



# NEWSLETTER

THE FINANCE HOUSES ASSOCIATION OF  
SRI LANKA

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JANUARY TO MARCH 2016



**CHAIRMAN OF  
THE FHASL  
MR. RAVI  
YATAWARA  
APPOINTED AS  
AN EXECUTIVE  
DIRECTOR OF  
LB FINANCE  
PLC**

Mr. Ravi Yatawara, Chairman of the FHASL, has been appointed as an Executive Director of LB Finance PLC with effect from 15<sup>TH</sup> March 2016. Prior to this appointment he functioned as the General Manager of the company. We congratulate Mr. Yatawara and wish him good luck in all his future endeavours.

## LFCs and SLCs (NBFIs) REGISTER TOTAL ASSETS OF Rs. 996.1 BN – A 22.3% GROWTH

NBFI Sector comprising 46 LFCs and 7 SLCs registered Total Assets of Rs. 996.1 Bn as at 31<sup>st</sup> December 2015 and was up from RS. 814.5 Bn registered as at 31<sup>st</sup> December 2014. This is a growth of 22.3% compared to the growth of 19% in the previous year. The Number of Branches of NBFIs increased by 84 in 2015 and the Total No. of Branches of the sector was 1216 as at end of 2015.

Loans and Advances of the sector grew by 31.8% in 2015. The sector registered total Loans and Advances of Rs. 795.8 Bn as at 31<sup>st</sup> December 2015. Total Deposits of the LFCs registered Rs. 480.6 Bn as at end of 2015 which is a growth of 16.1% in comparison to 22.8% registered in 2014.

Asset Quality of the LFC/SLC sector improved during 2015. Gross and Net NPL ratios of the sector decreased to 5.7% and 1.6%, respectively in 2015. Gross and Net NPL ratios in 2014 were 6.9% and 2.3%, respectively.

The Net Interest income registered a 32% growth. Net Interest Margin improved to 8.7% in 2015 from 8% in 2014. Return on Assets (ROA) and Return on Equity (ROE) decreased to 3% and 12.3% respectively in 2015, from 3.1% and 14.0% in 2014.

The Total Capital Adequacy Ratio (CAR) decreased to 11.2% as at end 2015 from 13.5% in 2014. The Core Capital ratio also decreased to 10.5% in 2015 from 12.8% in 2014. The reduction in Capital Ratios was mainly due to high increase in Risk Weighted Assets.

Source : Annual Report 2015 – Central Bank of Sri Lanka

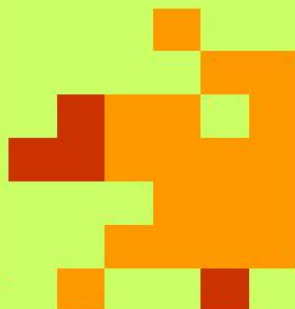
More analytical information of the industry performance with related tables are given the latter part of this Newsletter.

## MEETING WITH THE DEPUTY GOVERNOR AND THE DIRECTOR (SNBFI)

The members of the committee met with the Deputy Governor, Mr. P. Samarasiri and Director (SNBFI), Mr. Udeni Alawattage at the Central Bank Premises on 23<sup>rd</sup> January 2016. The committee made submissions relating to the following.

The admission of LFCs as eligible Participating Credit Institutions (PCIs) for the disbursement of concessionary credit channeled through the foreign funded lines of Credit available to the Central Bank and the Ministry of Finance to the SME and Micro Sector.

The admission of LFCs as eligible PCIs for the delivery of Micro lending subject to the same concessions offered to the LCBs.



## LFCs and SLCs (NBFIs) SECTOR PERFORMANCE - 2015

Performance of the NBFIs sector and details of Industry Assets, Deposits and Loans and Advances together with key Financial Indicators are given below.

Source : Annual Report 2015 – Central bank of Sri Lanka

**Table 8.8**

### Distribution of Branches of the LFC/SLC Sector by Province

Province	End 2014	End 2015 (a)
Western	369	394
Southern	125	134
Sabaragamuwa	83	92
North Western	118	129
Central	128	139
Uva	60	61
North Central	86	89
Eastern	88	98
Northern	75	80
<b>Total</b>	<b>1,132</b>	<b>1,216</b>

(a) Provisional

Source: Central Bank of Sri Lanka

**Table 8.9**

### Composition of Assets and Liabilities of the LFC/SLC Sector

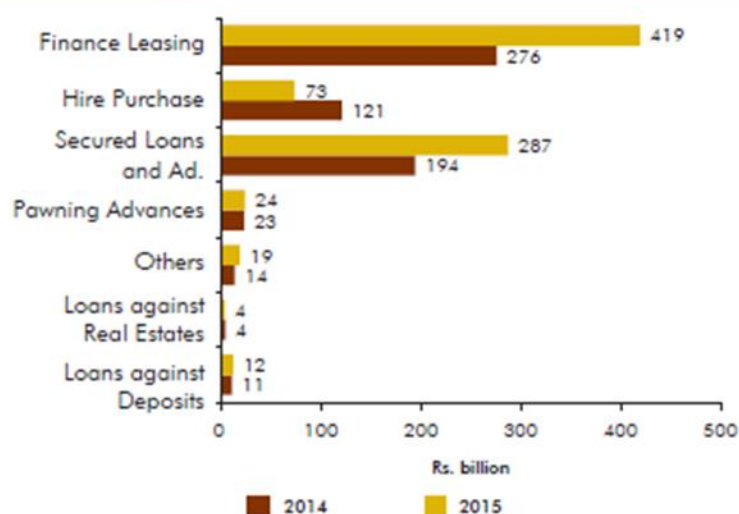
Item	2014 (a)		2015 (b)		Change (%)	
	Rs. bn	Share (%)	Rs. bn	Share (%)	2014 (a)	2015 (b)
<b>Assets</b>						
Loans and Advances	604	74.1	796	79.9	15.8	31.8
Investments	110	13.5	100	10.0	111.9	-9.2
Other	101	12.4	101	10.1	-9.3	-0.4
<b>Liabilities</b>						
Total Deposits	414	50.8	481	48.2	22.8	16.1
Total Borrowings	217	26.7	314	31.6	12.9	44.8
Capital Elements	117	14.3	123	12.4	20.3	5.1
<b>Total Funds</b>	<b>748</b>	<b>91.8</b>	<b>918</b>	<b>92.2</b>	<b>19.3</b>	<b>22.7</b>
Other	67	8.2	78	7.8	14.9	17.9
<b>Total Assets/Liabilities (net)</b>	<b>815</b>	<b>100.0</b>	<b>996</b>	<b>100.0</b>	<b>19.0</b>	<b>22.3</b>

(a) Revised

Source: Central Bank of Sri Lanka

(b) Provisional



**Chart 8.9**
**Product wise Loans & Advances of the LFC/SLC Sector**

**Table 8.10**
**Composition of Income and Expenses of the LFC/SLC Sector**

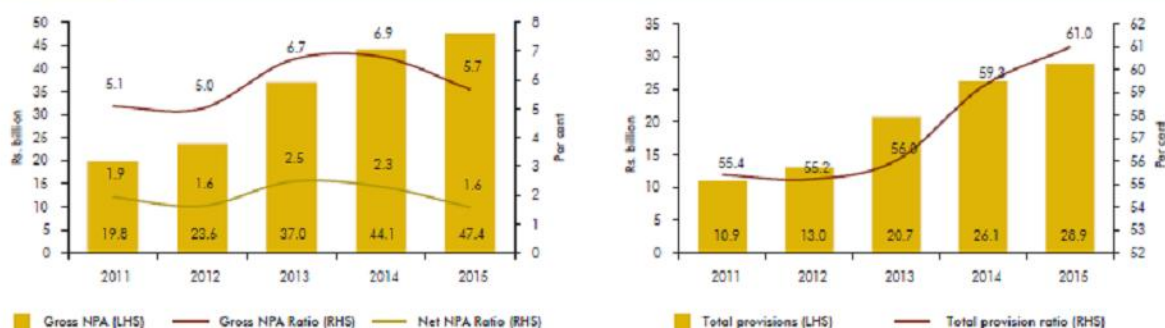
Item	2014 (a)		2015 (b)	
	Amount (Rs. bn)	%*	Amount (Rs. bn)	%*
Interest Income	131.2	16.9	150.4	15.9
Interest Expenses	69.1	8.9	68.2	7.2
<b>Net Interest Income</b>	<b>62.1</b>	<b>8.0</b>	<b>82.2</b>	<b>8.7</b>
Non-Interest Income	20.4	2.6	22.8	2.4
Non-Interest Expenses	47.6	6.1	67.0	7.1
Loan Loss Provisions (Net)	11.0	1.4	9.5	1.0
<b>Profit before Tax</b>	<b>23.9</b>	<b>3.1</b>	<b>28.5</b>	<b>3.0</b>
<b>Profit after Tax</b>	<b>14.8</b>	<b>1.9</b>	<b>15.2</b>	<b>1.6</b>

(a) Revised

Source: Central Bank of Sri Lanka

(b) Provisional

\* as a percentage of average assets

**Chart 8.10**
**Non-Performing Loans and Provision Coverage of the LFC/SLC Sector**


**Table 8.11****Composition of Regulatory Capital  
of the LFC/SLC Sector**

Item	Amount (Rs. bn)		Composition (%)	
	2014 (a)	2015 (b)	2014 (a)	2015 (b)
<b>Tier I: Core Capital</b>	<b>85</b>	<b>88</b>	<b>100.0</b>	<b>100.0</b>
Issued and Paid-up Ordinary Shares/ Common Stock (Cash)	65	61	76.4	69.0
Non-cumulative, Non-redeemable Preference Shares	0	0	0.1	0.1
Share Premium	0	0	0.3	0.2
Statutory Reserve Fund	10	12	12.0	13.3
General and Other Free Reserves	21	23	24.9	25.6
Other	-12	-7	-13.7	-8.2
<b>Tier II: Supplementary Capital</b>	<b>9</b>	<b>15</b>	<b>100.0</b>	<b>100.0</b>
Eligible Revaluation Reserves	2	2	24.5	14.4
General Provisions	0	0	2.5	0.8
Eligible Approved Unsecured Subordinated Term Debt	7	13	73.5	85.0
Other	0	0	-0.6	-0.3
<b>Regulatory Adjustments</b>	<b>-6</b>	<b>-10</b>		
<b>Total Regulatory Capital Base</b>	<b>88</b>	<b>93</b>		

(a) Revised  
(b) Provisional

Source: Central Bank of Sri Lanka

Assets and Liabilities of Non-Bank Financial Institutions <sup>(a)</sup>

Rs. million

End of Period	2011	2012	2013	2014	2015 (b)
<b>ASSETS</b>	<b>474,192</b>	<b>573,435</b>	<b>684,585</b>	<b>814,553</b>	<b>996,127</b>
Cash and Bank Balances	20,351	25,887	40,907	44,091	43,844
Cash in Hand	1,517	2,100	2,540	3,097	3,391
Demand Deposits with Commercial Banks	8,042	9,850	12,168	12,637	12,977
Time and Savings Deposits with Commercial Banks	10,563	12,898	24,304	26,149	24,726
Time and Savings Deposits with Licensed Finance Companies	6	500	340	439	403
Deposits with Other Institutions	222	539	1,555	1,769	2,347
Investments	30,724	40,000	51,776	109,717	99,634
Investments in Government of Sri Lanka Securities	12,525	18,949	30,623	62,325	58,122
Treasury Bills	12,230	17,465	26,327	48,690	49,040
Treasury Bonds	295	1,483	4,296	13,636	9,082
Shares Held for Trading Investments	4,192	5,713	5,198	7,213	6,916
Debentures	1,050	585	1,656	892	2,399
Shares in Other Companies	2,339	2,136	1,472	1,699	2,616
Shares in Subsidiary & Associate Companies	5,494	6,243	5,584	26,821	27,408
Investment in Promissory Notes/Commercial Papers	55	-	653	-	-
Investment Properties	5,262	6,659	7,541	8,668	9,990
Other Investments	194	168	306	3,176	4,674
Provision for decline in value of investment securities	(386)	(455)	(1,258)	(1,079)	(12,492)
Loans and Advances (Net)	373,106	448,941	521,320	603,748	795,844
Leasing	166,051	214,866	249,117	275,593	419,296
Hire Purchase	118,400	122,985	122,176	120,613	73,364
Loans	72,664	91,267	144,443	210,704	307,816
Real Estate	6,000	5,909	5,211	4,308	3,619
Pawning Advances	20,568	31,374	26,279	22,577	23,934
Dues from Subsidiary and Associate Companies	4,733	5,296	5,860	7,554	9,643
Loan Loss Provisions and Suspended Interest	(15,310)	(22,757)	(31,765)	(37,601)	(41,828)
Trading Stocks	15,716	14,292	15,065	14,572	12,936
Real Estate	11,330	9,926	8,065	7,006	5,737
Reposessed Items	1,453	2,239	4,768	6,173	4,821
Other	2,933	2,128	2,232	1,392	2,378
Fixed Assets	16,479	19,921	21,888	25,840	28,305
Other Assets	17,816	24,394	33,628	16,585	15,565
<b>LIABILITIES</b>	<b>474,192</b>	<b>573,435</b>	<b>684,585</b>	<b>814,553</b>	<b>996,127</b>
Capital Account	76,926	93,614	96,584	116,870	123,139
Paid-up Capital	51,663	58,829	58,894	65,899	63,026
Retained earnings and Reserves	25,263	34,785	37,690	50,971	60,113
Deposits	186,007	254,117	337,297	414,116	480,636
Time Deposits	179,259	248,516	328,062	396,468	457,486
Savings Deposits	5,938	4,855	8,563	16,984	22,568
Certificates of Deposits	810	747	672	664	581
Borrowings from	171,686	177,284	193,111	217,385	314,295
Commercial Banks	87,485	95,409	93,964	108,513	175,581
Others	84,202	81,875	99,147	108,872	138,714
Other Liabilities	39,572	48,420	57,593	66,181	78,058
<b>No. of Institutions</b>	<b>55</b>	<b>60</b>	<b>58</b>	<b>56</b>	<b>53</b>

(a) Non Bank Financial Institutions sector represents Licensed Finance Companies and Specialised Leasing Companies

Source: Central Bank of Sri Lanka

(b) Provisional



**Financial Soundness Indicators - Licensed Finance Companies (LFCs) and  
Specialised Leasing Companies (SLCs) Sector**

Category	2011	2012	2013	2014	2015 (a)
<b>1. Capital Adequacy</b>					
1.1 Regulatory Capital to Risk Weighted Assets (RWCAR)	15.0	16.0	14.8	13.5	11.2
1.2 Tier 1 Capital/Risk Weighted Assets (Tier 1 RWCAR)	14.4	15.4	13.5	12.8	10.6
1.3 Capital Funds to Total Assets	13.8	14.5	13.2	13.4	11.6
1.4 Debts to Capital Funds (Times)	2.5	2.0	2.0	1.9	2.6
1.5 Investment Properties to Capital Funds	7.8	7.7	8.0	7.6	8.2
1.6 Net Non-Performing Loans to Capital	11.3	8.9	14.4	12.9	10.9
<b>2. Asset Quality</b>					
2.1 Gross Non-Performing Loans to Total Loans	5.1	5.0	6.7	6.9	5.7
2.2 Net Non-Performing Loans to Total Loans	2.0	1.6	2.5	2.3	1.6
2.3 Required Bad Debts Provision to Total Loans	2.9	2.6	2.9	3.1	2.8
2.4 Provision made against Total Loans	2.8	2.8	3.8	4.1	3.5
2.5 Provision Coverage Ratio (Specific Provisions to NPL)	44.9	45.0	45.2	50.9	59.4
2.6 Provision Coverage Ratio (Total Provisions to NPL)	55.0	55.2	56.0	59.3	61.0
<b>3. Liquidity</b>					
3.1 Liquid Assets to Total Assets	5.4	5.6	8.0	9.6	7.6
3.2 Liquid Assets to External Funds	7.3	7.7	10.9	13.0	10.0
<b>4. Earnings</b>					
4.1 Return on Assets (Annualised)	6.2	3.8	2.3	3.1	3.0
4.2 Return on Equity (Annualised)	33.7	16.2	9.0	14.0	12.4
4.3 Interest Income to Interest Expenses	193.9	174.5	163.5	189.9	220.6
4.4 Net Interest Income to Profit After Tax	163.1	280.3	517.7	418.9	542.2
4.5 Operating Cost to Net Interest Income	78.9	74.5	85.0	76.5	81.5
4.6 Net Interest Income to Gross Assets	7.6	7.3	6.9	8.0	8.7
4.7 Net Interest Income to Interest Income	48.4	42.7	38.8	47.3	54.7
4.8 Non-Interest Income to Total Cost	29.4	14.9	13.9	15.9	15.7
4.9 Efficiency Ratio (Operating Cost)	52.0	56.4	62.3	57.7	63.8
4.10 Cost to Income Ratio	68.3	80.3	88.8	84.2	83.5
<b>5. Assets/Funding Structure (as a % of total assets)</b>					
5.1 Borrowings	35.0	29.5	26.8	25.4	29.9
5.2 Investments	6.3	6.8	7.4	13.0	10.7
<b>6. Lending</b>					
6.1 Total Loan Growth	33.2	21.4	17.3	12.9	30.6

(a) Provisional

Source: Central Bank of Sri Lanka

## SEMINAR ON “CREDIT EVALUATION”

FHASL conducted a seminar on “Credit Evaluation” on 12<sup>th</sup> February 2016 at the Excel World, Colombo 10. The Resource Person was Mr. Indika Ariyawansa, Assistant General Manager, Credit Risk Management of Lanka ORIX Leasing Co PLC., A Panel discussion was conducted by Mr. Indika Ariyawansa and Mr. Jayantha Kelegama. There were 111 officers of LFCs. Mr. Ravi Yatawara, Chairman FHASL was also present. The participants were awarded with Certificates at the conclusion of the seminar. We place on record our thanks to Mr. Ashan Nissanka, Chairman of the Committee / Seminars and Workshops for his commitment and the initiative taken in this connection and Mrs. Srma Wimalasena, Head of Secretariat and her staff for their efforts in making this event a success.





## A MEETING OF THE LEGAL CIRCLE

Meeting of the Legal Circle of the FHASL was held on 17<sup>th</sup> February 2016 at the Corporate Office at LB Finance PLC, Colombo 3. Ms. Harshani Mapatuna, Chairperson of the Legal circle presided. Mr. Ravi Yatawara, Chairman / FHASL, Mr. Chaminda Hettiarachchi, Council Member/FHASL, Mrs. Shiranthi Gunawardene, Legal Consultant/ FHASL and Mrs. Srimal Wimalasena, Head of Secretariat/FHASL were also present. There were 22 lawyers representing 20 Member Companies who contributed immensely towards the deliberations of the meeting. Issues of importance related to Member Companies were taken up for discussion.

## HR FORUM 2016

HR Forum 2016 of the FHASL was held at Light House Galley, Chaithya Road, Colombo 1, on 24<sup>th</sup> February 2016. The Guest Speaker was Dr. Asoka Jinadasa, PHD (USA), CENG(UK), FIEE(UK), FBCS(UK), Hon. MIPM(SL). In his presentation Mr. Jinadasa, highlighted the following aspects for the benefit of the participants.

- Using the Wisdom – Skill performance matrix to prepare for future challenges.
- Using 5-dimensional model to develop HR competencies needed for success.
- Switching from top-down to company-wide bottom-up leadership development.
- Achieving sustainable employee engagement to boost annual operating margins.

There were 30 HR Heads representing LFCs. We thank Mr. R.H. Abegoonawardene, Chairman of HR Forum for the role he has played in organizing this event in a successful manner.

Mr. Ravi Yatawara, Chairman FHASL, Mr. Duleep Daluwatte, Vice Chairman FHASL, Mr. Rohan Tennakoon, Council Member FHASL and Mrs. Srimal Wimalasena, Head of Secretariat were also present.



## FHASL ANNUAL SPORTS FESTIVAL – 2016

The Annual Sports festival 2016 of the FHASL will be held on 16<sup>th</sup> July 2016 at the Bloomfield Grounds, from 7.30 a.m. onwards. Mr. Krishan Thilakaratne, CEO of Commercial Leasing and Finance PLC will be the Chairman – Sports Festival of the FHASL 2016.