. Million	% of Assets	SLFRS 31-Dec-10 Rs. Million	% of Assets	31-Dec-09 Rs. Million	% of Assets	31-Dec-08 Rs. Million	% of Assets
Assets	**5,811**	**100.00%**	4,124	100.00%	1,800	100.00%	1,854	100.00%	2,727	100.00%
Interest Earning Assets	**5,525**	**95.09%**	3,847	93.29%	1,427	79.27%	1,641	88.51%	2,474	90.74%
Non Interest Earning Assets	**285**	**4.91%**	277	6.71%	373	20.73%	213	11.49%	253	9.26%
Liabilities and Shareholders' Funds	**5,811**	**100.00%**	4,124	100.00%	1,800	100.00%	1,854	100.00%	2,727	100.00%
Interest Paying Liabilities	**4,717**	**81.19%**	3,211	77.87%	972	54.02%	1,193	64.34%	2,306	84.58%
Other Liabilities	**217**	**3.73%**	216	5.24%	329	18.30%	276	14.86%	263	9.66%
Shareholders' Funds	**877**	**15.08%**	696	16.89%	498	27.68%	386	20.79%	157	5.75%

FINANCIAL RATIOS - FIVE YEAR SUMMARY

FINANCIAL YEAR ENDED	31-Dec-12	31-Dec-11	31-Dec-10	31-Dec-09	31-Dec-08
Income Statement Analysis					
Growth in Gross Revenue	**82.66%**	42.47%	-16.11%	-28.81%	41.88%
Growth in Interest Income	**86.12%**	43.07%	-20.97%	-29.10%	42.90%
Growth in Interest Expenses	**185.63%**	61.94%	-64.76%	-36.85%	42.07%
Interest Cost/Interest Income	**58.09%**	37.85%	33.44%	74.99%	84.20%
Growth in Net Interest Income	**25.51%**	33.59%	110.36%	12.19%	47.47%
Net Interest Margin	**9.30%**	13.17%	16.97%	6.02%	4.33%
Growth in Fee based income	**68.41%**	148.24%	85.27%	-47.76%	7.60%
Fee based Income/Gross Revenue	**3.57%**	3.87%	2.22%	1.01%	1.37%
Growth in Other income	**29.73%**	0.82%	125.31%	0.93%	24.50%
Cost to Income Ratio	**45.36%**	45.79%	37.72%	78.15%	88.78%
Growth in Pre Tax Profits	**1.12%**	45.19%	291.32%	-110.94%	14.48%
Return on Average Total assets	**4.03%**	6.69%	7.46%	-3.11%	-1.21%
Return on Average Equity	**25.46%**	33.16%	30.86%	-26.28%	-19.44%
Earnings Per Share - Rs.	**3.81**	3.77	2.60	(1.90)	(1.50)
Net Assets Per Share - Rs.	**16.70**	13.26	9.49	10.28	6.97
Balance Sheet Analysis					
Growth in Advances	**41.60%**	168.30%	-12.43%	-33.89%	-5.71%
Growth in Total Assets	**40.90%**	129.11%	-2.94%	-31.99%	-3.99%
Equity/Total Assets	**15.09%**	16.88%	27.68%	20.79%	5.75%
Equity/Total Borrowings	**18.58%**	21.68%	51.24%	32.32%	6.80%
NPL - 3 Months/Gross Loans	**3.14%**	2.68%	16.18%	30.85%	29.52%
NPL - 6 Months/Gross Loans	**1.79%**	2.19%	9.96%	12.66%	8.80%

Branch Network & Communication Information

BRANCH NAME	B / W / PC	ADDRESS	TELEPHONE NUMBER	FAX NUMBER	NAME OF THE BRANCH MANAGER / ASSISTANT MANAGER	BRANCH CODE
Colombo	B	Sayuru Sevana , 45/12, Nawam Mawatha, Colombo 02	011 7605605	011 7605606 / 011 7605604 /011 7605627	Mr. Amila Shanaka	HO
Kohuwala	W	No 81, S. De S. Jayasinghe Mawatha, Kohuwala	011 7605635	011 7605636	Mr. Indika Rajapaksha	KOH
Gangodawila	W	No 374, High Level Road, Gangodawila, Nugegoda	011 7605680	011 7605675	Mr. Susantha Wathudura	GGW
Peliyagoda	B	No 304, Negombo Road, Peliyagoda	011 7605625	011 7605626	Mr. Anura Jayasinghe	PLG
Negombo	B	187, Thaladuwa Road, Negombo	031 7605605	031 7605606	Mr. Amila Kumara	NGB
Kandy	B	274/A, Katugasthota Road, Kandy	081 7605605	081 7605606	Mr. Bandara Medagoda	KND
Nuwara Eliya	B	28/1, Kandy Road, Nuwara Eliya	052 7605605	052 7605606	Mr. Manjula Jayathilake	NUW
Kandy	PC	192/1/1, Kotugodella Road, Kandy	081 7605625	081 7605626	Mr. Ajith Karunarathna	KNDP
Matara	B	5b, Hakmana Road, Matara	041 7605605	041 7605606	Mr. Buddhika Rathnayake	MTR
Ampara	B	No 32, D. S. Senanayaka Mawatha, Ampara	063 7605605	063 7605606	Mr. Sujeewa Jayawardena	AMP
Kalmunai	B	No 1610, Main Street, Sainthamaruthu	067 7605605	067 7605606	Mr. Mohamed Primsath	KLM
Kalmunai	PC	172/4. Batticaloa Road, Kalmunai	067 7605625	067 760562	Mr. Sumedha Buddika Medagoda	KLMP
Kurunegala	B	254 B, Colombo Road, Kurunegala	037 7605605	037 7605606	Mr. Senerath Bandara	KUG
Kurunegala	PC	116, Colombo Road, Kurunegala	037 7605625	037 7605626	Mr. Gihan Sanjeewa	KUGP
Kuliyapitiya	B	50 52, Kurunegala Road, Kuliyapitiya	037 7 605615	037 7 605616	Mr. Nadun Bandara	KUL
Anuradhapura	B	213/4, Maithripala Senanayake Mawatha, Anuradhapura	025 7 605605	025 7 605606	Mr. Anuruddha Dissanayake	ANU
Kegalle	W	No.142, 142A, Kandy Road, Kegalle	035 7 605605	035 7 605605	Mr. Ananda Jayakodi	KGL
Ratnapura	W	No. 180-182, Main Street, Ratnapura	045 7 605605	045 7 605606	Mr. Hemantha Premaratne	RTP
Vavuniya	W	No. 25, Station Road, Vavuniya	024 7 605605	024 7 605606		VAU

B - Branch
W - Window
PC - Pawning Centre

Glossary of Financial Terms

A

Accounting Policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortization
The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost
The amount at which the financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Available –For –Sale financial Assets
Non derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

C

Capital Adequacy Ratio
The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents
Short-term highly liquid investments those are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collectively Assessed Impairment
Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.

Commercial Paper ('CP')
An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Compounded Annual Growth Rate (CAGR)
The rate at which a variable would have grown if it grew at an even rate compounded annually.

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

Corporate Governance
The process by which corporate entities are governed, it is concerned with the way in which power is exercised over the management and direction of an entity, the supervision of executive actions and accountability to owners and others.

Cost to Income Ratio
Operating expenses excluding loan/ lease loss provision as a percentage of net interest income.

Credit Ratings
An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk
Credit risk is the potential that a borrower or counter party will fail to meet its obligations in accordance with agreed terms and conditions.

D

Deferred Tax
Sum set aside for tax in the Financial Statements that may 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 asset.

Dividend Cover
Profit after tax divided by gross Dividend. This ratio measures the number of times dividend is covered by the current year's distributable profits.

E

Earnings per Share
Profit attributable to ordinary shareholders divided by the number of ordinary shares in use.

Economic Value Added (EVA)
A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate
Provision for Taxation expressed as a percentage of Profit Before Tax.

F

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

Finance Lease
A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains the ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Glossary of Financial Terms *contd.*

Financial Asset
Financial Asset is any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Liability
Financial Liability is a contractual obligation to deliver cash or another financial asset to another entity.

G

Group
A Group is a parent of all its subsidiaries.

Gearing
Long term borrowings divided by the total funds available for shareholders.

Gross Dividend
The portion of profits distributed to the shareholders including the tax withheld.

H

HTM (Held to Maturity) Investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

I

International Financial Reporting Standards (IFRS)
A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Intangible Assets
An intangible asset is an identifiable non-monetary asset without physical substance.

Interest Cover
A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin
Net Interest income expressed as a percentage of average interest earning assets.

Interest Spread
Represent the difference between average interest rate earned on interest earning assets and the average interest rate paid on interest bearing liabilities.

Interest in Suspense
Interest suspended on non performing leases, hire purchases and other advances.

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

Impaired Loans
Loans where the Group does not expect to collect all the contractual cash flows or expects to collect them later than they are contractually due.

Impairment Allowances
Management's best estimate of losses incurred in the loan portfolios at the balance sheet date.

Individually Assessed Impairment
Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Interest rate risk
The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Investment Securities
Securities acquired and held for yield and capital growth purposes and are usually held to maturity.

K

Key Management Personnel
Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

L

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange, treasury bills.

Liquidity Risk
The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan/ Credit Losses and Provisions
Amount set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollected.

Loss Given Default ('LGD')
The estimated ratio (percentage) of the loss on an exposure to the amount outstanding at default (EAD) upon default of counterparty.

M

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

Market Risk
This refers to the possibility of loss arising from changes in a value of financial instrument as a result in changes of market variables such as interest rate, exchange rates, credit spread and other asset prices.

N

Net Assets per Share
Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

Net Interest Income
The difference between income earned on interest bearing assets and costs incurred on financial instruments/ facilities used for funding.

Non Performing Advances
A lease, hire purchase or other advance placed on cash basis (i.e. interest income is only recognized when cash is received), because in the opinion of management, there is a reasonable doubt regarding the collect ability of principal and/ or interest.

Rentals receivable in arrears for more than six rentals have been categorized as non-performing. Non performing advances are reclassified as performing when all arrears rentals are settled in full.

NPA Ratio
The total non-performing leases, hire purchases and other advances expressed as a percentage of total loans and advances portfolio.

O

Operational Risk
Operational risk refers to the losses arising from fraud, negligence, oversight,human error, process errors, system failures, external events, etc.

P

Parent Company
A parent is an entity that has one or more subsidiaries.

Provision Cover
Total provision for losses on loans, leases and advances expressed as a percentage of net non-performing loans before discounting for provision on non-performing loans, leases and advances.

Prudence
Inclusion of degree of caution in the exercise of judgment needed in making the estimates required under the conditions of uncertainty, such that asset or income are not overstated and liabilities or expenses are not understated.

R

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

Return on Average Assets
Profit after tax expressed as a percentage of average assets

Return on Equity
Net Profit after Tax less dividend on preference shares if any, exercised as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreements
Transactions involving the purchase of securities by the company and resale back to the seller at a future date and specified price.

Risk Weighted Assets
The sum of on balance sheet assets and the credit equivalent of off balance sheet assets multiplied by the relevant risk weighting factors.

S

Shareholders' Funds
The total of stated capital and capital and revenue reserves.

Sri Lanka Financial Reporting Standards (SLFRSs)
Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka.

They comprise of the following.
- Sri Lanka Accounting Standards (SLFRS);
- Sri Lanka Accounting Standards (LKAS); and
- Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Substance Over Form
The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company
An entity, including an unincorporated entity which is controlled by another entity called parent.

T

Tier 1 Capital and Tier 2 Capital
Tier 1: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 2: Supplementary Capital representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

V

Volatile Liability Dependency Ratio
Short Term borrowing's (of maturity less than 12 months) expressed as a percentage of the Total Advances (Lending) Portfolio.

Y

Yield
Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Notes and Comments

Financial and Operational Highlights

Chairman's Report

The Chief Executive Officer's Message

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Notice of Annual General Meeting

Notice is hereby given that the 08th Annual General Meeting of Sampath Leasing and Factoring Limited will be held at the Board Room of Sampath Bank PLC at No. 110, Sir James Peiris Mawatha, Colombo 02 on 27th June 2013 at 12.00 p.m for the following purposes.

(1) To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the statement of Audited Accounts for the year ended 31st December 2012 with the Report of the Auditors thereon.

(2) To re-elect Mr. I W Senanayake as a Director under Articles 85 of the Articles of Association of the Company.

(3) To re-elect Dr. H S D Soysa as a Director under Articles 85 of the Articles of Association of the Company

(4) To re-elect Mr. W M P L De Alwis as a Director under Articles 85 of the Articles of Association of the Company.

(5) To re-elect Mr. R Samaranayake in accordance with the Article 91 of the articles of Association

(6) To declare the recommended dividend of Rs. 0.41 /- per share as the final dividend.

(7) To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.

By order of the Board

R L S Senaratne
Company Secretary

24 June 2013

Note:

(1) A member who is entitled to attend and vote at the meeting is also entitled to appoint a Proxy on her/his behalf.

(2) Such Proxy need not be a member of the Company.

Proxy Form

I/We..

of..

Being a member/s of Sampath Leasing and Factoring Limited hereby appoint

Mr. I W Senanayake of No 18/1, Alfred Place, Colombo 03	failing him
Mr. S G Wijesinha of No 146/8, Havelock Road, Colombo 05	failing him
Ms. M A Karunaratne of 146/13, Dutugemunu Street, Dehiwala	failing him
Mr. P M A Sirimane of 159/7, Rampart Road, Etul Kotte	failing him
Mr. H S D Soysa of No 197/3, Lauries Lane, Colombo 04	failing him
Mr. W M P L De Alwis 40/4 Park Road Colombo 05	failing him
Mr. M Y A Perera of No 370 F/2, Lake Road, Averihena, Hokandara (south)	failing him
Mr. M A Abeynaike of No 81, 6/6, Ward Place,Colombo 07	failing him
Mr. R Samaranayake of No 51/A ,weerapuran Appu Mawatha,Lakshapathiya, Moratuwa	failing him

Mr/Mrs/Miss...

of..

as my/our proxy to present me/us and vote at the Annual General Meeting of the Company to be held on 27th June 2013 at 12.00 p.m and at any adjournment thereof.

		FOR	AGAINST
(1)	To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31.12.2012		
(2)	To re-elect Mr. I W Senanayake as a Director under Articles 85 of the Articles of Association of the Company		
(3)	To re-elect Dr. H S D Soysa as a Director under Articles 85 of the Articles of Association of the Company		
(4)	To re-elect Mr. W M P L De Alwis as a Director under Articles 85 of the Articles of Association of the Company		
(4)	To re-elect Mr. R Samaranayake in accordance with the Article 91 of the articles of Association of the company		
(5)	To declare the recommended dividend of Rs 0.41 /- per share as the final dividend.		
(6)	To re-appoint M/s Ernst & Young, Chartered Accountants as the Auditors of the Company for the ensuing year and authorize the Directors to determine their remuneration.		

Mark your preference with 'X'

Signed .... day of .... 2013.

NOTE:
i. Proxy need not be a member of the Company
ii. Instructions recompletion of Proxy are given on the following page

Proxy Form *contd.*

INSTRUCTIONS AS TO COMPLETION

1. Kindly perfect the form of proxy, after filling in legibly your full names and address, and by signing on the space provided.

2. The completed form of proxy should be deposited at the Registered Office of the Company at 4th Floor, No. 110, Sir James Peiris Mawatha, Colombo 02 not less than 48 hours before, the appointed time for the holding of the meeting.

3. If you wish to appoint a person other than Chairman, Deputy Chairman or a Director of the Company as your proxy, please insert the relevant details at the space provided (below names of the Board of Directors) on the Proxy form.

4. Article 71 of the Articles of Association of the Company provided that;
"Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members of the company, and the person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company".

5. Please indicate with an 'X' in the space provided how your Proxy is to vote on each resolution. If no indication is given, the Proxy, at his discretion, will vote as he thinks fit.

6. In the case of a Company/Corporation, the Proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.

7. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at the Registered Office of the Company for registration.

If undelivered, please return to;
Company Secretary
Sampath Leasing and Factoring Limited
No. 110, Sir James Peiris Mawatha
4th Floor – Sampath Centre Building
Colombo 02.

Corporate Information

Name of Company
Sampath Leasing and Factoring Limited

Legal form
A Public limited liability company incorporated in Sri Lanka on 3rd March 2005 under Companies Act No: 17 of 1982

Date of Incorporation
03rd March 2005

Registration Number
PB 917

Head Office
No: 46/12, Sayuru Sevana, Nawam Mawatha, Colombo-02

Registered Office
No: 110, Sir James Peiris Mawatha, Colombo-02

Chairman
Mr. I.W. Senanayake

Chief Executive Officer
Mr. R. Nanayakkara

Bankers
Sampath Bank PLC
Commercial Bank PLC
Hatton National Bank PLC
Bank of Ceylon
Nations Trust Bank
Pan Asia Bank
National Development Bank
Deutsche Bank AG

Telephone
011-7605605

Fax
011-7605606

Auditors
Ernst & Young
Chartered Accountants

Lawyers
Nithya Partners
Attorney-at -Law

Company Secretary
Mr. R.L.S. Senaratne (Attorney-at-Law)

VAT Registration Number
134 012 307 7000

Board of Directors
Mr. I.W. Senanayake
Mr. S.G. Wijesinha
Mr. M.Y.A. Perera
Mrs. M.A. Karunaratne
Mr. P.M.A. Sirimane
Dr. H.S.D. Soysa
Mr. W.M.P.L. De Alwis
Mr. M.A. Abeynaike
Mr. R. Samaranayake

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Sampath
LEASING AND FACTORING LIMITED
FULLY OWNED SUBSIDIARY OF SAMPATH BANK PLC
Sampath Leasing - One Simple Solution.

Sampath Leasing & Factoring Ltd
No 46/12, Sayura Sevana,
Nawam Mawatha, Colombo 02