



Senkadagala Finance PLC

**Interim Financial Statement for the period ended
30th September 2012**



**Fitch Rating Lanka Limited:
BBB+(lka)**

Income Statement

For the three month period ended 30th September

	2012	2011
	Rs	Rs
Income	<u>767,494,818</u>	<u>502,848,289</u>
Interest income	706,734,812	439,786,269
Interest expense	<u>(366,766,504)</u>	<u>(187,537,448)</u>
Net interest income	339,968,308	252,248,821
Other operating income	<u>60,760,006</u>	<u>63,062,020</u>
Net income from operations	<u>400,728,314</u>	<u>315,310,841</u>
Operating expenses		
Personnel cost	(62,064,407)	(44,025,364)
Depreciation of property, plant and equipment	(28,159,514)	(26,676,501)
Amortization of intangible assets	(2,226,722)	3,425,118
Other operating expenses	<u>(93,988,456)</u>	<u>(75,255,981)</u>
	<u>(186,439,099)</u>	<u>(142,532,727)</u>
Operating profit before taxation and possible loan losses	214,289,215	172,778,114
Loan losses and provisions	<u>2,081,065</u>	<u>2,973,654</u>
Operating profit before VAT on Financial Services and Income tax	<u>216,370,280</u>	<u>175,751,768</u>
Value Added Tax on Financial Services	<u>(15,466,873)</u>	<u>(15,910,574)</u>
Profit before Income tax	<u>200,903,407</u>	<u>159,841,194</u>
Income tax expense	<u>(22,844,925)</u>	<u>(33,473,681)</u>
Profit for the period	<u>178,058,482</u>	<u>126,367,513</u>
Earnings per share	3.34	2.37

Figures in brackets indicate deductions.

An estimated provision has been made for income tax expenses.

The above figures are provisional and subject to audit.

Income Statement

For the six month period ended 30th September

	2012	2011
	Rs	Rs
Income	<u>1,445,347,783</u>	<u>953,439,761</u>
Interest income	1,346,500,711	837,731,075
Interest expense	<u>(675,100,974)</u>	<u>(356,043,653)</u>
Net interest income	671,399,737	481,687,422
Other operating income	<u>98,847,072</u>	<u>115,708,686</u>
Net income from operations	<u>770,246,809</u>	<u>597,396,108</u>
Operating expenses		
Personnel cost	(110,119,595)	(83,039,417)
Depreciation of property, plant and equipment	(53,658,599)	(41,813,771)
Amortisation of intangible assets	(4,501,290)	(3,432,635)
Other operating expenses	<u>(182,220,310)</u>	<u>(136,389,733)</u>
	<u>(350,499,794)</u>	<u>(264,675,556)</u>
Operating profit before taxation and possible loan losses	419,747,015	332,720,552
Loan losses and provisions	4,435,536	(516,334)
Operating profit before VAT on Financial Services and Income tax	<u>424,182,551</u>	<u>332,204,218</u>
Value Added Tax on Financial Services	<u>(30,421,977)</u>	<u>(30,499,899)</u>
Profit before Income tax	<u>393,760,574</u>	<u>301,704,319</u>
Income tax expense	<u>(45,689,850)</u>	<u>(63,598,274)</u>
Profit for the period	<u>348,070,724</u>	<u>238,106,045</u>
Earnings per share	6.52	4.46
Dividend per share	1.24	0.38

Figures in brackets indicate deductions.

An estimated provision has been made for income tax expenses.

The above figures are provisional and subject to audit.

Balance Sheet

<i>As at</i>	30.09.2012	31.03.2012	30.09.2011
	Rs	Rs	Rs
Assets			
Cash and cash equivalents	699,034,212	336,563,265	1,020,337,065
Deposits with Licensed Commercial Banks	-	637,118,275	-
Investment in government securities	359,027,244	304,111,412	252,966,109
Dealing securities	53,956,327	51,147,407	52,363,091
Investment securities	24,598,148	14,165,755	14,165,755
Net investment in leases	5,251,908,177	4,339,581,639	2,701,454,350
Net investment in hire purchases	4,968,888,577	4,399,674,002	3,926,264,422
Commercial loans	25,473,347	26,593,015	51,405,412
Other loans and advances	220,006,444	135,663,383	82,498,057
Other receivables	499,976,533	400,841,647	311,013,773
Advances and receivables	48,048,902	45,961,286	61,043,258
Deferred assets	12,982,273	1,994,914	8,988,613
Property, plant and equipment	557,486,564	512,846,463	470,707,402
Intangible assets	40,410,188	44,911,478	30,030,995
Total assets	12,761,796,937	11,251,173,941	8,983,238,302
Liabilities and equity			
Liabilities			
Deposits from customers	3,173,870,515	2,736,429,636	2,502,821,761
Borrowing	5,597,988,084	4,691,062,659	3,267,355,077
Current tax liabilities	(21,978,583)	14,945,227	82,707,920
Employee benefits	29,601,319	28,109,529	24,511,023
Debentures	1,680,000,000	1,670,000,000	1,350,000,000
Other liabilities	360,885,189	450,856,734	362,681,339
Deferred tax liability	150,000,298	150,000,298	91,263,890
Total liabilities	10,970,366,822	9,741,404,083	7,681,341,010
Equity			
Stated capital	533,680,000	533,680,000	533,680,000
Statutory reserve fund	130,036,033	130,036,033	100,036,033
General reserve	682,810,392	682,810,392	462,810,392
Investment fund reserve account	138,348,290	97,059,153	55,493,817
Retained earnings	306,555,399	66,184,280	149,877,050
Total equity	1,791,430,114	1,509,769,858	1,301,897,292
Total liabilities and equity	12,761,796,937	11,251,173,941	8,983,238,302
Net assets per share	33.57	28.29	24.39

Figures in brackets indicate deductions.

The above figures are provisional and subject to audit.

I certify that the financial statements of the Company have been prepared in compliance with the requirements of the Companies Act, No. 7 of 2007.

Sgd
S.D. Bandaranayake
Deputy Chief Executive Officer

The board of directors is responsible for the preparation and presentation of these financial statements.
Approved and signed for and on behalf of the board.

Sgd
C. L. de Alwis
Chairman

Sgd
L Balasuriya
Chief Executive Officer/Managing Director

Colombo, Sri Lanka
Tuesday, October 9 2012

Statement of Cash Flow

<i>For the six month period ended 30th September</i>	2012	2011
	Rs	Rs
Cash flow from operating activities		
Interest and commission receipts	1,346,500,711	837,731,075
Interest payments	(675,100,974)	(356,043,653)
Bad debts recovered	16,760,279	21,262,497
Other operating income	67,305,548	73,132,831
Operating expenditure	(51,464,495)	(65,772,367)
Cash payments to employees and suppliers	(265,244,084)	(176,125,716)
<i>Operating profit before changes in operating assets and liabilities (Note A)</i>	438,756,985	334,184,668
(Increase) / Decrease in operating assets		
Investments in Government securities	(54,915,832)	(54,456,281)
Deposits with Licensed Commercial Banks	637,118,275	-
Net funds advanced to customers	(1,560,328,970)	(1,403,979,782)
Advances and receivables	(2,087,616)	(12,381,103)
Deferred expenses	(18,007,022)	(10,690,621)
Trade and other receivables	(99,134,886)	12,830,182
	(1,097,356,051)	(1,468,677,605)
Increase / (Decrease) in operating liabilities		
Deposits from customers	437,440,879	110,079,896
Gratuity paid	(791,826)	(248,750)
Other liabilities	(100,179,078)	(80,765,347)
	336,469,976	29,065,799
Net cash generated from operating activities before income tax	(322,129,091)	(1,105,427,138)
Taxes paid	(82,613,660)	(73,919,915)
<i>Net cash generated from operating activities</i>	(404,742,751)	(1,179,347,053)
Cash flow from investing activities		
Dividend receipts	1,267,608	1,072,991
Net Investment in dealing securities	446,047	(4,018,321)
Purchase of investment securities	(10,432,393)	-
Purchase of property, plant and equipment	(106,956,150)	(124,467,111)
Proceeds from sale of property, plant and equipment	22,166,096	28,691,250
<i>Net cash used in investing activities</i>	(93,508,792)	(98,721,191)
Cash flow from financing activities		
Securitised loans obtained	2,163,194,436	2,361,100,000
Debentures issued	240,000,000	120,000,000
Repayment of securitised loans	(1,256,269,011)	(508,509,852)
Redemption of unlisted debentures	(230,000,000)	(100,000,000)
Dividends paid	(66,097,320)	(20,072,892)
<i>Net cash used in financing activities</i>	850,828,105	1,852,517,256

Statement of Cash Flow (contd.)

<i>For the six month period ended 30th September</i>	2012	2011
	Rs	Rs
Net Increase/ (Decrease) in cash and cash equivalents	352,576,562	574,449,013
Cash and cash equivalents at the beginning of the year	305,991,731	390,154,785
Cash and cash equivalents at the end of the period	658,568,293	964,603,798
Reconciliation of cash and cash equivalents		
Cash and short term funds	699,034,212	1,020,337,065
Bank overdraft	(40,465,919)	(55,733,267)
	658,568,293	964,603,798
(Note A)		
Reconciliation of operating profit		
Profit before income tax	393,760,574	301,704,319
Dividends	(1,267,608)	(1,072,991)
Specific provision for bad debts	(2,481,951)	3,693,838
General provision for bad debts	-	-
Loans written-off	-	2,000,871
Write-off of receivables on insurance premium and search fees	-	-
Provision for impairment	-	-
Reversal of general provision on repossessed stocks	(1,953,585)	(5,178,376)
Reversal of additional provision on repossessed stocks	-	-
Depreciation	58,159,889	45,246,409
Provision for retiring gratuity	2,283,615	2,195,678
Impairment of investment in shares	(3,254,967)	-
Profit on disposal of motor vehicles	(13,508,644)	(20,240,369)
Amortisation of structural fees	7,019,662	5,835,289
Cash flows from operating activities before changes in operating assets	438,756,985	334,184,668

Figures in brackets indicate deductions.

The above figures are provisional and subject to audit

Statement of Changes in Equity

For the six month period ended 30th September 2012

	Stated capital Rs	Statutory reserve fund Rs	General reserve Rs	Investment fund reserve account Rs	Retained profit Rs	Total Rs
Balance as at 1st April 2011 previously reported	533,680,000	100,036,033	462,810,392	16,751,605	1,763,850	1,115,041,880
Prior year adjustment (Note A)	-	-	-	-	(30,970,793)	(30,970,793)
Balance as at 1st April 2011 restated	533,680,000	100,036,033	462,810,392	16,751,605	(29,206,943)	1,084,071,087
Profit for the period	-	-	-	-	238,106,045	238,106,045
Transfer to reserve	-	-	-	38,742,212	(38,742,212)	-
Dividend paid	-	-	-	-	(20,279,840)	(20,279,840)
Balance as at 30th September 2011	<u>533,680,000</u>	<u>100,036,033</u>	<u>462,810,392</u>	<u>55,493,817</u>	<u>149,877,050</u>	<u>1,301,897,292</u>
Balance as at 1st April 2012	533,680,000	130,036,033	682,810,392	97,059,153	66,184,280	1,509,769,858
Profit for the period	-	-	-	-	348,070,724	348,070,724
Transfers to reserves	-	-	-	41,289,137	(41,289,137)	-
Dividends	-	-	-	-	(66,410,468)	(66,410,468)
Balance as at 30th September 2012	<u>533,680,000</u>	<u>130,036,033</u>	<u>682,810,392</u>	<u>138,348,290</u>	<u>306,555,399</u>	<u>1,791,430,114</u>

Note A

The Company made a prior year adjustment in order to rectify the under provision of deferred taxation, during the year ended 31st March 2011, in accordance with Sri Lanka Accounting Standards 10- Accounting Policies, Changes in Accounting Estimates and Errors.

The Company has charged Rs. 30,970,793 as deferred tax liability for the year ended 31st March 2011. The Company had erroneously considered motor cars in computing deferred taxation. This error has now been corrected and the profit for the said year has been re-stated as follows.

Profit for the year ended 31st March 2011 as previously stated	253,370,362
Deferred tax underprovided	(30,970,793)
Profit for the year ended 31st March 2011 as re-stated	<u>222,399,569</u>

Figures in brackets indicate deductions

The above figures are provisional and subject to audit

Segment Information

For the six month period ended 30th September

	Leases		Hire Purchases		Other Advances		Investments / Property		Insurance		Unallocated		Total	
	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.	2012 Rs.	2011 Rs.
Revenue														
Interest	609,792,440	251,552,116	642,565,869	547,603,354	18,666,624	17,066,161	74,333,080	21,509,443	-	-	-	-	1,345,358,013	837,731,076
Commissions	-	-	-	-	-	-	-	-	39,614,778	34,659,320	-	-	39,614,778	34,659,320
Rent	-	-	-	-	-	-	960,000	960,000	-	-	-	-	960,000	960,000
Dividends	-	-	-	-	-	-	1,267,608	1,072,991	-	-	-	-	1,267,608	1,072,991
Other income	-	-	-	-	-	-	12,961,088	20,665,019	-	-	45,186,296	58,351,357	58,147,384	79,016,376
Total revenue	609,792,440	251,552,116	642,565,869	547,603,354	18,666,624	17,066,161	89,521,776	44,207,453	39,614,778	34,659,320	45,186,296	58,351,357	1,445,347,783	953,439,763
Profit before tax													393,760,574	301,704,319
Taxation													(45,689,850)	(63,598,274)
Profit after tax													348,070,724	238,106,045
Segment Assets	5,298,320,324	4,377,205,503	5,006,535,066	4,442,345,435	261,845,458	182,438,697	1,653,550,303	1,098,518,559	-	-	541,545,785	1,150,665,748	12,761,796,936	11,251,173,941
Segment Liabilities	4,758,831,676	2,667,090,742	5,014,596,133	5,805,985,089	145,674,685	180,944,616	698,629,624	468,711,182	-	-	352,634,704	618,672,454	10,970,366,822	9,741,404,083
Information on Cash flows														
Operating activities	(240,285,190)	(439,192,211)	(159,505,482)	(153,420,371)	(21,459,235)	(11,723,553)	390,948,849	(204,913,762)	39,614,778	34,659,320	(414,056,469)	(404,756,476)	(404,742,751)	(1,179,347,052)
Investing activities	-	-	-	-	-	-	(8,718,738)	(2,945,330)	-	-	22,166,096	28,691,250	13,447,358	25,745,920
Capital expenditure	(44,289,205)	(48,423,225)	(41,788,069)	(49,143,841)	(2,090,565)	(2,018,244)	(13,858,344)	(12,152,459)	-	-	(4,929,967)	(12,729,342)	(106,956,150)	(124,467,111)
Financing activities	-	-	-	-	-	-	-	-	-	-	850,828,105	1,852,517,257	850,828,105	1,852,517,257
Net cash flow	(284,574,395)	(487,615,435)	(201,293,551)	(202,564,212)	(23,549,800)	(13,741,797)	368,371,767	(220,011,552)	39,614,778	34,659,320	454,007,764	1,463,722,689	352,576,562	574,449,013
Depreciation and amortisation	(27,382,521)	(19,248,524)	(25,836,153)	(19,534,973)	(1,292,526)	(802,264)	(600,657)	(600,657)	-	-	(3,048,032)	(5,059,990)	(58,159,889)	(45,246,409)

Performance indicators

<i>As at 30th September</i>	2012	2011	MINIMUM STATUTORY REQUIREMENT
Capital Adequacy			
Core capital (Tier 1) Rs. mn.	1,509.77	1,115.04	
Total capital base (Tier 2) Rs. mn.	1,509.77	1,115.04	
Core capital ratio	13.1%	14.6%	5%
Total capital ratio	13.1%	14.6%	10%
Capital funds to Total deposits ratio	47.6%	44.6%	10%
Asset Quality			
Total advances Rs. mn.	10,956.32	7,064.43	
Gross non-performing advances Rs. Mn.	119.79	129.56	
Net non-performing advances Rs. Mn.	56.17	42.14	
Gross non-performing advances ratio	1.09%	1.83%	
Net non-performing advances ratio	0.51%	0.60%	
Profitability			
Net interest margin	12.5%	14.4%	
Return on average assets	7.1%	6.0%	
Return on equity	54.9%	39.9%	
Liquidity			
Total liquid assets Rs. Mn.	1,058.06	1,273.30	
Liquid assets ratio	34.52%	53.08%	10%
Government securities Rs. Mn.	359.03	252.97	
Government securities to average deposits ratio	12.15%	10.34%	7.5%
Debt			
Debt-to-Equity ratio	4.14 : 1	3.55 : 1	
Interest cover	1.63	1.93	

The above figures are provisional and subject to audit.

Notes to the Financial Statements

1 The interim financial statements of the Company have been prepared on the basis of the same accounting policies and methods of computation applied in the year ended 31st March 2012 and are in accordance with Sri Lanka Accounting Standards. The interim financial statements are prepared in compliance with Sri Lanka Accounting Standard 35 - Interim Financial Reporting.

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which has become applicable for periods beginning on or after January 1, 2012. These Sri Lanka Accounting Standards comprise of Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS).

The company is required to prepare interim financial statements in accordance with LKAS 34 - Interim Financial Reporting. However, the Institute of Chartered Accountants of Sri Lanka has decided to allow companies to prepare interim financial statements during the first financial year commencing on or after January 1, 2012 in accordance with Sri Lanka Accounting Standards that existed immediately prior to that date (SLASs) with disclosures on the impact to the Statement of Comprehensive Income for the period and to net assets based on SLFRS/LKAS. If determination of that impact is impractical, the companies are required to disclose the fact.

The Company has quantified the impact to the Statement of Comprehensive Income for the period (before taxes) and to net assets based on the new Sri Lanka Accounting Standards and the impact is shown below.

Impact (before taxes) of application of Sri Lanka Financial Reporting Standards (SLFRS/LKAS)

Area Of impact	Description	Profit for the period as per the Statement six months ended September 30,2012	Statement of Other Comprehensive Income for six months ended September 30,2012	Net assets as at September 30, 2012	Net assets as at March 31, 2012
(1) Impairment of financial assets					
(1.1) Loans and advances	Time-based CBSL provision is replaced with collective and specific impairment. All individually significant loans and advances are individually tested with objective evidence while other loans and advances are tested collectively for impairment. For the purpose of SLFRS Reporting, suspension of interest is no longer applicable and the interest is continued to be recognised on impaired loan balances based on the Effective Interest Rate method (EIR method)		System development for the computation of impairment is in progress		
(1.2) Other financial assets	Other financial assets are tested for impairment with objective evidence and impairment loss, if any, is recognised in profit or loss.	No significant impact	No impact	No significant impact	No impact
(1.3) Measurement of staff loans at fair value	All staff loans are recognised initially at fair value. Subsequent interest recognition is based on the EIR method. No relevant computation has arisen during the period since the maturity periods of all staff loans are less than 10 months.	No significant impact	No impact	No significant impact	No impact
(2) Measurement of investments					
(2.1) Available-for-sale financial assets	Subsequent measurement of investments classified as available-for-sale (AFS) is at a fair value and the corresponding changes in fair value are recognised in equity through the Statement of Other Comprehensive Income.	No impact	No significant impact	No impact	No significant impact
(2.2) Loans and receivables	Subsequent measurement of investments classified as loans and receivables (L&R) are at amortised cost based on the EIR method.	No significant impact	No impact	No significant impact	No impact
(2.3) Financial assets at Fair Value through Profit or Loss	Subsequent measurement of investments classified as fair value through profit or loss (FVTPL) is at fair value and the corresponding changes in fair value are recognised in profit or loss. Investment in marketable securities are accounted under this category.	Increase by Rs. 0.7 Mn	No impact	Increase by Rs. 8.7 Mn	Increase by Rs. 8 Mn
(3) Measurement of deposits at Effective Interest Rate					
	Interest expense is recognised based on the EIR method and not based on the straight line method as was done under previously applicable SLASs.	Increase by Rs. 2 mn.	No impact	Increase by Rs. 7 mn.	Increase by Rs. 5 mn.
(4) Other liabilities					
(4.1) Securitised loans	Initial measurement is at fair value and subsequently at amortised cost by using the EIR method. The transaction cost is amortised over the period.	Decrease by Rs. 4 mn.	No impact	Decrease by Rs. 155 mn.	Decrease by Rs. 151 mn.
(4.2) Debentures	Initial measurement is at fair value and subsequently at amortised cost by using the EIR method. Capitalised transaction cost is amortised over the period.	No significant impact	No impact	No significant impact	No impact

Notes to the Financial Statements (contd.)

- 2 There were no material changes in the composition of assets, liabilities, contingent liabilities and the use of funds raised through debentures during the quarter.
- 3 All known expenses have been provided for in these financial statements.
- 4 The board of directors has declared an interim dividend of Rs. 0.70 per share for the 9 month period ended December 31, 2011. The total dividend payment amounted to Rs. 37,357,600 on 6th June, 2012. A final dividend of Rs. 0.55 per share for the year ended March 31, 2012 was recommended and paid during the period. The total dividend payment amounted to Rs.29,052,867/80 on 24th August 2012.

5 *Debenture Information*

- 5.1 During this six month period, the Company raised Rs. 120 million by an issue of privately placed 5-year unsecured redeemable debentures. Further, the Company redeemed and re-invested unlisted debentures to the value Rs. 120 million during the period under review. The funds raised were mainly utilised for working capital requirements of the company.

6 *Share information*

6.1 Directors' shareholdings

The number of shares held by the board of directors is as follows

	As at 30.09.2012
1. Dr. A. Balasuriya	3,065,832
2. Dr. M. Balasuriya	3,065,832
3. Mrs. L. Fernando	2,570,002
4. Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916
5. Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,532,916
6. Mr. L. Balasuriya - The Trustee of the Capitalisation Issue	4
7. Mr. W. A. T. Fernando	Nil
8. Mr. C. L. de Alwis	Nil
9. Dr. P. Ramanujam	Nil

6.2 Stated Capital

Stated capital is represented by the number of shares in issue as set out below:

As at	30.09.2012	31.03.2012	30.09.2011
Ordinary shares	53,368,000	53,368,000	53,368,000

Notes to the Financial Statements (contd.)

6.3 The 20 largest shareholders of the company as at 30th September 2012 were:

Shareholder	Number of Shares	%
1. E. W. Balasuriya & Co. (Pvt) Limited	29,988,050	56.19
2. Hallsville Trading Group Inc.	4,180,000	7.83
3. Dr. (Mrs.) G. Madan Mohan	3,065,832	5.74
4. Dr. A. Balasuriya	3,065,832	5.74
5. Mr. R. Balasuriya	3,065,832	5.74
6. Dr. M. Balasuriya	3,065,832	5.74
7. Mrs. L. Fernando	2,570,002	4.82
8. Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916	2.87
9. Mr. L. Balasuriya & Mr. K. S. Balasuriya	1,532,916	2.87
10. Mr. D. K. C. R. Fernando	495,830	0.93
11. Mrs. S. Thaha	389,000	0.73
12. Mrs. C. Fernando	155,600	0.29
13. Estate of the late Mr. D. G. K. Hewamallika	155,600	0.29
14. Mr. E. W. Balasuriya	41,660	0.08
15. Mr. M. M. Ariyaratne	22,400	0.04
16. Mr. P. P. K. Ikiriwatte	12,502	0.02
17. Mr. J. K. Jayatileke	12,492	0.02
18. Ms. R. Dullewe	6,100	0.01
19. Mr. C. Y. Ching	4,800	0.01
20. Ms. S. I. A. Ching	4,800	0.01
	53,367,996	100

6.4 The percentage of shares held by the public on 30th September 2012 was 21.76% (2011 - 10.08%)

6.5 Information on Ratios, Market Prices and Credit Rating.

	30-Sep-2012	31-Mar-2012
Dividend per share (Rs.)	1.24	2.38
Net Assets per share (Rs.)	33.57	28.29
Market Prices		
- Highest price	50.00	40.00
- Lowest price	50.00	40.00
- Last traded price	50.00	40.00

The company has been affirmed a long - term rating of BBB+ (lka) with a stable outlook by Fitch Ratings Lanka Limited.

7 There have been no other events subsequent to the Balance Sheet date, which require disclosure in the Interim Financial Statement.