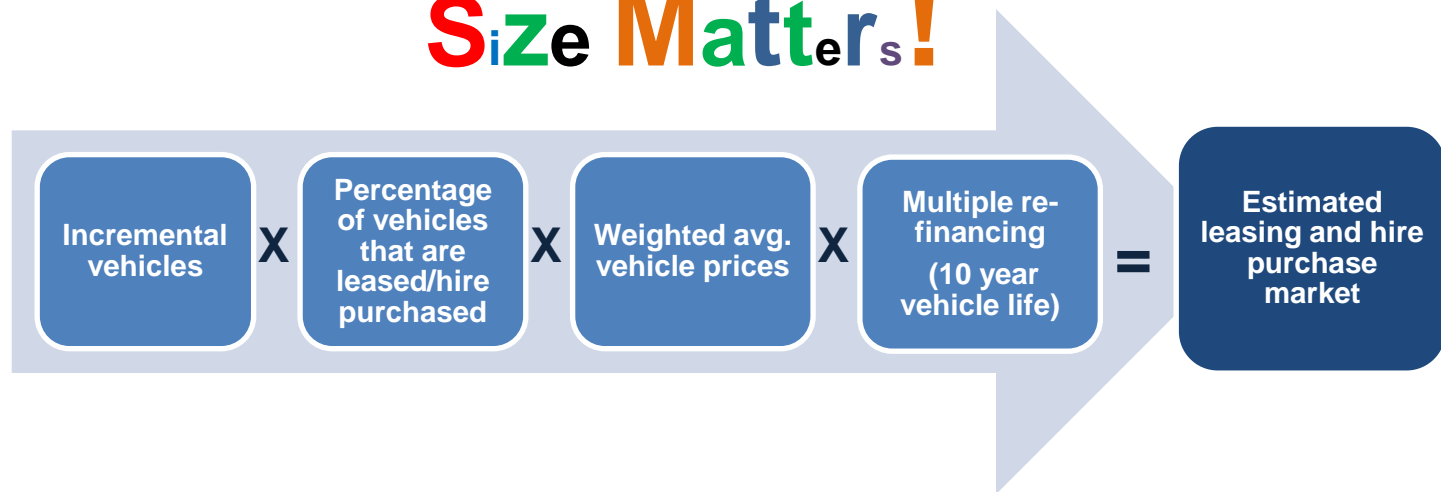


Non-Bank Finance Companies (NBFCs)

Leasing and Hire Purchase Sector:

Size Matters!



Kishan Gunawardena
CAL Research
October 2011

See p. 57 for important disclaimers

Contents: Size Matters!

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The larger NBFCs boast superior profitability metrics

Figure 1: Selected profitability metrics of a sample of NBFCs (March 2011)

	Total Assets (Rs. mn)	Profit After Tax (Rs. mn)	Return on Avg Equity	Return on Avg Assets	Net Interest Margin	Cost/ Income
People's Leasing Company Ltd	55,900	2,600	35%	7%	12%	27%
Central Finance Co PLC	39,000	1,600	19%	4%	14%	42%
L B Finance PLC	28,100	1,000	47%	5%	13%	34%
Lanka ORIX Finance Company Ltd	24,300	1,200	52%	7%	8%	38%
Arithmetic Average	36,800	1,600	38%	6%	12%	35%
Asset Weighted Average	40,900	1,800	36%	6%	12%	34%

	Total Assets (Rs. mn)	Profit After Tax (Rs. mn)	Return on Avg Equity	Return on Avg Assets	Net Interest Margin	Cost/ Income
Senkadagala Finance Co. PLC	6,900	250	25%	4%	16%	51%
Alliance Finance Co. PLC	6,300	190	22%	3%	4%	92%
Bartleet Finance Ltd	4,900	220	43%	5%	9%	51%
Singer Finance (Lanka) Limited	4,400	110	16%	3%	17%	63%
Vallibel Finance Ltd	3,900	110	29%	4%	12%	37%
Abans Financial Services Ltd	2,100	40	13%	2%	12%	58%
Arpico Finance Co PLC	2,000	30	8%	1%	12%	74%
Arithmetic Average	4,400	130	22%	3%	12%	61%
Asset Weighted Average	5,100	160	24%	3%	12%	61%

Summary

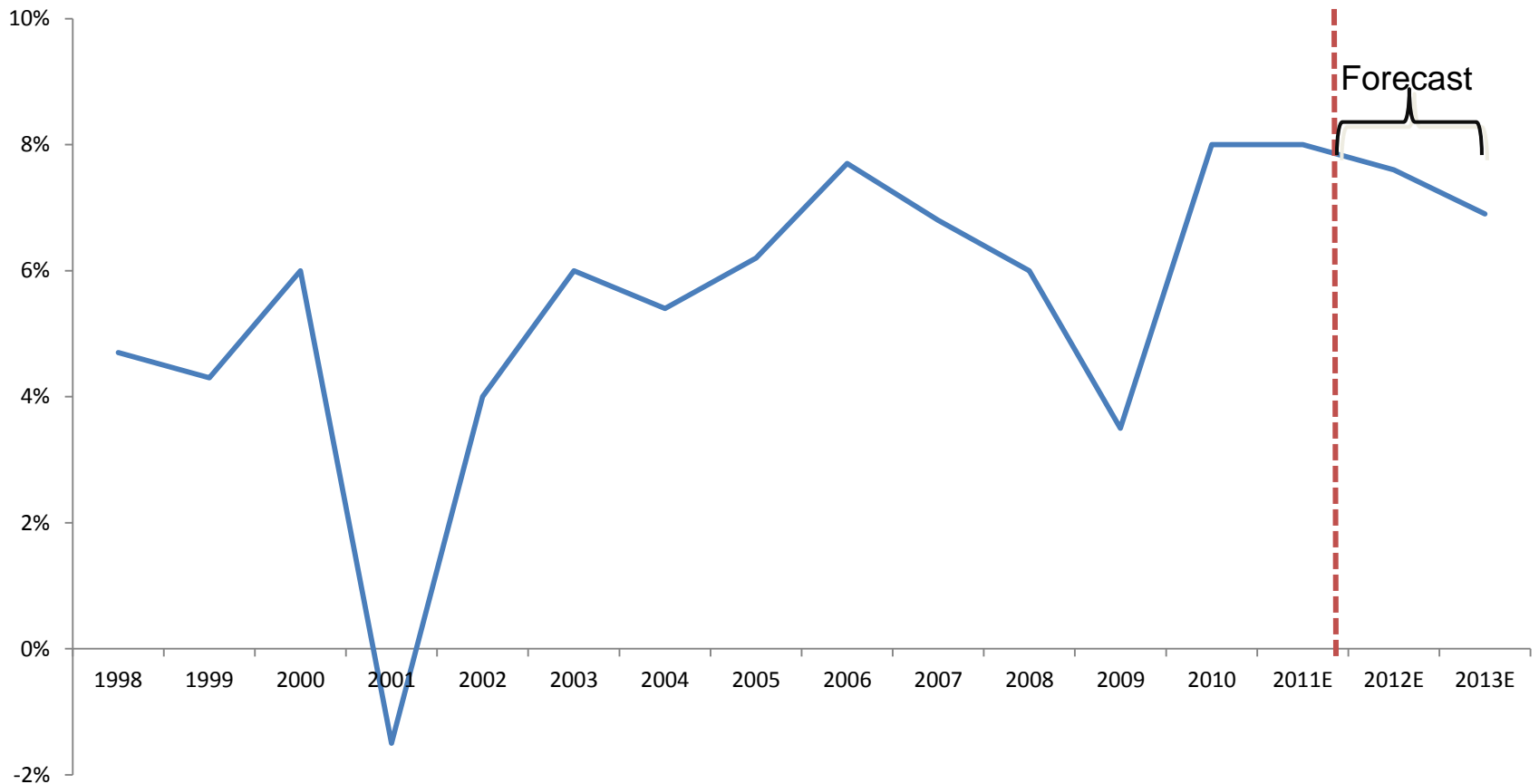
The larger NBFCs should disproportionately profit from booming leasing and hire purchase sales

- Low levels of overall credit and sustained economic growth create an extremely conducive environment for credit growth
- Increasing levels of income, growth in vehicle ownership and re-financing are likely to accelerate growth in the leasing and hire purchase (HP) market
- With 86% of the leasing and HP market, Non Bank Finance Companies (NBFCs) are poised for explosive growth
- Size is not the only criteria for picking winners, but there are strong reasons to believe that “bigger is better” over the next few years

I. Economic growth will stimulate private sector credit growth by 2.5 times by 2018

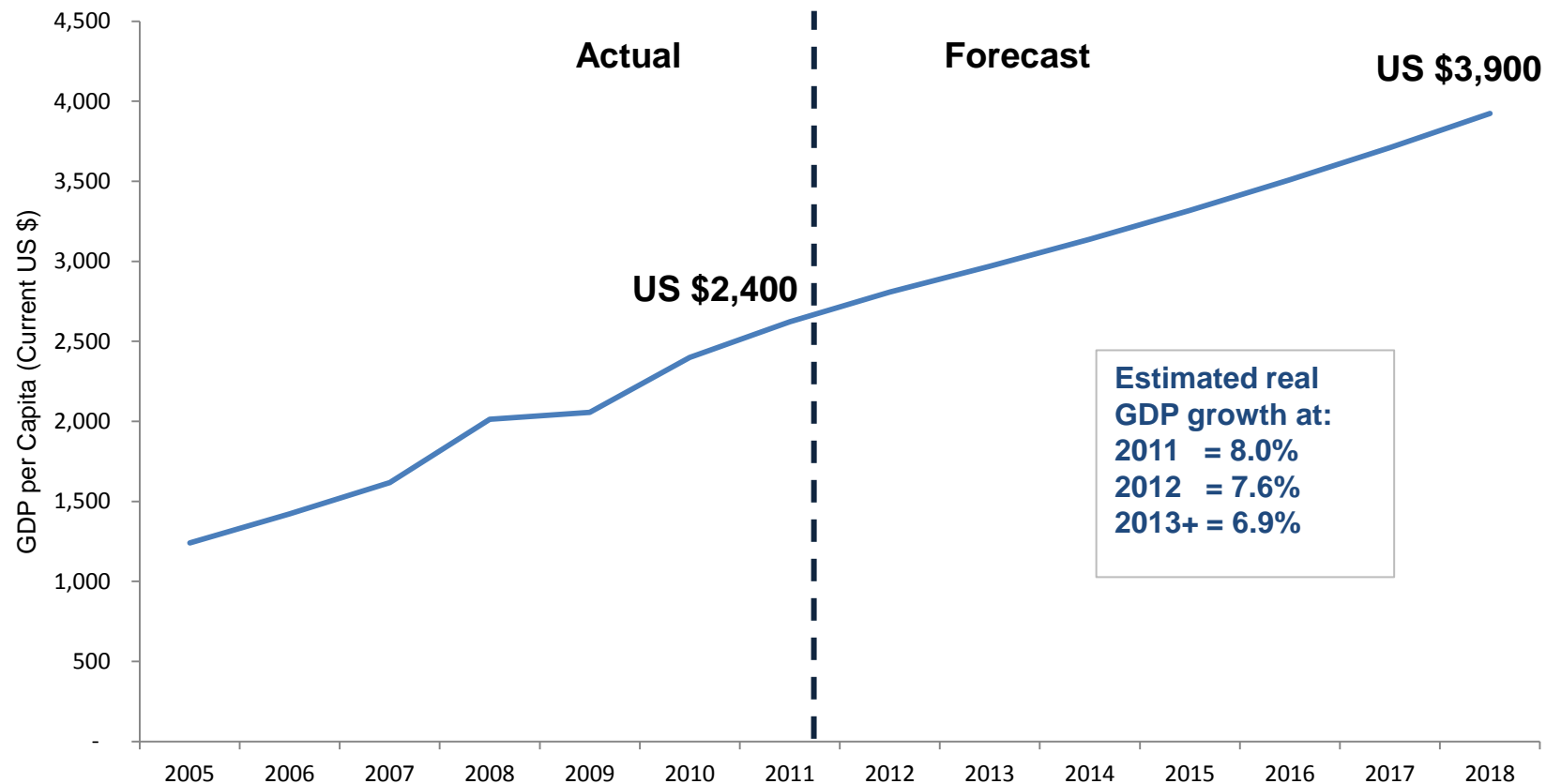
Post-war Sri Lanka to witness steady 7-8% GDP growth p.a.*

Figure 2: Real GDP growth 1998 – 2010; plus 2011 - 2013 estimates



Sri Lanka's real GDP per capita could grow from \$2,400 today to reach US\$3,900 by 2018

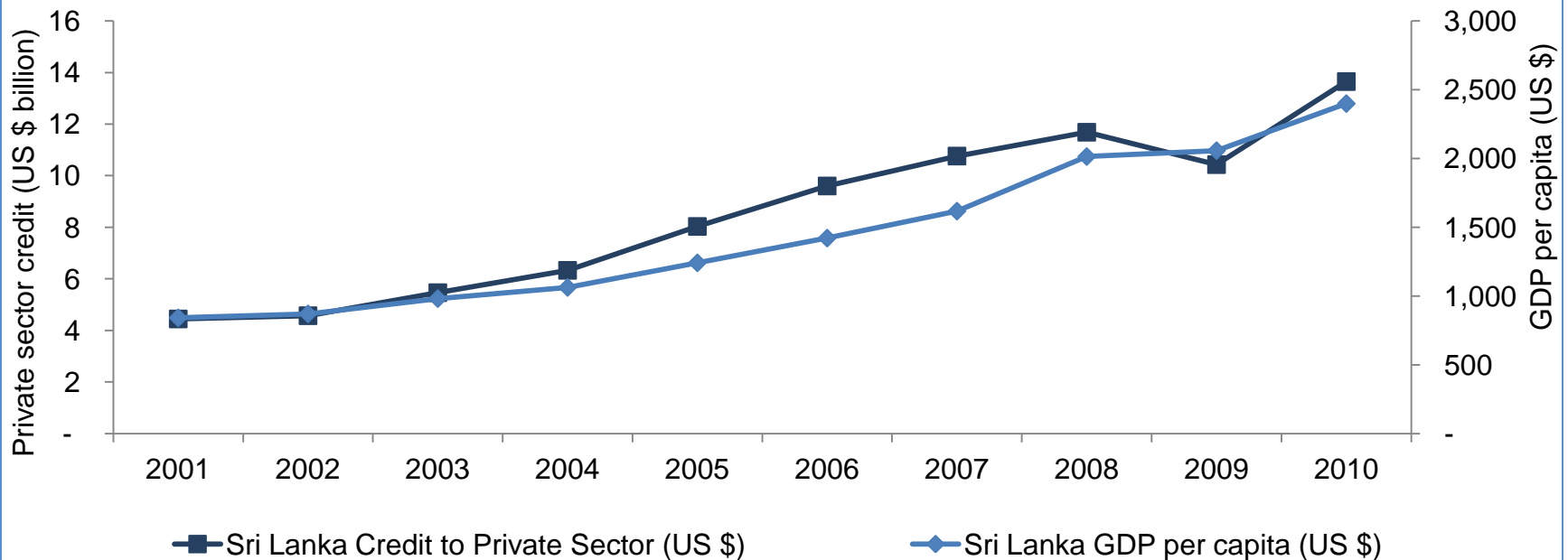
Figure 3: Forecast real GDP per capita (US\$)



There is a 95% correlation between GDP per capita and credit to the private sector

- As GDP per capita increases, Sri Lanka can expect to see a proportionate increase in credit growth as consumers become more creditworthy.
- India, Pakistan and Indonesia all have correlations of greater than 80% as well.

Figure 4: Correlation of credit to the private sector against GDP per capita, 2010



Falling interest rates have fueled meteoric credit growth, but off a very low base

Figure 5: Average weighted prime lending rate (weekly)

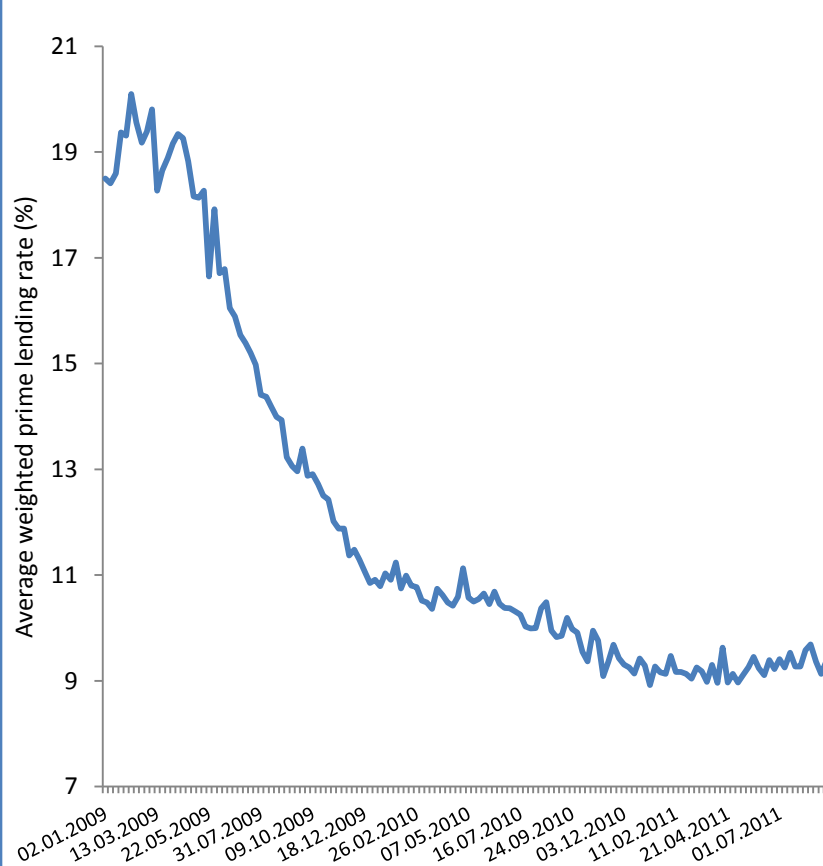
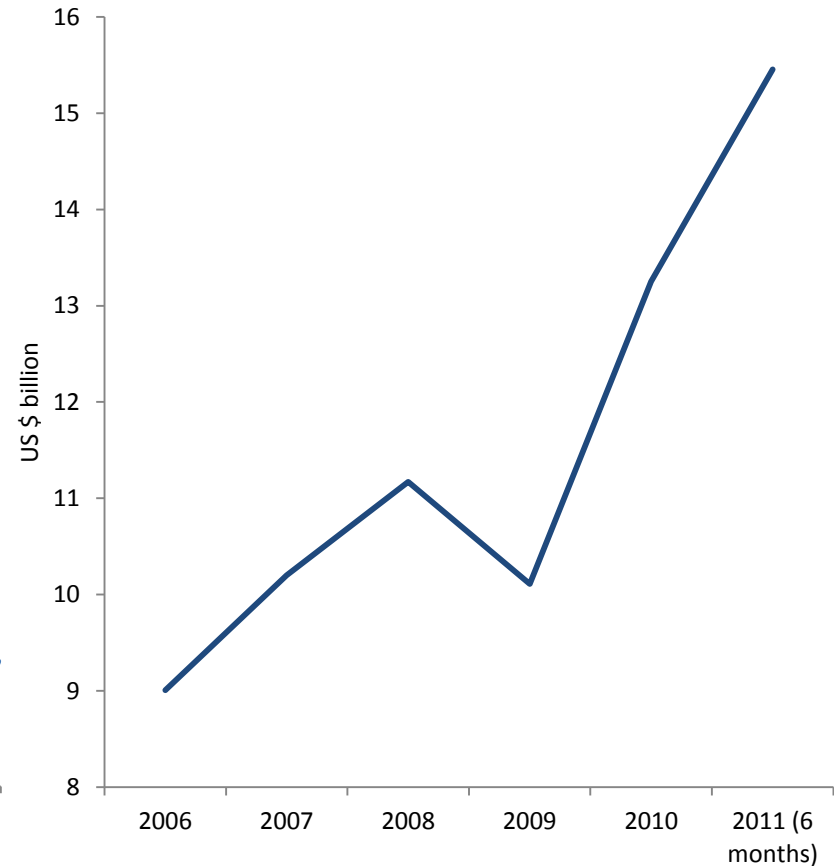


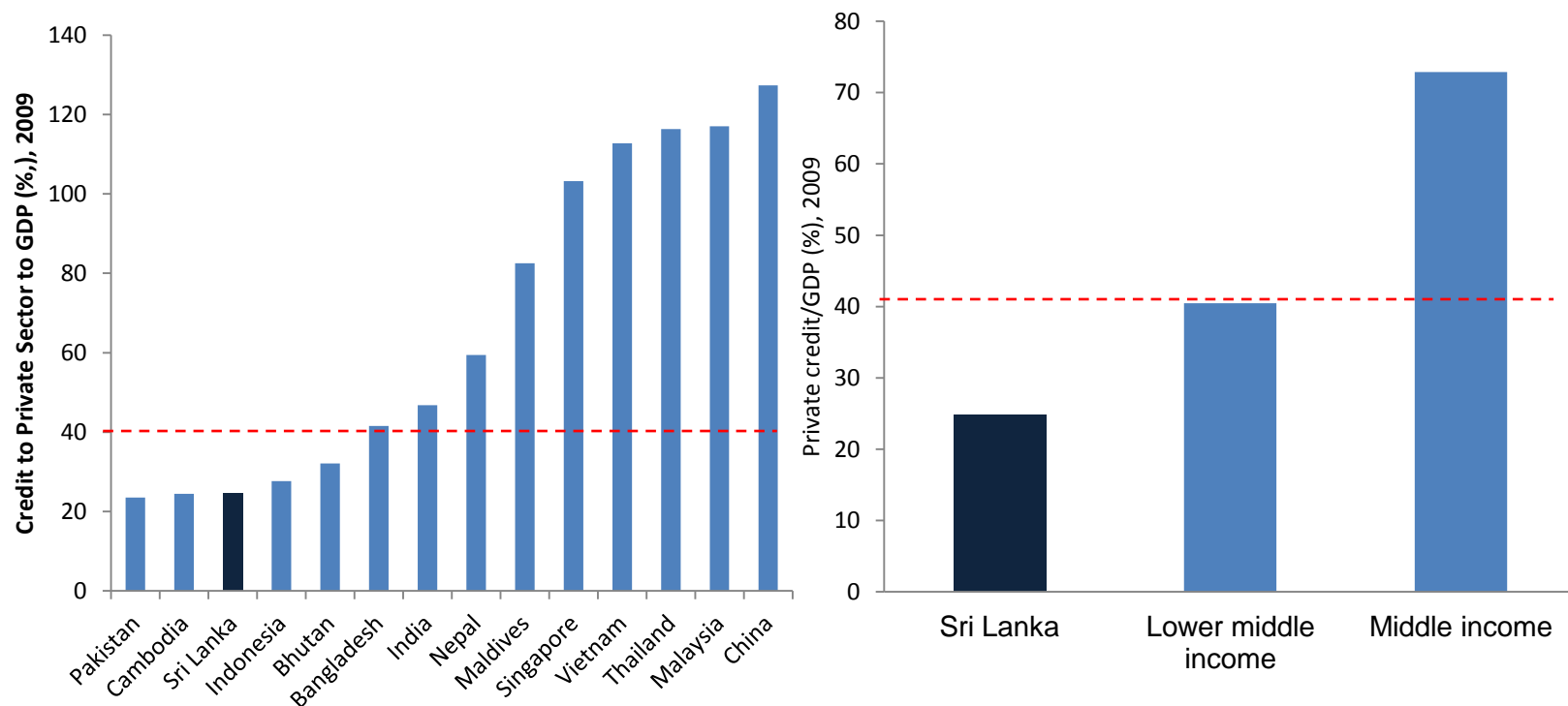
Figure 6: Credit to the private sector



At 28% of GDP in Q1 2011, Sri Lanka's aggregate private sector credit was amongst the lowest in Asia

- Private sector credit to GDP was 25% in 2009, down from 34% in 2006; however, post-war private sector credit has increased and the recent trend line is positive.

Figure 7: Credit to the private sector as a percentage of GDP, 2009



* Lower middle income countries include: India, Pakistan, Indonesia, Bhutan, Vietnam

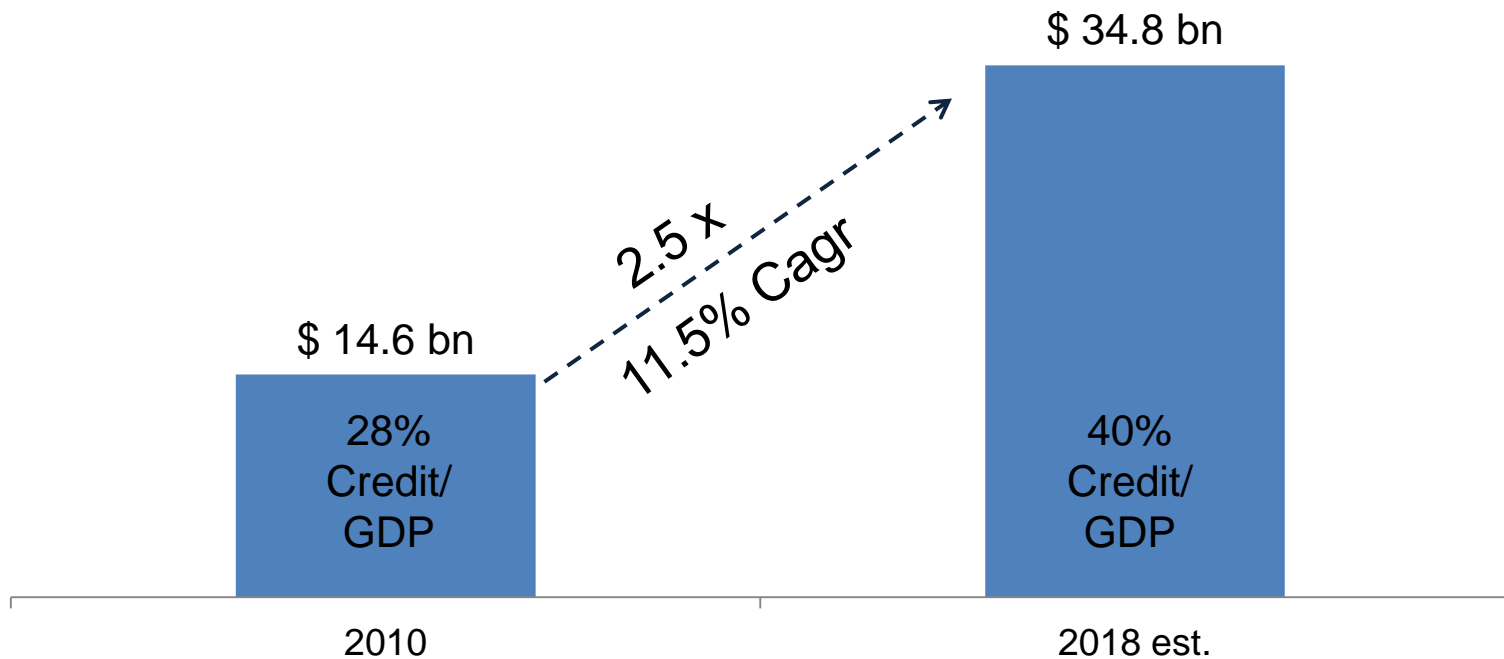
Source: World Bank

Private sector credit would grow 2.5x by 2018 if Sri Lanka were to merely catch up to the peer country 40% average

Key assumptions:

- Real GDP per capita were to grow at 6.3% p.a.
- Private sector credit to GDP reached the lower middle income* average of 40%.

Figure 8: Private sector actual credit 2010 vs. forecast 2018

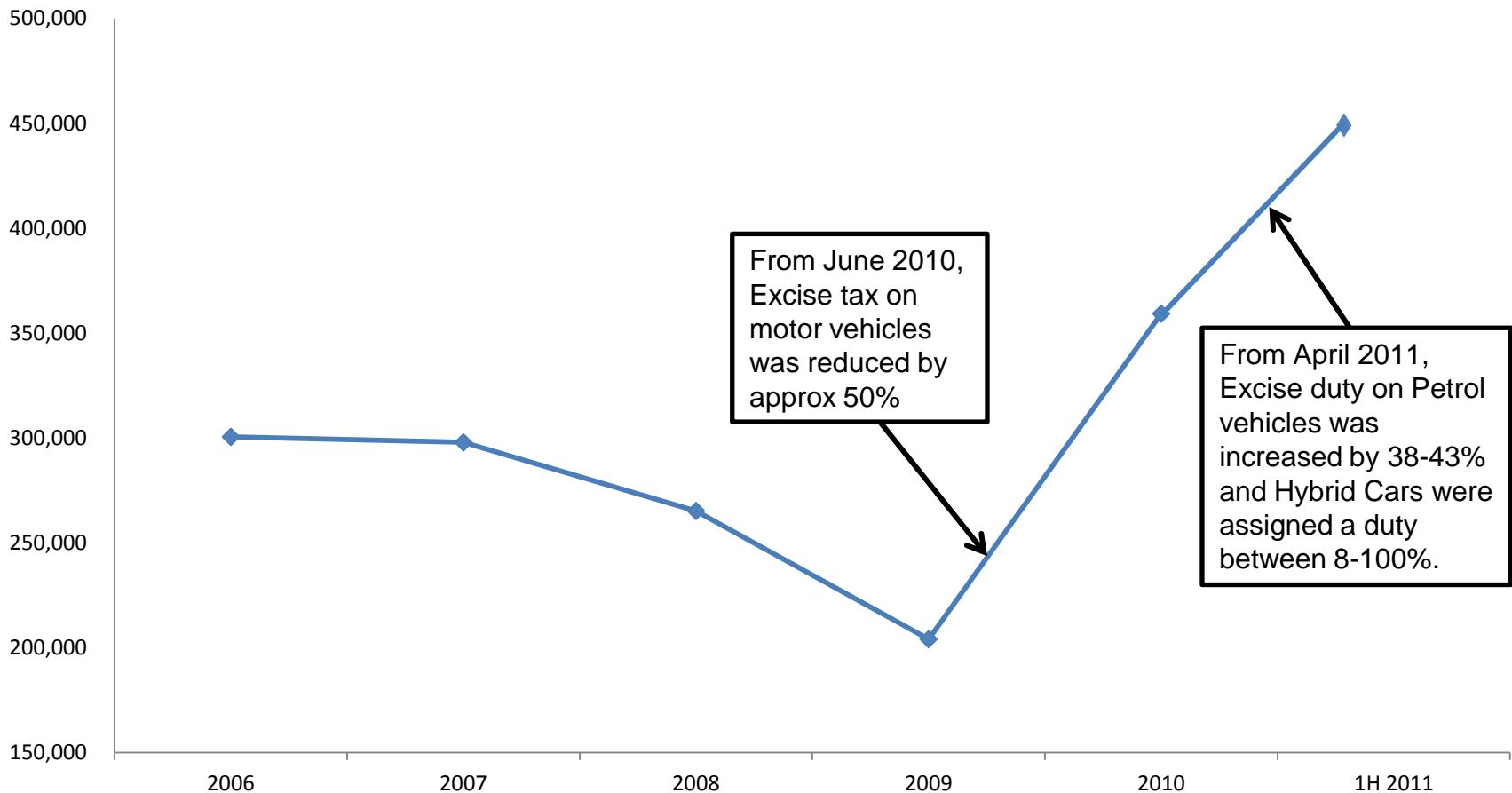


* Lower middle income is \$1006 – \$3975 according to the World Bank

II. Leasing and hire purchase market to grow at a 25% Cagr through 2018

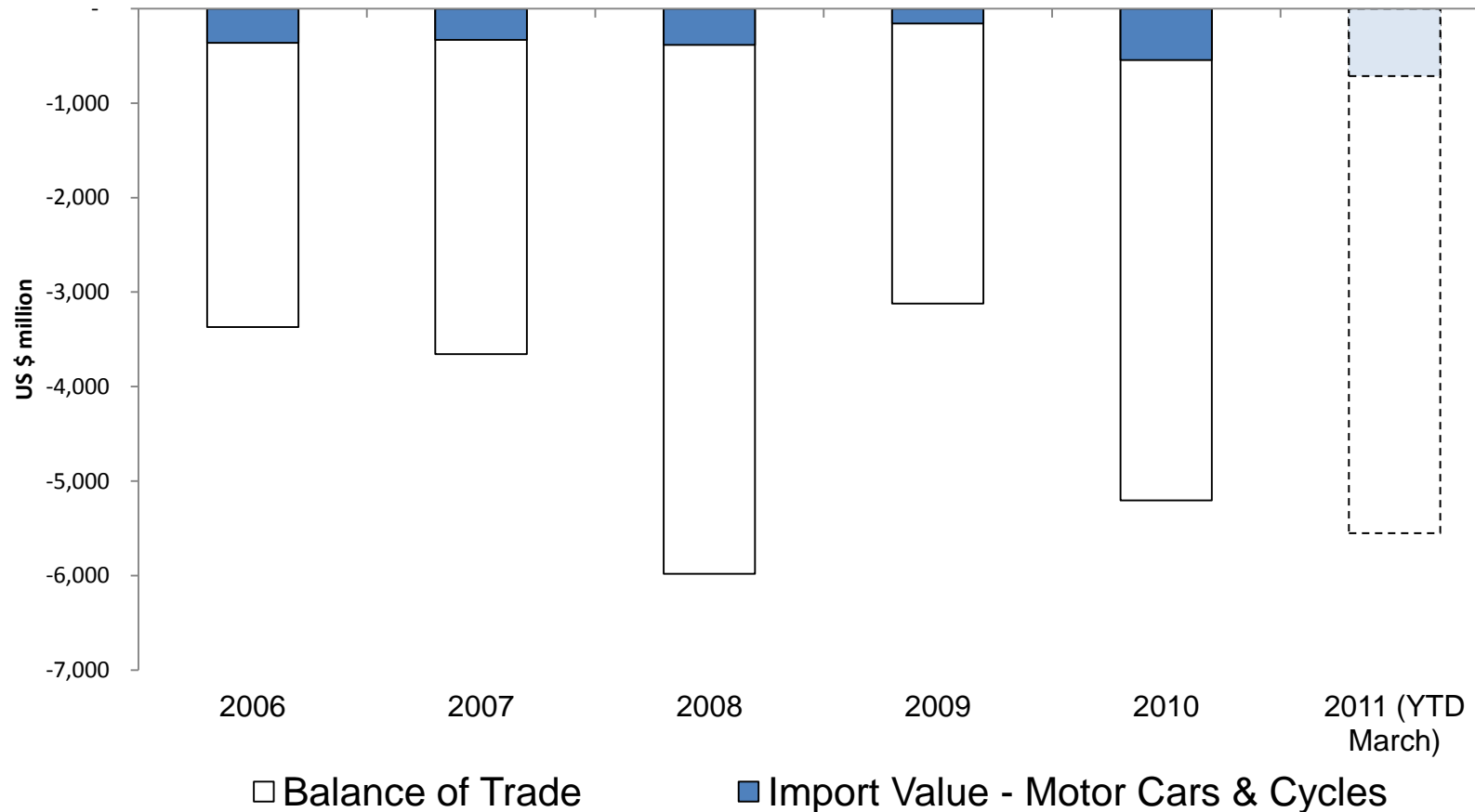
Reduced import duties and lower interest rates led to an 800k increase in vehicle sales since 2009

Figure 9: New vehicle registrations, Sri Lanka, 2006 – 2011 (July)



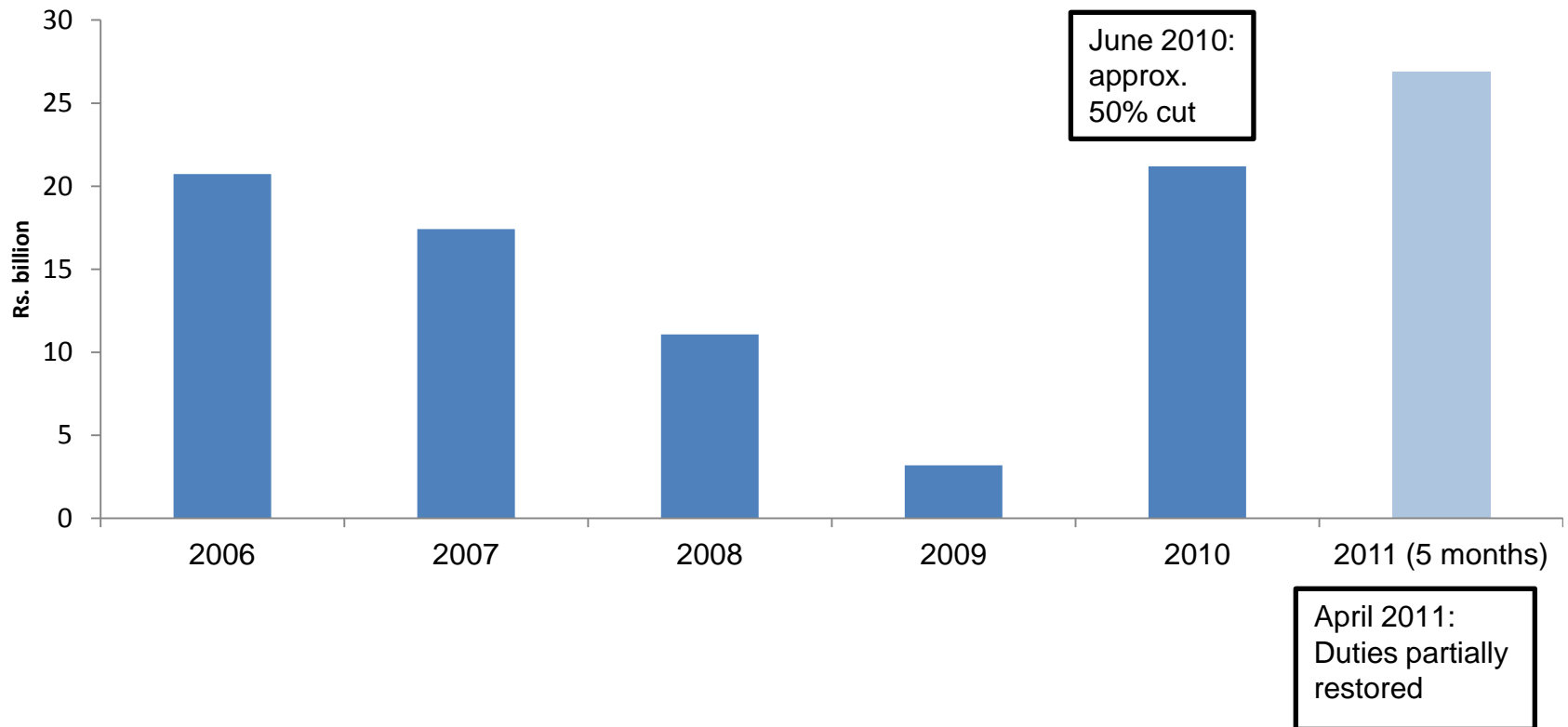
Vehicles in 2010 accounted for only 4% of imports. Raising duty would be of limited benefit to the Balance of Trade

Figure 10: Import value of cars & motorcycles as a proportion of the Balance of Trade, 2006-2011



Significant increases in tax revenues following recent import duty reductions may discourage future duty hikes

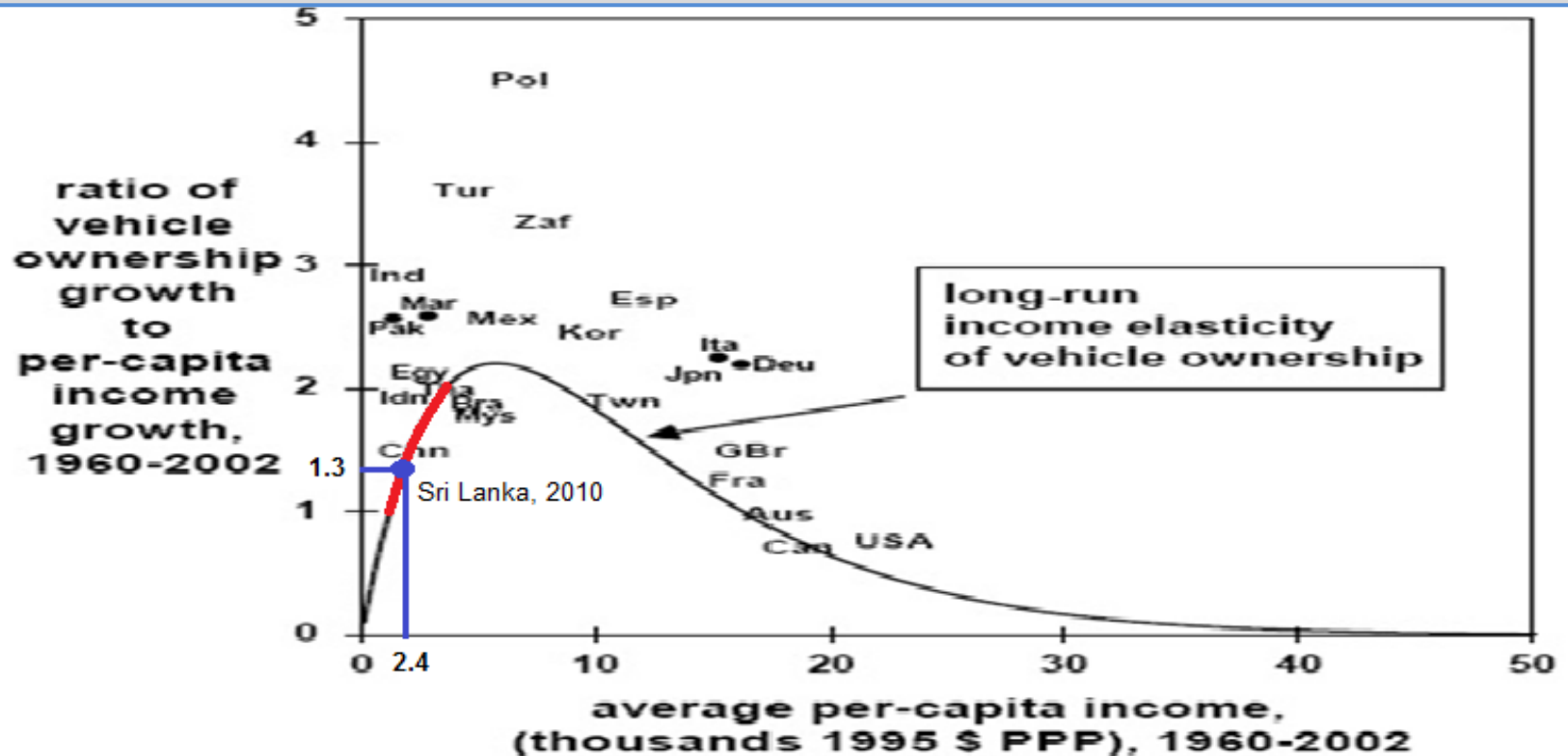
Figure 11: Excise tax revenue on motor vehicles, 2006 – 2011 (1H)



Sri Lanka's current GDP per capita suggests accelerated vehicle ownership growth if past trends hold true

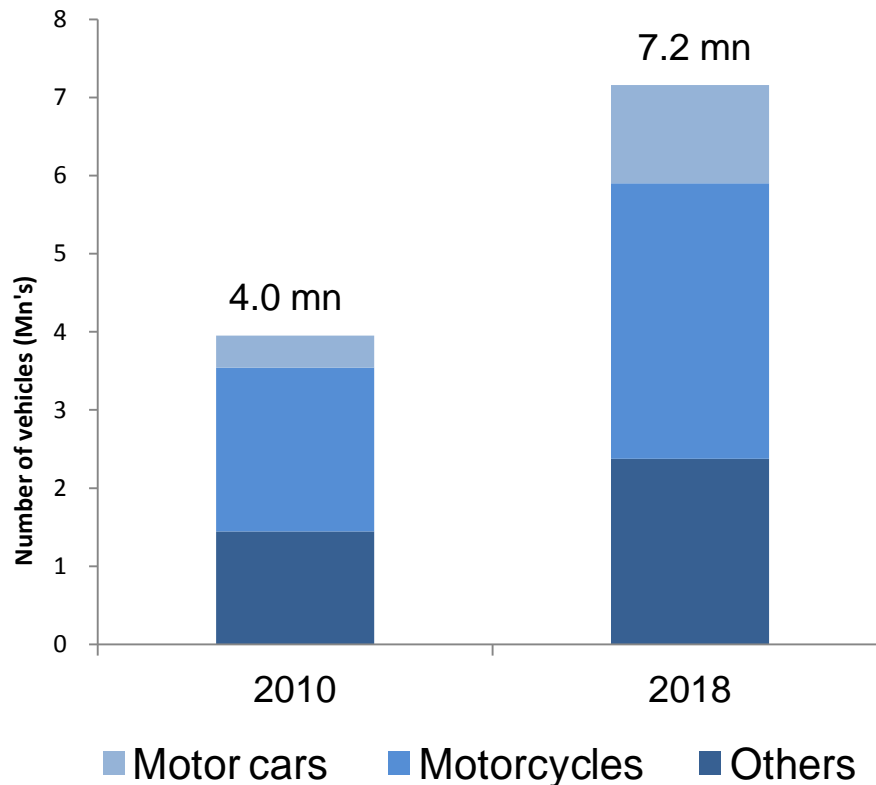
- Historically, \$1000 - \$5000 per capita GDP drives vehicle growth of up to 2x Δ GDP.
- SL's \$2400 GDP per capita suggests vehicle growth of 1.3x Δ GDP, or +8% p.a.

Figure 12: Long-run income elasticity of vehicle ownership



Sri Lankans should expect 7.2m vehicles by 2018, +81%

Figure 13: Total vehicle population and composition, 2010 vs. Forecast 2018



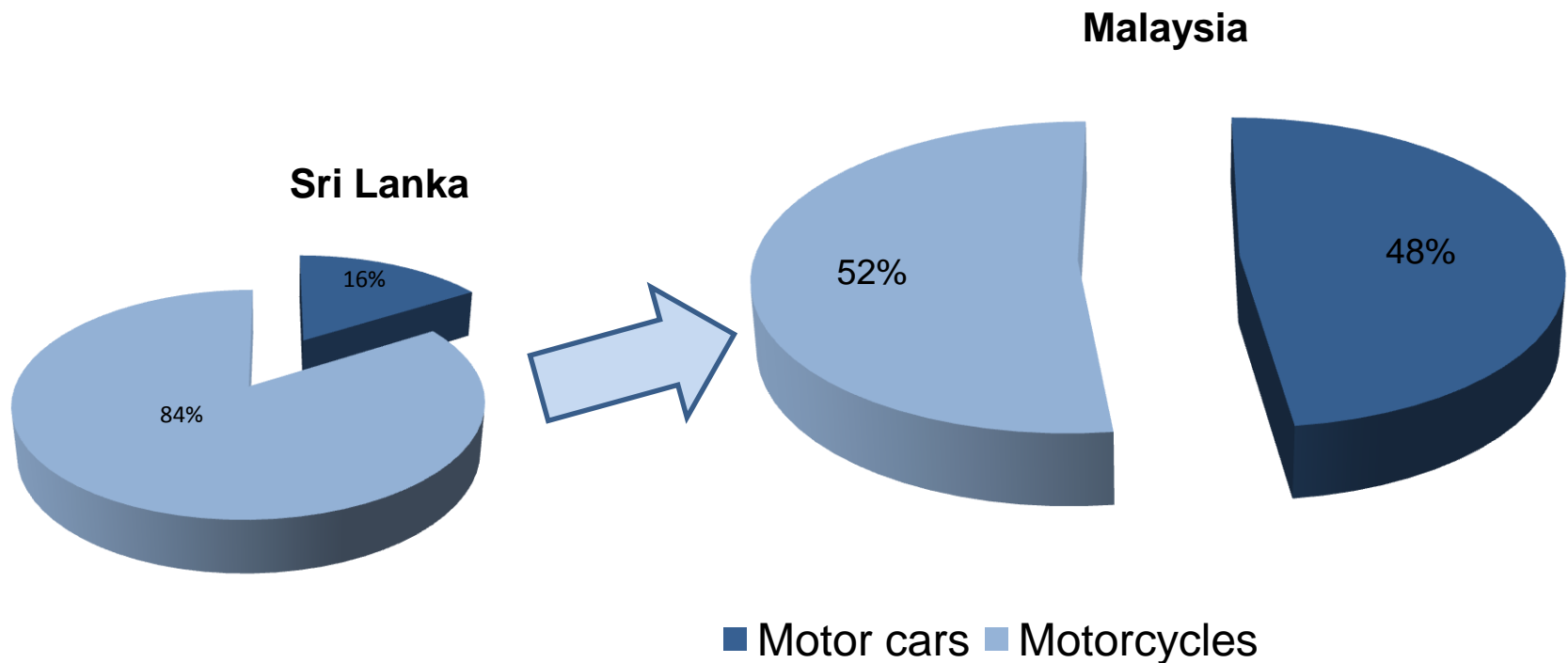
Assumptions:

- Real GDP per capita +6.3% p.a.
- +8% p.a. average unit vehicle growth
- A change in mix as today's 2m motorcycle owners upgrade to cars and more households can afford vehicles

Vehicle Mix	2010	2018
• Motor cars	10%	18%
• Motor cycles	53%	49%
• Others	37%	33%

Many of the new vehicle sales will be upgrades from motorcycles to motor cars as was the case in Malaysia

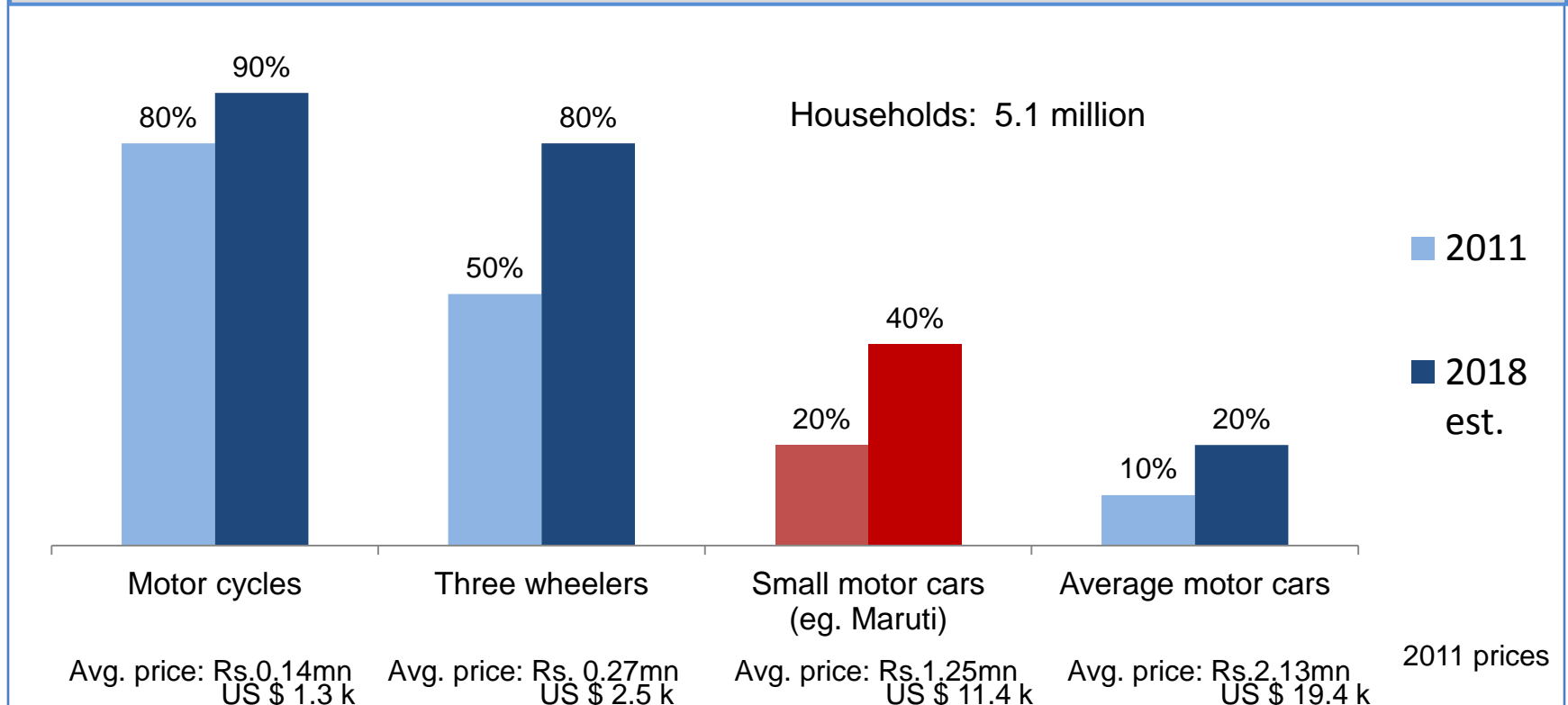
Figure 14: Sri Lanka and Malaysia: Cars vs. Motorcycles, 2010



Households that can afford cars would double from 20% to 40% if 6%+ real GDP growth can be maintained through 2018

- Affordability indicates the percentage of households who have sufficient monthly income to lease or make HP payments on the specific type of vehicle.

Figure 15: Percentage of households that can afford different types of vehicles, 2011 & 2018*



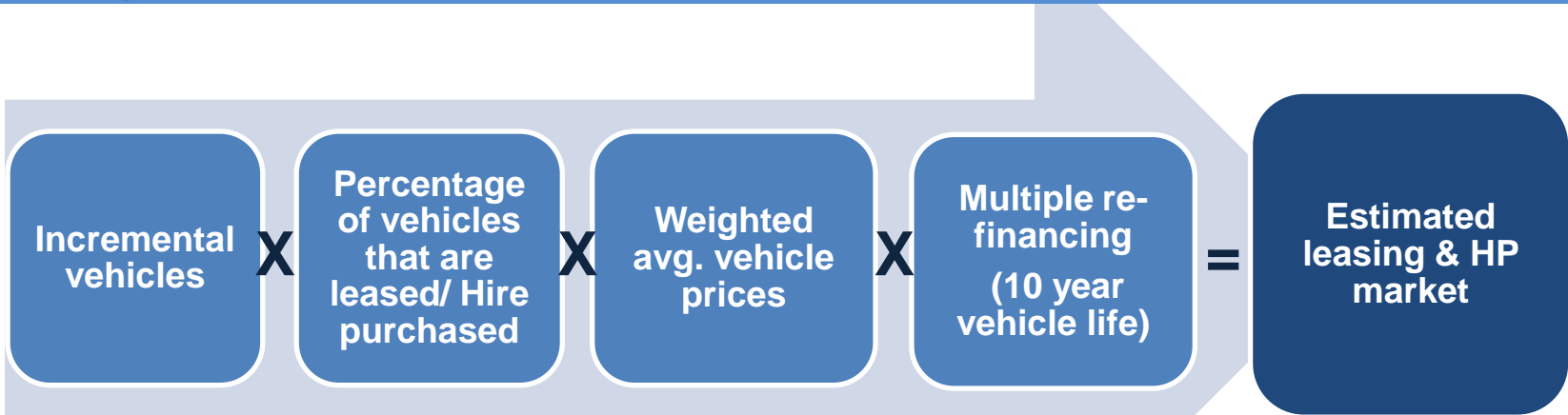
Source: CAL Research estimates
Source: Department of Census and Statistics



* Lease rentals are for a 4 yr period at an interest rate of 14% on a lease which is 75% of the vehicle value
* Assumes that households could afford to spend approx. 20-50% of their income as lease rentals.

Increasing affordability, credit growth and multiple re-financing of vehicles together spur leasing and HP . . .

Figure 16: Composition of vehicles that are leased/hire purchased and weighted average vehicle prices



Percentage of new vehicles that are currently leased or hire purchased

Motor cars	50%
Motor tricycles	79%
Motor cycles	32%
Buses	84%
Dual purpose vehicles	81%
Lorries	83%
Land vehicle – tractors	63%
Land vehicle – trailers	49%

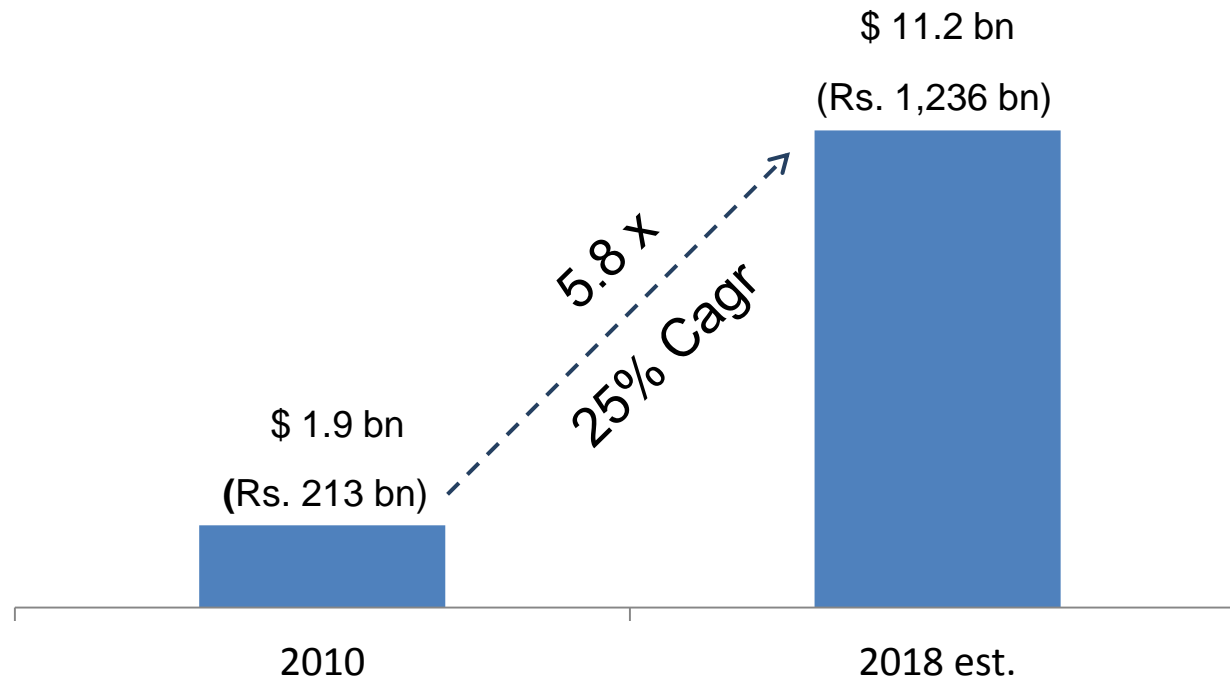
Weighted average vehicle prices

Motor cars(weighted)	Rs. 2.3mn
Motor tricycles	Rs. 0.27mn
Motor cycles	Rs. 0.14mn
Buses	Rs. 6.3mn
Dual purpose vehicles	Rs. 3.0mn
Lorries	Rs. 1.5mn
Land vehicle – tractors	Rs. 1.3mn
Land vehicle – trailers	Rs. 1.5mn

↗ Low end - Rs. 1.1mn – 1.5mn
 → Average - Rs. 2.5mn – 4.5mn
 ↘ High end – Rs. 6mn and above

...to achieve a blended 25% asset Cagr (2011-18)

Figure 17: Forecast lease and hire purchase total assets, 2011 & 2018



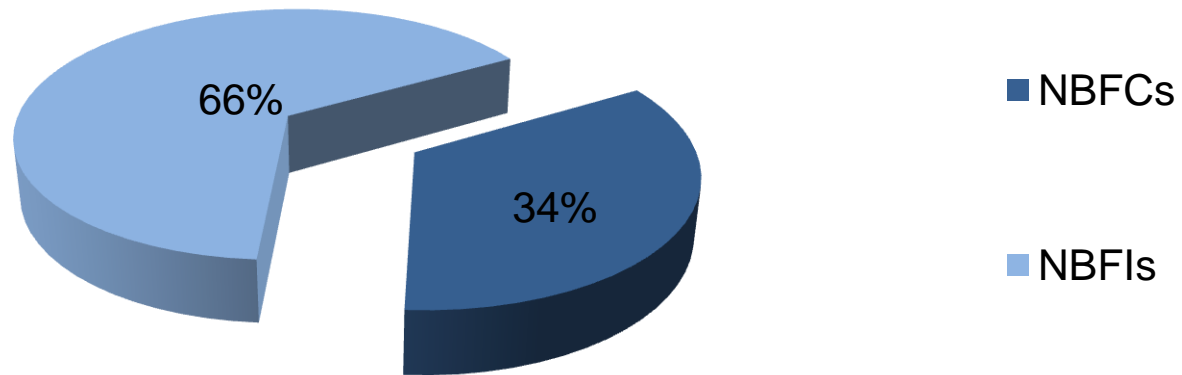
Note: See Appendix B-D for a “Worst Plausible Case” scenario

III. NBFC sector primed for explosive growth

NBFCs are the largest subset of NBFIs (excluding EPF/ETF)

- The 'NBFCs' in this report are RFCs¹ and SLCs², a subset of the NBFIs
- Other NBFIs include: Cooperative Rural Banks, Primary Dealers, Stock Broking Companies, Insurance Companies, etc.

Figure 18: NBFCs & NBFIs: proportion of total “Super Sector” assets



¹ RFCs = Registered Finance Companies
Companies registered under the Finance Companies Act and are authorized to take deposits from the public

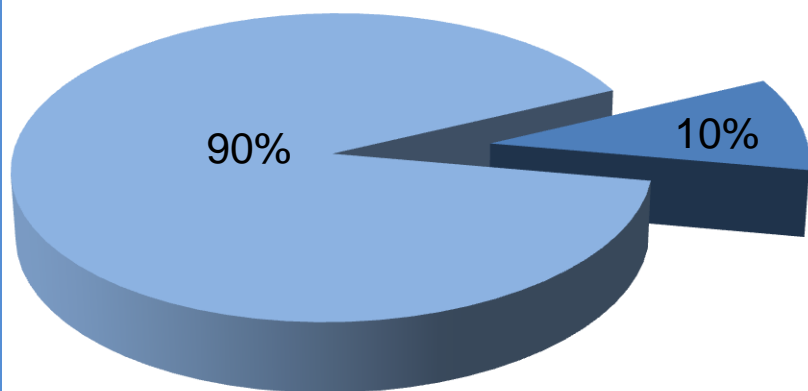
² SLCs = Specialised Leasing Companies
Companies registered under the Finance Leasing Act and are not authorized to take deposits from the public

Source: Central Bank of Sri Lanka

Although much smaller than banks in respect of total assets, NBFCs are well represented in terms of branches...

Figure 19: Proportion of total assets, Banks against NBFCs

Figure 20: Proportion of total branches, Banks against NBFCs



■ NBFC ■ Banks

...however, NBFCs have specialist customer and product knowledge, enabling them to outcompete banks in the niche

Figure 21: Industry lease & hire purchase assets, 2010

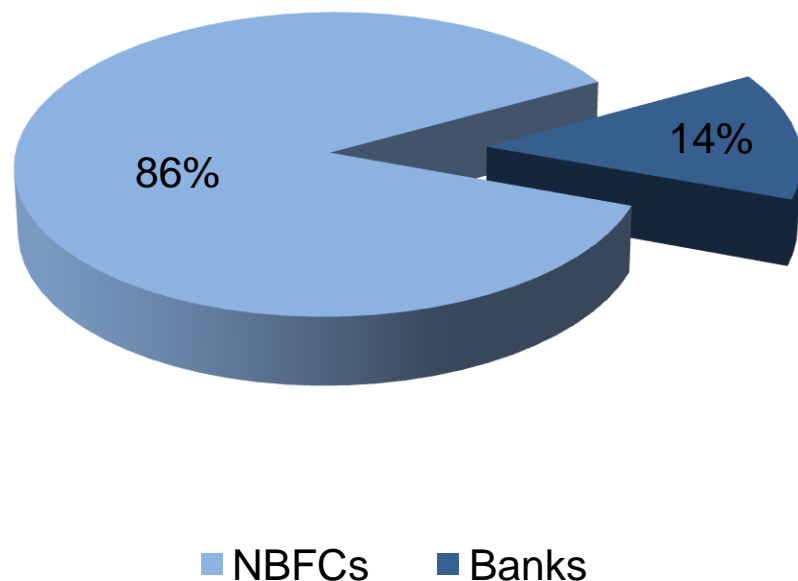
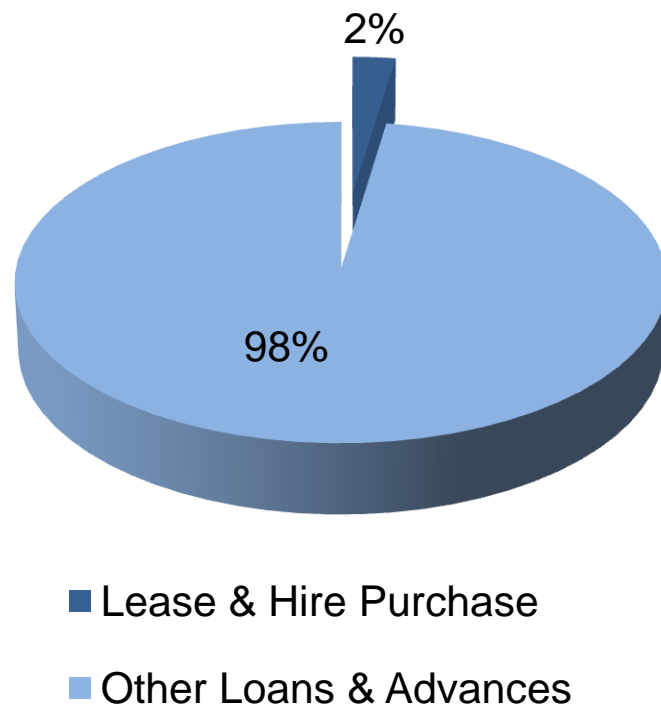
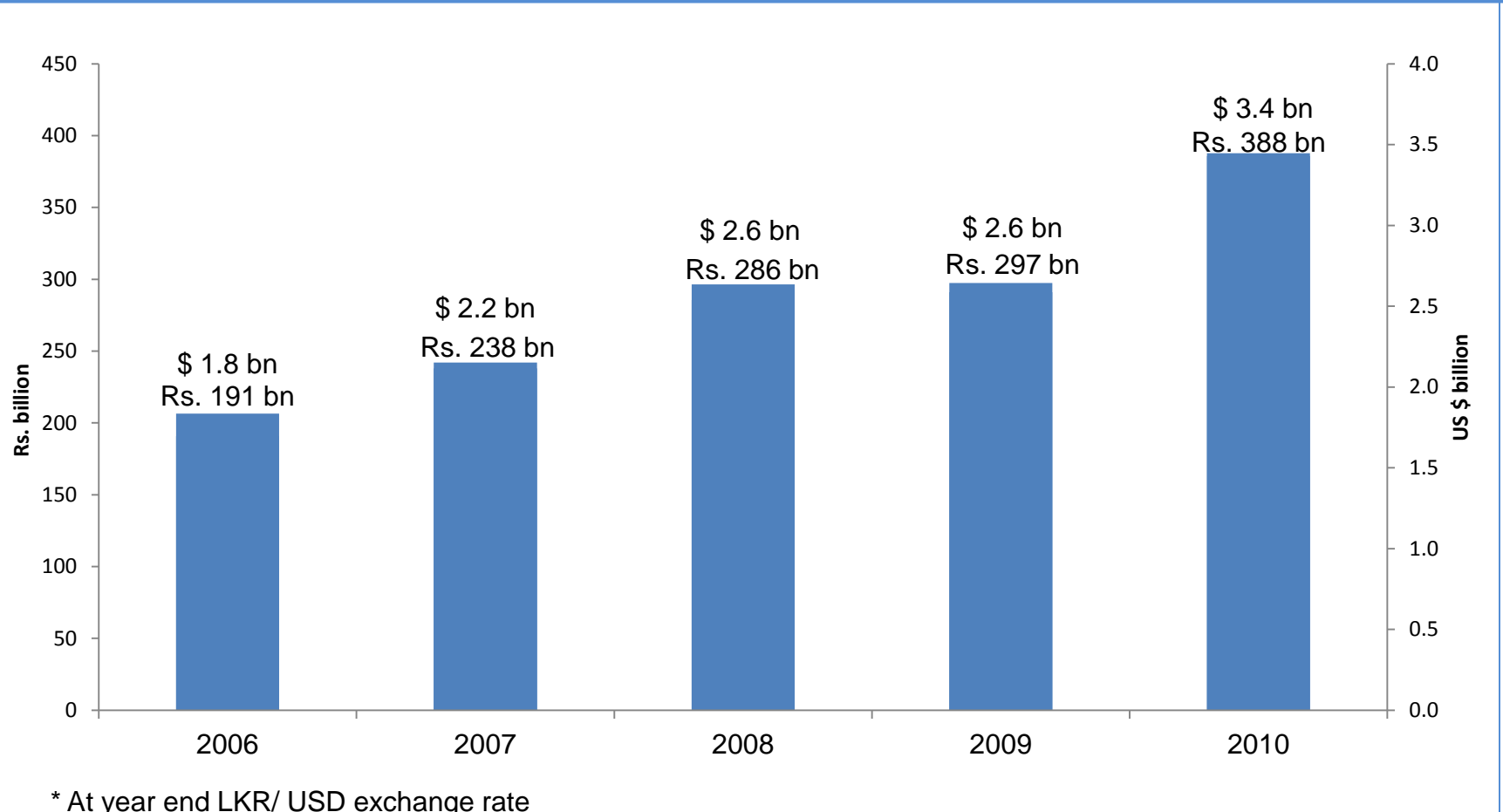


Figure 22: Proportion of commercial banks' loans & advances



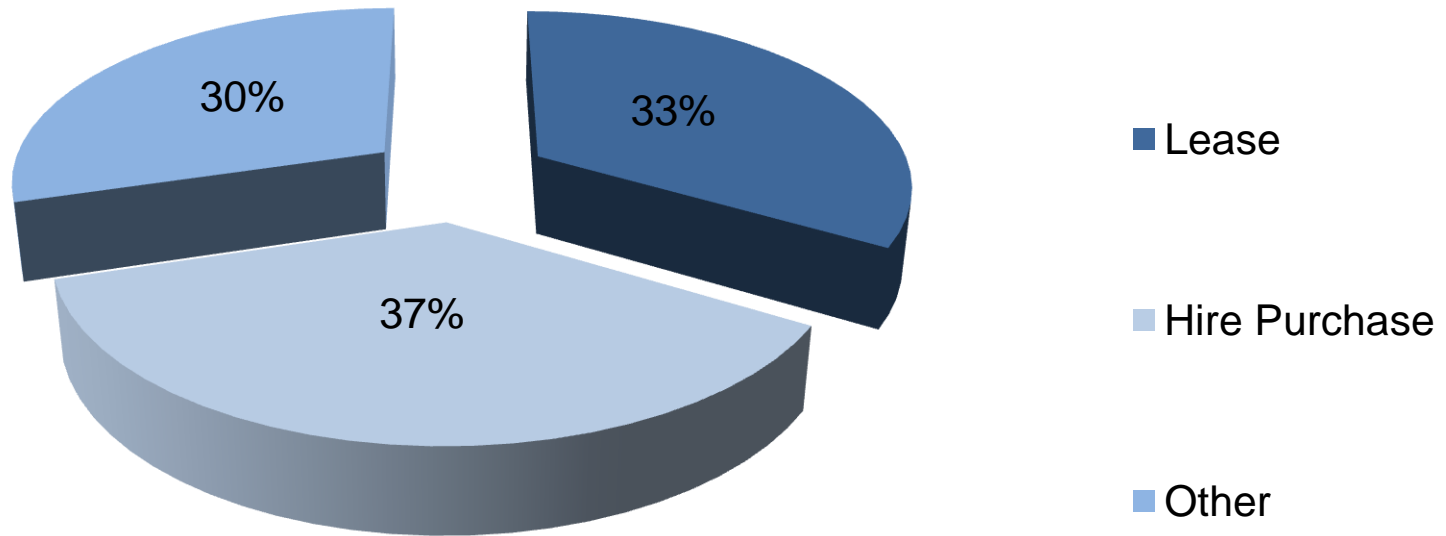
Growing assets at a 19% Cagr 2007-10, the NBFC industry showed resilience during tougher economic times

Figure 23: NBFC total assets, 2006-2010*



Vehicle leases and HP agreements comprise 70% of total NBFC loans and advances

Figure 24: Composition of loans and advances for NBFCs 2010

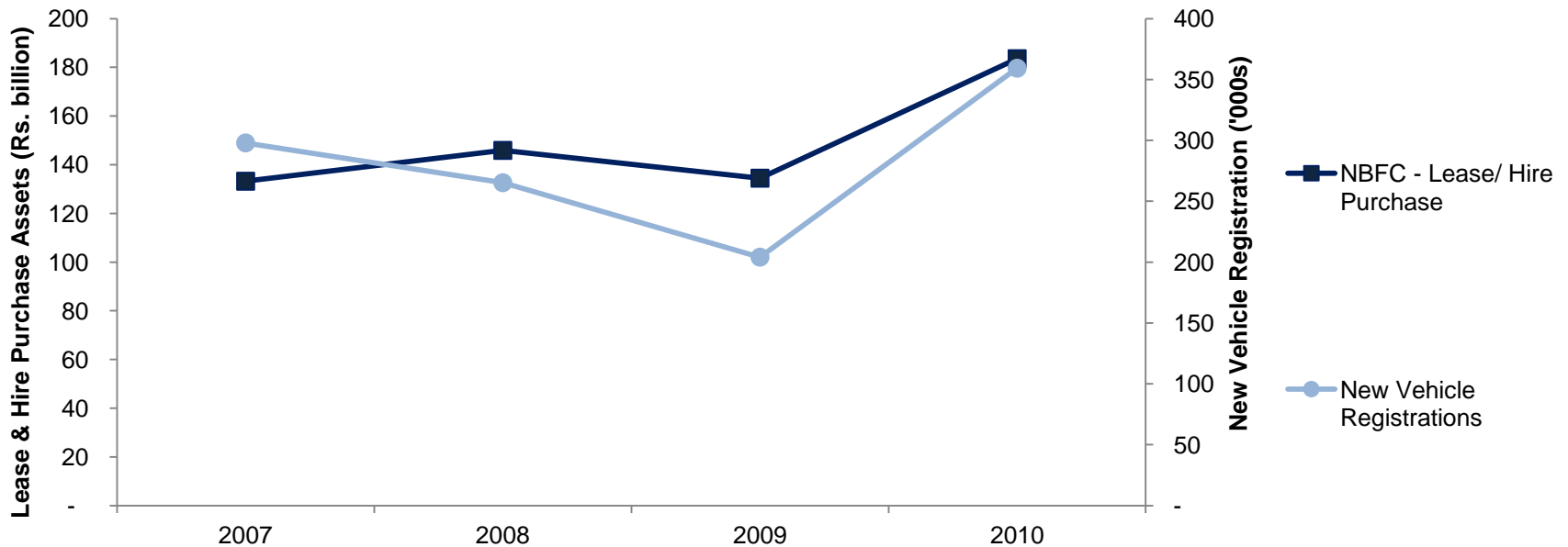


• 'Other' = Loans, Pawning Advances, Real Estate

NBFC lease & hire purchase assets are 88% correlated with new vehicle registrations

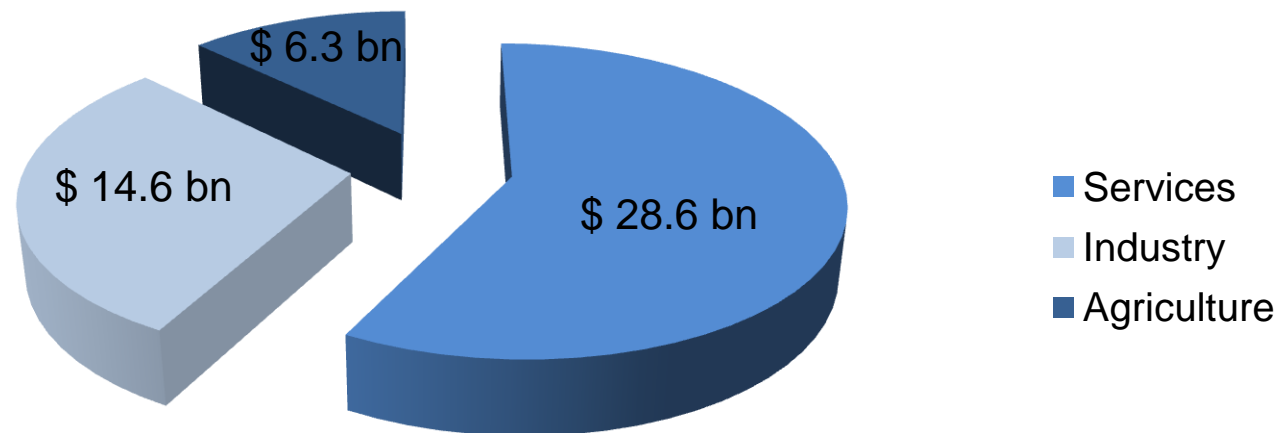
- However, with major road networks planned, there is likely to be an above-trend increase in demand for construction and commercial vehicles: good for lenders, but perhaps reducing the future correlation.

Figure 25: NBFC lease and hire purchase assets against new vehicle registrations



Vehicles play an important role in the Services sector, which accounts for more than half of overall GDP

Figure 26: Sri Lanka Sector GDP, 2010



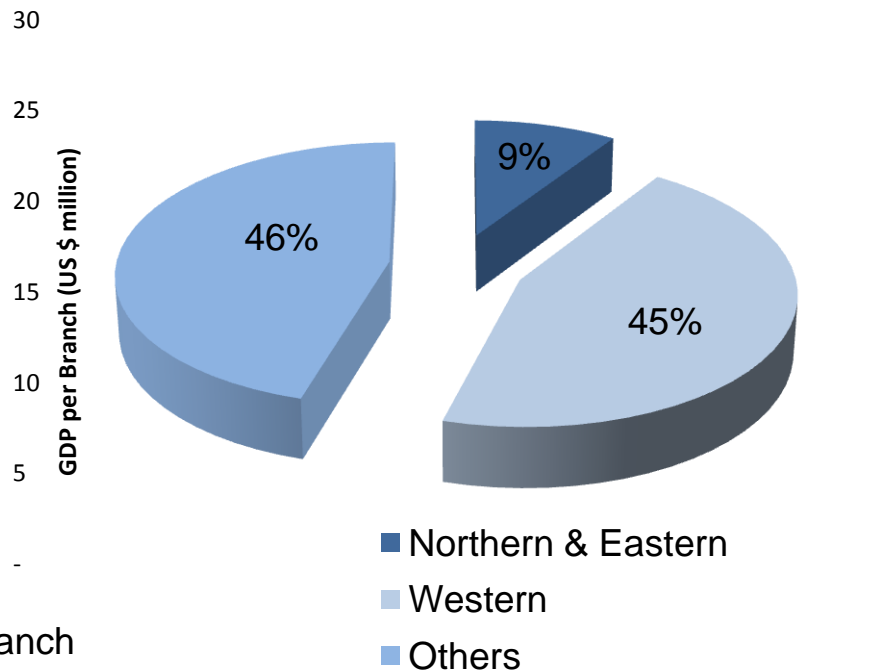
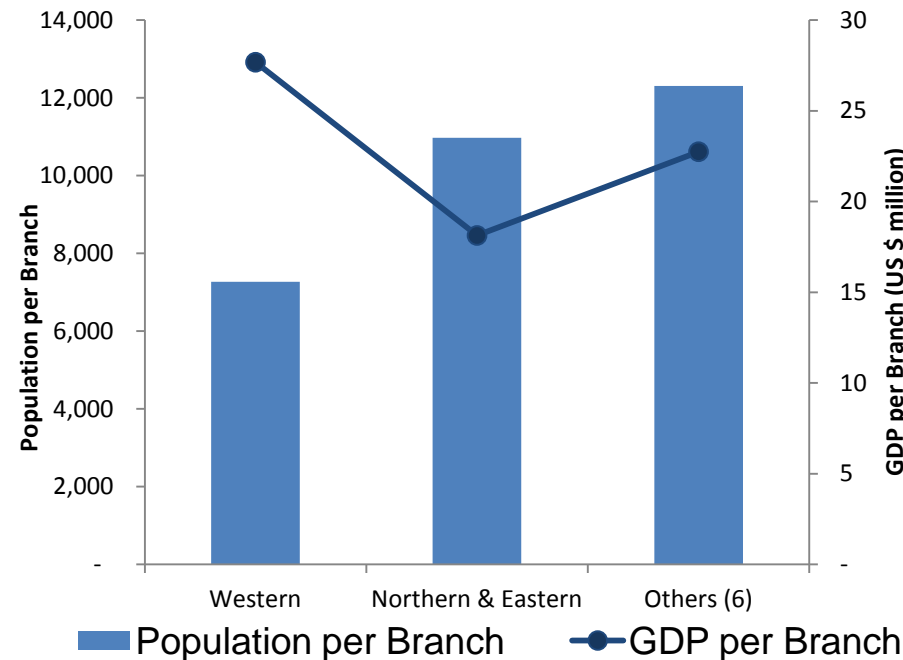
	Major Products	Main equipment/ resources needed
Services (58%)	Tourism, wholesale, retail trade, transport, telecom, financial services	Cars, Buses, transport goods vehicles <i>[All retain good resale value]</i>
Industry (29%)	Garments, rubber products, food processing, chemicals, jewellery, construction, refined petroleum, non-metallic mineral- based products	Production machinery, construction equipment, transport goods vehicles <i>[Have less certain resale value]</i>
Agriculture (13%)	Rice, tea, rubber, coconut, spices	Tractors, farming machinery <i>[Have less certain resale value]</i>

The North and East offer lower GDP per branch, but government policy compels further expansion there

- 'Finance companies are encouraged to open a branch outside the Western Province for every branch opened in the Western Province'¹.
- 'Banks shall establish a minimum of two branches outside the Western Province for each new branch established in the Western Province'².

Figure 27: Population vs. GDP per Bank & NBFC branch

Figure 28: Percentage of total GDP by province cluster



Source: Central Bank of Sri Lanka

¹ Directions, Rules, Determinations, Notices And Guidelines Issued Under The Finance Companies Act, No. 78 Of 1988, Incl. Amendments of May 2011

² Directions, Circulars & Guidelines issued to Licensed Commercial Banks, Incl. of amendments Nov 2010

Strong ATM and branch networks give rise to commercial banks' significant market share of deposits

- Banks obtain funds from a far larger deposit base, have greater reach and bigger brand presence partially via their ATM and branch networks

Figure 29: Proportion of total fixed deposits, 2010

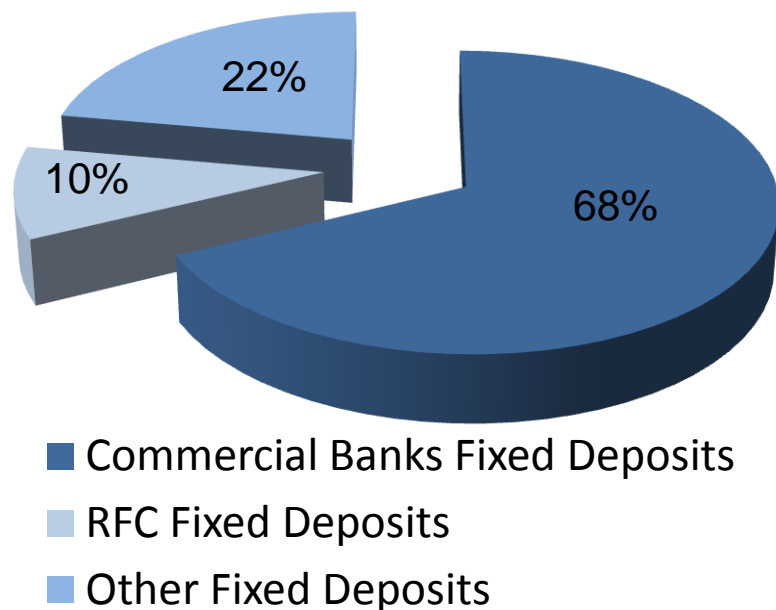
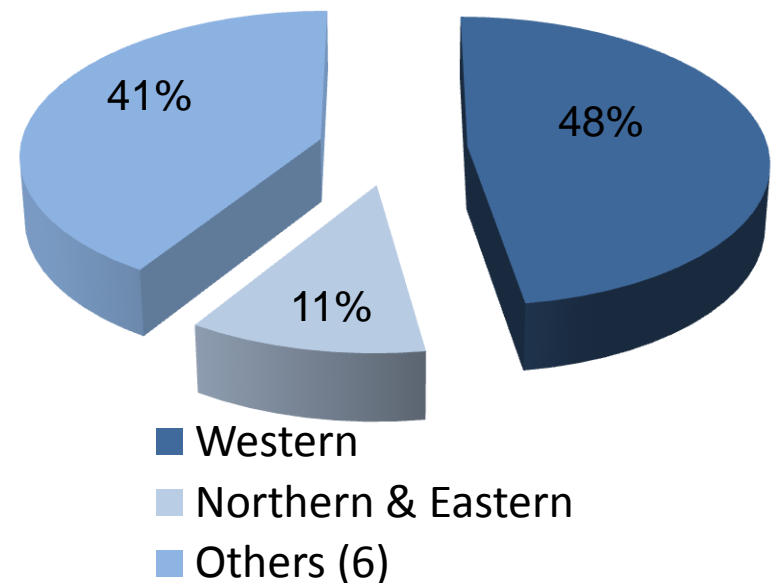
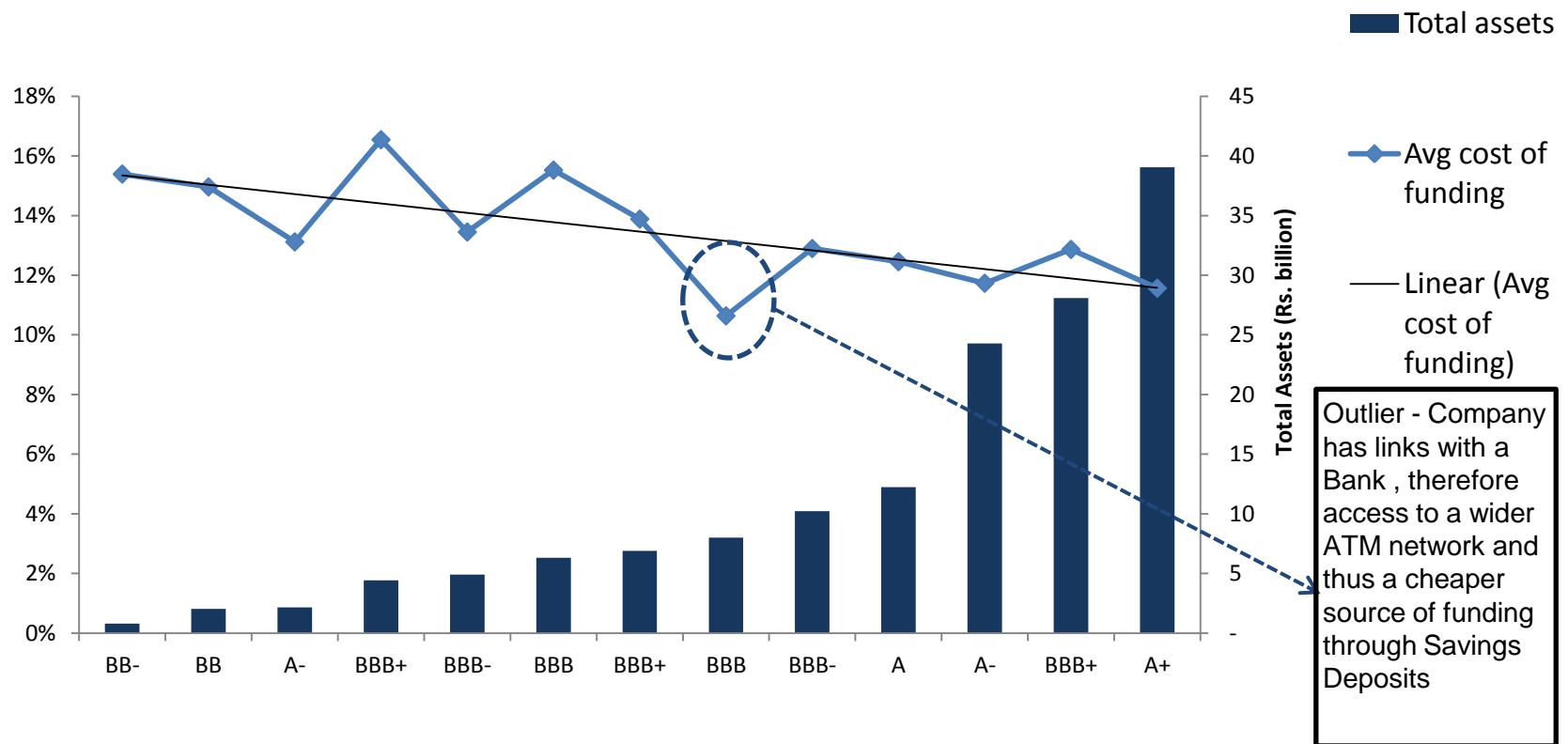


Figure 30: ATM network of licensed commercial banks, 2011



However larger, better rated NBFCs obtain funds up to 400 basis points cheaper than smaller, lower rated RFCs

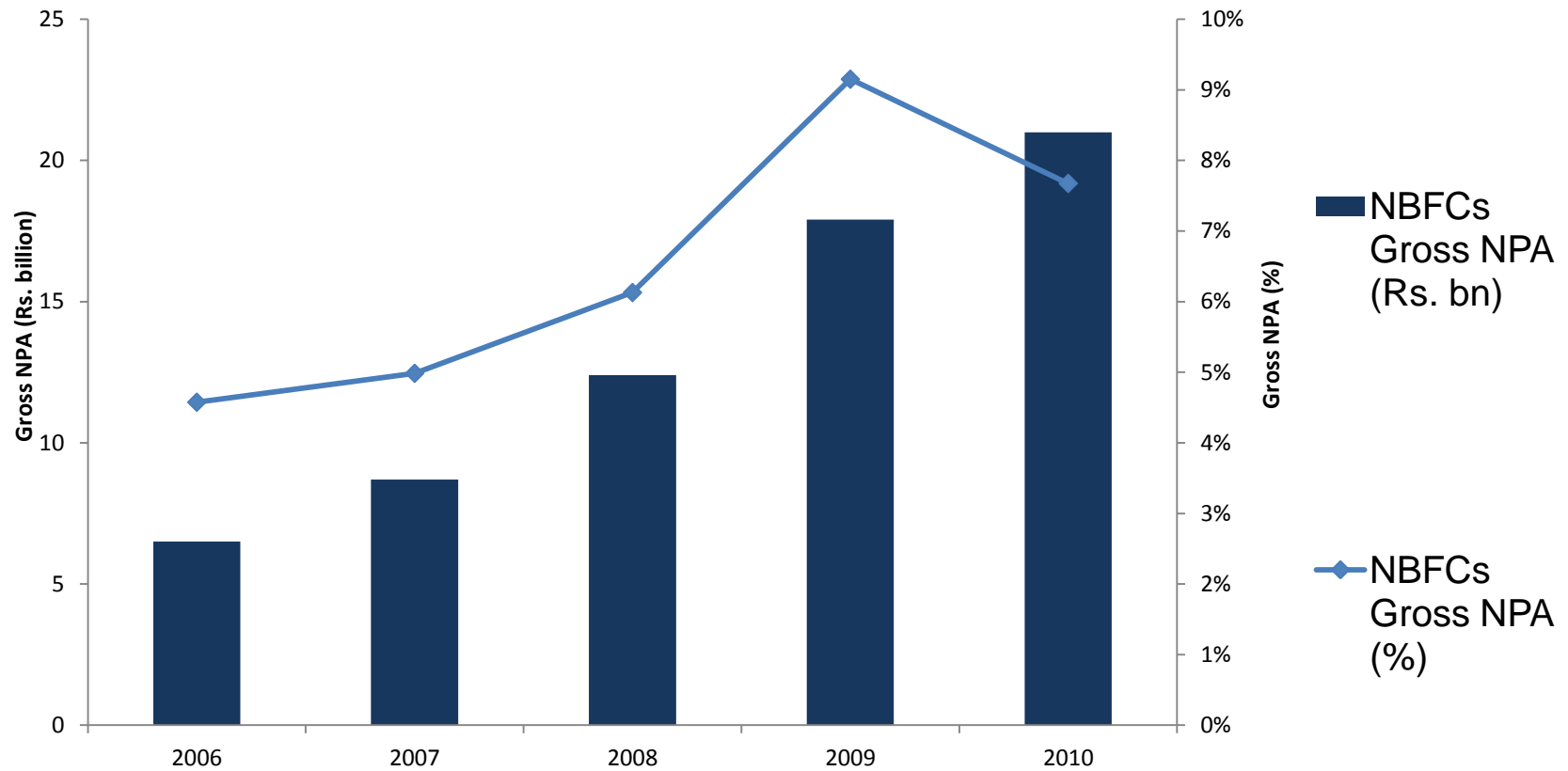
Figure 31: Cost of funding against total assets and credit rating



Source: Annual Reports of a sample of Registered Finance Companies

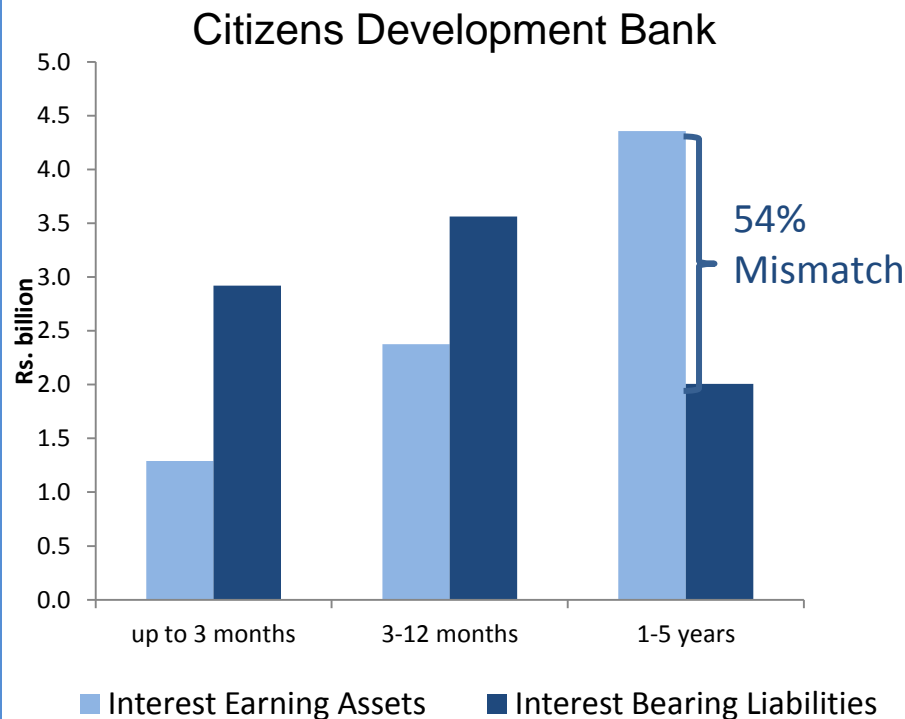
Maintaining good credit quality in a high growth environment is critical to the success of NBFCs

Figure 32: Non-Performing Advances (NPAs) of NBFCs



Typical short-term funding (<1 yr) and long-term lending (1-3 yrs), creates an asset liability mismatch in NBFCs

Figure 33: Asset liability mismatch of Citizens Development Bank



➤ Earning assets typically have longer tenure than interest bearing liabilities. Re-pricing interest bearing liabilities (deposits & borrowings) generally occur before 12 months, whereas a large proportion of interest earning assets (lease & hire purchase) are re-priced after 12 months

➤ In a rising interest rate environment, margins may come under pressure

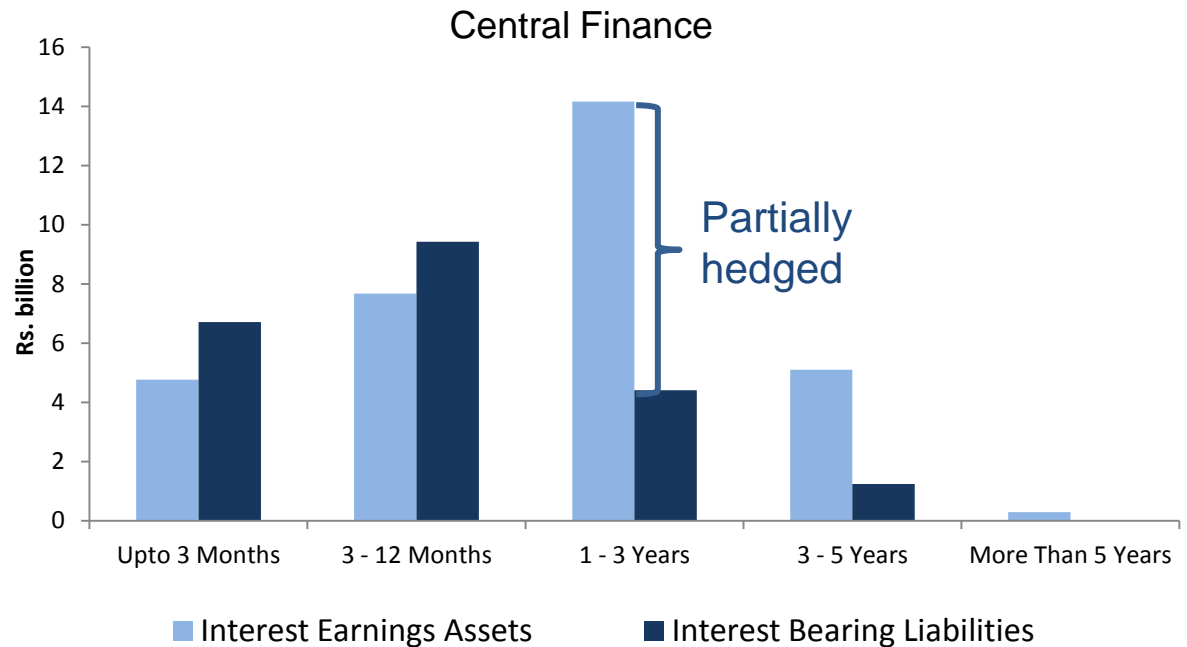
Access to hedging, long-term borrowing and growing assets help lessen the impact of asset-liability mismatches

Figure 34: Asset liability mismatch of Central Finance

Central Finance uses interest rate swaps to reduce the impact of adverse interest rate movements

Other possible solutions include:

- Longer-term borrowing/deposits
- “Securitization”¹
- Use of derivatives



¹“Securitization” is facilitated through an Asset Backed Note which is the structured process whereby the rights and/or beneficial interests in all or any part of any assets are packaged, underwritten and sold in the form of “Asset Backed Notes”. The Asset Backed Trust Certificates (ABTCs), which are commonly issued, are a category of Asset Backed Notes.

IV. Larger, established NBFCs are poised to prosper

Picking winners among the NBFCs appears highly complicated...

Figure 35: Essential figures and ratios of selected NBFCs

	Registered Finance Companies						Specialised Leasing Company
	Central Finance	LB Finance	Lanka Orix Finance	Mercantile Investments	Abans Financial Services Ltd	Vallibel Finance Ltd	People's Leasing Company
Total Assets (Rs. million)	39,000	28,100	24,300	12,200	2,100	3,900	55,900
Net Interest Income (Rs. million)	3,900	2,700	1,400	800	200	300	4,700
Net Interest Margin (%)	14%	13%	8%	14%	12%	12%	12%
Credit Rating	A+	BBB+	A-	A	A-	BB-	A
Average Cost of Funding (%)	12%	13%	12%	12%	13%	12%	12%
Average Yield on Earning Assets (%)	22%	24%	18%	26%	24%	23%	21%
NPL Ratio (%)	3%	2%	4%	6%	11%	2%	1%
Return on Avg Assets (%)	4%	5%	7%	9%	2%	4%	6%
Return on Avg Equity (%)	19%	47%	52%	21%	13%	29%	35%
Deposits (Rs. million)	19,000	19,600	17,400	4,100	1,500	2,600	N/A
Deposits/ Liabilities (%)	64%	77%	84%	55%	83%	76%	N/A
Borrowing/ Liabilities (%)	11%	16%	5%	36%	10%	15%	84%
Cost/ Income (%)	42%	34%	38%	32%	58%	37%	27%
Assets per Branch (Rs. million)	700	850	450	1,550	250	1,300	1,850
Cost per Branch (Rs. million)	41	34	29	70	14	45	53
Number of Branches (excluding Service outlets)	54	33	55	8	9	3	30
% of Branches outside Western Province	70%	55%	58%	50%	89%	33%	67%
Core Capital - Tier I (5%)	24%	13%	17%	29%	N/A	13%	N/A
Total Capital - Tier II (10%)	24%	14%	17%	35%	N/A	13%	N/A

...until the players are screened against sector critical success factors

- A. Market reach and customer confidence
 - Branch network
 - Brand loyalty

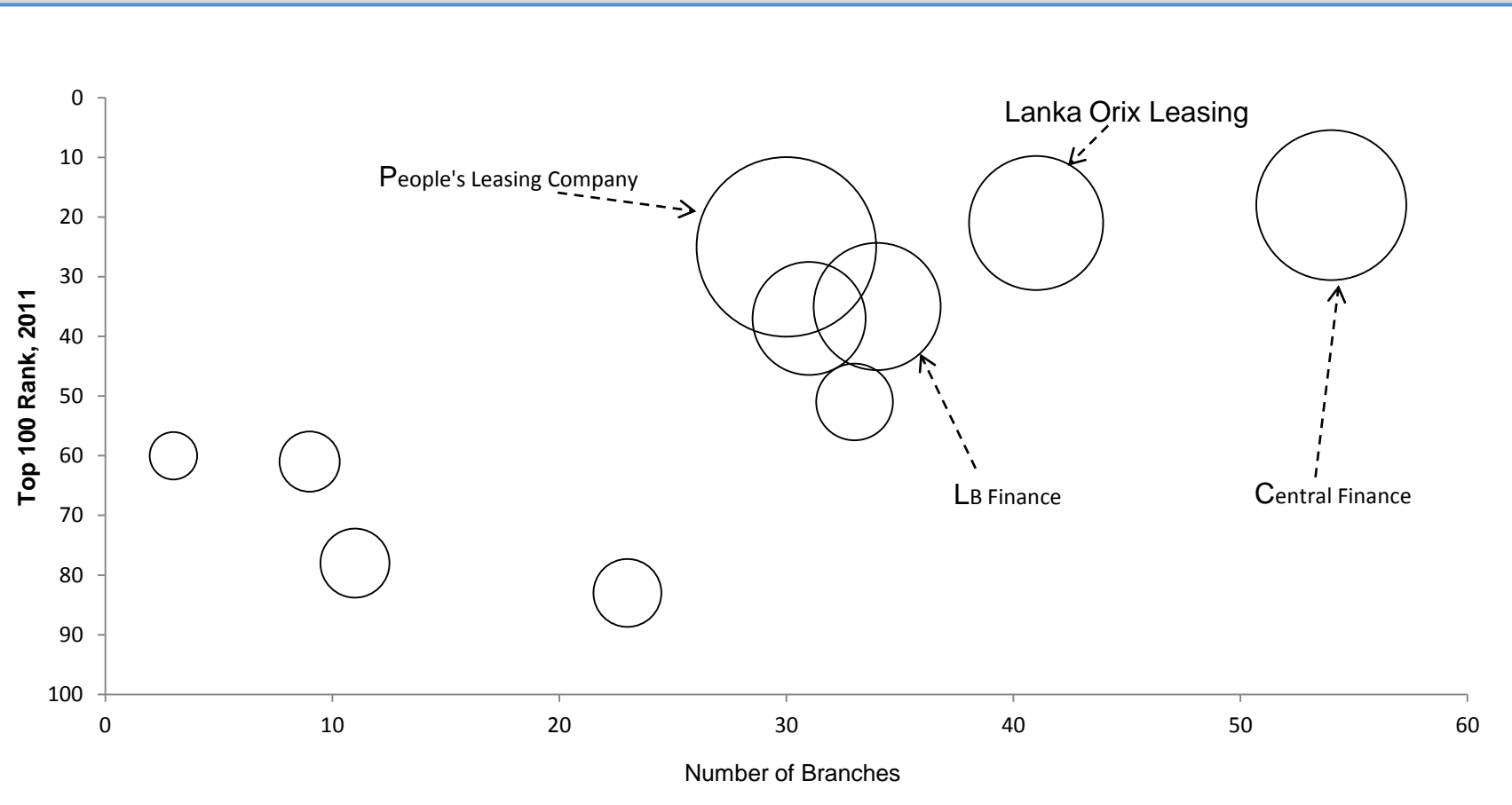
- B. Maximising net interest income
 - Low cost funding (credit rating/ parent)
 - Total assets

- C. Lower cost base

- D. Effective credit management

The larger NBFCs with a greater reach have high brand recognition

Figure 36: Top 100 most valuable brands in Sri Lanka (2011) against the number of branches*



* Number of branches excludes service centres/kiosks, with bubble sizes scaled to assets

Source: Brand Finance, 2011

Source: Annual Reports of a sample of Registered Finance Companies, March 2011 39



Ideal position: low cost of funding and high total assets

Figure 37: Cost of funding vs. total assets of selected NBFCs

		Cost of Funding (%)		
		High (15.01% +)	Medium (12.51% - 15.00%)	Low (10.00% - 12.50%)
Total Assets (Rs. billion)	High (15.01 +)		LB Finance PLC	Central Finance Co. PLC , People's Leasing Company Ltd, Lanka ORIX Finance Company Ltd
	Medium (5.01 - 15)	Alliance Finance Co. PLC	Senkadagala Finance Co. PLC, Citizens Development Business Finance Ltd	Mercantile Investments Ltd, People's Leasing Finance PLC
	Low (0 - 5)	Singer Finance (Lanka) Limited, Associated Motor Finance Co Ltd	Arpico Finance Co. PLC, Abans Financial Services Ltd, Bartleet Finance Ltd	Vallibel Finance Ltd

Ideal position: low cost to income ratio, and a high number of branches*

Figure 38: Cost to income vs. number of branches of selected NBFCs

		Cost to Income (%)		
		High (>55%)	Medium (40% - 55%)	Low (25% - 40%)
Number of Branches	High (>26)		Central Finance Co. PLC, Senkadagala Finance Co. PLC, Citizens Development Business Finance Ltd	People's Leasing Company Ltd, Lanka ORIX Finance Company Ltd, L B Finance PLC
	Medium (11 - 25)		Bartleet Finance Ltd, People's Leasing Finance PLC	
	Low (1 - 10)	Alliance Finance Co. PLC, Arpico Finance Co. PLC, Singer Finance (Lanka) Limited, Abans Financial Services Ltd		Vallibel Finance Ltd, Mercantile Investments Ltd, Associated Motor Finance Co. Ltd

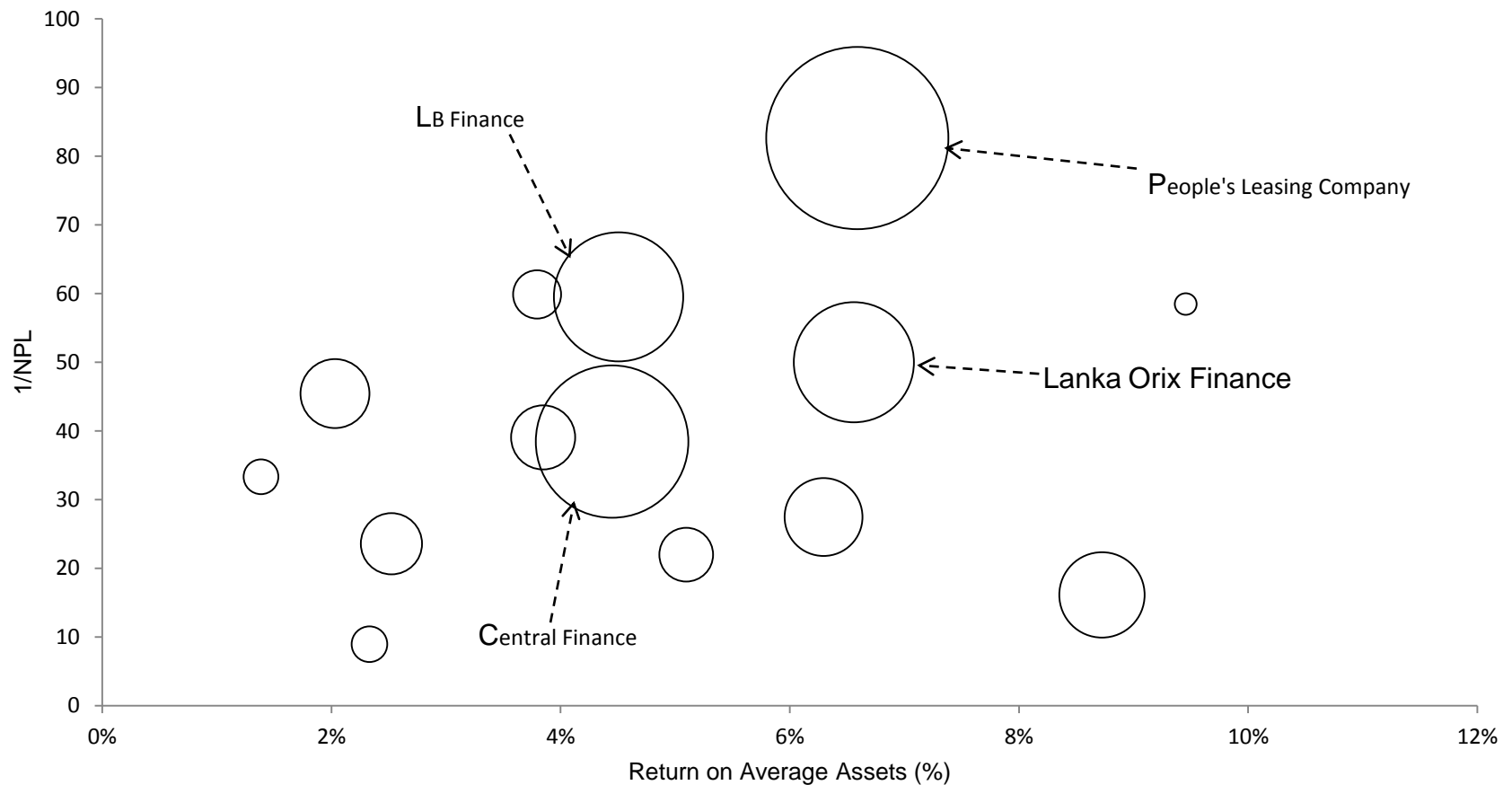
* Number of branches excludes service centres/kiosks

Source: CAL Research estimates

Source: Annual Reports of a sample of Registered Finance Companies, March 2011 41

Finally, the larger NBFCs tend to have a higher ROA and lower NPLs than their smaller rivals

Figure 39: NPLs against return on average assets



Source: CAL Research estimates

Source: Annual Reports of a sample of Registered Finance Companies, March 2011

Screened against critical success factors, four NBFCs stand out

Figure 40: Top 4 NBFC's based on critical success factors

	Tot.Assets Rs bn	ROA	Cost of Funding	Cost to Income	NPL	No of Branches	Place among top 100 brands
People's Leasing	55.9	6%	12%	28%	1%	30	25
Central Finance	39.0	4%	12%	42%	3%	54	18
L B Finance	28.1	5%	13%	34%	2%	34	35
Lanka Orix Finance	24.3	7%	12%	38%	4%	55	21

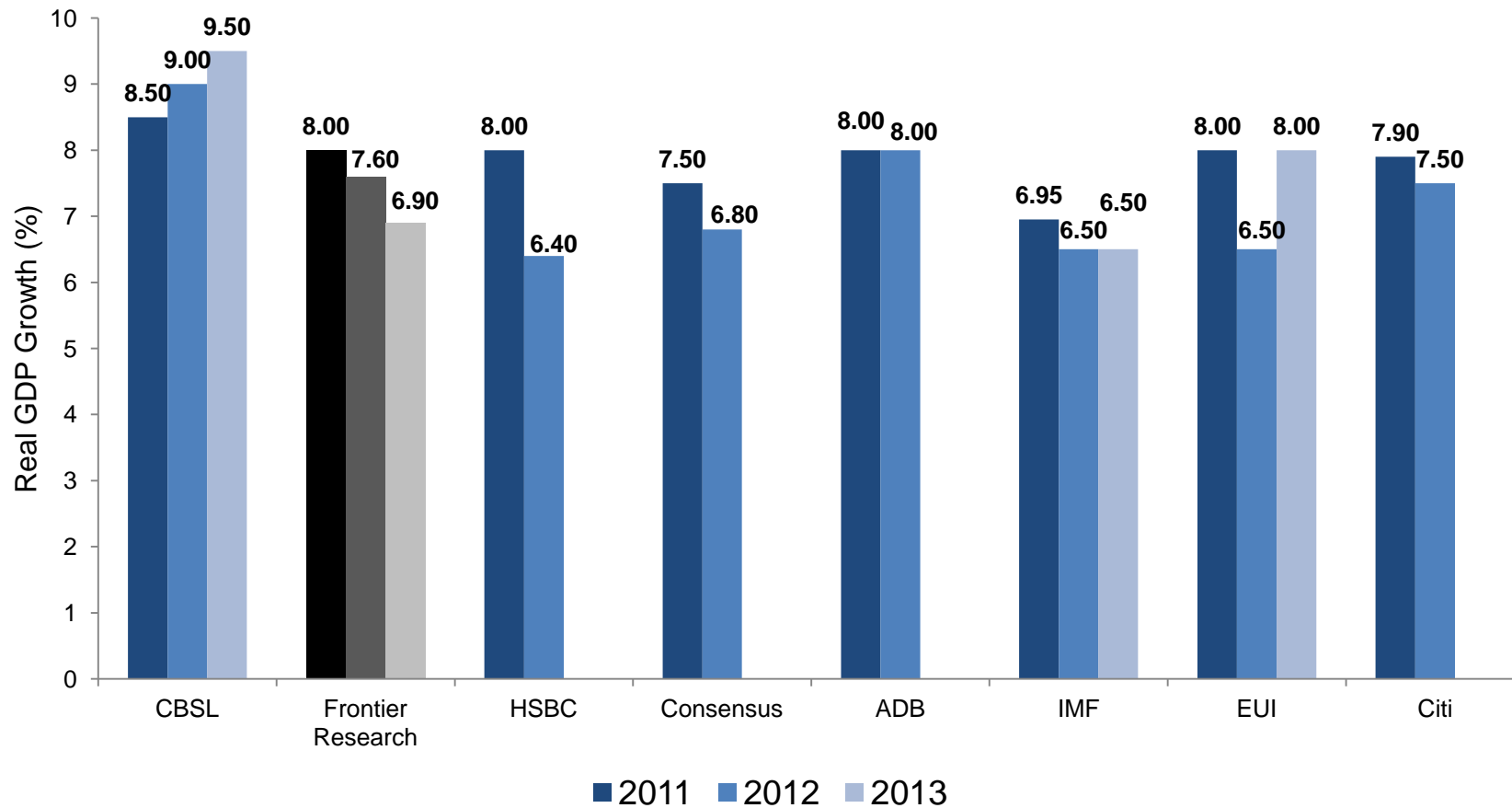


V. Appendices

- A. Real GDP should grow 6.4% to 9.5% according to consensus
- B. Sri Lanka currently sits on the long term vehicle penetration trend line: worst plausible case
- C. If GDP per capita grows 6.3% p.a. through 2018, then vehicle penetration could increase by c.50% : worst plausible case
- D. Therefore at a minimum Sri Lanka can expect to see 2 million new vehicles and the leasing & HP market grow by 3.5 times by 2018: worst plausible case
- E. Sri Lanka's roads can comfortably handle a substantial increase in vehicle numbers Typical finance lease and hire purchase compared
- F. The average cost of funds increases with lower credit rating, however average yield and thus Net Interest Margin (NIM) vary
- G. Typical finance lease and hire purchase compared
- H. VAT implications for finance leases and hire purchases
- I. High degree of specialisation and low re-sale opportunities result in many NBFCs deeming equipment leasing unattractive
- J. The Sri Lanka Deposit Insurance Scheme (SLDIS) is likely to increase the confidence of depositors at NBFCs
- K. The Credit Information Bureau (CRIB)
- L. Selected NBFC Regulation

Appendix A: Real GDP should grow 6.4% to 9.5% according to consensus

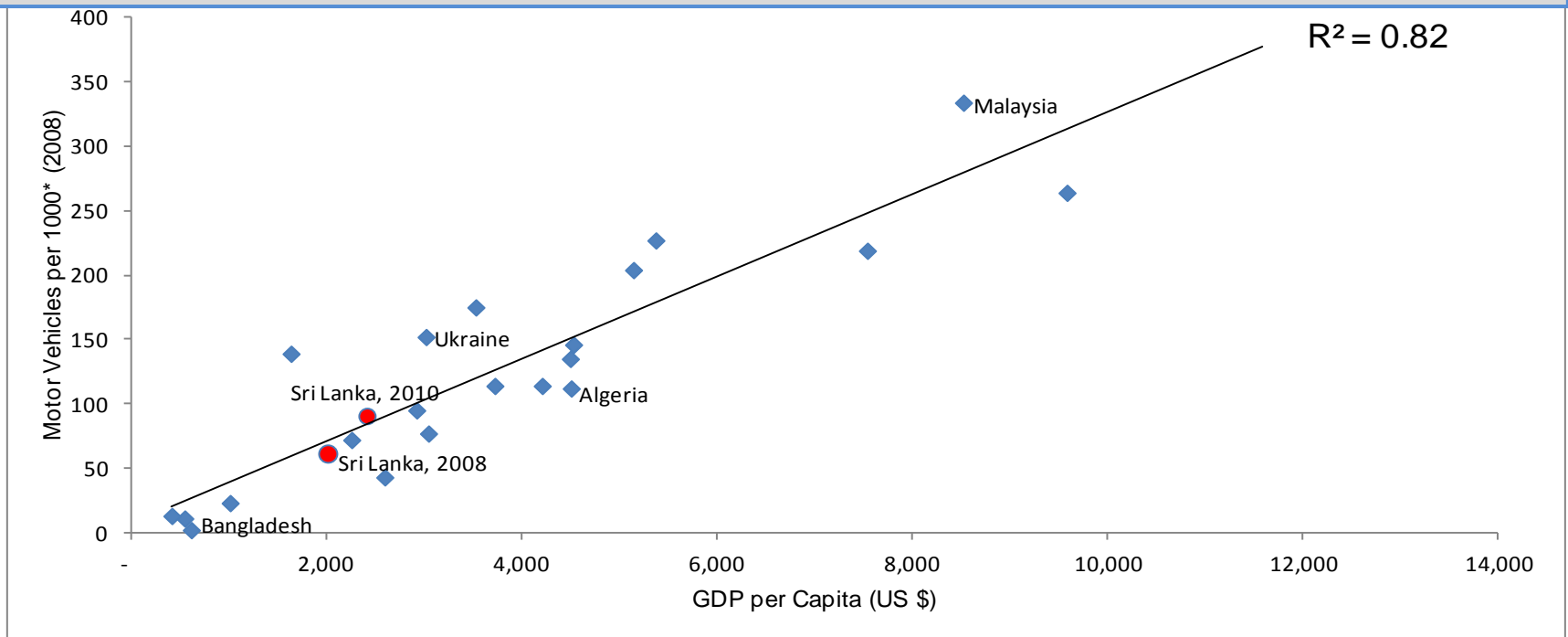
Figure 41: Independent GDP forecasts comparison



Appendix B: Sri Lanka currently sits on the long term vehicle penetration trend line: worst plausible case

➤ Ignoring income elasticity of vehicle ownership, a conservative vehicle growth forecast can be obtained with a movement along the vehicle penetration curve with increasing GDP per capita

Figure 42: Motor vehicles per 1000 against GDP per capita (US \$)



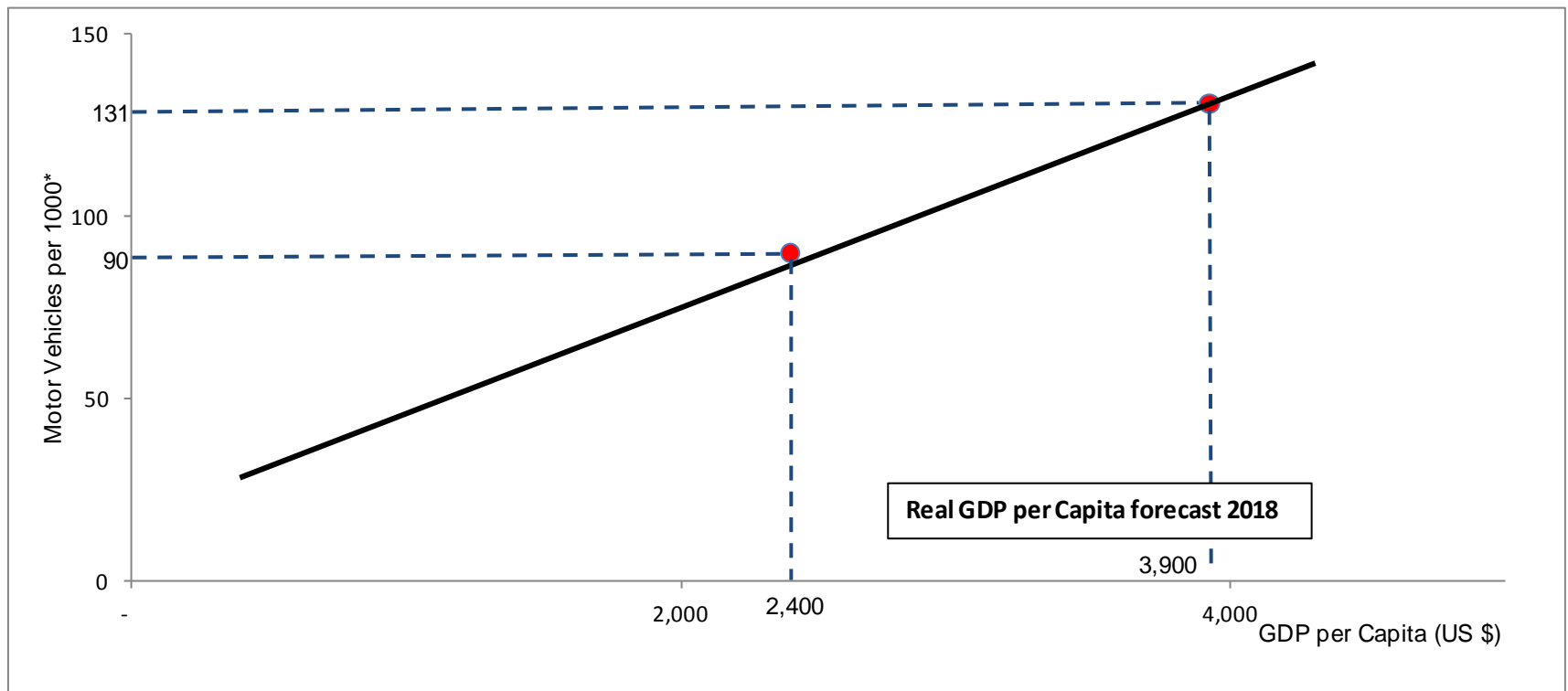
* Motor vehicle data excludes motor cycles

Source: World Bank

Appendix C: If GDP per capita grows 6.3% p.a. through 2018, then vehicle penetration could increase by only c.50% adopting a linear: worst plausible case

- The forecast 2018 real GDP per capita is US\$3,900. At this level, Sri Lanka can expect to cater for approx. 131 motor vehicles per 1,000 compared to 90 in 2010.

Figure 43: Estimated 2018 motor vehicles per 1000



* Motor vehicle data excludes motor cycles

Source: CAL Research estimates

Appendix D: Therefore, at a minimum expect 2 million new vehicles, and a leasing & HP market growing 3.5x by 2018: worst plausible case

Figure 44: Total vehicle population, forecasted 2018

- Vehicles per 1000 in 2018 = 131 (exc. motor cycles)
- Total vehicles (inc. motor cycles), using 2018 vehicle mix = 6 million

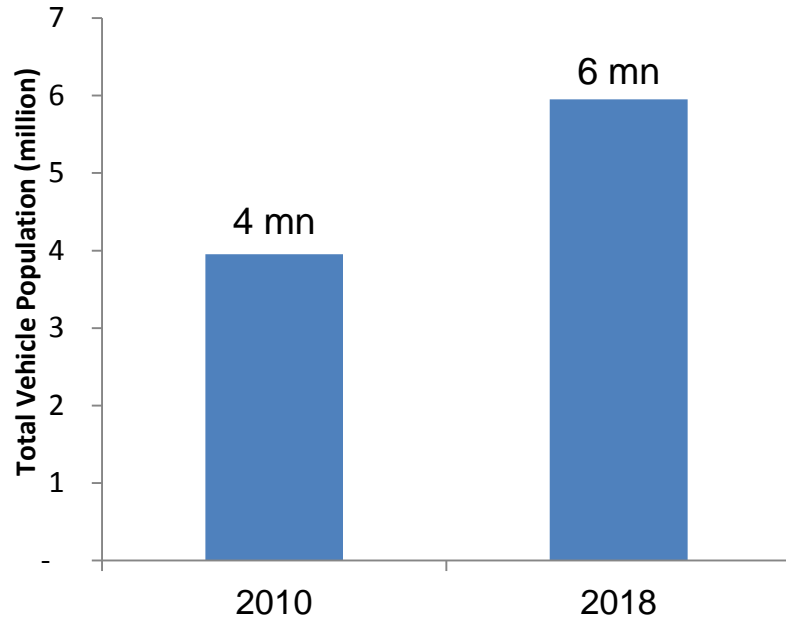
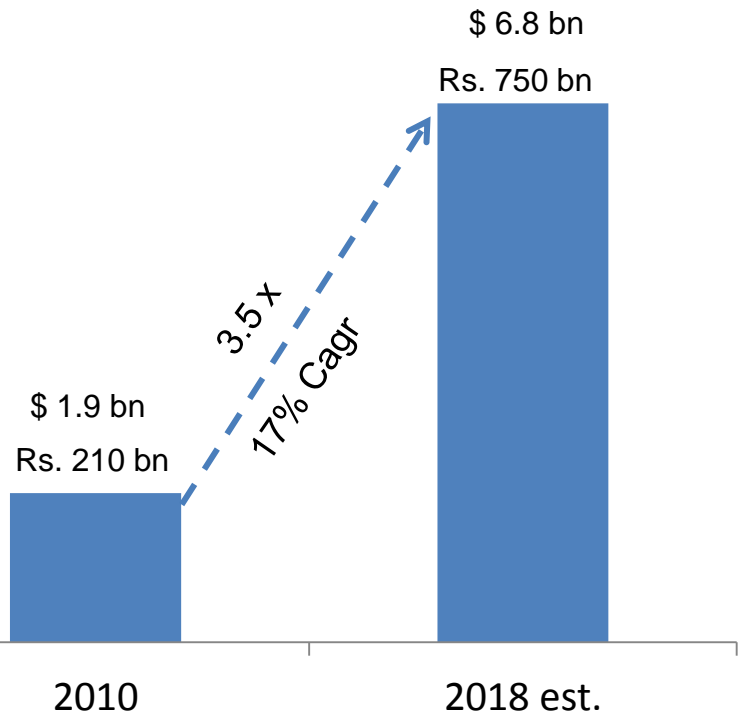


Figure 45: Forecasted lease and hire purchase total assets, 2018

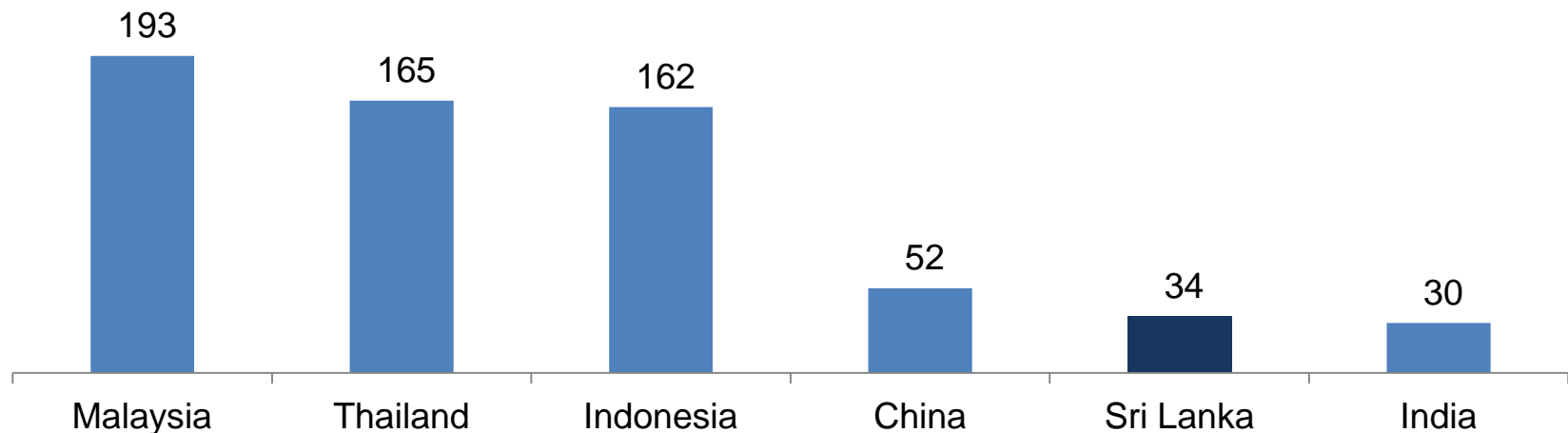


Appendix E: Sri Lanka's roads can comfortably handle a substantial increase in vehicle numbers

And with more roads on the way...

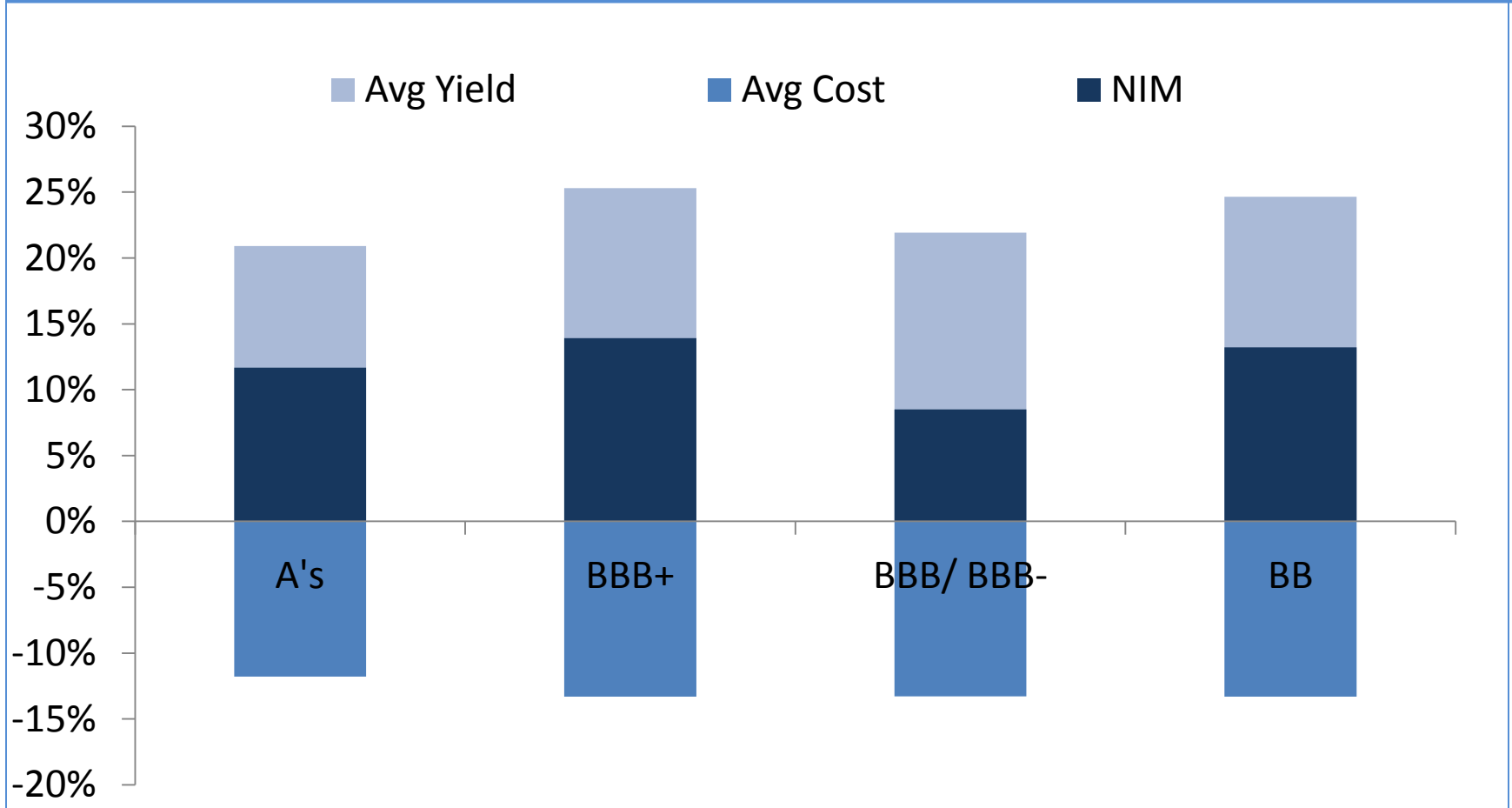
- Southern Expressway - 126 km (Dec 2011)
- Colombo - Katunayake Expressway - 26 km (2012)
- Colombo - Kandy Expressway - 99 km (2014)

Figure 46: Vehicles per km road, 2010



Appendix F: The avg. cost of funds increases as credit ratings drop; however, average yield (and NIM) vary widely

Figure 47: Net Interest Margin (NIM) by credit rating of selected NBFCs



Appendix G: Typical finance lease and hire purchase compared

	Finance Lease Agreement	Hire Purchase (HP)	Implications
Ownership	The Company possesses ownership of the leased asset, and the title could only be transferred to the customer at the end of the lease period. All risks and rewards incidental to ownership lies with the customer.	An HP operates similar to a finance lease, but the ownership of the asset is transferred to the hirer when 75% of the amount outstanding is settled.	<ul style="list-style-type: none"> • With a lease the lessor holds the right to repossess the asset in case of default. • Under a HP, if a client defaults after settling 75% of the amount outstanding the asset can only be repossessed through litigation.
Capital allowance	In a lease the lessor could claim capital allowances on the asset and usually passes on the tax advantage to the client.	The HP company cannot claim capital allowance on the asset value	<ul style="list-style-type: none"> • Since HP lenders cannot claim capital allowance on the assets, they charge a higher interest rate compared to a financial lease.
Type of vehicles	Mainly used to finance the acquisition of brand new vehicles	Mainly used to finance the acquisition of second hand vehicles	
Interest Rate	Interest rate applicable on the lease rental is relatively lower compared to HP	Interest rate applicable on the HP rental is relatively higher compared to a lease.	<ul style="list-style-type: none"> • Due to the difficulty in reselling used vehicles, the possible challenges in repossessing and disadvantages in taxation HP rates tend to be higher

Appendix H: VAT implications for finance leases and hire purchases

Finance Lease Agreement	Hire Purchase (HP)
<p>The lessor pays Input VAT on the purchase price of the lease asset and reclaims back the Input VAT paid. Therefore, the leasing company does not capitalize the VAT component to the asset price it leases out to the client.</p>	<p>Input VAT will be paid by the HP lender on the assets it has purchased, but will not be able to reclaim VAT when it hires out the asset to a hirer. Therefore, the HP company will capitalize the VAT cost to the asset price and pass in on to the customer.</p>
<p>The leasing company charges VAT on the customers' individual lease rental payments.</p>	<p>HP customers are not taxed VAT on the HP rental payments.</p>
<p>VAT on the lease rental payment could be reclaimed if the client is a VAT registered company which uses the asset for a commercial purpose, whereas an individual cannot reclaim the VAT on the lease rental payment.</p>	<p>No difference in the cost of the rental payment to both the corporate client and the individual.</p>

Appendix I: High degree of specialisation and low re-sale opportunities result in many NBFCs deeming equipment leasing unattractive

- Previous volumes of equipment leasing were low due to difficulty of reselling the product
- However, an increase in the tax depreciation rate from 12.5% to 33.3%, stated in the 2011 Fiscal Budget, was implemented in order to stimulate the SME equipment market and thus reduce exposure to motor vehicles
- Despite this, many NBFCs do not intend to move into the equipment leasing industry, stating that it is too risky, that there is a lack of a second-hand market and that they have a lack of expertise in the field

Appendix J: The Sri Lanka Deposit Insurance Scheme (SLDIS) is likely to increase the confidence of depositors at NBFCs

- RFCs are likely to further increase their market share of total deposits after the introduction of the SLDIS and the more attractive Deposit rates of RFCs over Banks
- SLDIS was implemented to return confidence to the industry after the collapse of two finance companies in 2008.
- SLDIS protects depositors up to a maximum of Rs. 200,000 due to a premium levied onto the Banks and RFCs of between 0.10% - 0.15%.

Appendix K: The Credit Information Bureau (CRIB)

- The CRIB allows companies to view past defaulters thus reducing the chance of lending to risky clients.
- The database currently covers one fifth of the adult population in Sri Lanka
- The CRIB implements an internal rating system of stakeholders, based data validity, accuracy and timely submission, in order to improve the quality of the data transferred to CRIB.
- Central Bank holds the majority of equity while the rest includes all licensed and specialised banks, finance companies and leasing companies.

Appendix L: Selected NBFC Regulation

	RFC	SLC
Registration requirement		Minimum capital of Rs. 100m from 01.01.2011. Incremental increase of Rs. 50m each year up to Rs. 300m by 01.01.2015.
Minimum Core Capital	Must maintain an unimpaired core capital of Rs. 200m.	Must maintain core capital of Rs. 100m by 01.01.2012. Incremental increase of Rs. 50m each year up to Rs. 300m by 01.01.2016.
Maximum Number of Branches given Core Capital (Rs. million)	Up to 100 2 branches 100 – 150 5 branches 150 – 200 10 branches 200 – 500 15 branches 500 – 1,000 30 branches Over 1,000 1 branch for each additional Rs 50 million of core capital	
Branch Allocation	Finance companies are encouraged to open a branch outside the Western Province for every branch opened in the Western Province.	
Tier I	5%	5%
Tier II	10%	10%
General Provision	Should not exceed 1.25 per cent of Risk Weighted Assets.	
Provisions of bad and doubtful debts	Direction No. 3 of 2006 Bad and doubtful debts provided for under this direction are subject to a minimum of: (a) 50% of all advances in arrears for a period of 6 to 12 months. (b) 100% of all advances in arrears for 13 months or more. A finance company may deduct the value of the following items held as collateral in arriving at the amount of provisioning; 1. Sri Lankan Government securities, free from any lien or charge. 2. CBSL securities, free from any lien or charge. 3. Time deposits in a licensed commercial bank, specialised bank or RFC, free from any lien or charge. 4. Bank guarantees. 5. With regard to repossessed vehicles and machinery, 80% of the valuation obtained in the preceding 6 months and by an approved valuer. 6. With regard to mortgaged land and buildings that are held as collateral, if the accommodation has been in arrears for a period of: a) 6-36 months, 100% of the value is deductible b) 37-60 months, 80% of the value is deductible c) 61-120 months, 50% of the value is deductible d) more than 120 months, 0% of the value is deductible	SLCs require a minimum specific provision: (a) 20% of all advances in arrears for a period of 6 to 12 months. (b) 50% of all advances in arrears for 12-18 months. (c) 100% of all advances in arrears for 18 months and more.
Gearing Requirement (Borrowing/Equity)	Gearing ratio of below 10x	Gearing ratio of below 7x

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