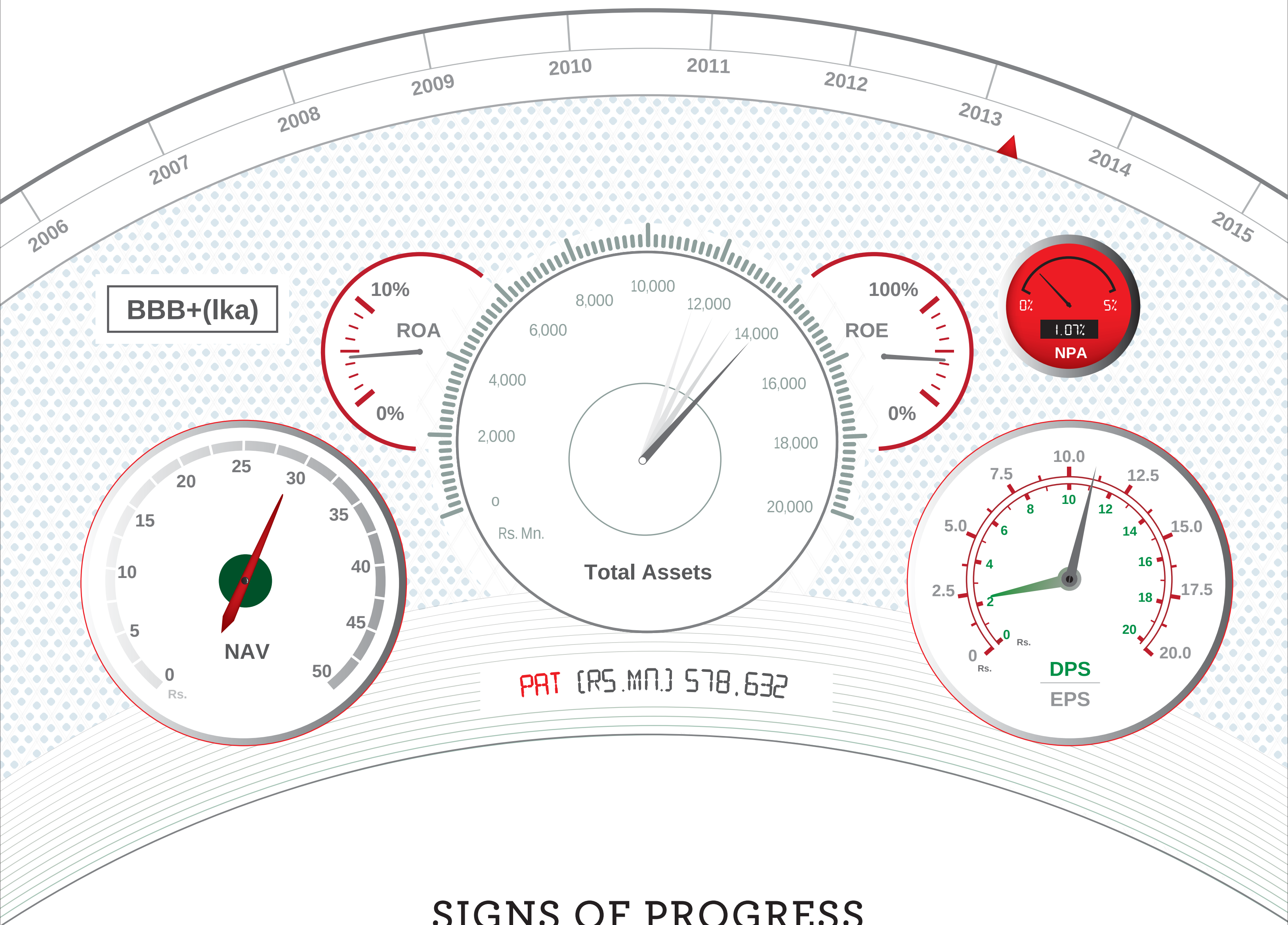
SENKADAGALA FINANCE PLC
ANNUAL REPORT 2012/13



SIGNS OF PROGRESS

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SIGNS OF PROGRESS

As the 'dashboard' on our cover illustrates, the results of our key indicators all point to a year of momentous progress and achievement. In fact this has been the trend at Senkadagala Finance over the years.

To strong, high performing financials we can add factors such as vibrant branch expansion, new products and services launched, improvements to internal systems and procedures, growing HR resources and enhancements to our IT platform – all of which speak of the success the Company continues to reap.

These are all compelling signs of progress.

About us

Senkadagala Finance PLC is a public limited liability Company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29th December 1968 and registered under the Finance Companies Act No. 78 of 1988 replaced by the Finance Business Act No. 42 of 2011. The Company was re-registered under the Companies Act No. 07 of 2007. The registered office of the Company is situated at 2nd Floor, No. 267, Galle Road, Colombo 03.

Senkadagala Finance PLC was initially formed in the city of Kandy in 1968. Since then, the Company has become one of the largest registered finance companies operating under the purview of the Central Bank of Sri Lanka (total number of registered finance companies - 47). It is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. In compliance with the regulatory requirements of the Monetary Board of the Central Bank of Sri Lanka, the Company was listed on the *Diri Savi* Board of the Colombo Stock Exchange on 22nd March 2011.

Principal lines of business of the Company comprised of finance leases, hire purchases and commercial loans. Moving towards diversification, the Company also provides pawnbroking, bill discounting, investment in money market instruments and acceptance of deposits in terms of fixed deposits, term deposits, certificates of deposit and savings deposits.

Further, diversifying its portfolio the Company initiated a new insurance broking business, which commenced operations in January 2013 and is expected to gain high returns in the future.

The Company expanded its reach by operating in fifty-two (52) locations spread across the island. Recently, the Company opened a fully-fledged branch in Jaffna, thereby increasing the total number of branches to thirty-nine (39) and service centres to thirteen (13) as at the end of March 2013.

Fitch has affirmed the BBB+(lka) credit rating of the Company, noting the excellent track record of performance along with healthy asset quality, improved credit control systems and the long operating history of 45 years.

Vision

Our vision is to be a leading financial institution in Sri Lanka that delivers high quality services and achieves excellence in all spheres of activity while being socially conscious, at all times.

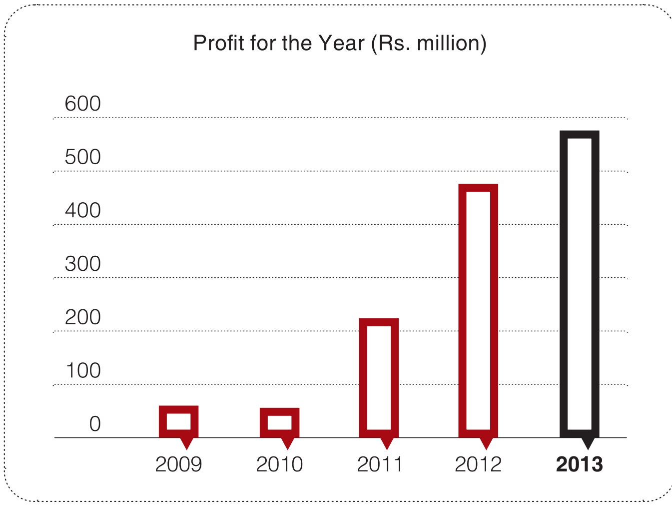
Mission

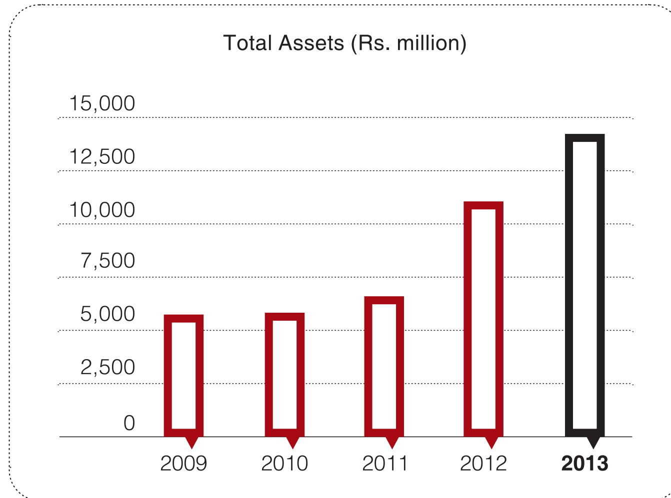
To provide a wide range of diversified financial services and to acquire a portfolio of loanable funds that yields an adequate return to our shareholders, whilst safeguarding the interests of our depositors and other stakeholders.

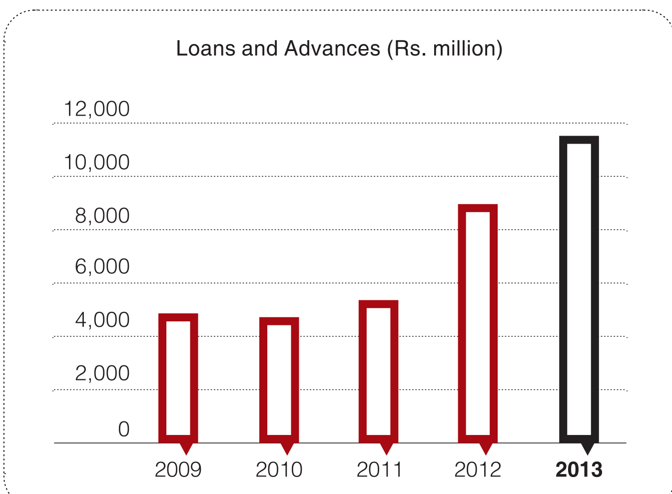
FINANCIAL AND OPERATIONAL HIGHLIGHTS

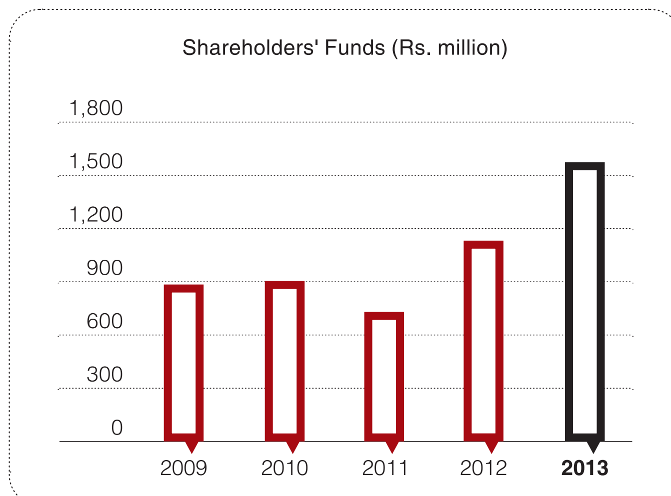
	2013	2012	% Change
Financial Results of the Year (Rs. million)			
Total income	2,976	2,029	46
Interest income	2,862	1,885	52
Net interest income	1,338	1,043	28
Profit before VAT on financial services and taxation	736	693	6
Profit before taxation	680	635	7
Profit for the year	578	476	21
Dividends paid	133	81	65
Earnings retained during the year	445	395	14
Operational Results of the Year (Rs. million)			
New advances disbursed	7,009	7,325	(4)
Net flow of deposits	680	345	97
Debt instruments issued	1,264	565	124
Borrowings obtained	3,703	4,569	(19)
Capital expenditure incurred	214	243	(12)
Financial Position (Rs. million)			
Loans and advances	11,560	8,969	29
Total assets	14,261	11,018	29
Deposit base	3,412	2,732	25
Borrowings	6,136	4,806	28
Debentures	2,618	1,772	48
Shareholders' funds	1,574	1,127	40
Information per Ordinary Share (Rs.)			
Earnings per share	10.83	8.93	21
Dividends per share	2.04	2.38	(14)
Net assets per share	29.49	21.11	40
Market price per share	50.00	40.00	25
Key Performance Indicators			
Return on average total assets (%)	4.57	5.40	(15)
Return on average shareholders' funds (%)	42.79	51.23	(16)
Net interest margin (%)	11.17	12.63	(12)
Gross non-performing assets ratio (%)	1.07	1.18	(9)
Interest cost to interest earned ratio (%)	53.26	44.63	19
Interest cover (times)	1.38	1.57	(12)
Equity to assets ratio (%)	11.04	10.23	8
Debt to equity ratio (times)	5.56	5.84	(5)
Price earning ratio (times)	4.62	4.48	3
Dividends yield (%)	6.48	5.95	9
Statutory Regulated Ratios			
Core capital ratio (%)	11.42	10.51	9
- Minimum statutory requirement 5%			
Total capital ratio (%)	11.42	10.51	9
- Minimum statutory requirement 10%			
Liquid assets to deposit liabilities ratio (%)	54.53	46.77	17
- Minimum statutory requirement 10%			
Government securities to average deposit liabilities ratio (%)	16.29	13.86	18
- Minimum statutory requirement 7.5%			
Rating			
Fitch Ratings Lanka Ltd.	BBB+(lka)	BBB+(lka)	–

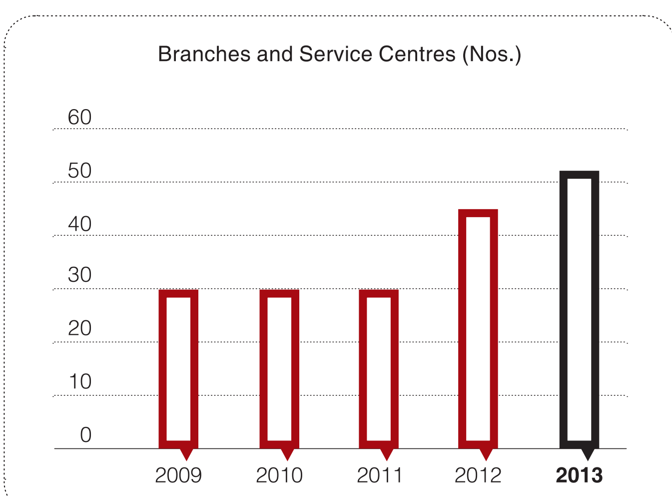
FINANCIAL AND OPERATIONAL HIGHLIGHTS

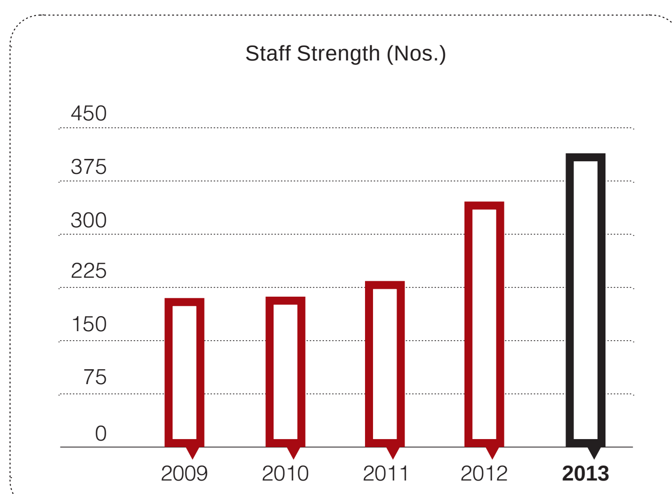












CHAIRMAN'S MESSAGE

It is with much pleasure that I present to you the Annual Report and Audited Financial Statements of Senkadagala Finance PLC, for the financial year 2012/13.

To establish perspective, I wish to comment briefly on the external environment, within which your Company operated during the year in review.

The Global and Local Economies

The global economy continued to struggle recording sluggish growth of 3.2% in 2012 down from 3.9% in 2011. A clear shift in economic power continues; from the 'traditional' giants of a few years past - the USA and Eurozone countries - to Asia, propelled by 'powerhouse' emerging economies such as China and India.

Whilst Asia continues to drive the global economy, it too is experiencing slow down though not to the worrisome extent as that recorded by the struggling economies of the West and USA.

Here at home, Sri Lanka's economy grew by a modest 6.4% in 2012, well short of the 8.2% recorded in 2011, but only very marginally lower than the overall growth rate of Asia, which was 6.6%. Whilst this is so, massive infrastructure development continues apace in Sri Lanka today. I am confident that the resultant growth in the country augurs well for the future; the productive capacity of our economy should flourish, leading to long-term sustainable growth.

The year 2012 began on a volatile note. Interest rates were high, whilst the Rupee was allowed to 'free float' against the US Dollar and initially deteriorated against other currencies too. It reached a semblance of stability by end 2012. The stock market too showed a downward trend until the last quarter of 2012.

Tightened monetary policies that prevailed during the year meant that interest rates continued on an upward trend for most of the year.

Some Salient Features of the Financial Services Industry - 2012

The asset base of Non-Bank Financial Institutions (NBFI) grew by 22% in 2012, compared to 26% in 2011. The increasing interest rates, which we have discussed earlier, depressed interest margins to 18.9% in 2012.

Most indicators of profitability also followed suit to some extent, mirroring the decreasing trend in net interest margins.

Advances of NBFIs grew by 21% in 2012, which was commendable. However, when one views this result in comparison with the healthy growth of 46% achieved in 2011, it would seem to indicate that the market is maturing.

Deposits however, grew by 37% in 2012 compared to 27% in 2011. High interest rates restrained NBFI borrowing, thus allowing a growth of only 3% in 2012 compared to 24% in 2011.

Expansion of reach was another feature that was evident in the industry in the year 2012.

The Non-Bank Financial Institutions sector remains highly regulated and supervised, especially following the collapse of certain financial institutions in 2008. The Central Bank of Sri Lanka (CBSL) thus maintains strict vigilance and promulgates a tight and comprehensive regulatory framework pertaining to NBFI.

Also during 2012, Sri Lanka adopted new accounting and financial reporting standards modelled along the lines of the International Financial Reporting Standards. This move brings Sri Lankan business entities into parity with global standards, thus streamlining our reporting processes and aiding the drive to attract foreign investments to the country.

CBSL brought forward the direction on information systems and contingency planning identifying the high reliance of financial institutions on the information systems and to mitigate potential risks that could hinder functionality of these institutions at a crisis.

Even though, its effects were indirect, the move by the CBSL to impose a credit ceiling that effectively controlled lending capacities of commercial banks did affect the industry. Fund availability for licensed financial institutions was restricted. As a consequence, the NBFI sector was compelled to look elsewhere for new funding sources.

Tariffs on motor vehicle imports rose sharply at the beginning of the financial year, which caused a slowdown for leasing business among the financial institutions.

CHAIRMAN'S MESSAGE

Strategy and Initiative

Wealth creation for the shareholder, within a framework of sustainable business practice is our overriding objective. To accomplish this goal, your Company has several strategies and initiatives in place.

Strategic imperatives for the Company include optimal management of liquidity - we maintain adequate liquid assets at all times and manage those assets to yield the highest possible return.

Maturity gap and interest rate gap are other challenges that Senkadagala Finance has successfully faced. The maturity gap of assets and liabilities has been minimised by the use of strategic funding mechanisms. Reliance on deposits has been minimised as a source of long-term funding. We have successfully secured a quantum of institutional deposits, which has helped us to extend the overall maturity profile of deposit base.

Leveraging these strategies to achieve our overall goal requires putting in place vitally important resources and processes and adopting equally important methodologies.

A key pursuit over recent times has been technological advancement. Our endeavour is to develop our technological platform to a point where we will be deploying tomorrow's technology in today's business environment helping to create a defining 'edge' in the industry whilst creating value and sustainable growth for the organisation.

Our technological capacities are also aiding in another key pursuit - that of offering a homogeneous product and service delivery irrespective of location or branch outlet.

Another key component of the mix is our human resource base. I am proud of the dedication and commitment displayed by our staff. They are vital to our enterprise and if one needed a single factor to prove their efficacy in achieving our goals, it may be seen in the relatively high return rate amongst our lending customers. Through their skill and expertise your Company has been successful in building a loyal customer base. Staff training and empowerment is an ongoing initiative.

In this context, your Company seeks steady and sustainable growth; our objective is not merely to increase numbers but to attain sustainable development - not just to earn profits but to create value for all our stakeholders. This philosophy has enabled us to flourish in this industry for 45 successful years.

↗ SUSTAINABLE BUSINESS PRACTICE IS OUR OVERRIDING OBJECTIVE

CHAIRMAN'S MESSAGE

Getting product and service to the customer is obviously vital - hence our substantial widening footprint. During the year in review we increased our network to 39 branches and 13 service centres, altogether 52 outlets.

Our Performance - 2012/13

Unless our 'deeds match our words', I believe we would have failed in our enterprise. I am happy to present to you the salient details of your Company's performance in 2012/13.

In terms of financials, year 2012/13 was a remarkable year for the Company. Despite the setback prevailed in the vehicle market due to increase of the vehicle import duties, the Company managed to record an after-tax-profit of Rs. 578 million which is a 21% growth over the previous year.

Loans and advances increased from Rs. 9 billion in 2011/12 to Rs. 11.5 billion in 2012/13, an increase of 29%.

Interest income for the year under review amounted to Rs. 2,862 million which has grown by 52% compared to the previous year.

I believe our shareholders will be pleased to know that the dividend payout ratio has been maintained at 30% level this year by your Directors as compared to the rate of 27% last year. After payment of the dividend a sum of Rs. 447,343,118/- remains out of the profit of the year, your Directors proposed to transfer a sum of Rs. 92,700,541/- to reserves leaving an amount of Rs. 720,570,975/- as retained profit.

Areas of challenge during the year proved to be - the high interest rate regime as discussed already, which made it hard for us to maintain our competitiveness, setbacks in the unregistered vehicle market, the effects of which may be seen in our profitability ratios, the drastic drop in gold prices which impacted our fledgling pawning business and general competition in the market place.

Your Company is not unduly perturbed by these challenges as our resilience and 'one step ahead' approach is already coping with them.

In the Years to Come...

The Company is working towards increasing its market share significantly. In order to achieve this, Company hopes to add further 10 branches to its branch network during the next financial year.

One vital pursuit will be to increase sources of financing on favourable terms to develop the capital market. Capital market issues are one of the main challenges we have identified and we are planning to move forward to source foreign funding at lucrative rates.

We also expect to double the total assets of the Company within the next three years.

In conclusion, I wish to say how privileged I have been to enjoy the support and guidance of my fellow Directors and on your behalf and mine, I wish to thank them for their valuable contribution in steering the affairs of the Company. A special vote of thanks goes out to my predecessor who resigned on 5th June 2013 for steering the Company to much success over the past one and half years.

I would also like to thank the Managing Director and all staff of the Company for their loyalty, commitment and hard work during the past year which has resulted in the excellent results achieved by the Company.

I also thank, the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka and his staff for their support and guidance.

Dr. Prathap Ramanujam
Chairman

6th June 2013

MANAGING DIRECTOR/CEO'S REVIEW

Despite a largely inhospitable business environment that prevailed over much of 2012, Senkadagala Finance PLC performed robustly to achieve encouraging results during the period under review.

Put briefly, some of the factors that contributed to a less than ideal business climate were - the ceiling on credit imposed by the Government on commercial banks, which adversely affected liquidity, a high interest rate regime, substantial escalation in tariffs that directly impacted motor vehicle imports and the free float of the Rupee against the US Dollar, which devalued the Rupee against several other currencies as well.

Within such a climate, the Company made commendable progress with revenue increasing by 46% over the previous reporting period to Rs. 2,976 million, whilst profit before income tax also increased by 7% to Rs. 680 million.

Total assets increased from Rs. 11.018 billion to Rs. 14.261 billion whilst the total lending portfolio increased to Rs. 11.560 billion by 29%. Gross NPA ratio reduced to 1.07%. A detailed analysis on performance during the year is given in the Financial Review on page 22.

Some Thoughts on Strategy

Since inception in 1968, Senkadagala Finance has achieved stable and sustainable growth. Our key strategy is to gain and maintain a quality asset base. This quality is evident in our continuously low NPL ratios and gradually increasing deposit base.

We believe in sustainable growth; we serve our customers with perfection; we encourage repeat customers at every turn. Our ethos is that our development must come in tandem with the development of our customers.

Initiatives Beyond Statistics

During the year in review, we made a conscious effort to widen our footprint and to this end, we opened 7 new service centres extending coverage of the Northern and the Eastern Provinces in the process. We upgraded 8 service centres, bringing them up to branch status. To date Senkadagala Finance operates in 52 locations all across the country, through a network of 39 branches and 13 service centres. In the year ahead, we are looking to add 15 new branches to the network and our target is to have 100 branches, in the next few years.

A chip driven VISA debit card was also launched in conjunction with our savings deposits. We were the first finance company to launch an ATM card for the benefit of savings depositors back in 2007 and continuing this momentum, we were the first finance company to issue VISA debit card, which is chip driven.

An advanced technological platform is vital for the business model we have in mind for the Company. We have a 'home grown' technological framework in place; one that has been designed and implemented from within the Company, which has allowed us to 'customise' our service and product offerings thereby providing us with a significant competitive 'edge'. The Company is reaping all the benefits such a system provides - better time saving across a multitude of transactions and greater accuracy and control in areas such as risk management, fund management and HR, among others.

The already referred to sharp hike in import duty on motor vehicles put prices beyond a large section of the market. This in turn affected our business and whilst we adjusted to market demand as consumers shied away from new cars in favour of used cars, we needed to explore other channels to be able to adapt our portfolio, with good returns in mind.

An example of portfolio diversification is the foreign currency operation we have begun. For now, this remains as a trading operation, however, we will identify branches with high exposure in this area and develop our product appropriately.

We have also ventured into insurance. The opening of our subsidiary Senkadagala Insurance Brokers was a key happening during the year. Operations began only in January 2013, the tail end of our reporting period. However, in the three months leading to end March 2013, this company realised a pre-tax profit of Rs. 1.3 million, which augurs well for the years to come.

MANAGING DIRECTOR/CEO'S REVIEW

Outcomes We'd Like to See

With the introduction of the new accounting standards the Company, as a specified entity, is reporting in conformity with the new standards, whilst maintaining records under the previous framework, for purposes of taxation and for submitting returns to certain regulatory bodies.

We would like to see a framework introduced which would eliminate the administrative burden of maintaining two sets of records and reporting on same according to differing requirements.

In order to develop a fair, principle-based approach to regulatory reporting, much careful thought and consideration would certainly be required. To develop rules for such an approach will be harder. But I believe all NBFI are eager to be party to a simpler tax regime in respect of the new standards.

With the undoubted potential for economic growth in the country, the NBFI sector has a substantial role to play in the development of the capital market and the financial sector. The duty hike on imported vehicles, which has figured several times in this report not only hampered the motor industry but the NBFI sector too, given our considerable involvement in the sector. In such a scenario, we would wish that, in the deliberations that the Government undoubtedly had prior to introducing the duty hikes, the considerable contribution made by NBFI would be an important consideration.

Our Most Important Resource

Perhaps it is a cliché, but it is an undeniable fact that the most important resource this Company possesses is its staff. It is impossible to report on any enterprise of the Company without acknowledging the contribution made by our people; and through this acknowledgment we honour their commitment, loyalty, integrity and hard work, all of which have delivered the results we have enjoyed this year.

Senkadagala Finance has a good track record in rewarding the loyalty and dedication of staff, through an emancipated regime of HR practices that run the gamut of activities from recruitment, to review and appraisal, training and development and a myriad other ways that motivate and empower.

↗ NETWORK OF 39 BRANCHES AND 13 SERVICE CENTRES

MANAGING DIRECTOR/CEO'S REVIEW

Milestones We Reached this Year

Senkadagala Finance celebrates its 45th year in business in 2013. From its incorporation in 1968, when it became one of the first ever finance companies to open its doors in Sri Lanka, the Company has faced many challenges and triumphs, emerging stronger with each passing year. We can proudly and credibly claim that Senkadagala Finance is one of the most stable, successful and acclaimed finance companies in the country.

We declared open our 50th location in Jaffna on 19th March 2013. This was a much anticipated event which now allows us to extend our services in the North.

The Company also crossed the Rs. 10 billion threshold in the advances portfolio.

The Future

For the year ahead, we are working towards increasing our market share to 5%.

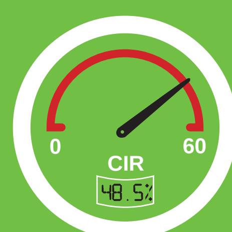
To achieve this target our branch network would need to grow; I have already commented on our aspirations in this regard.

Our main aiming is to increase sources of finance at a favourable rate by entering to developing capital market. Capital market issues are the main challenges we identified and we are also planning to move forward for foreign funding at cheaper rate. Then again exchange rate volatility is next challenge we face. In three years' time, we expect to double the total assets of the Company.

I believe that whilst some areas of challenge that beset our business this year will continue into next year. Senkadagala Finance has the resilience and strength to take all in its stride - I am looking forward to another successful year in 2013/14.

Mr. Lakshman Balasuriya
Managing Director/CEO

6th June 2013

Prdu

* Our well managed Cost:Income Ratio (CIR) speaks volumes for the healthy balance maintained between revenue earned and the cost incurred to earn it.

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MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Global economic growth weakened further with an increasing number of developed economies falling into double-dip recession in 2012. Growth in developing economies such as Brazil, China and India slowed down considerably compared to robust recovery experienced in 2010. Significant deceleration in exports was the key factor for this slow down. Growth in economies in transition decelerated notably due to external vulnerabilities and domestic challenges. However, most low income countries held up relatively well but subsequently faced intensified adverse spillover effects from slowdown in both developed and certain middle income countries. Developed economies remained the root cause of continued global economic downturn with Europe in particular caught into a downward spiral of high unemployment, heightened sovereign risks, continued banking fragility, fiscal tightening, and slower growth. Further, declining import demand in Europe dampened world trade in 2012.

As cited by the International Monetary Fund world output growth is forecast to reach 3¼% in 2013 and 4% in 2014. Growth in emerging market and developing economies is forecast to reach 5.3% in 2013 and 5.7% in 2014. United States is forecasted to grow by 1.9% in 2013 and 3.0% in 2014. In contrast, growth in the Eurozone is forecast to be -0.3% in 2013 and 1.1% in 2014. Developing Asia will be in the lead with a growth of 7.10% in 2013.

Overview of the World Economic Outlook

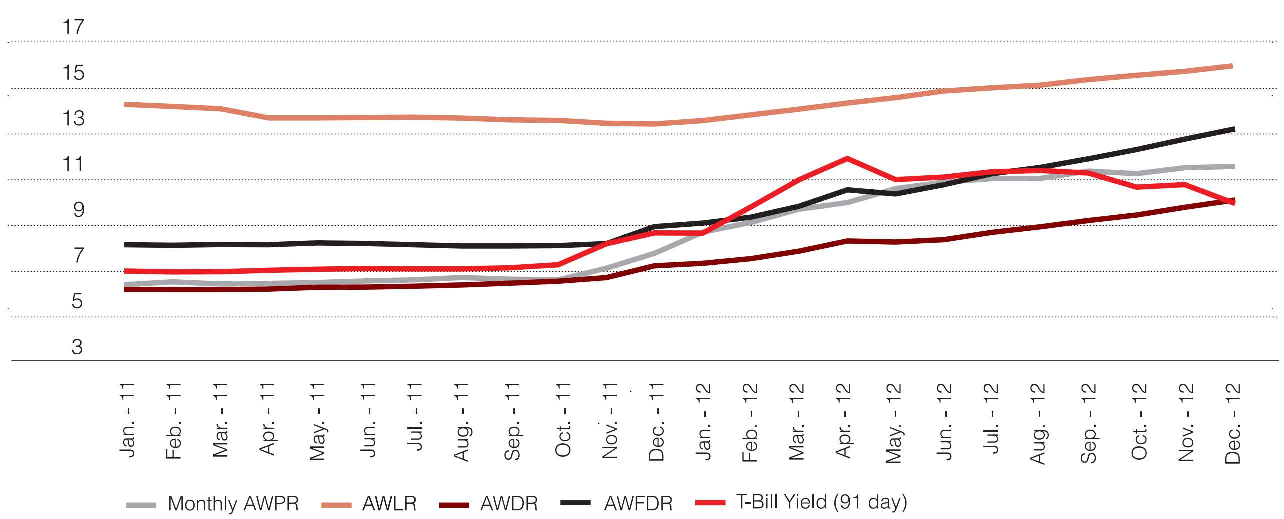
			Forecast	
	2011	2012	2013	2014
World Output	4.00%	3.20%	3.30%	4.00%
Advanced Economies	1.60%	1.20%	1.20%	2.20%
Emerging Market and Developing Economies	6.40%	5.10%	5.30%	5.70%
Developing Asia	8.10%	6.60%	7.10%	7.30%

Source: World Economic Outlook - April 2013 International Monetary Fund

Sri Lankan Economy

Sri Lanka recorded an economic growth rate of 6.4% in 2012, which is a creditable performance in the light of challenging global economic conditions and adverse weather patterns which prevailed during the year. Growth momentum was mainly driven by the industry sector which grew by 10.3%, followed by agriculture sector at 5.8% and services sector at 4.6%. The comprehensive policy package introduced by the Central Bank and the Government to reduce the widening trade deficit and credit growth, strengthened macroeconomic stability, facilitating a sustainable economic growth with low inflation. However, this contributed to deceleration in domestic economic activity to a certain extent. Inflation remained within single digit levels for the fourth consecutive year although there was some upward pressure from the second quarter of 2012 largely due to supply side factors. Accordingly, year on year inflation stood at 9.2% in 2012.

Movement of Selected Market Interest Rates (%)



Source: Central Bank of Sri Lanka – Annual Report 2012

MANAGEMENT DISCUSSION AND ANALYSIS

To contain the rapid expansion in monetary aggregates and preserve macroeconomic stability, the Central Bank followed a stringent monetary policy stance during the year. As a result, market interest rates moved upwards. However, this stance was subsequently relaxed by December 2012 as the policy measures yielded the desired outcomes.

As a result of the policy measures adopted in early 2012 to improve macroeconomic stability and reduce the widening trade deficit external sector strengthened during the year. Central Bank facilitated greater flexibility in determining the exchange rate by limiting its intervention in the domestic foreign exchange market.

Despite elevated risks from global and domestic developments, the financial sector remained resilient and continued to support domestic economic activity in 2012. Reflecting the continuing expansion in economic activity, Sri Lanka recorded the lowest annual unemployment rate of 4.0%, witnessed since inception of the Quarterly Labour Force Survey (QLFS) in 1990.

Future Outlook

Moving forward, Sri Lankan economy is expected to continue on a high growth path benefiting from improved infrastructure facilities and favourable macroeconomic fundamentals. As cited by the Central Bank, the economy is projected to expand at a rate of 7.5% in 2013 and gradually move to a higher growth trajectory of over 8% in the medium term. The monetary policy will be carefully regulated to maintain inflation at a low and stable level while stimulating growth towards its full potential. Accordingly, inflation is expected to moderate in 2013 with favourable supply side developments and easing of demand driven inflationary pressures.

Non-Bank Financial Institution Sector (NBFIS)

NBFIS comprising of Specialised Leasing Companies (SLC) and Licensed Finance Companies (LFC) recorded a 22% growth in the asset base in 2012. Accommodations grew by 21% to Rs. 472 billion with finance leases, hire purchases and other secured advances accounting for 46%, 26% and 16% respectively of total accommodations. Loans against deposits, pawning and other secured loans recorded high growth rates while the investment portfolio grew by 14% in 2012, compared to a negative growth of 46% in 2011. Expansion of the NBFI Sector was supported by measures taken to enhance the safety and soundness and the expansion of the branch network. Consequent to the measures adopted by the Central Bank to strengthen the risk management practices, the asset quality, liquidity, profitability and capital levels of NBFIS improved significantly during the year.

On the liabilities side, deposits constituted to be the main source of funding for LFCs which accounted for 43% of the liability base of NBFIS. Borrowings were the main source of funding for SLC accounting for 30% of the liability base of NBFIS. As a result of increased public confidence in LFC, deposit mobilisation rose by 37% year on year with time deposits accounting for 98% of the total deposit base of LSBs.

Composition of Assets and Liabilities of the NBFI Sector

	2011 (a)		2012 (b)		Change (%)	
Item	Rs. billion	Share (%)	Rs. billion	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	100.0	596.6	100.0	26.3	21.8

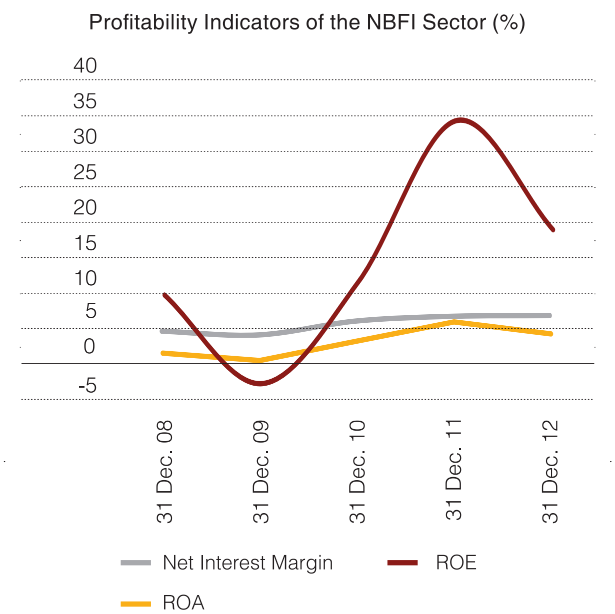
(a) Revised
(b) Provisional

Source: Central Bank of Sri Lanka - Annual Report 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Despite pressure on margins and the deceleration in demand for vehicle leases due to imposing of higher excise duties on imported vehicles, the sector posted a profit after tax of Rs. 15 billion, a decline from Rs. 19 billion recorded in 2011. Accordingly, Return on Assets (ROA) and the Return on Equity (ROE), declined from 6% and 34%, respectively, to 4% and 19% in 2012. Net interest margin increased marginally to 6.8% from 6.7% the previous year despite the increase in market interest rates and the slowdown in credit growth.

Further, capital adequacy ratios of the sector remained above the required minimum levels due to the enhancement of capital funds, while core capital ratio of 15% was well above the required minimum of 5% in 2012.



Source: Central Bank of Sri Lanka – Annual Report 2012

An island-wide awareness campaign was carried out by the Central Bank on the legitimacy of the deposit taking institutions. This helped to elevate the public confidence on the LFC sector during the year, as reflected in the increase in deposit base of LFC sector.

Regulating NBFI Sector

In order to promote financial soundness, the minimum core capital requirement for SLCs was raised to Rs. 150 million, to be effective from 1st January 2013 and will further be raised to Rs. 200 million, Rs. 250 million and Rs. 300 million to be effective from 1st January 2014, 2015 and 2016, respectively. Further, a direction was issued to SLC on the assessment of fitness and propriety of all Directors and officers performing executive functions to promote good governance and effective risk management in SLC. In order to facilitate gradual improvement of liquid levels, an amended liquid assets direction was issued in July 2012 to all SLC. Two directions were also issued to LFC on maximum annual rate of interest applicable for term deposits and for savings deposits and certificates of deposit.

A direction on Information System Security Policy (ISSP) was issued by the Central Bank on the effective use of information technology for finance companies. Further, the direction emphasised the importance of acquiring commercial software, maintaining strict network security policies, and carrying out periodical information system security audits. A panel of External Auditors was deployed by the Central Bank to audit the financial accounts of LFC. This was issued in accordance with section 30 (2) of the Finance Business Act No 42 of 2011.

PESTEL on the NBFI Sector

Political

- Government policy decisions impacted by international and local pressure.
- Political unrest
  Hostilities which prevailed in the past three decades affected business as potential markets in North and East became unreachable for business operations.
- New regulations imposed by supervision and regulatory bodies
  Convergence to IFRS, affected the financial sector as the accounting standards on financial instruments contained much measurement and disclosure as opposed to the SLAS.

MANAGEMENT DISCUSSION AND ANALYSIS

- Development strategies adopted by the Government
  With the launch of several development projects, demand for heavy machinery and construction equipment has increased substantially. This has created an increased demand for leasing of such equipment.
- Economic policy changes by the Government
  Government's decision to reduce intervention in determining the exchange rate caused the Sri Lankan Rupee to depreciate against many foreign currencies. This impacted the prices of motor vehicles, which had a diverse impact on the operations of the finance industry.
- Improved infrastructure could increase the demand for motor vehicles.

Economic

- Volatility in global and local economic conditions
  Sovereign debt crisis in the Eurozone affected the global economy.
- Market trends affecting profitability
  Factors such as interest rates, exchange rates, inflation and equity market trends affect the profitability of the industry. This was evident by the dip in profit margins of financial institutions due to increase in market interest rates. Further, fluctuations in the exchange rate impact commodity prices which have a cascading effect on disposable income of customers and potential depositors.

Social

- Public perception towards the industry
  Central Bank took an initiative to educate the general public on the legitimacy of the financial institutions. This improved the deposit base of the LFC sector. This was initiated following the collapse of certain financial institutions in preceding period which caused public perception towards LFCs to diminish.
- Spending to savings rates
  There is a positive correlation between savings of the general public and funding level of financial institutions.
- Demand for vehicles vary with customer attitude.

Technological

- Use of advanced technology can be a competitive strength for a company due to improved level of service which could be granted.
- Accuracy of the decisions varies with level of accuracy of the underlying information and data.
- Enabling the customer to rapidly access information is a crucial factor for a business.

Environment

- Increased attention of the public on environmental footprints of the organisation.
- Increased attention of the public on the impact of the organisation on the environment can be a differentiation point for an organisation.
- Increase attention on CSR
  Greater emphasis is given to CSR responsibilities of an organisation, as opposed to the profit centric focus.

Legal

- Compliance with the Companies Act is mandatory
  Senkadagala Finance was originally registered under the Companies Ordinance No. 51 of 1938 and was re-registered under the Companies Act No. 7 of 2007.
- Compliance with acts and laws pertaining to the relevant business sector
  LFC must comply with the Finance Business Act No. 42 of 2011, and also adhere to Directions issued by the Central Bank from time to time. Due vigilance needs to be exercised on compliance with all issued regulations.
- Every listed company needs to comply with Listing Rules and regulations.
- A company must comply with the applicable accounting standards.

MANAGEMENT DISCUSSION AND ANALYSIS

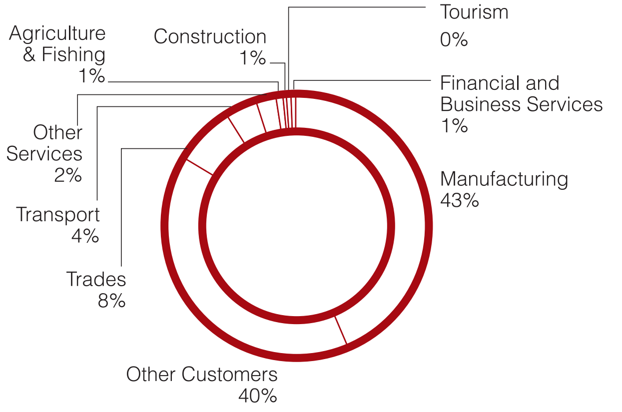
Product Portfolio of Senkadagala Finance

We offer a comprehensive and customised service to our clientele to fulfil their diverse financial needs. Product development and branch expansion are carried out taking into account the evolving customer needs. The key lending products of our portfolio include leasing and hire purchase followed by commercial and personal loans. Our portfolio also contains deposit products such as fixed, savings and certificates of deposit.

Finance Lease

Leasing industry face intense price competition with licensed finance companies, specialised leasing companies and banks operating in the market. Increase of import duty during the year had an adverse impact on the industry, which is largely dominated by leasing of unregistered vehicles. Our customer centric approach enabled us to develop our finance lease business to a commendable level during the year. The finance lease portfolio grew by 32% year on year albeit less than the growth of 192% achieved the previous year. This is a commendable achievement in the light of challenging economic conditions which prevailed during the year. Non-performing ratio of leases improved to 1.76%. We have a highly diversified lease portfolio, with an average lease size of Rs. 630,000/-. In order to expand our lease operations we embarked on several initiatives during the year. Identifying the demand in the market, we leased three wheelers to customers speedily. This enabled us to expand our business and also attract more customers during the year. We also strengthened our relationships with vehicle dealers in the local communities we operate which not only helped to develop our business but also develop the local communities.

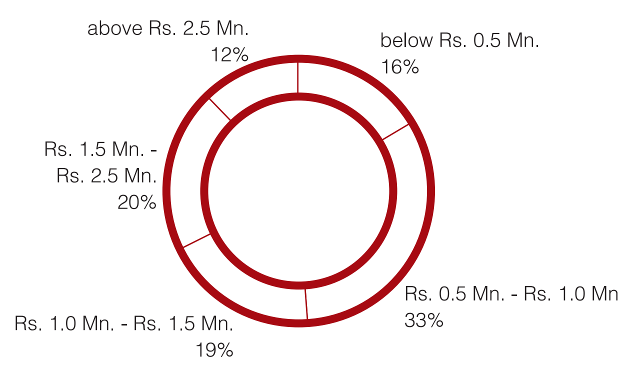
Analysis of Loan Portfolio in Economic Sector



Hire Purchase

Hire purchase which is mainly used to purchase registered vehicles and other equipment remained highly competitive during the year. There was a substantial increase in demand for registered vehicles, consequent to imposing of high import duties for unregistered vehicles in 2012. This had a positive impact on the hire purchase industry which experienced a growth momentum. Hire purchase remained the dominant product in our portfolio till 2011. With the boom in the leasing industry in 2012, the contribution of hire purchase to the total portfolio of the Company declined from 69% to 47%. However, the portfolio recorded a commendable growth of 16% year on year in 2012. The pricing of hire purchase is marginally higher than the pricing of leasing due to the higher risk factors associated with the underlying asset. The non-performing ratio of the hire purchase portfolio amounted to 0.54% while the average size of a hire purchase facility was Rs. 800,000/-. In order to expand the business, we strengthened our relationships with registered vehicle dealers and vehicle brokers and carried out several localised promotional campaigns.

Analysis of Loan Portfolio on size of Facility



Other Loans and Advances

We provide loans and advances to customers in the form of commercial and personal loans. Commercial loans are loan products used to extend advances to individuals and small and medium enterprises to fulfil their short to medium-term financial requirements. As at year-end, our commercial loan portfolio stood at Rs. 34 million. Personal loans are secured, small value loans granted to individual customers in a short period of time. Personal loan portfolio grew by 7% to Rs. 72 million as at financial year-end.

MANAGEMENT DISCUSSION AND ANALYSIS

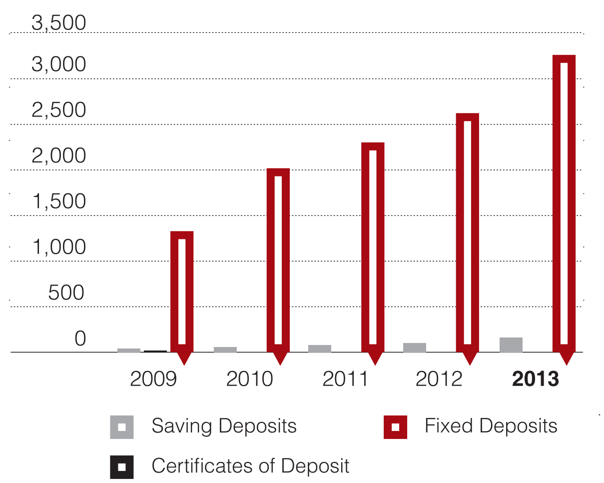
Pawning

Initiated in March 2012, pawning is the newest addition to our portfolio. During a short period, the portfolio has grown to Rs. 71 million by the financial year-end. Pawning was launched as a result of our core products, leasing and hire purchase entering a stage of saturation and the challenging conditions faced in early 2012. Since we were new to pawning business, we exercised caution in the customer evaluation process. This initiative paid off well, when the gold prices decreased dramatically as at the end of the financial year. Our promotional expenses were comparatively low as the market consisted of a few established companies. We carried out localised promotional campaigns at branch level and targeted our existing customer base to promote the pawning business. Identifying the potential for pawning, we opened a dedicated branch in Kotahena to promote this product.

Deposits

As a registered finance company, we have the license to accept deposits from the general public. Deposits are accepted in the form of term deposits, savings deposits and certificates of deposit.

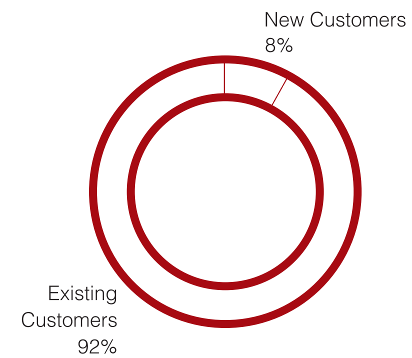
Deposit base of Senkadagala Finance (Rs. million)



Fixed Deposits

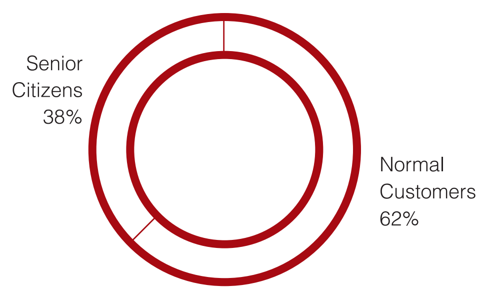
Term deposits are accepted for a fixed period of time, ranging from 3 months to 5 years. Interest rates are fixed as per Directions stipulated by the Central Bank of Sri Lanka. Interest payments vary based on mandates given by the customer. During the year, 8% of our deposit holders consisted of new customers.

Analysis of New Deposits from Customers



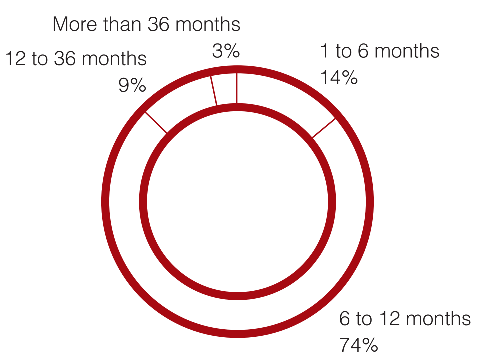
Our term deposit base increased by 24% year on year to Rs. 3,255 million from Rs. 2,627 million in 2012. Continuous promotions are carried out on printed media to promote deposit products. We have a loyal customer-base that bring in new deposits to the Company on a regular basis. Approximately 38% of the deposit holders consist of senior citizens and bulk of our deposits have a maturity period of one year.

Analysis of Deposits - Based on Customer Age

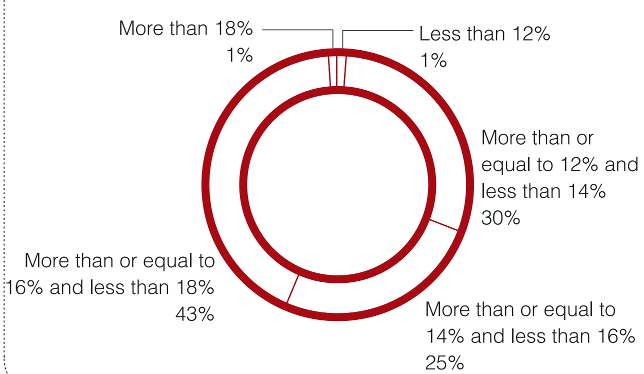


MANAGEMENT DISCUSSION AND ANALYSIS

Deposit-Base According to the Period



Analysis of FD-Base on Interest Rate

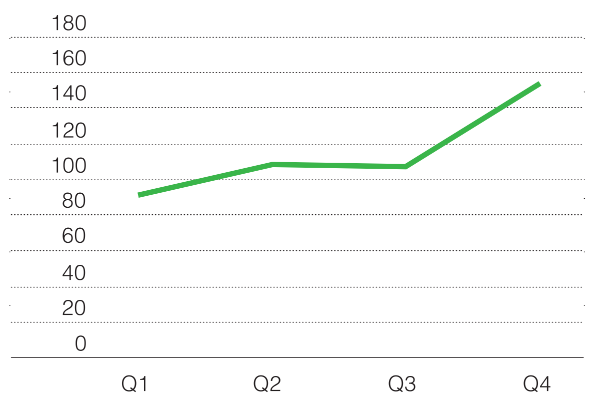


Going forward, we strategise to adopt radio advertising apart from print media to promote fixed deposits. As a supplementary product, we offer loans to our deposit holders secured against their fixed deposits. The portfolio of loans against fixed deposits increased by a staggering 157% or Rs. 33 million during the year under review.

Savings Deposits

We were the first finance company to launch savings deposits with an ATM card facility in 2007. Continuing with this drive we launched a VISA debit card in January 2013, another first by a finance company. This card which was well accepted by the public helped increase our savings deposit base which recorded an increase of 51% or Rs. 52 million to Rs. 154 million in 2013.

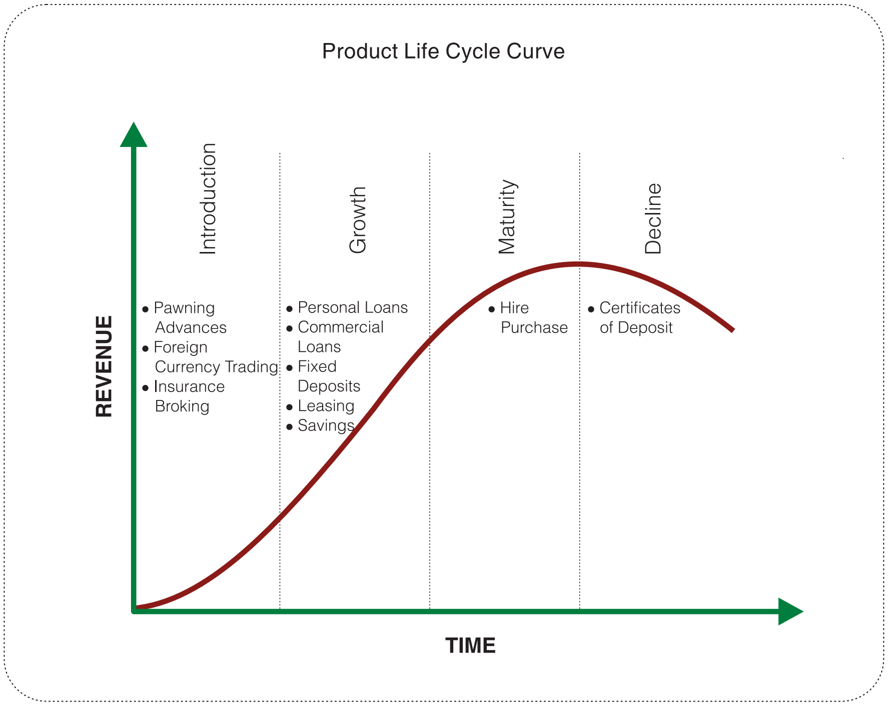
Savings Deposit Growth in 2013 (Rs. million)



Foreign Currency Trading

We commenced foreign currency operations in the current financial year as a diversification strategy. As this business is vulnerable to operational risk, we provided comprehensive training to our staff to carry out this business.

MANAGEMENT DISCUSSION AND ANALYSIS



WE BELIEVE SUPERIOR CUSTOMER SERVICE IS A KEY TO ACHIEVING A SUSTAINABLE GROWTH

MANAGEMENT DISCUSSION AND ANALYSIS

Marketing

We are a customer-oriented company. We believe superior customer service is a key to achieving a sustainable growth. Localised marketing campaigns, tailored to suit specific needs of customers are carried out in the localities we operate. Developing and strengthening customer relationships has been a cost effective and a highly successful marketing tool used by us. Creating publicity for our products and services through word of mouth is another important promotional mechanism. Hence, maintaining strong relationships with our customers and ensuring customer satisfaction has been key factors for the effectiveness of this initiative. We also use paper advertisements, handbills and other print media to conduct localised promotions. These methods are especially used to promote our pawning business. Further, our website has been an effective marketing tool to carry out promotions. Customers are enabled to check their transactions and also get information on vehicles available in our vehicle sales centres through the website.

Market and Product Development

Product Development

We launched the VISA debit card in year 2013. In order to mitigate the potential risks to the deposit holder due to misuse we are currently developing a SMS alert service to notify transaction details each time our VISA debit card is used by the customer. Going forward we strategise to offer attractive promotions in collaboration with leading super market chains, prominent leisure groups and other leading vendors island-wide.

Market Development

We initiated a massive branch expansion drive, increasing our branch network from 30 in 2011 to 52 by 2013. Our network expanded by 50% from 30 to 45 outlets in 2012, with the addition of 15 new service centres. The momentum slowed down in 2013 with opening of 6 new service centres and 1 branch during the year. However, groundwork is being laid to open 10 new service centres in 2013. Further, we converted 8 service centres to branches, increasing the total branches network to 39 and service centres to 13. Our 50th fully-fledged branch was opened in Jaffna inclusive of a pawning counter. We also opened service centres in Wellawatta, Nikaweratiya, Jampettah Street - Kotahena, Giriulla, Batticaloa and Galewela during the year. Several pawning centres were opened in Wattala, Negombo, Horana, Wellawatta and Jampettah Street - Kotahena adding onto one pawning centre we had at the beginning of the financial year. Money exchange counters are operated at selected branches only. We aim to increase the number of branches with money exchange counters in the future.

Diversification

We offered insurance broking as a supplementary product to our customers. With the incorporation of Senkadagala Insurance Brokers, we commenced general insurance broking operations. Infrastructure facilities are being further enhanced and human resources strengthened to cater to the expanding needs of customers. We aim to commence life insurance broking operations in the near future and also develop our insurance arm to offer a full spectrum of insurance services to clients in the ensuing years.

MANAGEMENT DISCUSSION AND ANALYSIS

Branch and Service Centre Opening

Batticaloa

Wellawatta

Giriulla

Jaffna

Jampettah Street

Nikaweratiya

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Overview

In terms of financial performance, the year 2012/13 was a remarkable one. Despite the setback in the vehicle market from the beginning of the year due to the increase of import duties and high rates of interest that prevailed throughout the year, the Company managed to record a profit after tax of Rs. 578 million, a 21% growth over the year. Further, this has to be viewed in the context of the expansion strategy that the Company adopted in 2011 which continued throughout the year and the resulting impact on the cost to income ratio of the Company.

Growth in profits was in line with the growth of the asset base. Total assets of the Company recorded a 29% growth while the interest earning component thereof too had a similar growth. It is noteworthy that this growth was not achieved at the expense of the quality of assets as evident from the Company's non-performing assets ratio reaching the lowest ever level of 1.07% exhibiting the success of meticulous credit policies adopted by the Company.

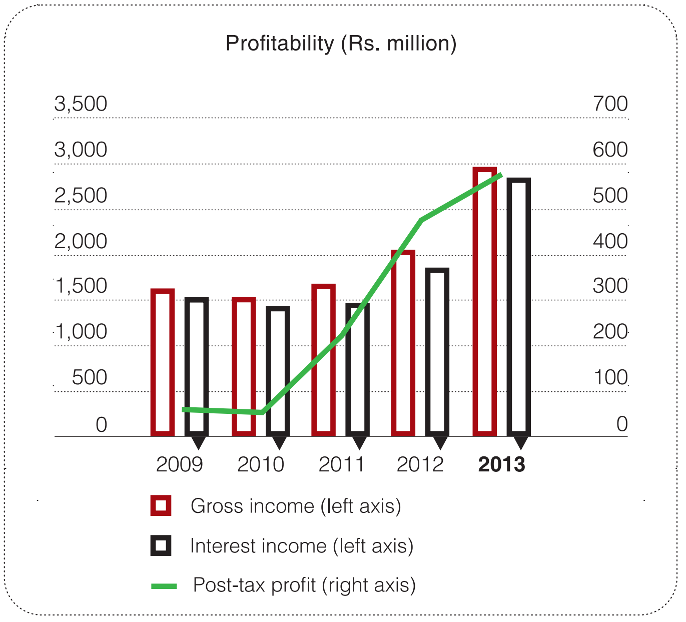
As a means of business diversification and to sustain customer relations, the Company set up a subsidiary company for insurance broking activities. The intension behind was to develop the existing fee-based income stream of commission on insurance into a new business venture. For the three months from January to March 2013 since Senkadagala Insurance Brokers started its operations, the Company managed to generate a profit of Rs. 710,363/- signalling the promising prospects in the years to come.

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 1st January 2012. These Sri Lanka Accounting Standards comprise of Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). This inauguration is expected to standardise Sri Lankan financial reporting with the international level, and gain recognition in said grounds. The Financial Statements for the period ended 31st March 2013 are the first Financial Statements prepared and presented in accordance with the new Sri Lanka Accounting Standards (SLFRS/LKAS). Measurement and presentation of financial instruments were the areas with high impact due to this change. The Company also had to change its Income Recognition Method in order to streamline its financial reporting. Impact due to changes in financial reporting is further discussed later in this review while a reconciliation of equity is presented in Note 44 of the Financial Statements for further clarifications.

Profits

Yet again, Senkadagala Finance recorded a growth in profit in year 2013, with a post-tax profit of Rs. 578 million, a growth of Rs. 102 million when compared against Rs. 476 million in 2012. Pre-tax profit also recorded a growth of 7% when compared to Rs. 635 million in 2012 and reached Rs. 680 million in 2013. Relatively higher growth in post-tax profits when compared against the pre-tax profits is a result of strategic tax planning. Net profit as a percentage of gross income stood at 19% in 2013 compared to 23% in 2012. One of the main reasons for this set back was high interest costs that prevailed throughout the year and its impact on the margins. Even though new advances were priced on par with the market, the effects were not fully contained.

	2013 Rs. '000	2012 Rs. '000	Growth Rs. '000	Growth %
Profit for the year	577,863	476,450	101,413	21.29
Profit before income tax	680,482	634,872	45,610	7.19
Profit before VAT on financial services and income tax	735,545	692,960	42,585	6.15

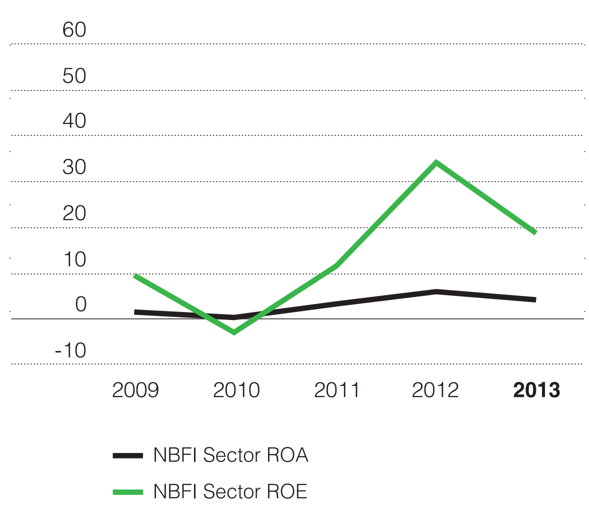


Senkadagala Finance recorded a return on average assets (ROA) of 4.57% in 2013, compared to 5.4% of 2012, a decline of 83 bps. Despite the heavy expenses incurred on the expansion of

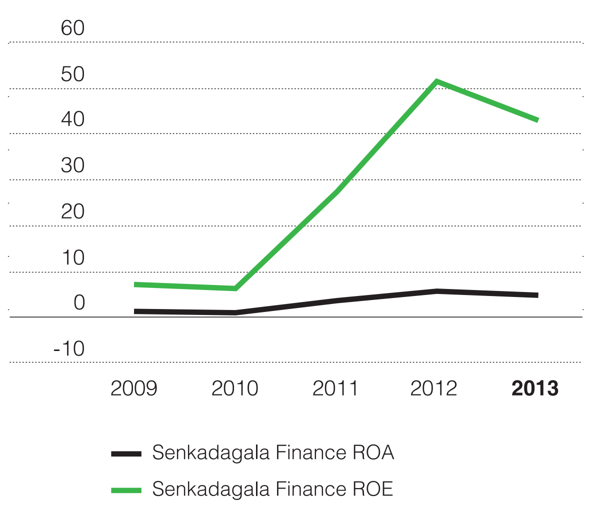
MANAGEMENT DISCUSSION AND ANALYSIS

the branch network, the Company's ROA dropped by 80 bps, at a slower rate than the rate at which the ROAA of the industry dropped. Return on equity of Senkadagala Finance stood at 42.8% in 2013. This also was a decline of 840 bps from 51.2% in 2012. However, compared to the industry average decline of 1,540 bps, this indicates better performance. Company managed to maintain these profitability indicators at a level higher than the industry average.

NBFIs Sector ROA & NBFI Sector ROE (%)



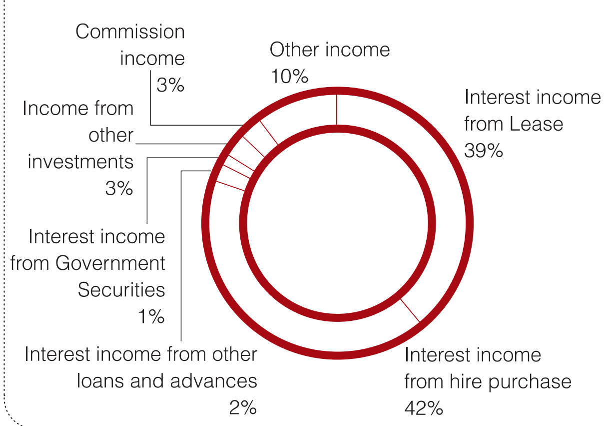
Senkadagala Finance ROA & ROE (%)



Income

Total income of the Company comprises of interest income, fees and commission income and other operating income. The gross income of the Company for 2013 is Rs. 2,970 million, a growth of 46% compared to gross income of Rs. 2,029 million in 2012. Interest income dominates the gross income with a 96% contribution, as the core business activity of the Company is lending. Rs. 1,227 million of interest income (i.e. 43%) is from hire purchases. In 2012, hire purchases accounted for 54% of interest income. The high growth recently experienced in the lease portfolio is the key reason for this drop of proportion, but in absolute terms the interest income from hire purchases increased by Rs. 203 million, a year-to-year growth of 20%.

Gross Income



Finance leases are another key element of the Company's product portfolio. Despite the slowdown of the lease market due to the increase in import duties, the interest income on leases showed a growth at Senkadagala Finance. In its growth phase, this product accounted for 41% of interest income in 2013 compared to 30% last year. In absolute terms, interest income from leases had a growth of Rs. 599 million, a notable year on year growth of 107%.

Another noteworthy growth in the interest income category is the interest income earned on short-term investments. In order to fulfil regulatory requirements and also to cater to various working capital requirements, the Company holds a moderate level of liquid assets. During the year, Senkadagala Finance managed to gain Rs. 63 million by investing said liquid assets in short-term investments compared to Rs. 28 million earned last year, a growth of 124%. This was mainly due to the high interest rates that prevailed in the market throughout the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Senkadagala Finance entered into the pawning business in March 2012. By the end of March 2013, the pawning advances earned an interest income of Rs. 6.5 million, a return of 18% on the average pawning advances balance.

Interest income on fixed deposit loans and interest income on instruments held to maturity grew by 80% and 110% respectively. All these contributed to the growth in total interest income. In 2013, total interest income of Senkadagala Finance is Rs. 2,862 million, a growth of Rs. 977 million (52%) crossing Rs. 2 billion threshold compared to Rs. 1,885 million in 2012.

Fee and commission income and other income account for the balance 4% of gross income. In 2012, interest income accounted for 93% and the other income accounted for 7%. Reduction of other income was mainly due to the absence of the IT-related service income earned in the previous year and the reduction of gain from sale of fixed assets which accounted for 37% and 49% of other income respectively last year.

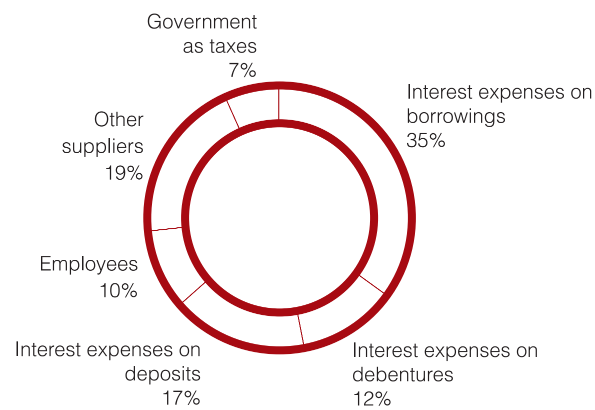
Fee and commission income had a growth of 1%, from Rs. 76 million in 2012 to Rs. 77 million in 2013. Commission on insurance income which was a substantial component of the fee and commission income was transferred to the fully-owned subsidiary of Senkadagala Finance PLC, Senkadagala Insurance Brokers with the expectation of sustaining the customer while providing a full range of services to the customer within the Group. Since commencing operations in January 2013, Senkadagala Insurance Brokers had generated an income of Rs. 5.7 million. This line of income was segregated from the core business of the Company as the management can concentrate on the core business function, while the support services could be developed separately with greater focus by a separate middle level management team.

Income from investment property recorded an increment of 19% in year 2013. As the equity markets continued to decline, the Company could not gain any profits from this line of business, but as the market started to recover in the latter part of the financial year, the fair value of the trading assets increased. As opposed to the loss in fair value recognised in 2012 of Rs. 13.6 million, the Company recorded a gain on fair value of trading assets of Rs. 6.5 million, a growth of 148%.

Interest and Other Expenses

Total expenses of the Company stood at Rs. 2,385 million with an increase of Rs. 800 million, a growth of 50%, compared to Rs. 1,586 million in 2012. Interest expenses accounted for 64% of total expenses as opposed to 53% in 2012. Operating expenses accounted for 29% of total expenses in year 2013, which went up to Rs. 685 million from Rs. 515 million in 2012 recording an increase of 33%.

Distribution of Expenses



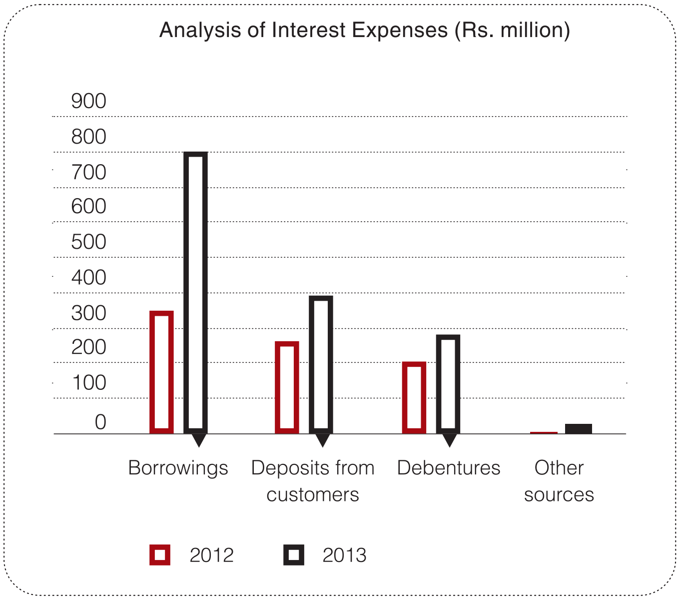
Interest expenses grew from Rs. 841 million in 2012 to Rs. 1,524 million in 2013, a growth of 81%. High interest rates that prevailed in the market was a key contributory factor for this increase. Due to tight market liquidity conditions from the beginning of the financial year the Company was compelled to borrow at comparatively higher rates to meet its increasing funding requirements arising from the expansion of business activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Interest paid on borrowings increased by Rs. 454 million, an increase of 128%. Interest paid on borrowings is the main component of interest expenses and it accounted for 53% of total interest expenses. Over the year, the composition of interest expenses shifted more towards borrowed funds. Last year, the interest expenses on borrowed funds were 42% of interest expenses and it went up to 53% over the year. The composition of borrowed funds favoured more towards floating-rated borrowings, hence the rise of the interest rates affected the cost of borrowing of this component heavily.

Interest paid to depositors in 2013 is Rs. 400 million, an increase of Rs. 132 million (49%) when compared to Rs. 268 million last year. Central Bank of Sri Lanka increasing its policy rates at the beginning of the year was the main reason for this. Company also concentrated on increasing the deposit base, as customer deposits provided a relatively low cost source of funding compared to the funds available in the market. With the increase of interest rates together with increased deposits volumes caused interest on deposits to rise.

Interest paid on debt instruments issued was Rs. 288 million, only 19% of total interest expenses compared to Rs. 214 million, 25% of total interest expenses in 2012. When the value of debt instruments issued increased by 48% over the year, the interest costs thereon increased only by 35% or in absolute terms Rs. 74 million only. This is a good indication of astute management of the funding mix by the Company.



Company also explored new sources of funding. Company issued commercial papers as a result at a comparatively low cost of funding. Interest expense on commercial papers was a mere Rs. 11.4 million, 1% of total interest expenses.

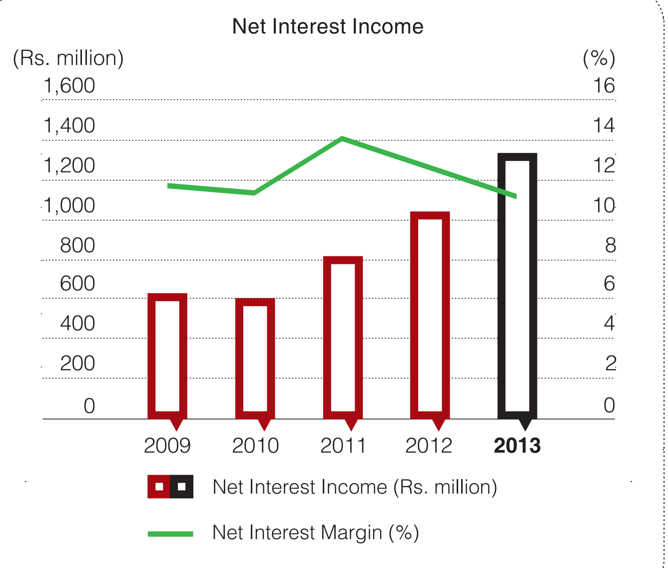
↗ PROFIT AFTER TAX OF RS. 578 MILLION, A 21% GROWTH OVER THE YEAR

MANAGEMENT DISCUSSION AND ANALYSIS

Fees and commission expenses which was previously categorised under operating expenses, was presented separately with the presentation format of SLFRS/LKAS. This category of expense varies in accordance with the operational levels and the efficiency of operations. Fees and commission expenses recorded an increase of Rs. 5 million or 39% compared to last year.

Net Interest Income

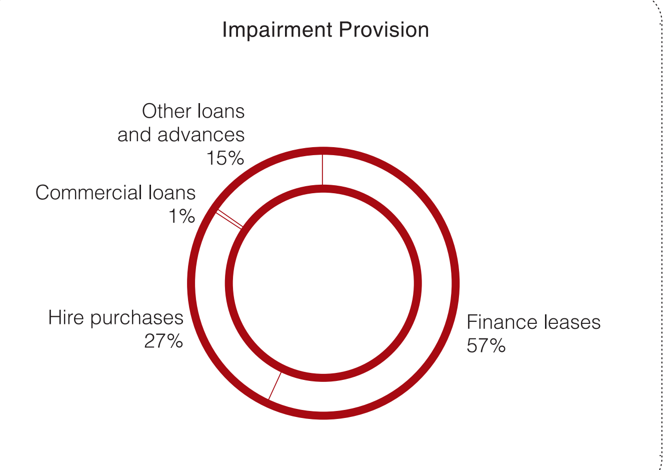
Net interest income recorded an increase of 28% compared to Rs. 1,043 million in 2012 and reached Rs. 1,338 million in 2013. But as indicated above, the net interest margin of the Company declined by 140 bps due to the thinning of margins caused by the high interest rates that prevailed in the market. In 2013, the net interest margin dropped to 11.2% from 12.6% in 2012. However, the net interest margin of 11.2% was well in excess of the industry average of 6.8%.



Impairment and Other Loan Loss Expenses

With the convergence of SLAS to SLFRS/LKAS, the Company changed its provisioning method for bad and doubtful loans and advances. As opposed to the time-based approach of provisioning, the Company adopted the impairment approach. With the time-based approach, specific provisions for loans were made as and when the repayments are in arrears in excess of a certain period of time. But with the impairment method, loans and advances are tested for objective evidence of impairment for individual loans and groups of advances separately. In order to consider a loan individually significant, a threshold was specified by the management. Further criteria were specified to test for any objective evidence of impairment in each loan. Credit evaluation officers were directed to consider the Company's aggregate exposure to individual customer, the ability of the customer to continuously honour the financial obligations to the Company, assess the amounts and timing of possible recoveries when calculating the impairment losses.

Individually significant loans without any objective evidence of impairment and homogeneous groups of loans are collectively impaired. In assessing the collective impairment statistical methods are used. Loans that are categorised into homogeneous groups with similar risk characteristics and analysed according to the number of days in arrears and statistical analysis is used to estimate the likelihood of the loans in each range to 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. Historical loss experience in portfolios of similar credit risk is also taken into consideration when arriving at the impairment loss for loans and advances. An analysis of the time based and the impairment-based approaches to loan losses for the preceding two financial periods is given on page 27.



Further to the impairment provisions, the Company has written off loans of Rs. 3.2 million, which was at the same levels as in previous year. Losses incurred on sale of repossessed assets increased by 35% to Rs. 11 million. The Company managed

MANAGEMENT DISCUSSION AND ANALYSIS

to recover loans to the value of Rs. 46.3 million which were previously written off. These amounts were recovered through legal proceedings. Compared to 2012, these recoveries were 15% or Rs. 6 million more than that of 2012.

	Finance Leases Rs.	Hire Purchases Rs.	Commercial Loans Rs.	Other Loans and Advances Rs.
Time-based specific provision (SLAS)	7,349,700	3,947,259	–	17,254,950
Provision for individual impairment	6,076,133	774,069	–	1,906,394
Provision for collective impairment	89,108,206	44,623,367	1,126,423	23,437,980
Increase/ (decrease)	87,834,639	41,450,177	1,126,423	8,089,424

Personnel and Other Operating Expenses

The Company incurred Rs. 685 million on personnel and other operating costs in 2013, compared to Rs. 515 million in 2012. This is an increase of 33%. In 2013, personnel expenses are Rs. 232 million, an increase of Rs. 46 million from Rs. 186 million in 2012. Staff recruitment for the newly opened branches and the salary increments caused increase in this expense. With the branch expansion, the property, plant and equipment of the Company increased, thereby increasing the depreciation and amortisation expenses by 25% and 28% respectively. Other operational expenses also escalated by Rs. 99 million, an increment of 43% caused mainly due to increased operations and inflationary pressure. Establishment expenses, selling expenses and legal expenses recorded notable growth over the year of 51%, 62% and 57% respectively.

Due to augmented levels of functions and operations of the branches opened during recent periods, the cost to income ratio of the Company increased to 49% in 2013 compared to 46% in 2012.

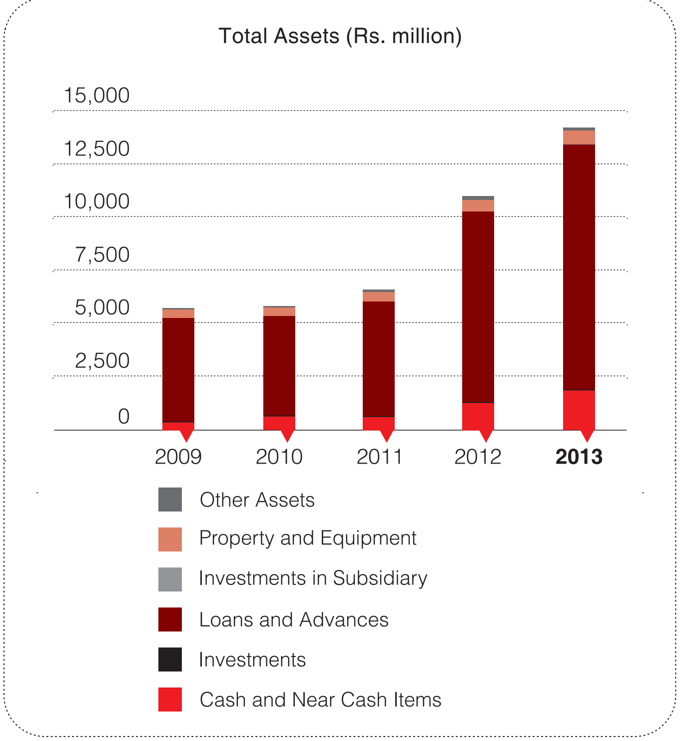
Taxation

The Company paid Rs. 55 million and Rs. 82 million on Value Added Tax on Financial Services and income tax respectively in the current financial year. The noteworthy fact is that despite the growth in pre-tax profits, VAT on Financial Services reduced by 5% and the income taxation reduced by 35%. Elevation of finance lease business in the current period is a key reason for this.

Expansion of the branch network increasing the property, plant and equipment of the Company has reduced the deferred tax charge. The deferred tax charge of Rs. 75 million in 2012 reduced by 73% to Rs. 20 million only.

Assets

Total assets of the Company reached Rs. 14,261 million by 2013, compared to Rs. 11,017 million of last year. It is an increase of 29%. Loans and advances account for 81% of total assets. Crossing the threshold of Rs. 10 billion this year, loans and advances reached Rs. 11,560 million, a notable growth of 29% when compared to Rs. 8,969 million last year. Company also holds short-term investments with licensed commercial banks of Rs. 1,062 million with an increase of 67% as opposed to Rs. 637 million in 2012. Property, plant and equipment and financial assets held to maturity are 4% and 3% of total assets respectively. Cash and cash equivalents held is 2% of total assets, it's Rs. 333 million in 2013. This level of liquidity is maintained in order to facilitate the capital expenditure on extending our branch network while maintaining regulatory requirement levels.



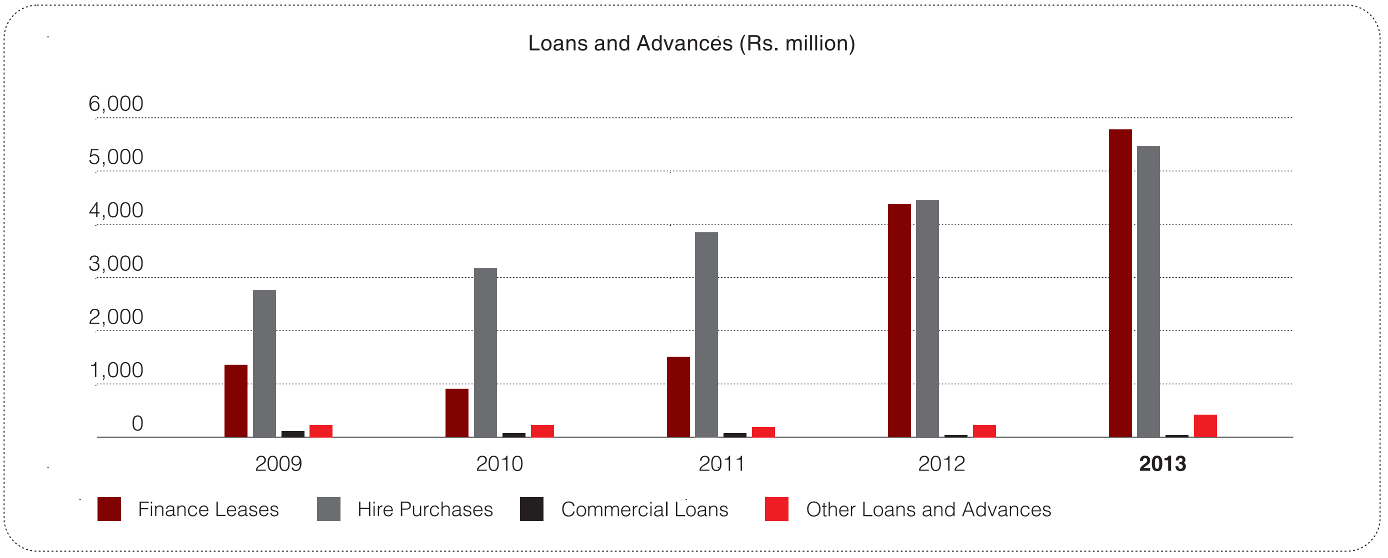
MANAGEMENT DISCUSSION AND ANALYSIS

Liquid Assets

The liquid assets of the Company by the end of the year reached Rs. 333 million compared to Rs. 234 million in the previous year, a growth of 43%. The Company is required to maintain adequate liquid assets at a given time to satisfy regulations imposed by the CBSL, to meet deposit obligations. Cash held in hand had a growth of 61% to Rs. 77 million compared to Rs. 48 million last year. Balances with licensed commercial banks increased by 38% from Rs. 186 million to Rs. 256 million.

Loans and Advances

Despite the economic challenges that prevailed during the year, the loan portfolio of the Company grew by a notable 29%. Against the 14% growth rate achieved by the NBFI sector, our growth is exceptional. Gross loans and advances before impairment was Rs. 11,727 million compared to Rs. 9,142 million of previous year and the growth was Rs. 2,585 million.



Finance lease portfolio grew by 32%, despite the slowdown of the imported vehicle market that prevailed throughout the year. Finance leases at the year end was Rs. 5,802 million. With the industry boom in 2011, the finance lease business of the Company gained momentum. In 2012, we recorded an abnormal growth of 201% compared to 2011 portfolio of Rs. 1,508 million. The return on average finance lease receivable is 23%, an improvement from the 19% yield recorded in 2012. Finance leases account for 49% of our loans and advances portfolio.

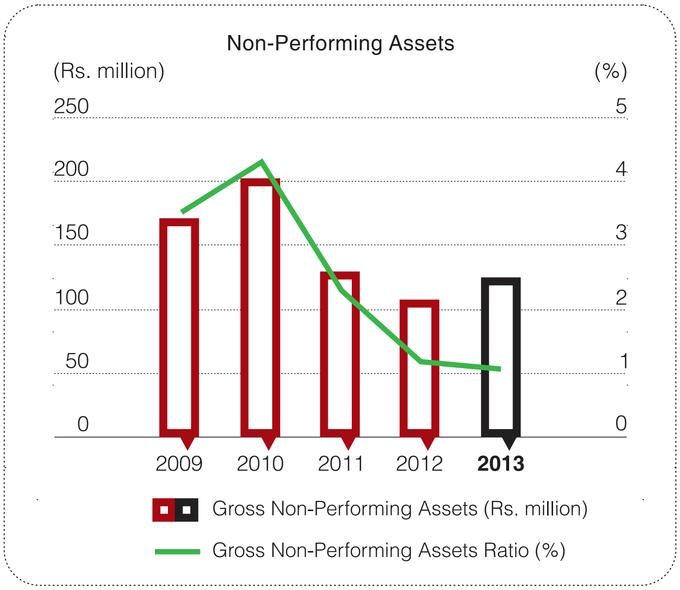
Hire purchase continues to maintain a prominent place in the product portfolio of Senkadagala Finance. In 2013, it is 47% of the total loans and advances. Year on year growth of 24% was recorded in the hire purchase portfolio from Rs. 4,410 million in 2012 to Rs. 5,447 million by the current year-end. The return of average hire purchase advances in 2013 is 25%, which was at the same level as last year.

Commercial and other loans and advances recorded a growth of 31% and 103% respectively. The abnormal growth of other loans and advances was mainly due to 157% growth recorded in the loans against deposits component. While being a low risk form of investment, this loan category realised a return on average loan funds of 15%. Senkadagala Finance was sceptical when entering into the pawning business, but over the year the portfolio recorded a growth of Rs. 69 million from Rs. 1.3 million to Rs. 70.5 million with an average return of 18%. Low exposure to this sector safeguarded the Company from the dramatic fall of gold prices in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

Portfolio Quality

Senkadagala Finance maintains stringent credit screening policies. Staff are regularly trained to ensure effective implementation of these policies. As a result of these measures, the Gross Non-Performing Assets Ratio of the Company came down from 1.18% in 2012 to 1.07% in 2013. Compared to a gross NPA of 5% in the NBFI sector, this is a remarkable achievement. Gross receivable on non-performing assets of the Company were reduced by 60% in the current financial year, as opposed to 21% reduction in 2012.



With the introduction of the new accounting standards, the loans and advances portfolio was tested for impairment. Rs. 16 million worth of receivables were individually impaired. In the absence of any objective evidence, the balance portfolio was categorised into homogeneous groups with similar risk characteristics and was collectively impaired. Total impairment provision for the last year was Rs. 174 million, 1.9% of the total loans and advances portfolio. In 2013, this ratio improved to 1.42% of the total loans and advances.

Other Investments and Assets

The Company has invested Rs. 68 million in trading equity instruments, compared to Rs. 60 million in 2012, an increase of 12%. Due to the sluggish market conditions that prevailed during the year, the Company was unable to gain much capital appreciation from this line of assets.

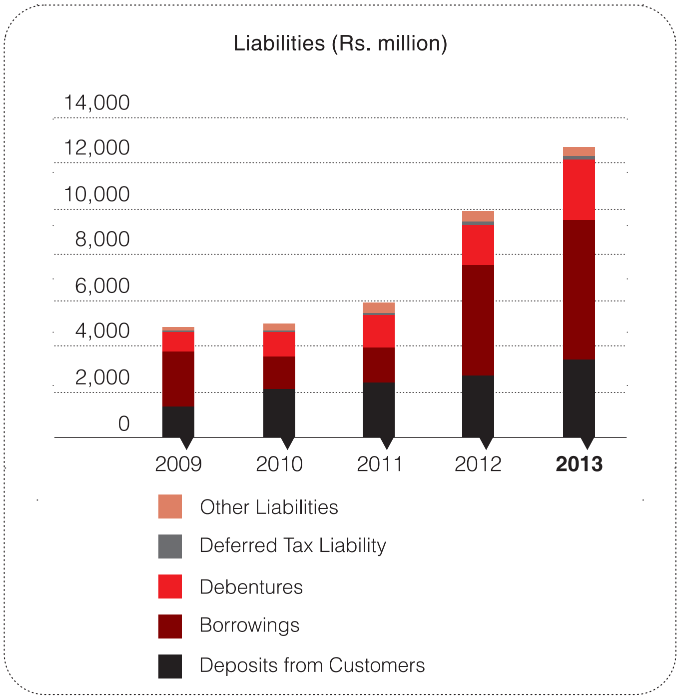
Financial assets held-to-maturity consist mainly of Government Securities held to fulfil regulatory requirements. 28% increase was recorded over the year from Rs. 304 million to Rs. 390 million.

Due to the high rates prevailed in the market, return on these assets improved from 8% in 2012 to 12% in the current financial year. Company invested Rs. 20 million by way of 200,000 shares of Rs. 100/- each in the fully-owned subsidiary incorporated to carry-out insurance broking business. By the end of the year, the investment had a value of Rs. 21 million on the net asset basis.

Over the year due to the branch expansion, the Company increased its property, plant and equipment by 19%, compared to 37% of last year. Property, plant and equipment stands at Rs. 509 million as at 31st March 2013 an increase of Rs. 81 million, compared to Rs. 433 million in 2012. Investment in intangible assets during the year was Rs. 4.6 million compared to Rs. 19 million last year. At the beginning of the branch expansion process, the Company managed to improve the capacity of the information system to cater to the intended level, hence further investment was not required this year.

Liabilities

Year on year growth of liabilities was 28% or Rs. 2,796 million. At the beginning of the year, the total liabilities was Rs. 9,891 million and by the end it was Rs. 12,687 million. Borrowings were the largest item, accounting for 48% thereof. Deposits and debentures are 27% and 21% respectively. Employee benefits were Rs. 34 million, compared to Rs. 31 million in 2012. Deferred tax improved by Rs. 20 million mainly due to the increase in property, plant and equipment of newly opened branches.



MANAGEMENT DISCUSSION AND ANALYSIS

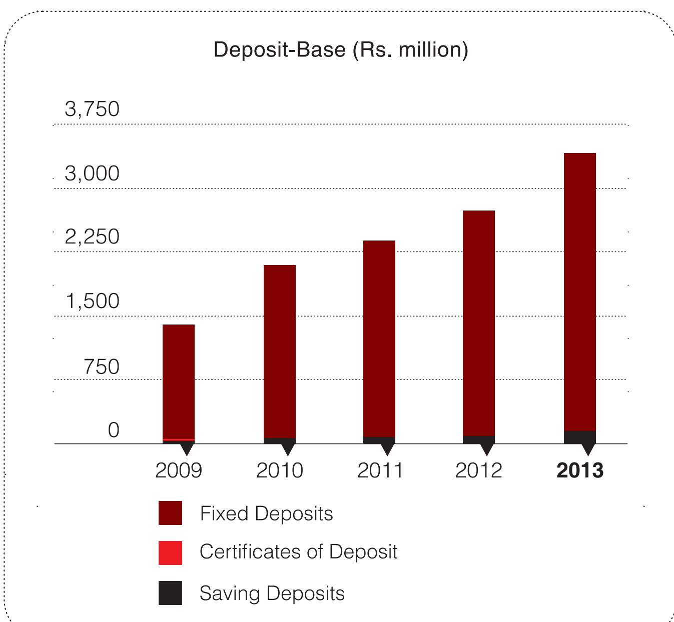
Borrowings

Borrowings rose from Rs. 4,806 million to Rs. 6,136 million, increasing by Rs. 1,330 million or 28% in 2013. Assets securitisation loans are the prominent form of borrowing and there was a 26% increase from Rs. 4,691 million to Rs. 5,916 million in 2013. Rs. 178 million was accrued for the secured borrowings by the end of the year. Compared to Rs. 150 million of 2012, this is an increment of 19%. The Company accrued interest on an effective interest rate basis in order to comply with the new accounting standards.

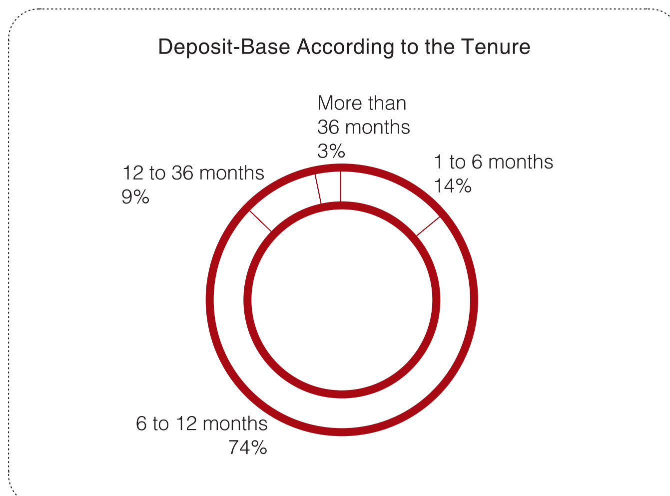
Commercial papers worth Rs. 87 million were issued during the year. This was mainly to obtain funding for a shorter period of time to avoid utilising longer term funding at a comparatively higher costs. Interest rates in the market were very high. With the expectation of market interest rates easing out the Company resorted to short-term funding, thereby avoiding the necessity to get into longer term high cost commitments. This policy has paid off with interest rates starting to gradually decrease by the end of the financial year.

Customer Deposits

Customer deposits grew by 25% or Rs. 680 million over the year from Rs. 2,732 million to Rs. 3,412 million by the end of year 2013. Term deposits and savings deposits account for 95.3% and 4.5% respectively while the certificates of deposit is just 0.1% of the total deposit base.



Being the largest component of the deposit base at the end of the year, term deposits stood at Rs. 3,255 million with a year on year growth of 24% or in absolute terms Rs. 628 million. When analysing the deposit base of the Company, it is evident that deposit holders prefer to invest in short to medium-term deposits. When utilising funds gathered through term deposits, due to their short maturity periods the Company may face maturity mismatches, which is a common business risk faced by the industry. Senkadagala Finance has minimised its utilisation of funding through deposits due to this reason. However, in the previous year, due to the high interest rates that prevailed in the market the Company deviated from its usual practice, taking into account the long-term impact on the profitability. Hence, the comparatively high improvement of 24% in this year compared against 14% last year.



With the introduction of the VISA debit card, savings deposit-base recorded a notable improvement this year of 51%, compared to 21% last year. At the beginning of the year, Rs. 102 million was recorded as savings deposit liabilities and it increased to Rs. 154 million by the year-end.

Debt Instruments Issued

As a further measure of shielding the Company against the rising interest rates, debt instruments were issued, which were ideally priced to maintain the expected levels of interest margins. During the year, the Company issued unlisted secured debentures worth of Rs. 735 million and unlisted and unsecured debentures worth of Rs. 481 million. Rs. 110 million worth of guaranteed debentures were settled during the year. Year on year growth in debentures was 48% and compared to previous year's growth of 26%. It is a notable increase.

MANAGEMENT DISCUSSION AND ANALYSIS

Shareholders' Funds

Equity capital of the Company increased by Rs. 447 million (40%) compared to Rs. 1,127 million in the previous year which reached Rs. 1,574 million in 2013. The share capital consisted of 53,368,000 ordinary shares. Rs. 35 million of earnings after tax was transferred to the Reserve Fund maintained in compliance with Direction No. 1 of 2003 of Central Bank of Sri Lanka (Capital Funds), a growth of 27%. Retained earnings had a growth of Rs. 355 million as capitalisation of undistributed earnings, a growth of 97% compared to Rs. 366 million in 2012 to Rs. 721 million this year. Growth of 40% in shareholders' funds in 2013 was marginally lower than the 54% growth recorded last year. 70% of the earnings for the year were reinvested in the Company for future growth and expansion.

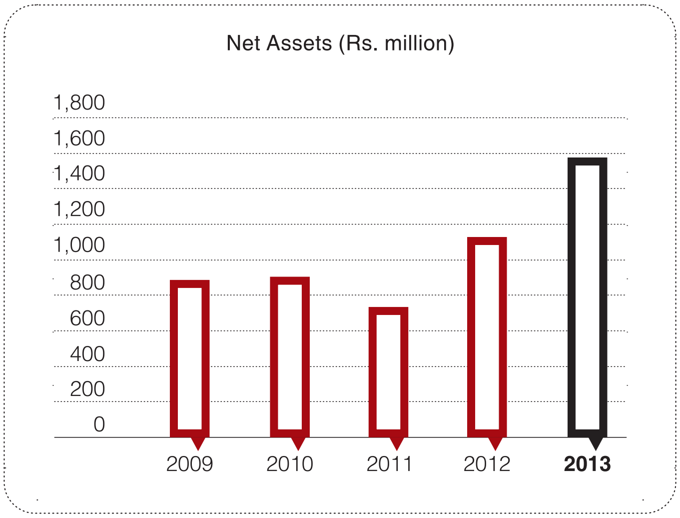
Basic earnings per share of the Company is Rs. 10.83, compared to Rs. 8.93 last year, a growth of 21%.

Dividends

Dividends per share for the year 2013 stood at Rs. 2.04, compared to the Rs. 2.38 of 2012. In actual terms, the Company paid dividends of Rs. 133 million as opposed to Rs. 81 million paid last year. The Company paid 30% of its earnings as dividends amongst its shareholders.

Net Assets Per Share

Net assets per share of the Company experienced a growth of 40% compared to 54% of last year, from Rs. 21.11 per share to Rs. 29.49 per share.



Cash Flow

Compared to the net cash outflow of Rs. 112 million in 2012, a net cash inflow of Rs. 31 million, a growth of 134% was recorded. Hence, cash and cash equivalents at the end of the year recorded an increase of 15%. Operating cash flows of the Company showed a notable growth of 48% compared to a net cash outflow of Rs. 3,423 million in the previous year, to a net outflow of Rs. 1,771 million in 2013. The outstanding 50% growth of net interest and commission receipts was the main reason for this improvement. In absolute terms, it was Rs. 1,652 million. Growth of net deposits from customers was 97%, from Rs. 345 million to Rs. 680 million, and that too contributed to the improvement of the operating cash flows.

Due to the improvement in the operating cash flows, the Company managed to minimise its cash flows from financing activities to Rs. 1,997 million this year compared to Rs. 3,509 million in the previous year, a reduction of 43%. A notable fact is that cash generated through borrowings experienced a decline of 19% or Rs. 865 million while the cash generated through debenture experienced an increase of 124%, from Rs. 565 million in 2012 to Rs. 1,264 million in 2013.

Net cash used in investing activities did not show any extraordinary changes, compared to the previous year. Funds to the value of Rs. 3 million were further allocated for investments. Capital expenditure incurred decreased by 2% over the year, primarily due to the number of new outlets opened being 7 only as opposed to 15 opened in 2012. Due to the adverse economic conditions that prevailed, the Company eased the aggressive expansion process, in order to maintain the profitability of the Company at a healthy level.

Liqu

* Our healthy Liquid Assets Ratio is testament to the prudence and aversion to over expansion that have been guiding principles of the Company from inception.

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CORPORATE GOVERNANCE

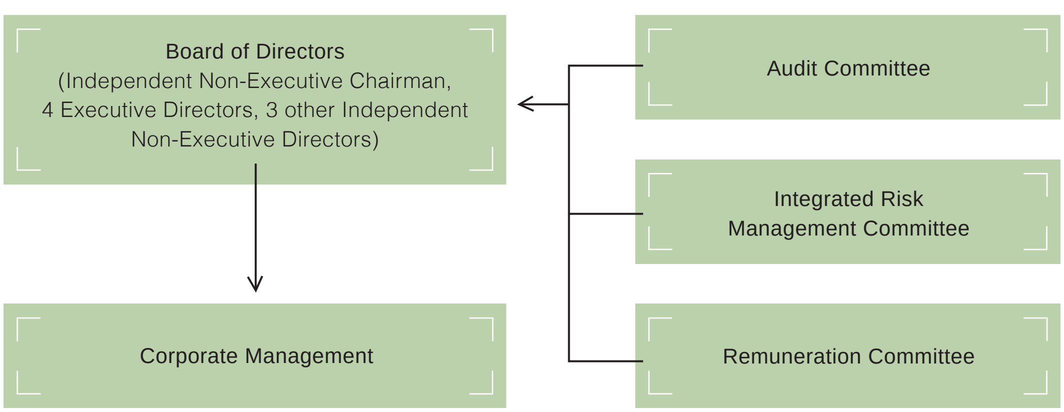
The concept of corporate governance has been defined as a system by which companies are directed, managed and controlled. Effective, transparent and accountable governance of affairs of the Company by its management, including the conduct of the Board, ensures good corporate governance. Moreover, governance of financial institutions should aim at protecting the interests of all stakeholders such as shareholders, creditors, regulators, depositors and the general public.

We, at Senkadagala Finance PLC, place a strong emphasis on adopting and implementing sound principles and practices of good corporate governance. The Company's policy of employing principles and practices of good governance ensures that its affairs are conducted in an effective and transparent manner and is well communicated to all its branches, service centres and departments within the organisation.

The Company, during the year, has committed to comply with all corporate governance requirements including the following:

- The Direction on Corporate Governance for Registered Finance Companies issued by the Central Bank of Sri Lanka (CBSL) under Direction No. 03 of 2008 and amendments thereto which is effective from 1st January 2009.
- The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE).
- The Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission (CSE) of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (ICASL).

Corporate Governance Structure of the Company



CORPORATE GOVERNANCE

Finance Companies Direction No. 03 of 2008 (and Subsequent Amendments thereto) on Corporate Governance for Registered Finance Companies in Sri Lanka

This Direction which comprises of ten fundamental principles, namely the responsibilities of the Board of Directors, meetings of the Board, composition of the Board, criteria to assess the fitness and propriety of Directors, delegation of functions, the Chairman and the Chief Executive Officer, Board appointed committees, related party transactions and disclosures. The established structures in place and the conformance to the requirements are tabulated below under each fundamental principle:

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
2. The Responsibilities of the Board of Directors			
2(1)	Strengthening the safety and soundness of the finance company	Complied	The Board is responsible for overseeing the strategic direction, ensuring adequacy of risk management procedures, maintaining effective communication with all stakeholders, reviewing internal control systems and management information systems for their effectiveness, identifying and defining responsibilities of Key Management Personnel including succession planning, understanding the regulatory environment and exercising due diligence in hiring and oversight of External Auditors.
2(2)	Chairman and CEO	Complied	The functions and the responsibilities of the Chairman and the CEO have been in line with Section 7 of the Direction.
2(3)	Independent advice	Complied	Directors could obtain independent professional advice as and when required at the Company's expense.
2(4)	Voting for resolutions in matters of interests	Complied	No such incidents arose during the year and procedures are in place to avoid conflicts of interest.
2(5)	Formal schedule of matters	Complied	The Board ensures Direction and the control of the Finance Company is under its authority through decisions made by way of a formal schedule of matters reserved for the Board.
2(6)	Situation of insolvency	Complied	None.
2(7)	Corporate Governance report	Complied	This report satisfies the stipulated requirement.
3. Meetings of the Board			
3(1)	No. of meetings	Complied	Please refer table of Directors' attendance for Board meetings given later in this section.
3(2)	Inclusion of proposals by all Directors in the agenda	Complied	All Directors are able to submit proposals for discussion on matters pertaining to promotion of business and risk management of the Company.
3(3)	Notice of meetings	Complied	Directors are given adequate time and a minimum notice period of seven days for all Board meetings.
3(4)	Attendance of Directors	Complied	All Directors have attended Board meetings as stipulated by the direction.
3(5)	Board Secretary	Complied	The Board Secretary has been appointed by the Board to handle secretarial services of the Board and other functions specified by the statutes.
3(6)	Agenda for Board meetings	Complied	Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman.
3(7)	Access to the Board Secretary	Complied	All Directors have the opportunity to obtain the advice and services of the Board Secretary without any restrictions.
3(8)	Minutes of Board meetings	Complied	Minutes of the Board meetings are maintained by the Secretary and are made available to the Directors at any time.
3(9)	Details of minutes	Complied	Minutes of the Board meetings are maintained in sufficient detail by the Secretary.

CORPORATE GOVERNANCE

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
4. Composition of the Board			
4(1)	Number of Directors	Complied	There were eight Directors in the Board as at the end of the year.
4(2)	Period of service of a Director	Complied	Period of service of Non-Executive Directors has not exceeded nine years.
4(3)	Appointment of an employee as a Director	Complied	No employee of the Company was appointed to the Board during the year.
4(4)	Number of Independent Non-Executive Directors	Complied	As at the end of the financial year, out of the eight Directors, four were Independent Non-Executive Directors.
4(5)	Alternate Director	Complied	None.
4(6)	Skills and experience of Non-Executive Directors	Complied	The details are set out on pages 40 - 41 of this Report.
4(7)	Meetings without Non-Executive Directors	Complied	None.
4(8)	Directors' information	Complied	The details are set out on pages 40 - 41 of this Report.
4(9)	Appointment of new Directors	Complied	A formal and transparent procedure is in place for appointment of new Directors to the Board.
4(10)	Filling a casual vacancy of a Director	Complied	None.
4(11)	Resignation/Removal of a Director	Complied	None.
5. Criteria to Assess the Fitness and Propriety of Directors			
5(1)	Directors over 70 years of age	Complied	Mr. C. L. De Alwis, Chairman of the Company who reached the age of 70-years resigned the Board with effect from 5th June 2013.
5(2)	Holding of office in companies	Complied	Holding of office by Directors of Senkadagala Finance PLC has been in accordance with corporate governance requirements.
6. Delegation of Functions			
6(1)	Delegating work	Complied	The Board ensures delegation of authority at various levels does not hinder or reduce its ability as a whole to discharge its functions.
6(2)	Reviewing of delegation process	Complied	Delegation of authority is reviewed by the Board as and when necessary.
7. The Chairman and the Chief Executive Officer			
7(1)	Roles of Chairman and the CEO	Complied	The roles of Chairman and CEO are segregated and are not performed by the same person.
7(2)	Chairman is an Independent Non-Executive Director, if not appointing a Senior Director	Complied	The Chairman of Senkadagala Finance PLC is an Independent Non-Executive Director.
7(3)	Relationship between Chairman and CEO and other Directors	Complied	There are no material relationships between the Chairman and CEO and other members of the Board which impair their respective roles and functions as members of the Board.

CORPORATE GOVERNANCE

CBSL Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
7(4)-7(11)	Role of the Chairman	Complied	Chairman provides leadership to the Board and ensures the Board works effectively and discharges its responsibilities. He also ensures that all key issues are discussed by the Board in a timely manner. Board Secretary prepares the agenda for Board meetings under direct supervision of the Chairman. All Directors are informed adequately and in a timely manner of the issues arising at each Board meeting. Chairman ensures full and active contribution of all members of the Board and also ensures the Board acts in the best interests of the Company. Chairman does not engage in activities involving direct supervision of Key Management Personnel.
8. Board Appointed Committees			
8(1)	Board Committees	Complied	There were three Board appointed subcommittees as at year-end, namely: the Audit Committee, Integrated Risk Management Committee and Remuneration Committee. A Secretary has been appointed to maintain minutes and carry-out other secretarial functions for such committees during the financial year.
8(2)	Audit Committee	Complied	The details of the Audit Committee are set out in the Audit Committee report on page 44.
8(3)	Integrated Risk Management Committee	Complied	All key business risks are addressed and assessed on a continuous basis by the top management through the monthly Exco meetings of the Company. It has been considered and constituted as formal Integrated Risk Management Committee towards the latter part of the financial year.
9. Related Party Transactions			
9(2)	Avoiding conflict of interest in related party transactions and favourable treatments	Complied	There were no such transactions reported during the year. The Board has taken steps to avoid conflict of interest due to related party transactions as well as favourable treatment to related parties.
10. Disclosures			
10(2)	Disclosures in the Annual Report	Complied	a. A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures are given on pages 68 to 73. b. Details of the Directors are given on pages 40 and 41. c. Fees and remuneration paid by the Company to the Directors in aggregate is given on page 69. d. There were no accommodations granted to the Directors during the year. e. The details relating to accommodations and transactions with the finance company by the Key Management Personnel are set out on page 116. f. There were no incidents of non-compliances to prudential requirements, regulations, laws and internal controls. g. There were no regulatory and supervisory concerns on lapses of the Company's risk management, non-compliance with the Act, and Rules and Directions that have been communicated by the Director of NBFI and directed by the Monetary Board to be disclosed to the public.

CORPORATE GOVERNANCE

The Continuing Listing Requirements, Section 7.10 on Corporate Governance for Listed Companies issued by the Colombo Stock Exchange (CSE)

Section 7.10 of the CSE Listing Rules requires a listed entity to publish in the Annual Report relating to the financial year commencing on or after 1st April 2007 a statement confirming that as at the date of the Annual Report they are in compliance with the Corporate Governance Rules and if they are unable to confirm compliance, set out the reasons for its inability to comply. The rule addresses the areas such as Non-Executive Directors, Independent Directors, Disclosures Relating to Directors, Criteria for defining independence, Remuneration and Audit Committees. Following table depicts the level of compliance of the Company under each area:

CSE Rule	Corporate Governance Principle	Compliance Status	Level of Compliance
7.10.1	Non-Executive Directors	Complied	There were four Non-Executive Directors and it was more than one-third of the Board of Directors.
7.10.2	Independent Directors	Complied	All four Non-Executive Directors were Independent Directors as well.
7.10.3	Disclosures relating to Directors	Complied	Annual determinations as to the independence of Directors have been made and disclosed in the Annual Report. (Refer directorship status under Board and committee meetings attendance on pages 39 to 41) Brief résumé of each Director has been set out on pages 40 and 41. Information relating to new appointments to the Board is disclosed to the CSE, when appointments are made to the Board.
7.10.4	Criteria for defining independence	Complied	All criteria given in determining the independence of Directors have been taken into consideration for the determination of independence status of the Company's Independent Directors.
7.10.5	Remuneration Committee	Complied	The Remuneration Committee solely comprises of Independent Non-Executive Directors and the MD/CEO attends the meeting by invitation. The Report of the Remuneration Committee including its policy and scope has been set out on page 48 of this Annual Report.
7.10.6	Audit Committee	Complied	The Audit Committee is comprised of 2 Independent Non-Executive Directors. The Report of the Audit Committee including its composition, policy and scope has been set out on page 44 of this Annual Report.

CORPORATE GOVERNANCE

Board and Committee Meetings - Attendance

Names	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee*	Remuneration Committee
Number of Meetings held		12	03	03	01
Mr. C. L. de Alwis	Chairman Independent Non-Executive Director	12	03	–	01
Mr. L. Balasuriya	Managing Director/Chief Executive Officer Executive Director	12	03	03	01
Dr. A. Balasuriya	Director - Operations Executive Director	10	–	–	–
Dr. M. Balasuriya	Director - Planning Executive Director	12	–	–	–
Mrs. L. Fernando	Director - Human Resources Executive Director	09	02	–	–
Mr. W. A. T. Fernando	Independent Non-Executive Director	11	03	–	–
Mr. S. Kulatunga	Independent Non-Executive Director	12	01	–	–
Dr. P. Ramanujam	Independent Non-Executive Director	12	–	–	01

** Attendance of Key Management Personnel.*

CORPORATE GOVERNANCE

Profiles of the Board of Directors

Mr. Chandra Lal de Alwis

B.B.M.

(Chairman) *(Resigned with effect from 5th June 2013)*

Mr. Chandra Lal de Alwis obtained his Bachelor's Degree in Business Management from NIBM Sri Lanka. In June 1986, he was appointed as a Director in Chemanex Ltd. and later he became the Company's CEO/Managing Director. He was also the Chairman of its three subsidiaries; Chemanex Adhesives Ltd., Chemanex Exports and Yasui Gloves (Pvt) Ltd. He retired from these positions in September 2010 and is currently serving as a Director on the Boards of Ceylon Tapes (Pvt) Ltd., Link Natural Products (Pvt) Ltd. and Laughs Gas PLC.

In 1994, he was appointed the General Secretary of Japan Sri Lanka Technical and Cultural Association (JASTECA). Mr. de Alwis has chaired several world conferences of Association for Overseas Technical Scholarship (AOTS) and also was the Chairman of the Organising Committee of the AOTS World Conference held in Sri Lanka in October 2002. Currently, he is the Vice-Patron of JASTECA and Chairman of the World Network of Friendship (WNF) Committee of AOTS.

Mr. de Alwis is the General Secretary of the Sasakawa Trust in Sri Lanka and is currently the Chairman of the Joint Chambers Business Forum and Senior Deputy President of Sri Lanka-China Business Co-operation Council. He is also a member of the Presidential Commission on Tertiary and Vocational Education and a Board member of the University of Vocational Training and Technology.

Mr. Lakshman Balasuriya

BSc (Lond.), PhD (Lond.)

(MD/CEO)

Mr. Lakshman Balasuriya is a Director of Senkadagala Hotels Ltd., E.W. Balasuriya & Co. (Pvt) Ltd. and Thompsons Beach Hotels Ltd. He holds a BSc (Lond.) and MSc (Lancaster), and has over 32 years of experience in finance, hotels and other commercial fields. He is the Managing Director and Chief Executive Officer of Senkadagala Finance PLC.

Dr. Asoka Balasuriya

BSc (Lond.), PhD (Lond.)

(Director)

Dr. Balasuriya holds a BSc (Lond.) and a PhD (Lond.) and has over 30 years of experience in the field of gem and jewellery. He is also a Director of Senkadagala Hotels Ltd., Thompsons Beach Hotels Ltd. and is the Chairman of E.W. Balasuriya & Co. (Pvt) Ltd.

Ms. Lakshmi Fernando

BSc (Hons.)

(Director)

Ms. Fernando holds a BSc (Hons.) and has over 17 years of experience in the field of finance as well as in hotel management. She is a Director of Thompsons Beach Hotels Ltd., Senkadagala Hotels Ltd. and E.W. Balasuriya & Co. (Pvt) Ltd.

Dr. Mahendra Balasuriya

BVSc

(Director)

Dr. Balasuriya is a Director of Senkadagala Hotels Ltd., E.W. Balasuriya & Co. (Pvt) Ltd. and Thompsons Beach Hotels Ltd. He holds a Bachelor's Degree in Veterinary Science and has over 27 years of experience in hotels and other related fields.

Mr. Widanalage Ajith Terence Fernando

FCMA, MA (Colombo)

(Director)

Mr. Fernando is a Fellow of the Chartered Institute of Management Accountants of the United Kingdom (FCMA) and has a MA in Financial Economics from the University of Colombo.

He counts over 20 years experience in capital markets of Sri Lanka. In the year 2000, he founded Capital Alliance in partnership with Asia Capital Ltd. Currently, he is the Group CEO of the Capital Alliance Group which includes Capital Alliance Holdings Ltd., Capital Alliance Ltd. (a primary dealer for Government Securities, appointed by the Central Bank of Sri Lanka), Capital Alliance Securities (Pvt) Ltd. which is a trading member of the Colombo Stock Exchange and Capital Alliance Finance PLC.

In addition, he serves on the boards of many private companies including ADZ Insurance Brokers (Pvt) Ltd., Ashthi Holdings (Pvt) Ltd., Ceylon Tea Brokers PLC, Shift Solutions (Pvt) Ltd., First Media Solutions (Pvt) Ltd., Colombo Divers (Pvt) Ltd., Zen Capital (Pvt) Ltd. and Trade Finance & Investment Ltd.

He previously served as a Director of Asia Capital Ltd., Vanik Incorporation Ltd. and First Capital Ltd.

CORPORATE GOVERNANCE

Dr. Prathap Ramanujam

BSc (Hons), MSc (UK), PhD (Aus.)
(Director) *(Appointed interim Chairman with effect from 6th June 2013)*

Dr. Ramanujam holds a first class BSc (Hons.) Degree from the University of Peradeniya and a MSc Degree in Economics from the University of Bristol (UK). He obtained his PhD in Economics from the Australian National University, Canberra, Australia.
Dr. Ramanujam retired after 38 years of distinguished service in the Public Sector. He was the Permanent Secretary to several key ministries including Tourism, Livestock Development & Estate Infrastructure, Civil Aviation and Urban Development during the last 14 years of his career in the Public Sector.

Dr. Ramanujam is currently Chairman and CEO of Panasian Power PLC, Chairman and Director of Manelwela Hydropower (Pvt) Ltd., and Padiyapelella Hydropower (Pvt) Ltd. He is also a Director of Panasian Investments (Pvt) Ltd. and a Director in Ceylon Agro Industries Ltd.

Mr. Sanjay Kulatunga

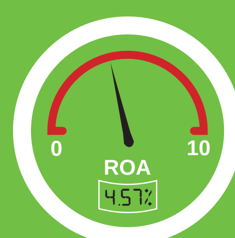
(Non-Executive Independent Director)

Mr. Sanjay Kulatunga has experience as a founder and an Executive Director in a diverse array of industries ranging from Finance, Export Manufacturing and Import Substitution. He holds a series of Non-Executive Directorships in listed as well as unlisted companies.

He also serves on the Financial Sector Stability Consultative Committee of the Central Bank of Sri Lanka.

Mr. Sanjay Kulatunga has an MBA from the University of Chicago ‘Booth School of Business’. He is an Associate Member of the Chartered Institute of Management Accountants (ACMA) as well as a Chartered Financial Analyst (CFA).

Profit



* We pursue profitability to build a sustainable business and to deliver shareholder value and return, thereby building shareholder confidence. Our ROE and ROA are in the 'right territory'.

ability

CORPORATE GOVERNANCE

Report of the Audit Committee

The Audit Committee has been established by the Board of Directors to assist the general oversight of financial reporting, internal controls and functions relating to internal and external audit. The Committee holds the responsibility for overseeing the preparation and presentation of the Company's Financial Statements with adequate disclosures in the Financial Statements in accordance with the Companies Act No. 07 of 2007 and applicable Sri Lanka Financial Reporting Standards. The Committee is also responsible for ensuring the adequacy and efficiency of internal controls adopted by the Company in maintaining accounting records and preparing Financial Statements and making recommendations to the Board of Directors on matters regarding the Internal and External Auditors including their independence, performance, terms of engagement and remuneration.

Composition

The Audit Committee comprised of three Independent Non-Executive Directors. The Chairman of the Audit Committee Mr. W. A. T. Fernando is a Fellow Member of the Chartered Institute of Management Accountants of UK. Mr. C. L. De Alwis - Chairman of the Company (resigned with effect from 5th June 2013 after reaching 70 years of age) and Mr. S. Kulatunga are the other members of the Audit Committee (brief profiles of these Directors have been set out on pages 40 and 41 in this Report).

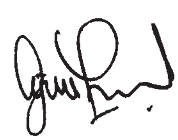
The Managing Director/Chief Executive Officer, the Additional Chief Executive Officer, the Assistant General Manager - Accounts, the Senior Financial Officer, Internal Auditor, representatives of the Internal Auditors and External Auditors attend Audit Committee meetings by invitation to brief the committee on specific issues. Other senior managers of the Company also attend whenever their presence is requested.

Policy and Scope

The Committee discharged its responsibilities through a series of meetings during the year. At these meetings, the committee reviewed the reports of the Internal Auditors and of the External Auditors of the Company and interim and final Financial Statements of the Company ensuring their compliance with statutory and other requirements. Number of meetings and attendance by the committee members at each of those meetings are given in the table on page 39 of this Annual Report.

The committee has reviewed the independence, objectivity and performance of the internal audit function and the adequacy of its resources. The findings of internal audits, their evaluation of Company's internal control systems, and level of risks pertaining to those findings, effectiveness of implementation of audit recommendations are being thoroughly discussed at the meetings and accordingly advised the Board on matters of high significance.

The Audit Committee has undertaken the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.



Mr. W. A. T. Fernando
Chairman

6th June 2013

CORPORATE GOVERNANCE

Report of the Integrated Risk Management Committee

The Integrated Risk Management Committee was formed in order to assess the overall risk faced by the Company mainly credit, market, liquidity, operational, strategy and other statutory and regulatory risks.

Composition

The Integrated Risk Management Committee comprised of following Directors:

- Mrs. L. Fernando - Executive Director - Chairman of the Committee
- Mr. C. L. de Alwis - Independent Non-Executive Director (Resigned with effect from 5th June 2013)
- Mr. W. A. T. Fernando - Independent Non-Executive Director
- Mr. L. Balasuriya - Executive Director, CEO/Managing Director

Senior Management representatives who attend the meetings are:

- Mr. S. D. Bandaranayake - Additional CEO
- Mr. P. Ikiriwatte - Deputy CEO
- Mr. J. Jayatilake - GM - Operations
- Mr. Timothy De Silva - DGM - IT
- Mr. T. K. Aturupana - AGM - Accounts
- Mr. K. Rajapakshe - Senior Financial Officer
- Mr. S. Supramaniam - Manager - Treasury
- Mr. R. Fernando - Senior Manager - Personnel and Administration
- Mr. Nihal Karunaratne - Chief Manager - Legal/Customer Services
- Mr. N. Rasingolla - Senior Manager - IT
- Mr. L. Perera - Manager - Foreign Currency

Policy and Scope

The Committee meets on a regular basis and minutes are maintained to ensure timely and adequate follow up/remedial actions are taken to address the areas of high significance. The policies and the scope of activities of the Committee are as follows:

- Assessing all risks, including credit, market, liquidity, operational and strategic risks on a continuous basis using specific risk indicators through Company's reporting systems.
- Ensuring the level of current risks of the Company is within the prudent levels acceptable to the management based on the Company's risk appetite and the regulatory and supervisory requirements.
- Taking appropriate remedial actions to mitigate the effects of specific risks in case such risks are beyond the prudent and acceptable levels on the basis of the Company's policies, procedures and regulatory requirements.
- Review of the portfolio on a business line basis such as product, sector, trends, etc.
- Review of the performance branch-wise, district-wise and region-wise in evaluating the branch expansion criteria.
- Reviewing any compliance-related matters with local laws and regulations, etc.

Ms. L. Fernando
Chairman

6th June 2013

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* We maintain healthy Capital Adequacy Ratios that speak volumes for the stability of the Company.

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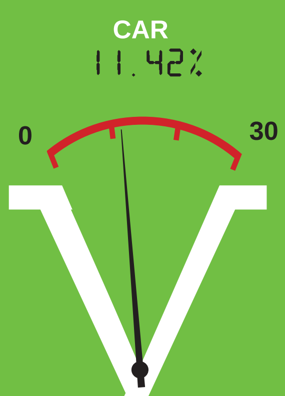


CORPORATE GOVERNANCE

Report of the Remuneration Committee

The Remuneration Committee has been set up to determine the human resources and remuneration policies relating to Directors, the CEO/Managing Director and other Key Management Personnel of the Company.

Composition

- Mr. C. L. de Alwis - Independent Non-Executive Director - Chairman of the Company
  (Resigned with effect from 5th June 2013)
- Dr. P. Ramanujam - Independent Non-Executive Director - Chairman of the Remuneration Committee
- Mr. L. Balasuriya - Managing Director/Chief Executive Officer, attends meetings of the Remuneration Committee by invitation.

Brief profiles of the members of the committee are set out on pages 40 and 41 of this Annual Report.

Policy and Scope

The Company's remuneration policy aims to attract, motivate and retain talent in a highly competitive environment with the appropriate professional, managerial and operational expertise necessary to achieve the objectives of the Company. The Company's remuneration framework for the CEO/Managing Director and the corporate management team is designed to create and enhance value for all stakeholders of the Company and to ensure alignment between short- and long-term interests of the Company.

The Committee reviews all significant human resource policies and initiatives, salary structures and terms and conditions relating to staff at senior executive level. The Committee deliberates upon and recommends to the Board of Directors the remuneration packages, annual increments and bonuses of the Managing Director, members of the corporate management team and senior staff.

Fees

All Non-Executive Directors receive a fee for attendance at Board meetings and for serving on subcommittees.

Committee Meetings

Number of meetings and attendance of the members of such meetings are set out on page 39 of this Annual Report.

Access to Professional Advice

The Committee is authorised to seek external professional advice as and when it deems it is necessary.

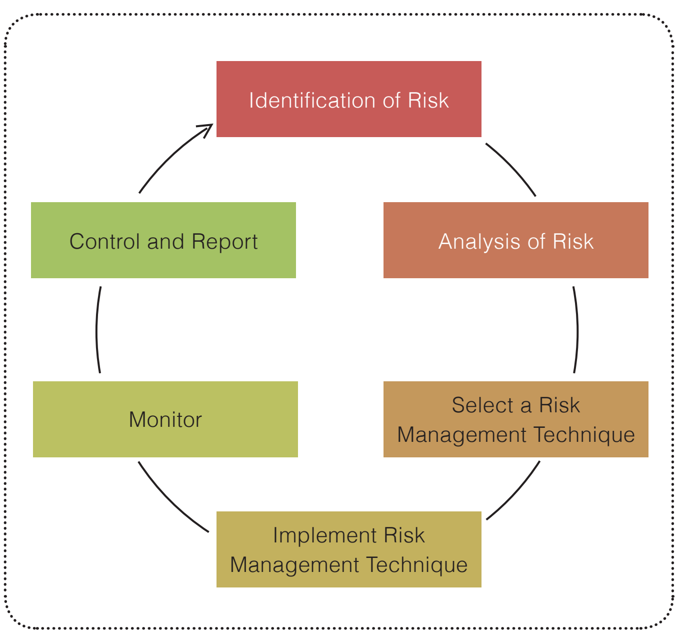
Dr. P. Ramanujam
Chairman
Remuneration Committee

6th June 2013

RISK MANAGEMENT

Risk is an integral component of any business. The success of an organisation is determined by the effectiveness of the risk management mechanism, including identification and management of different risk categories. Risk management should be formulated to avoid and control adversities of risk while exploiting opportunities within. Identification and mitigation of risks is a key element in increasing organisational performance, achieving formulated objectives and enhancing shareholder wealth. Accordingly, the purpose of risk management is to effectively identify measures and handle risks, formulate necessary internal controls and prepare adequate reports to ascertain the extent of risks and compensate with adequate returns. The Company's risk management strategy is based on clear understanding of various risks, effective risk assessment and measurement and continuous monitoring and control mechanisms.

The Company has established a mechanism, to facilitate an ongoing assessment of relevant types of risks individually and on the overall risk position of the organisation. At Senkadagala Finance PLC, the Board of Directors approves the Integrated Risk Management Policy, which sets the objectives, principles, processes and responsibilities for risk management within the Company. The Policy sets guidelines for defining, quantifying, monitoring and reporting risks. The Integrated Risk Management Committee, which is a subcommittee of the Board, is responsible for reviewing the effectiveness of risk controls and procedures including identification, assessment and reporting of risks and the risk governance structure and compliance with risk control policies, procedures and regulations.

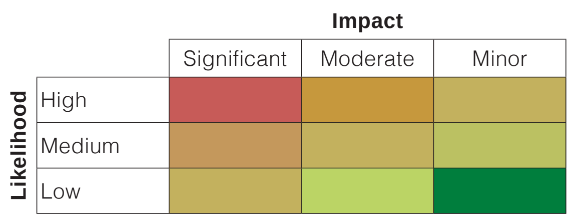


The Committee comprising of two Non-Executive Directors, Chief Executive Officer and senior level staff members meet regularly to review the integrity and adequacy of the risk management function of the Company. The Committee also ensures risk exposures and risk profiles of the Company are within acceptable parameters and makes recommendations to the Board on any action required. Further, the Committee ensures Company's operations are compliant with relevant laws, regulations and standards. The Committee also reviews specific reports on internal controls and risk management to ensure clear risk parameters are set. This enables proactive identification and mitigation of risks to maximise effectiveness of risk management and internal controls of the Company.

The Audit Committee contributes to the risk management mechanism of the organisation. The Committee comprises of three Non-Executive Directors, CEO by invitation, other senior staff members and representatives from external and internal audit firms. The Committee is responsible for facilitating adequate disclosure in Financial Statements and ensuring the effectiveness of internal controls. Adequacy of internal controls, effective implementation and success in controlling intended risk is regularly reviewed with the support of the Internal Auditors. Control actions are taken to strengthen internal controls of the Company while necessary records are kept to improve future control formulation mechanisms. We at Senkadagala Finance believe that foreseeing risks and proactively controlling them is an effective method of risk management, which is embedded in our culture with management being trained to achieve this objective. This in turn helps to maximise stakeholder wealth.

RISK MANAGEMENT

Continuous risk management process coupled with our strong risk culture has enabled us to devise a mechanism to identify potential risks not only at strategic level but also at operational level. These are communicated effectively and are dealt with promptly to maximise shareholder wealth. At the point of identification, risks are analysed for significance of impact and the probability of occurrence, and are rated accordingly while remedial actions are taken.



Central Bank of Sri Lanka (CBSL), the supervision body for licensed finance companies has stipulated a set of rules, regulations and directions to curb any unforeseen impacts to the industry. We at all times adhere to these regulations and ensure that adequate resources are maintained to facilitate compliance when required.

Deposit insurance scheme is one such regulatory requirement laid down by the CBSL, under Finance Companies (insurance of deposit liabilities) Direction No. 2 of 2010 effective from 1st October 2010. This was issued in order to promote effective risk management by finance companies. This insurance scheme is expected to act as a safety net that protects depositors' interest while promoting public confidence and stability of registered finance companies. Accordingly, we have insured our deposit base in the deposit insurance scheme implemented by the Monetary Board of Sri Lanka. Senkadagala Finance pays an annual insurance premium of 0.15% on the total of eligible public deposits monthly. We comply with this direction by timely contributions.

We are primarily exposed to strategic risk, credit risk, market risk, liquidity risk, operational risk and regulatory risk.

Strategic Risk

Strategic risk is the inability of the Company to achieve its set targets and objectives in the face of unfavourable environmental changes. These changes could be internal to the organisation as well as external. Likelihood of occurrence of such incidence is low but the financial and other impacts of these incidents could be moderate. We take due measures to minimise occurrence of these types of events by taking due consideration when making strategic decisions, conducting thorough evaluations prior to implementation of intended strategies such as moving to new geographical segments or entering new business segments. Mechanisms have been laid to regularly report any deviations from actual results while regular discussions are held at implementation stage to ensure effective execution of strategies.

Following are certain strategic risks faced by the Company:

Major forms of Strategic Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation method at Senkadagala Finance PLC
Entry of new competitors	Loss of market share	Moves to acquire a cost advantage through superior technology and knowledge capital
Entry of substitute products	Reduction of margins due to price competition	Branch expansion at strategic locations to reach new market segments and as a pre-emptive measure
Strategic moves by the competitors	Loss of cost advantages. Increase in costs due to compulsion to offer other concessions and complements	Emphasis on service excellence as a marketing tool
Changes in the customers preferences	Possibility of certain branches failing to breakeven	Development of skills and customer focus at all levels of staff through regular training
Failure to achieve strategic objectives	Failure to meet shareholder expectations	Diversification of sources of funds and sources of income

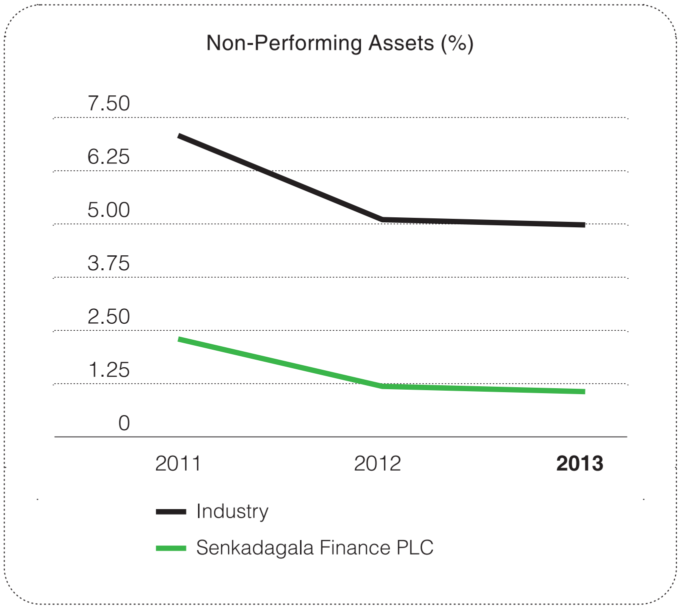
RISK MANAGEMENT

Credit Risk

Credit risk is the risk when a borrower is unable to meet its financial obligations to the lender leading to financial losses. While the likelihood of such occurrences remain medium, the significance of impact changes in relation to the credit exposure. We take proactive measures in managing credit risk, by establishing robust policies for credit appraisal and training our staff regularly on credit evaluation of prospective clients. Our advanced information technology system helps us to centralise control of credit evaluation, while preserving the segregated interest of each customer.

We manage high-risk sectors through sector restrictions that require prior high-level clearance before taking on new exposures even for small amounts. We maintain good relationships with customers with high credit exposures to ensure prompt recovery. Once credit facilities are funded, they are continually monitored to identify changes in risk profiles. Further, sourcing and approval of clients are segregated to achieve independence and promote customer relations at branch level.

Recovery and Non-Performomg Assets (NPA) management are also given greater emphasis and are monitored thoroughly. Control mechanisms are adopted to maintain Non-Performing (NP) advances at moderate levels. Recovery process is decentralised to ensure effective evaluation and higher collections. Irregular contracts are closely monitored by dedicated recovery staff to avoid non-performance. The effectiveness of this system is affirmed by our recovery ratios which were continuously maintained above 93%, and as at 31st March 2013 the ratio stood at 94.92%. Maintaining NPA ratio at 1.07%, which is below the industry average is a notable achievement. This is an improvement of 7% compared to 1.18% as at 31st March 2012, which was amongst the lowest NPA ratios in the industry.



RISK MANAGEMENT

Following table shows certain credit risks faced by Senkadagala Finance, their impact on the Company and the steps taken to mitigate them:

Major Forms of Credit Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation methods at Senkadagala Finance PLC
Non-payment of capital or interest or both	Financial loss to SFC due to non-payment	Credit officers are trained on a regular basis for credit evaluation, documentation as well as obtaining professional valuations. Experienced resource personnel both in-house and from other financial institutions have conducted training sessions to our officers on a regular basis at our training centre situated at our Wattala branch premises.
Insufficient collateral risk	Increase of non-performing loans	Establishing suitable limits for branch managers and borrowers and these limits are regularly monitored. The recovery manager under the supervision of the general manager monitors the recovery aspects of each branch and has an effective early warning system to identify the potential defaulters at the earliest opportunity.
Sector exposure risk	Increase of provision for loan losses	Risk mitigation steps are taken such as collateral
Legal risk	No resale value or lesser market value	Developing of skills and expertise of the lending officers to assess project viability and evaluate customer integrity.
Related party risk		Seeking expert external legal opinion.
Counterparty risk	Down grading of credit rating which has impact on the reputation of the Senkadagala Finance PLC and its borrowing volumes and costs.	Continuous updating of the state of art MIS support system to give early warning signals of potential defaults. Strict adherence to single borrower limits. Interest suspension and provisioning. Regular review of political, economical, social, technological, environmental and legal factors. All internal and external credit practices are well-documented in a comprehensive credit manual.

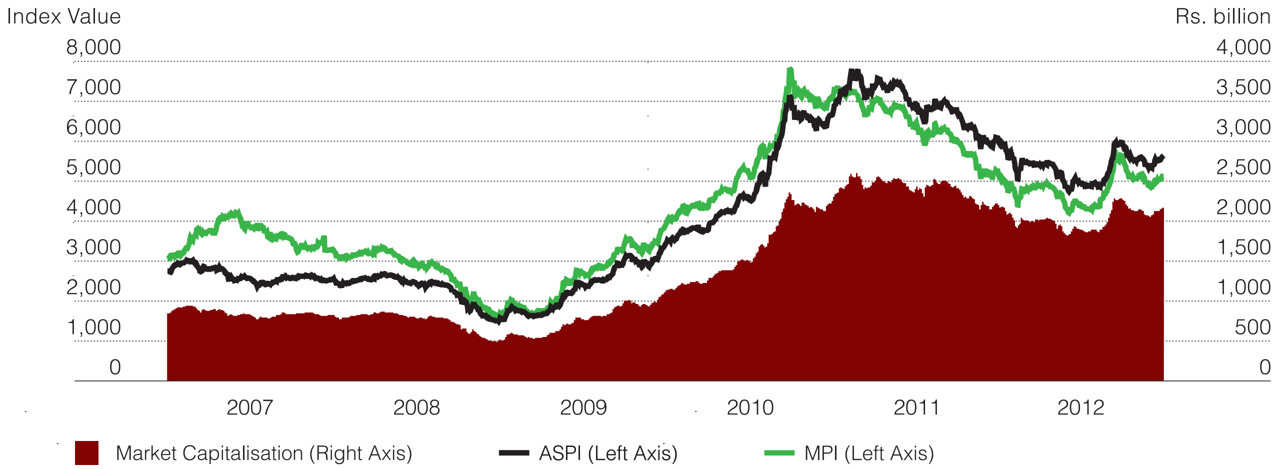
RISK MANAGEMENT

Market Risk

Market risk is the risk of potential losses due to fluctuations in market interest rates, equity prices and exchange rates, the most frequent and significant market risk being adverse fluctuations of interest rates. This is an inevitable risk faced by the financial industry. The effects of such adverse movements could have an immediate and direct bearing on the Company's profit margins. Interest rate risk is the risk of loss of net interest income of the Company due to adverse changes in market interest rates and inability to maximise benefits from favourable movements in the market interest rates. We mitigate this effect, by balancing the fixed and floating interest rates to maximise gains in a rising interest rate environment while minimising losses in an environment of declining interest rates. We routinely assess our asset and liability profile in terms of interest rate risk and, depending on this assessment, necessary realignments in the asset and liability structure are undertaken. During the year, we were careful to maintain our funding mix to minimise effects of interest rates movements, which as predicted last year continued to rise until the fourth quarter of 2012 and indicated a slight reduction as at end of first quarter in 2013. As at year-end, we achieved a ratio of 5:6 between our floating rate and fixed rated borrowings, and recorded a net interest margin of 11.3% for the financial year under review.

Market risk faced due to volatility of exchange traded equity and debt instruments is another risk faced by the Company. As Senkadagala Finance has a limited investment on exchange trading instruments the effects of this is minimal. The Sri Lankan market experienced immense volatility in the latter periods. Since reaching its pinnacle in 2010/11 the market followed a downward trend and started to recover in mid 2012 but not without leaps and bounds.

ASPI, MPI and Market Capitalisation of the CSE



Source: Central Bank of Sri Lanka – Annual Report 2012

RISK MANAGEMENT

We inaugurated our foreign currency trading business in 2013. Other than for this the effects of foreign currency fluctuation risks are minimal to us. Any impact on vehicle import industry would have a sequential effect on the industry.

Following table shows further risks the Company faces due to varying market conditions:

Major Forms of Market Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation methods at Senkadagala Finance PLC
Investment risk	Financial opportunities or losses may arise from unexpected movement in market.	Carrying out gap analysis, which is the most common method used to measure impact of interest rate risk on net interest income
Fluctuating interest rate risk	Inability to honour obligations to stakeholders and depositors might erode the confidence of the public	Ongoing reviews through post-implementation follow up of major decisions taken
Financial risk	Down grading of the credit rating might damage the reputation and image of the company	Placing of caps and floors for facilities and entering into forward contracts, swap and hedging options, if required
Insider dealings	Incurring losses due to adverse movement in market rates and prices	Investing excess funds on low risk instruments
	Loss of investor faith of the Company	Renegotiating the existing facilities with the investors for better pricing and returns Daily monitoring of ‘advances to deposit ratio’ Enhancing the fee-based income to set off any losses on fund based income Placing of limits on mismatches between interest-bearing assets and liabilities. Interest rates on fixed deposits are decided on economic fundamentals and industry averages Maintaining a healthy mix of fixed to floating rated borrowings to cushion any fluctuations of market rate movements Maintain strict rules and regulations

RISK MANAGEMENT

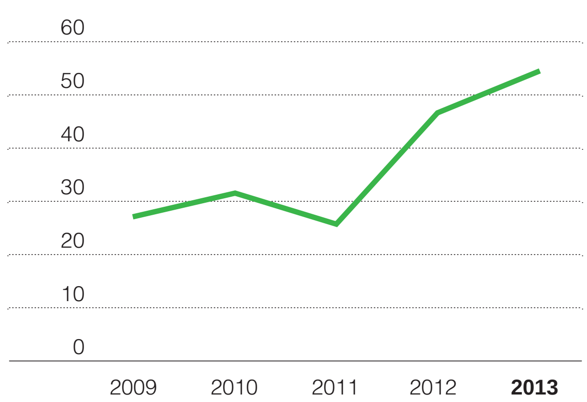
Liquidity Risk

Management of liquidity risk is a key concern for financial businesses. Liquidity risk is the inability of the entity to meet its financial obligations as they fall due, in full at an acceptable cost. In the recent past we witnessed many companies in the financial industry becoming insolvent due to liquidity issues. Licensed finance company sector was extensively affected due to loss of market confidence with the collapse of these companies. Maintenance of inadequate liquid assets, mismatch of financial assets and liabilities maturity patterns are some of the key reasons for this.

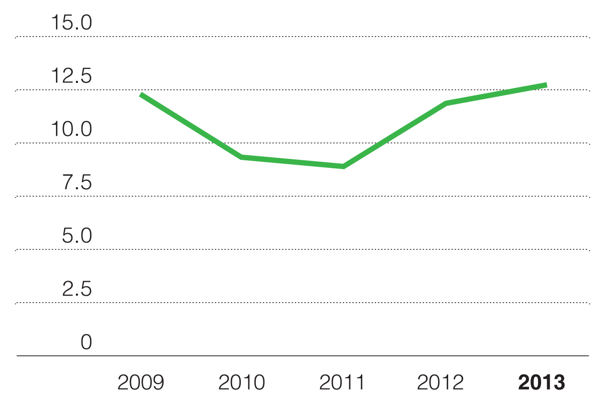
CBSL has laid down directions to safeguard licensed finance companies from this risk by stipulating liquidity levels, conducting regular reviews to ensure companies adhere to the said limits. Through Finance Companies (Liquid Assets) Direction 1 of 2009, CBSL has instructed every finance company to maintain 10% of its fixed and certificates of deposit balances and 15% of savings deposit balance as liquid assets. Central Bank has further instructed to maintain 7.5% of the twelve month average of total deposit liabilities of the preceding financial year in the form of Sri Lanka Government Treasury Bills, Sri Lanka Government Securities or Central Bank of Sri Lanka Securities.

We have continuously adhered with above the CBSL requirements and maintained a healthy liquid asset ratio. This has enabled us to capitalise the emerging opportunities in the market speedily and also maintain a buffer for any sudden shortfall of funding which could arise.

Liquid Assets Against Deposit Liabilities (%)

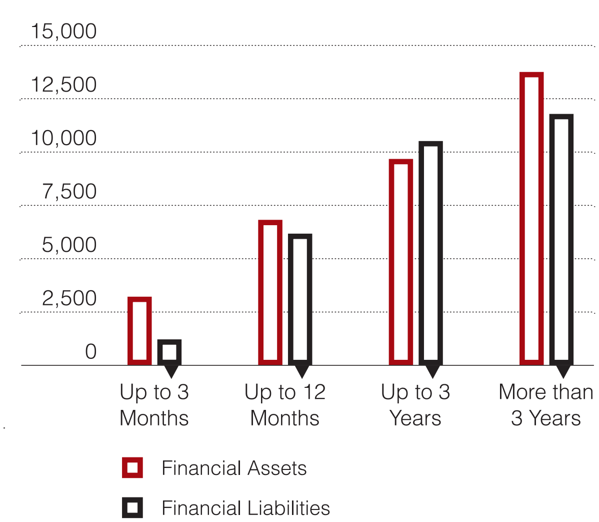


Government Securities Against Average Deposit Liabilities (%)



Another limitation in liquidity risk management is the inability to coincide maturity of financial assets with financial liabilities in the short term. We at Senkadagala Finance have achieved a cumulative surplus in the short term in the maturity mismatch.

Analysis of Cumulative Maturity Gap (Rs. million)



RISK MANAGEMENT

Major Forms of Liquidity Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation methods at Senkadagala Finance PLC
Unable to meet its payment obligations due to unavailability of funds	Damages the confidence and trust placed by the public and by investors in the Company	The day-to-day management of liquidity is the prime function of the treasury department. It limits the mismatches in cash flow within defined time brackets
	The risk of credit ratings being downgraded	The Company has carefully invested the excess funds in gilt edged securities such as Treasury Bills, Treasury Bonds, Repos and money market options Maintaining adequate buffers of liquid assets to meet sudden fluctuation of demand

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems from external and internal events. Likelihood of occurrence of such risks is medium while the significance of impact may vary. We have laid down an internal control mechanism to mitigate possible losses arising due to operational risks.

Our internal controls go hand in hand with the information system, while operations are segregated through access controls and authority limits are delegated through passwords to ensure effective implementation. With extensive use of the information system, repetitive manual operations have been reduced to minimise human errors. Staff members are provided comprehensive training to attend non-routine activities that require human intervention. They are also regularly trained on operating of the information system, managing and evaluating customers and valuing motor vehicles etc.

We have in place an internally developed information system, which is geared to cater to the developing business needs. Further, a sophisticated and high availability business continuity database solution using clustered, load balanced application servers and data servers providing industry-standard security and real-time data access is used by us. The clustered data servers replicate data transactions in real-time. In the event of the master data server failing, the slave takes over automatically with minimum disruption to the system operation. All data written to the disks on the master data server is automatically replicated in real-time to the backup data server.

Finance companies (Information Systems Security Policy) Direction No. 4 of 2012 of the CBSL was issued identifying the significance of information systems in strategic operations and risk management of licensed finance companies. Licensed finance companies were directed to maintain a periodically reviewed and documented Information System Security Policy (ISSP) while ensuring system security and promoting information confidentiality amongst staff. Requirement of a business continuity plan was also emphasised among other information security policies.
We at Senkadagala Finance conducted an information system audit in line with this direction and documented an ISSP to ensure compliance.

RISK MANAGEMENT

Following table indicates further operational risks the Company faces, impact on the Company and steps taken to mitigate:

Major Forms of Operational Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation methods at Senkadagala Finance PLC
Processing errors	Financial losses reduce profitability	We have in place a process of continuous internal audit, utilising the services of Messrs Ernst & Young Advisory Services (Pvt) Ltd., reporting to the management of any misconduct with the laid down internal processes and identify any shortcomings in the processes for which control actions will be taken. Formulation of succession plans, training of staff to improvise in the absence of a colleague
Human errors and systems and procedural failures	Judgmental errors in decision-making and counter action by competitors	Training of staff is carried out at our training centre at regular intervals, while they are encouraged to take part in outside training as well
Non-compliance of company policies and regulations Breaches of internal controls	Customer dissatisfaction due to poor service Breakdown of systems, procedures and internal controls	Setting up suitable delegated authority levels Issuing circulars by way of emails to all the staff regarding changes in business processes, new policies, regulations and other information which is considered important to staff and company Management ensures security of the system against unauthorised users, by way of restricted passwords
Technology obsolescence	Loss of business and customer confidence in the Company	Maintenance agreements are signed and back up data is stored on a daily basis in secured places Maintenance agreements are signed for all office equipment.
Competitor Risk	Loss of business	Senior management which sets overall management objectives meets at regular intervals to review the progress achieved so far and takes remedial measures for any deviation from the set targets
Lack of creativity and innovativeness	Inability to cope with the developing customer needs	Create a conductive working environment for staff
Damage to Company assets and theft	Disruptions to business activities	All buildings are comprehensively insured All cash within the premises and in transit are insured
Overtrading	Overtrading leads to insufficient capital	Strict adherence to rules and regulations stipulated by the Central Bank of Sri Lanka

Regulatory Risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulations and regulatory directives. Likelihood of occurrence of such risks is low but the impact could be significant. Licensed finance companies operate in a highly regulated environment with new regulations and directives being issued frequently. Non-compliance with such directives may lead to penalties being imposed, legal actions taken against Directors and discontinuity of business. The damage done to the reputation of the entity is another effect of non-compliance.

We manage our day-to-day regulatory risk primarily by educating and training employees about regulatory requirements, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. A Compliance Officer has been appointed by us to ensure business units have appropriate policies and procedures in place, while staff members are trained to meet regulatory requirements and for tracking, escalating and reporting significant issues and findings to Senior Management and the Board.

RISK MANAGEMENT

In this latter process, the Compliance Officer is supported and assisted by the Company's Internal Auditors, Messrs Ernst & Young who also report on any issues of non-compliance, with both internal and external regulations. Recognising the importance of regulatory compliance the management has inaugurated a quarterly compliance audit, by which periodic compliance with the rules and regulations is ensured and rapid control actions taken when necessary. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

Major Forms of Legal/ Regulatory Risks faced by Senkadagala Finance PLC	Impact on Senkadagala Finance PLC	Mitigation methods at Senkadagala Finance PLC
Non-compliance of Central Bank regulations	Non-compliance with CBSL regulations may cause penalties and restrictions to be imposed	Central Bank regulations such as Liquid Assets, Provision for Bad and Doubtful Debts, Capital Adequacy and Single Borrower limit are strictly adhered to
	Legal proceedings against the Company and/or Directors	A Compliance Officer has been appointed to enforce Central Bank Directions, Listing Rules and regulations and other applicable regulations and also to be watchful of changes of these rules
Non-compliance with the regulations imposed by other regulatory authorities	Penalties and losses to the Company	Any changes in VAT, income tax, stamp duty, legal requirements etc. are communicated promptly to staff
Inadequate documentation Inability to enforce contracts from unexpected lawsuits.	Legal risks arise when a finance company is unable to enforce contracts form unexpected lawsuits or adverse judgments which can cause unforeseen financial loss to Senkadagala Finance Legal risk could also arise if Senkadagala Finance does not follow in full or part its legal commitments as per the regulations	Staff are updated and trained on the changes in statutes, regulations and policies
Inadequate penalty clauses in contracts	Loss of revenue and adverse impact on asset quality	Incorporating of penalty clauses in contracts to avoid default
Money laundering activities	Regulatory actions / imposition of penalties	Set up systems to identify potential money laundering activities

Reputation Risk

Reputation risk is the risk to earnings, capital or brand arising from negative public or employee opinion. A company's reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earnings and capital of the Company. Credit, liquidity, interest rate, operational and regulatory risks must all be managed effectively in order to safeguard the Company's reputation.

CORPORATE SOCIAL RESPONSIBILITY

We at Senkadagala Finance PLC believe that our shared values define the way we conduct our business. We understand that it is our responsibility to conduct our operations in an accountable and sustainable manner. In this context we continuously seek improvement in business sustainability, accountability, employee well-being and contribute to environmentally conscious operations and products. Significant resources are invested by us to ensure that our policies and activities are consistent with our corporate objectives and shared values.

Accordingly, as in previous years, we continued to extend our support to *"Kusum Sevana"*, a day care and pre-school managed by the Kotahena Good Shepherd's Convent. This project was undertaken by us four years ago to support the most vulnerable and desolate children. The centre provides education and care to over 150 street children below the age of six. These children have been marginalised from society due to either lack of resources or the absence of stable family support.

Since we undertook to maintain the Centre four years back, many changes had taken place to create a more child friendly environment. We continued to provide meals, school equipment and stationery and also support the maintenance of the centre which has helped to enrich the lives of these children.

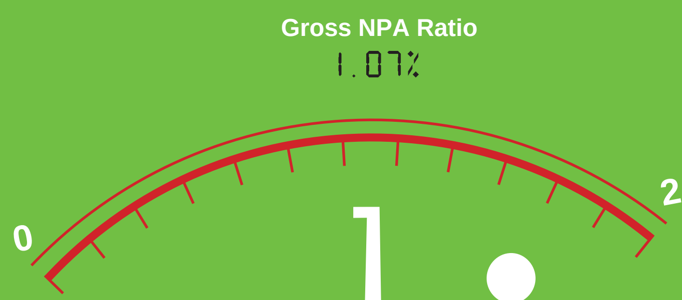
As another CSR initiative we offer internship programs to promising young undergraduates and professional qualification holders in the fields of business management, law, marketing, accounting and other relevant fields. Our aim is to gear prospective job seekers to gain practical knowledge which would definitely give them lead start when applying for jobs. As a part of our succession planning process, we also develop young talented graduates to fill vacancies of retiring staff of the Company. The selected candidates were trained in the areas of finance, treasury, branch operations, information technology, human resources, deposits and savings and compliance. A monthly allowance was paid to the interns during the internship period of six months. However, some of the trainees were given extended training to gain an in-depth knowledge of the Company functions.

The programmes are designed in a way, to enable interns to interact freely with the core sections of the departments as well as gain knowledge by interacting with external stakeholders such as customers, banks and other relevant segments.

We hope to increase the intake of interns in the next financial year. In preparation, we have already prepared a work schedule manual covering all core areas of the Company.

Asset Q

* Our Non-Performing Assets Ratio stands testimony to the quality of our loans & receivables and investments portfolio.



Quality

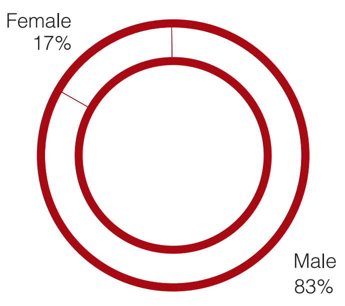
HUMAN RESOURCE MANAGEMENT

Human resource management is a strategic approach to managing people in the organisation in a structured and comprehensive manner. It is a key function that deals with areas such as attraction, selection, performance appraisal, training, career development and rewarding of employees while overseeing organisational leadership and culture and ensuring compliance with employment and labour laws.

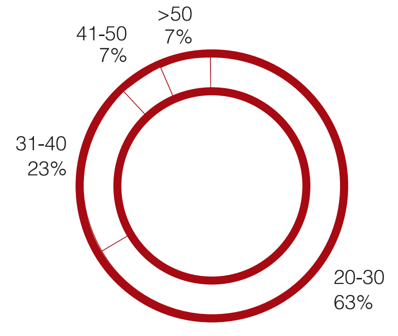
We recognise human resources as our greatest strength and the most valuable asset of our organisation. Therefore, prudent guidance, development and management of our employees are key factors in accomplishing our goals and objectives in an efficient and effective manner.

Our staff strength stood at 414 employees as at 31st March 2013, of which 348 were male, while 66 were female. Staff analysis of our organisation is illustrated by the charts below:

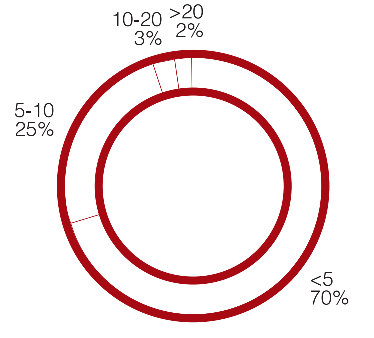
Staff Gender Analysis



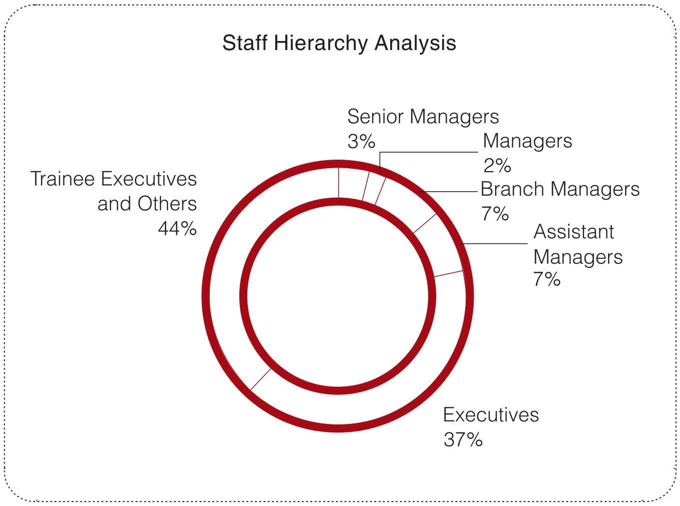
Staff Age Analysis

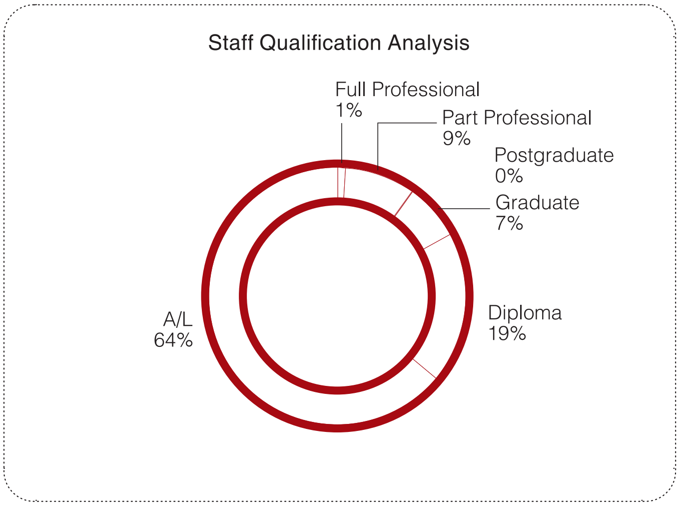


Analysis of Years in Service



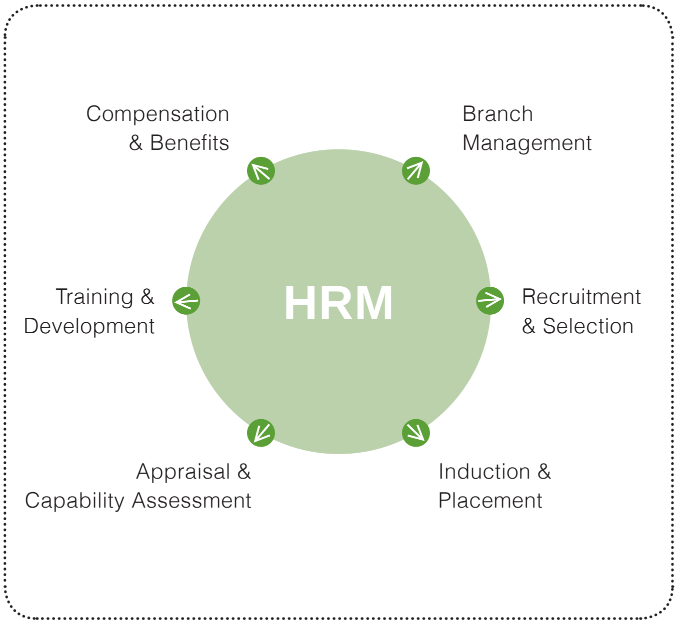
HUMAN RESOURCE MANAGEMENT





Functions of HRM

Our human resource management encompass branch management, recruitment and selection, induction and placement, appraisal and capability assessment, training and development and compensation and benefits.



Branch Management

We adopt the concept of a 'Planned Workforce' for all potential branches. Each branch comprises of a Manager, Secretary and three Marketing Executives recruited from the locality based on qualifications and experience. Staff recruitment commences once the branch location is identified and Central Bank approval is obtained. The recruitment process is initiated by a press advertisement, as well as from our recruitment bank.

HUMAN RESOURCE MANAGEMENT

Recruitment and Selection

We recruited 110 staff members during the year as a result of our branch expansion drive. In order to maintain consistency, we strictly adhere to the recruitment policy of our organisation which sets out the selection guidelines for new recruitments. All potential candidates are evaluated based on qualifications and experience. Short-listed candidates are interviewed by a panel comprising of senior management of the Company. Selection criteria are determined by the specific vacancy. Candidate's overall profile inclusive of academic qualifications, experience, practical outlook and mannerisms are considered at recruitment. This process has enabled us to attract and accumulate a pool of dynamic and result-oriented staff members, which has been a key strength of our Company.

Induction and Placement

All new recruits follow a comprehensive induction and orientation programme which spans over a period of four months. The programme consists of a series of on-the-job practical training sessions and induction to our corporate culture, work practices and ethics. We strive to simulate the actual working environment during these training sessions. This enables them to grasp the geographical familiarity and also be attuned to the needs of the potential regional clientele.

Appraisal and Capability Assessment

We have in place a structured appraisal and development system conducted annually for all staff members. Career progression plan for branch managers is based on branch performance. Based on joint discussions between the respective branch managers and the management, targets are established and agreed on for each branch prior to commencement of each financial year. Actual performance of each employee is made available on our computer system, accessible by all employees to facilitate transparency. Each employee is evaluated against predetermined targets. This method enabled us to avoid any sort of favouritism or discrimination. The system also enables us to gain the confidence of our employees in the appraisal system and also encourage a competitive culture which is beneficial to the employee and the organisation.

Career progression for executive cadre is based on the 'Executive Score System', a transparent performance evaluation technique maintained on an interactive IT platform. Points are allocated to each executive based on performance and target achievement on an individual basis and branch-wise. Executives are given access to their respective performance record at any given time to ascertain his standing. This interactive mechanism enables employees who are self-motivated to map out their career progression within the organisation. The executive score is used to determine the annual incentive payment for each executive and promotions for each employee. In addition to the Executive Score System, we introduced an evaluation mechanism to measure branch, centre performance of our Company.

Training and Development

Training and development is an integral component of the HRM function. We follow a proactive two pronged approach. On one aspect we train new recruits, to develop their skills and aptitude to garner optimal performance standards prior to deployment in their new roles. On the other hand, we train existing staff on an ongoing basis to enrich their knowledge, improve efficiency and eventual career enhancement. Our annual training agenda is planned ahead of the financial year based on careful consideration of existing requirements, market conditions and its business impact on the Company. We provide a range of internal and external training opportunities for our employees including specified and subjective training conducted by the Central Bank.

Compensation and Benefits

In addition to statutory benefits, we provide a host of benefits to our staff members including a competitive remuneration, comprehensive insurance scheme, annual increments and bonuses, vehicles for personal use (for managers and marketing executives) as well as reimbursement of phone bills.

Plans to Strengthen Human Resource Base of the Company

We have in place a ready-made data base which provides replacements for junior, middle level and senior staff at any given time. Further, staff members are given continuous in-house and external training by experts in their respective fields.

HUMAN RESOURCE MANAGEMENT

Training Programmes for 2012/13

Date	Programme	Participation	Number of Employees Participated
28.04.2012	Training Programme on Correct Interpretation of Credit Reports - Ratnapura	Secretaries and Executives	6
15.06.2012	Sales Excellence and Consultative Selling Techniques	Executives	26
22.06.2012	Sales Excellence and Consultative Selling Techniques	Executives	30
06.07.2012	Sales Excellence and Consultative Selling Techniques	Executives	35
12.07.2012	Cash Training - CBSL	Secretary and Executive	2
13.07.2012	Sales Excellence and Consultative Selling Techniques	Executives	42
23.08.2012	Latest Techniques in Fraud Prevention for Financial Institutions - CBSL	Internal Auditor	1
27.08.2012	Training on Customer Focus	Executives	10
15.09.2012	Buying and Selling Foreign Currency - CBSL	Managers, Executives and Secretaries	44
25.09.2012	Foreign Currency Training Programme - District Secretarial Office	Executive and Secretary	2
03.10.2012	Job Description and Personal Specification	Manager and Executive	2
09.10.2012	Budgeting and Forecasting Techniques	Regional Managers	2
19.10.2012	Know Your Customer (KYC) Rules and Applicable FIU Rules - CBSL	Managers, Executives and Secretaries	48
02.11.2012	Know Your Customer (KYC) Rules and Applicable FIU Rules - CBSL	Managers, Executives and Secretaries	51
08.11.2012 09.11.2012	Regulatory Framework Relating to Non-Bank Financial Institutions - CBSL	Board Secretary	1
28.11.2012 29.11.2012	Internal Control and Auditing for Financial Institutions - CBSL	Internal Auditor	1
09.01.2013	Training Programme on Foreign Currency	Managers and Secretaries	9
02.02.2013	Staff Training - CRIB, Valuation, Insurance and Audit	Executives	38
16.02.2013	Staff Training - CRIB, Valuation, Insurance and Audit	Executives	32
22.02.2013	Legal Training	Executives	10
02.03.2013	Training Programme and Discussion (Pawning)	Officers in Charge and Executives	13
09.03.2013	Staff Training - CRIB, Valuation, Insurance and Audit	Executives	27

HUMAN RESOURCE MANAGEMENT

We also have an effective internship programme for young graduates for a period of 6 months with a monthly allowance. The interns are trained in all aspects of the Company while selected interns are given the opportunity to join the Company in future.

Middle level staff are trained to take over from the retiring staff in the future. In this context, current staff members were given the opportunity to apply for available positions in the newly opened branches. If the position was not filled internally the opportunity was made available to external candidates.

A comprehensive career development plan has been established, with feedback from the management to improve staff productivity and motivation.

FINANCIAL REPORTS 2012/13

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

The Board of Directors of Senkadagala Finance PLC has pleasure in submitting their report together with the Audited Financial Statements of the Company and the Audited Consolidated Financial Statements for the year ended 31st March 2013 which was approved by the Board of Directors on 30th May 2013.

The details set out here provide information required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange and recommendations of best accounting practices.

Domicile and Legal Form of the Company

Senkadagala Finance PLC is a public limited liability company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29th December 1968 and re-registered under the Companies Act No. 07 of 2007 bearing registration No. PB 238 PQ. It is also registered under the Finance Companies Act No. 78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company is listed in the *Diri Savi* Board of the Colombo Stock Exchange with effect from 22nd March 2011.

The Registered Office of the Company is situated at 2nd Floor, 267, Galle Road, Colombo 03.

Vision and Mission

The Company's vision and mission are stated on page 1 of this Report.

Principal Activities and Nature of Operations

The principal lines of business of the Company include providing financial accommodation in the form of finance lease, hire purchase and commercial loans. Additional lines of business include pawn broking, foreign exchange transactions, Western Union, bill discounting, investment in money market instruments and the acceptance of term deposits, certificates of deposit and savings deposits.

The principal line of business of the Subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. is insurance brokering activities.

The principal line of business of the Associate, Senkadagala Hotels (Pvt) Ltd. is leisure related activities.

There have been no significant changes in the principal activities of the Company and of the Group during the financial year under review.

Management and Financial Review of Business

A detailed description and analysis of the operations of the Company for the year under review is contained in the Chairman's Message (on pages 4 to 6), the Managing Director/CEO's Review (on pages 7 to 9) and the Management Discussion and Analysis (on pages 12 to 31). These reports together with the Audited Financial Statements provide an overall assessment of the Company's performance during the financial year.

Branch Expansion and Future Developments

Senkadagala Finance PLC has embarked on a branch expansion programme. Currently, Senkadagala Finance PLC has 39 branches and 13 service centres. During the financial year, 1 branch and 6 service centres were opened. 8 service centres were upgraded to the status of branches during the year. Groundwork is being carried out to further increase the number of outlets of the Company in the future.

The Company offers a fully automated state-of-the-art savings account system which includes a chip-driven VISA debit card.

Financial Statements and Directors' Responsibility

The Financial Statements of the Company and the Group duly approved by two Directors are given on pages 75 to 131.

The Directors are responsible for the preparation of Financial Statements, the maintaining of proper accounting records and disclosures regarding accounting policies and principles. The Directors are satisfied that the Financial Statements presented give a true and fair view of the affairs of the Company as at 31st March 2013 and the profit of the year then ended.

Auditors' Report

The Auditors of the Company Messrs KPMG has performed the audit of the Financial Statements for the year under review. The Auditors' report on the Financial Statements is given on page 74 of this Annual Report.

Accounting Policies

The accounting policies adopted in preparing and presenting the Financial Statements are given on pages 81 to 92 of this Annual Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

The Financial Statements of the Company and the Group for all periods up to and including the year ended 31st March 2013 have been prepared in accordance with the Sri Lanka Accounting Standards which were in effect. With the convergence of the Sri Lanka Accounting Standards (SLAS) with International Financial Reporting Standards (IFRS), the Company and the Group adopted Sri Lanka Accounting Standards comprising of SLFRS and LKAS (Corresponding to IFRS and IAS of the International Financial Reporting Standards) effective 1st April 2012.

Financial Statements for the period under review are the first Financial Statements prepared in accordance with the SLFRS/LKAS, and Sri Lanka Accounting Standard - SLFRS 1 on 'First-Time Adoption of Sri Lanka Accounting Standards'.

Remuneration and Other Benefits of Directors

Directors' remuneration in respect of the Company and the Group for the financial year under review is Rs. 14,032,500/- (2011/12 - Rs. 15,520,000/-).

Donations

A sum of Rs. 814,857 (2011/12 - Rs. 573,591) was paid out by way of donations during the year under review.

Income

The income generated by the Company during the financial year comprises the following:

	Company		Group	
	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
Interest income	2,861,922,955	1,884,501,510	2,861,922,955	1,884,501,510
Fee and commission income	77,003,906	76,240,679	82,654,830	76,240,679
Other operating income	30,689,870	68,019,780	30,671,141	68,019,780
Total	2,969,616,731	2,028,761,969	2,975,248,926	2,028,761,969

Further analysis is given in Notes 4, 6 and 10 of the Financial Statements on pages 93 and 94 of this Report.

Profit and Appropriations

Details of profit and appropriation of profit of the Company is given below:

	2013 Rs.	2012 Rs.
Profit before income tax	680,481,686	634,871,653
Income tax paid	(102,618,329)	(158,421,177)
Profit after income tax for the period	577,863,357	476,450,476
Other comprehensive income/(loss)	2,366,081	(2,498,527)
Balance brought forward net of adjustments arising from conversion to SLFRS/LKAS	365,928,398	82,869,677
Profit available for appropriation	946,157,836	556,821,626
Appropriated as follows:		
Transfers to statutory reserve fund	35,000,000	30,000,000
Transfers to investment fund account	57,700,541	80,307,548
Dividend paid	132,886,320	80,585,680
Total dividend for the period	172,912,320	127,015,840

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

The breakup of SLFRS/LKAS adjustment of Rs. 350,733,772/- is as follows,

	2012 Rs.
Adjustment for gain in market value of assets categorised as fair value through profit and loss	17,573,402
Adjustment for interest accrued on effective interest rate for fixed deposits	5,920,743
Adjustment for interest accrued on effective interest rate for borrowings	(116,922,256)
Adjustment for interest accrued on effective interest rate for unlisted debentures	(11,704,623)
Reversal of interest recognised on sum of digit method for the previous years	(115,375,584)
Adjustment for impairment based on new SLFRS/LKAS for the previous period	(116,267,900)
Adjustment on accounting for associate company	(13,957,555)
	(350,733,772)

The cash dividend pay-out ratio for 2012 is 17% compared to 23% of 2013 while the total dividend pay-out ratio is 30% in the current year compared to 27% of 2012.

Dividend

The Directors recommended a final dividend of Rs. 1.20 per share for the financial year ended 31st March 2013. In accordance with the Direction No. 01 of 2013, the Company has obtained approval from the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for the above dividend payment.

The following dividends were declared and paid during the financial year:

	2013			2012		
Dividend Payment	Amount (Rs.)	DPS (Rs.)	Paid Date	Amount (Rs.)	DPS (Rs.)	Paid Date
1st interim dividend paid	24,015,600	0.45	14.11.2012	28,285,040	0.53	16.12.2011
2nd interim dividend paid	42,160,720	0.79	14.02.2013	32,020,800	0.60	15.03.2012
3rd interim dividend paid	42,694,400	0.80	19.04.2013	37,357,600	0.70	06.06.2012
Final dividend proposed/paid	64,041,600	1.20	Subject to approval at AGM	29,352,400	0.55	24.08.2012

Taxation

The Company accounts for deferred taxation under the liability method on all timing differences. Details are disclosed in Note 3.17 on page 91 and Note 35 on page 114 of this Report.

Equity

The aggregate equity of the Group as at 31st March 2013 amounted to Rs. 1,574 million, the aggregate reserves as at 31st March 2012 were Rs. 1,127 million. Movement in reserves during the year is given in Statement of Changes in Equity on page 78 of this Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

The composition of the aggregate reserves is set out below:

	2013 Rs.	2012 Rs.
Stated capital	533,680,000	533,680,000
Statutory reserve fund	165,036,033	130,036,033
Investment fund account	154,759,694	97,059,153
Retained earnings	720,570,975	365,928,398
Total reserves	1,574,046,702	1,126,703,584

Capital Expenditure

The total capital expenditure amounted to Rs. 214 million for the year (2011/12 - Rs. 243 million). Details of property, plant and equipment are available on pages 106-109 of this Report. Details relating to the depreciation charge for the year are also available on page 106.

Market Value of Freehold Assets

The values of the freehold properties of the Company have been obtained from a report issued by the qualified valuer Mr. C. Palamakumbura (FSI) dated 24th March 2012. These values have not been incorporated in to the Financial Statements. Details of freehold properties owned by the Company are given in Note 25.1 and Note 26.5 of the Notes to the Financial Statements on page 105 and 108 in this Report.

Stated Capital

The stated capital as at 31st March 2013 was Rs. 533.6 million, consisting of 53,368,000 shares in issue. Details of the stated capital are given in Note 36 of the Financial Statements on page 114 of this Report.

Equitable Treatment to Shareholders

The Company has taken all possible steps to ensure equitable treatment to all its shareholders.

Information on Company Shares

Information relating to the shares of the Company is available under 'Shareholder Information' on page 137 of this Report.

Details of Top 20 Shareholders holding ordinary shares of the Company as at 31st March 2013 and the percentage of their holding, are set out on page 137 of this Report.

Distribution of shareholding is given on page 138 of this Report under Shareholder Information.

Shareholdings

The ten largest shareholders of the company as at 31st March 2013 were:

	31.03.2013 Number of Shares	31.03.2012 Number of Shares
E. W. Balasuriya & Co. (Pvt) Ltd.	29,994,150	30,088,050
Hallsville Trading Group Inc.	4,180,000	4,080,000
Dr. (Mrs.) G. Madan Mohan	3,065,832	3,065,832
Dr. A. Balasuriya	3,065,832	3,065,832
Mr. R. Balasuriya	3,065,832	3,065,832
Dr. M. Balasuriya	3,065,832	3,065,832
Mrs. L. Fernando	2,570,002	2,570,002
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916	1,532,916
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,532,916	1,532,916
Mr. D. K. C. R. Fernando	495,830	495,830

Debentures

The Company raised Rs. 481 million through a private placement of 5-year unlisted unsecured redeemable debentures of Rs. 100/- each and Rs. 735 million through a private placement of unlisted secured debentures of Rs. 100/- each during the year 2012/13. Details of the debentures in issue as at 31st March 2013 are given in detail in Note 31 of the Financial Statements on page 111.

Directors

The Board of Directors of Senkadagala Finance PLC consists of Directors with financial and commercial experience.
The qualifications and experience of the Directors are stated on pages 40 and 41 of this Report.

The following were Directors of the Company during the year:

- Mr. C. L. de Alwis (Resigned w.e.f. 5th June 2013)
- Mr. L.Balasuriya
- Dr. A.Balasuriya
- Mrs. L. Fernando
- Dr. M. Balasuriya
- Mr. W. A. T. Fernando
- Dr. P. Ramanujam (Appointed w.e.f. 1st September 2012) (Appointed Interim Chairman w.e.f. 6th June 2013)
- Mr. S. S. Kulatunga (Appointed w.e.f. 8th October 2012)

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

The following were Directors of the Subsidiary during the year:

- Mr. C. L. de Alwis (Resigned w.e.f. 5th June 2013)
- Mr. L. Balasuriya
- Dr. A. Balasuriya
- Mrs. L. Fernando
- Dr. M. Balasuriya
- Mr. W. A. T. Fernando

Board and Committee Meetings

A number of Board meetings, Audit Committee meetings, Remuneration Committee meetings and Integrated Risk Management Committee meetings were held during the year at the Registered Office of the Company. Members of each of these committees have attended these meetings on a regular basis. Details of the members and the attendance are given in page 39 to 48 of this Report.

Recommended for Re-election

In accordance with the Finance Companies (Corporate Governance) Direction No. 3 of 2008, Dr. P. Ramanujam will be proposed for re-election as the Chairman at the next Annual General Meeting of the Company to be held on 30th July 2013.

Directors and Shareholdings

The Directors of the Company at the date of the report are shown below together with their respective shareholdings:

	2013		2012	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Dr. A. Balasuriya	3,065,832	5.74%	3,065,832	5.74%
Dr. M. Balasuriya	3,065,832	5.74%	3,065,832	5.74%
Mrs. L. Fernando	2,570,002	4.82%	2,570,002	4.82%
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916	2.87%	1,532,916	2.87%
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,532,916	2.87%	1,532,916	2.87%
Mr. L. Balasuriya - The Trustee of the Capitalisation Issue	4	0.00%	4	0.00%
Mr. C. L. de Alwis	–	0.00%	–	0.00%
Mr. W. A. T. Fernando	–	0.00%	–	0.00%
Dr. P. Ramanujam	–	0.00%	–	0.00%
Mr. S. S. Kulatunga	–	0.00%	–	0.00%

Directors' Interests in Debentures

There were no debentures registered in the names of any of the Directors at the beginning and at the end of the year.

ANNUAL REPORT OF THE BOARD OF DIRECTORS OF SENKADAGALA FINANCE PLC

Environment

The Directors are of the belief that the Company does not engage in any form of activity that is detrimental to the environment. Compliance with all environmental regulations has been adhered to during the year.

Statutory Payments

The Directors are of the view that all statutory payments in relation to Government agencies and employees have been made up to date.

Post-Balance Sheet Events

No post-balance sheet events have arisen that would require disclosure in the accounts.

Appointment of Auditors

The Financial Statements of the year under review have been audited by Messrs KPMG, Chartered Accountants, who offer themselves for re-appointment. A resolution will be proposed at the Annual General Meeting to re-appoint them as Auditors and authorising the Directors to fix their remuneration.

Auditors' Remuneration, Other Fees and Payables

The Auditors, Messrs KPMG, Chartered Accountants was paid audit fees of Rs. 700,000/- for the Company and Rs. 57,714/- for the subsidiary company for the period under review.

Further, the Company has engaged Auditors for other permitted non-audit services, for which a fee of Rs. 915,929/- for the Company was paid during the year.

Amounts pertaining to the audit fee of Rs. 700,000/- of the Company and Rs. 57,714/- of the subsidiary was payable as at the year end.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contract with the Company.

Risk Management

Specific steps taken by the Company in managing risks are detailed on pages 49 to 58 of this Report.

Corporate Governance

The Directors are responsible for the governance of the Company including establishment and maintenance of the Company's system of internal controls. The Directors are of the view that proper internal control systems are prevalent within the organisation.

Internal Control

The Directors of the Company are responsible for setting out the policy regarding internal control. The set of internal control procedures laid down seek to manage against material errors or omissions, losses, fraudulent practices and to safeguard assets and secure as far as is possible the accuracy and reliability of the records.

Employment Policies

The Company is an equal opportunity employer. In its goals and objectives, it seeks to achieve excellence and market orientation in its service. Continuous training and social participation amongst employees are encouraged. A holistic approach prevails in the Company's strategic outlook where a participatory management style ensures that employees are involved in the decision - making process. Incentive schemes which are related to employee performance is one of the ways in which the Company ensures that rewards are directly related to performance.

A Remuneration Committee ensures that a balance is struck between performance and related employee rewards structures.

The Company has also set up an in-house training facility in order to ensure that all employees meet certain standard requirements before job placement and also to enhance the existing skills of its staff. The Company had 414 employees as at 31st March 2013 (2012 - 347).

Going Concern

The Directors are satisfied that the Company has at its disposal adequate resources to continue in business in the foreseeable future; and hence the going concern concept is adopted in the preparation of the Financial Statements.

Compliance with Laws and Regulations

The Directors are of the belief that the Company has not engaged in any activities contravening the law and has complied with all applicable regulations.

By order of the Board of
Senkadagala Finance PLC

Sgd.
Managers and Secretaries (Private) Limited
Secretaries

Colombo
6th June 2013

INDEPENDENT AUDITORS' REPORT

KPMG
Kandy Branch
(Chartered Accountants)
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To the Shareholders of Senkadagala Finance PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Senkadagala Finance PLC ("the Company") and the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the statements of financial position as at March 31, 2013, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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.

Auditors' Responsibility

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 consolidated 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 provided a reasonable basis for our opinion.

Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2013 and the financial statements give a true and fair view of the financial position of the Company as at March 31, 2013, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiary dealt with thereby as at March 31, 2013, and of its financial performance and its 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 153(2) to 153(7) of the Companies Act No. 07 of 2007.

KPMG

Chartered Accountants
Kandy
May 30, 2013

INCOME STATEMENT

For the year ended 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Interest income	4	2,861,922,955	1,884,501,510	2,861,922,955	1,884,501,510
Interest expense	5	(1,524,287,968)	(841,034,415)	(1,524,265,046)	(841,034,415)
Net interest income		1,337,634,987	1,043,467,095	1,337,657,909	1,043,467,095
Fee and commission income	6	77,003,906	76,240,679	82,654,830	76,240,679
Fee and commission expense	7	(18,487,783)	(13,318,783)	(18,487,783)	(13,318,783)
Net fee and commission income		58,516,123	62,921,896	64,167,047	62,921,896
Net gain/(loss) from trading	8	(539,847)	892,143	(539,847)	892,143
Net gain/(loss) from financial instruments designated at fair value through profit and loss	9	6,523,785	(13,630,045)	6,523,785	(13,630,045)
Other operating income	10	30,689,870	68,019,780	30,671,141	68,019,780
Impairment expenses for loans and advances and other losses	11	(11,925,500)	46,560,667	(11,925,500)	46,560,667
Net operating income		1,420,899,418	1,208,231,536	1,426,554,535	1,208,231,536
Personnel expenses	12	(232,456,542)	(186,227,247)	(235,043,875)	(186,227,247)
Depreciation of property, plant and equipment		(113,122,274)	(90,225,228)	(113,795,099)	(90,225,228)
Amortisation of intangible assets		(9,046,369)	(7,065,502)	(9,046,369)	(7,065,502)
Other operating expenses	13	(330,728,939)	(231,753,732)	(331,793,638)	(231,753,732)
Profit before VAT on financial services and income tax		735,545,294	692,959,827	736,875,554	692,959,827
Value added tax on financial services		(55,063,608)	(58,088,174)	(55,063,608)	(58,088,174)
Profit before income tax		680,481,686	634,871,653	681,811,946	634,871,653
Income tax expenses	14	(102,618,329)	(158,421,177)	(103,179,061)	(158,421,177)
Profit for the year		577,863,357	476,450,476	578,632,885	476,450,476
Earnings per share	15	10.83	8.93	10.84	8.93
Dividends per share	16	2.04	2.38	2.04	2.38

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Profit for the year		577,863,357	476,450,476	578,632,885	476,450,476
Other Comprehensive Income					
Actuarial gains/(losses) on defined benefit plans	34	2,366,081	(2,498,527)	2,366,081	(2,498,527)
Total other comprehensive income		2,366,081	(2,498,527)	2,366,081	(2,498,527)
Other comprehensive income for the year net of tax		2,366,081	(2,498,527)	2,366,081	(2,498,527)
Total comprehensive income for the year net of tax		580,229,438	473,951,949	580,998,966	473,951,949

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
Assets							
Cash and cash equivalents	17	333,440,165	233,762,127	343,998,317	340,643,331	233,762,127	343,998,317
Deposits with licensed commercial banks	18	1,061,779,016	637,118,275	–	1,061,779,016	637,118,275	–
Repurchase agreements		75,762,008	102,801,138	75,139,142	75,762,008	102,801,138	75,139,142
Financial assets held at fair value through profit and loss	19	67,627,657	60,121,242	60,317,248	67,627,657	60,121,242	60,317,248
Loans and advances	20	11,559,935,985	8,968,565,725	5,398,167,660	11,559,935,985	8,968,565,725	5,398,167,660
Financial assets available-for-sale	21	1,419,713	1,177,861	5,809,125	1,419,713	1,177,861	5,809,125
Financial assets held to maturity	22	389,855,927	304,111,412	198,509,828	389,855,927	304,111,412	198,509,828
Investment in subsidiary	23	20,000,000	–	–	–	–	–
Investment in associate	24	–	–	–	–	–	–
Investment property	25	79,934,047	80,237,085	80,540,123	79,934,047	80,237,085	80,540,123
Property, plant and equipment	26	509,374,424	432,609,378	315,964,821	513,622,096	432,609,378	315,964,821
Intangible assets	27	40,514,509	44,911,478	33,463,630	40,514,509	44,911,478	33,463,630
Other assets	28	120,938,666	152,085,920	107,544,211	120,938,666	152,085,920	107,544,211
Total assets		14,260,582,117	11,017,501,641	6,619,454,105	14,252,032,955	11,017,501,641	6,619,454,105
Liabilities							
Deposits from customers	29	3,412,464,090	2,732,030,627	2,386,821,122	3,402,441,169	2,732,030,627	2,386,821,122
Borrowings	30	6,136,152,264	4,805,838,401	1,528,532,033	6,136,152,264	4,805,838,401	1,528,532,033
Debentures	31	2,618,281,394	1,771,752,949	1,425,524,139	2,618,281,394	1,771,752,949	1,425,524,139
Current tax liabilities	32	19,865,236	43,050,194	104,338,027	20,424,528	43,050,194	104,338,027
Other liabilities	33	266,456,865	328,729,590	314,777,466	266,600,364	328,729,590	314,777,466
Employee benefit plans	34	34,222,639	30,608,056	22,564,095	34,222,639	30,608,056	22,564,095
Deferred tax liability	35	199,092,927	178,788,239	103,559,908	199,094,367	178,788,239	103,559,908
Total liabilities		12,686,535,415	9,890,798,056	5,886,116,790	12,677,216,725	9,890,798,056	5,886,116,790
Equity							
Stated capital	36	533,680,000	533,680,000	533,680,000	533,680,000	533,680,000	533,680,000
Statutory reserve fund	37	165,036,033	130,036,033	100,036,033	165,036,033	130,036,033	100,036,033
Investment fund account	38	154,759,694	97,059,153	16,751,605	154,759,694	97,059,153	16,751,605
Retained earnings		720,570,975	365,928,398	82,869,677	721,340,503	365,928,398	82,869,677
Total equity		1,574,046,702	1,126,703,584	733,337,315	1,574,816,230	1,126,703,584	733,337,315
Total liabilities and equity		14,260,582,117	11,017,501,641	6,619,454,105	14,252,032,955	11,017,501,641	6,619,454,105

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements.

It is certified that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

Mr. S. D. Bandaranayake
Additional 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.

Mr. C. L. de Alwis
Chairman

Mr. L. Balasuriya
Chief Executive Officer/Managing Director

Kandy, Sri Lanka
30th May 2013

STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March	Stated Capital Rs.	Statutory Reserve Fund Rs.	Investment Fund Account Rs.	Retained Earnings Rs.	Total Rs.
Company					
Balance as at 1st April 2011 (As previously reported)	533,680,000	100,036,033	16,751,605	433,603,449	1,084,071,087
Adjustment due to first time adoption of SLFRS/LKAS (Note A)	–	–	–	(350,733,772)	(350,733,772)
Restated balance as at 1st April 2011	533,680,000	100,036,033	16,751,605	82,869,677	733,337,315
Total comprehensive income	–	–	–	473,951,949	473,951,949
Transfers to reserves	–	30,000,000	80,307,548	(110,307,548)	–
Dividends paid	–	–	–	(80,585,680)	(80,585,680)
Balance as at 31st March 2012	533,680,000	130,036,033	97,059,153	365,928,398	1,126,703,584
Balance as at 1st April 2012	533,680,000	130,036,033	97,059,153	365,928,398	1,126,703,584
Total comprehensive income	–	–	–	580,229,438	580,229,438
Transfers to reserves	–	35,000,000	57,700,541	(92,700,541)	–
Dividends paid	–	–	–	(132,886,320)	(132,886,320)
Balance as at 31st March 2013	533,680,000	165,036,033	154,759,694	720,570,975	1,574,046,702
Group					
Balance as at 1st April 2011 (As previously reported)	533,680,000	100,036,033	16,751,605	433,603,449	1,084,071,087
Adjustment due to first time adoption of SLFRS/LKAS (Note A)	–	–	–	(350,733,772)	(350,733,772)
Restated balance as at 1st April 2011	533,680,000	100,036,033	16,751,605	82,869,677	733,337,315
Total comprehensive income	–	–	–	473,951,949	473,951,949
Transfers to reserves	–	30,000,000	80,307,548	(110,307,548)	–
Dividends paid	–	–	–	(80,585,680)	(80,585,680)
Balance as at 31st March 2012	533,680,000	130,036,033	97,059,153	365,928,398	1,126,703,584
Balance as at 1st April 2012	533,680,000	130,036,033	97,059,153	365,928,398	1,126,703,584
Total comprehensive income	–	–	–	580,998,966	580,998,966
Transfers to reserves	–	35,000,000	57,700,541	(92,700,541)	–
Dividends paid	–	–	–	(132,886,320)	(132,886,320)
Balance as at 31st March 2013	533,680,000	165,036,033	154,759,694	721,340,503	1,574,816,230

Note A

The Company made adjustment due to adoption of new Sri Lanka Accounting Standards comprising of LKAS and SLFRS with effect from 1st April 2012. Details of the adjustment, due to first time adoption of SLFRS/LKAS, are as follows:

Adjustment for gain in market value of assets categorised as fair value through profit and loss	17,573,402
Adjustment for interest accrued on effective interest rate for fixed deposits	5,920,743
Adjustment for interest accrued on effective interest rate for borrowings	(116,922,256)
Adjustment for interest accrued on effective interest rate for unlisted debentures	(11,704,623)
Reversal of interest recognised on sum of digit method for the previous years	(115,375,584)
Adjustment for impairment based on new SLFRS/LKAS for the previous period	(116,267,900)
Adjustment on accounting for associate company	(13,957,555)
	(350,733,772)

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Cash flows from operating activities				
Interest and commission receipts	2,938,926,861	1,960,742,189	2,944,577,786	1,960,742,189
Interest payments	(1,476,169,896)	(806,807,308)	(1,476,146,974)	(806,807,308)
Recoveries of bad debts	46,302,181	40,284,566	46,302,181	40,284,566
Other operating income	9,258,098	33,020,210	9,258,098	33,020,210
Operating expenditure	(415,388,119)	(320,171,359)	(416,452,818)	(320,171,359)
Cash payments to employees	(225,159,691)	(180,374,213)	(227,747,024)	(180,374,213)
Operating cash flow before changes in operating assets and liabilities (Note A)	877,769,434	726,694,085	879,791,249	726,694,085
(Increase)/decrease in operating assets and liabilities				
Net funds advanced to customers	(2,638,490,152)	(3,547,111,294)	(2,638,490,152)	(3,547,111,294)
Deposits from customers	680,433,463	345,209,505	670,410,542	345,209,505
Deposits with licensed commercial banks	(424,660,741)	(637,118,275)	(424,660,741)	(637,118,275)
Investments in Government and other Securities	(58,705,385)	(133,263,580)	(58,705,385)	(133,263,580)
Gratuity paid	(1,316,187)	(307,600)	(1,316,187)	(307,600)
Trade and other receivables	31,147,254	(44,541,709)	31,147,254	(44,541,709)
Other liabilities	(131,905,418)	11,620,127	(131,761,921)	11,620,127
	(2,543,497,166)	(4,005,512,826)	(2,553,376,590)	(4,005,512,826)
Net cash inflow/(outflow) from operating activities before taxation	(1,665,727,732)	(3,278,818,741)	(1,673,585,341)	(3,278,818,741)
Taxes paid	(105,498,599)	(144,480,679)	(105,498,599)	(144,480,679)
Net cash used in operating activities	(1,771,226,331)	(3,423,299,420)	(1,779,083,940)	(3,423,299,420)
Cash flows from investing activities				
Investments in subsidiary company	(20,000,000)	–	–	–
Net investment in trading securities	(1,535,179)	(12,541,896)	(1,535,179)	(12,541,896)
Purchase of financial assets available-for-sale	(241,852)	4,631,264	(241,852)	4,631,264
Dividend receipts on investments	1,994,173	1,429,616	1,994,173	1,429,616
Purchase of property, plant and equipment	(209,231,469)	(224,753,044)	(214,080,793)	(224,753,044)
Purchase of intangible assets	(4,649,400)	(18,513,350)	(4,649,400)	(18,513,350)
Proceeds from sale of property, plant and equipment	39,097,488	51,756,251	39,007,586	51,756,251
Net cash used in investing activities	(194,566,239)	(197,991,159)	(179,505,465)	(197,991,159)
Cash flows from financing activities				
Loans obtained	3,703,345,152	4,568,600,000	3,703,345,152	4,568,600,000
Repayment of loans	(2,421,149,361)	(1,325,520,739)	(2,421,149,361)	(1,325,520,739)
Debentures issued	1,263,528,444	565,228,810	1,263,528,444	565,228,810
Redemption of debentures	(417,000,000)	(219,000,000)	(417,000,000)	(219,000,000)
Dividends paid	(131,665,862)	(79,842,542)	(131,665,862)	(79,842,542)
Net cash used in financing activities	1,997,058,373	3,509,465,529	1,997,058,373	3,509,465,529
Net increase/(decrease) in cash and cash equivalents	31,265,803	(111,825,050)	38,468,968	(111,825,050)
Cash and cash equivalents at the beginning of the year	203,190,593	315,015,643	203,190,594	315,015,643
Cash and cash equivalents at the end of the year	234,456,396	203,190,593	241,659,562	203,190,593

STATEMENT OF CASH FLOWS

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	333,440,165	233,762,127	340,643,331	233,762,127
Bank overdraft	(98,983,769)	(30,571,534)	(98,983,769)	(30,571,534)
	234,456,396	203,190,593	241,659,562	203,190,593

Note A

	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Reconciliation of operating profit				
Profit before income tax	680,481,686	634,871,653	681,811,946	634,871,653
Depreciation	122,168,643	97,290,730	122,841,469	97,290,730
Dividend receipts on investments	(1,994,173)	(1,429,616)	(1,994,173)	(1,429,616)
Profit on disposal of motor vehicles	(19,450,301)	(33,569,954)	(19,431,572)	(33,569,954)
Provision for defined benefit plan	7,296,851	5,853,034	7,296,851	5,853,034
Impairment of financial assets	43,966,358	(26,420,485)	43,966,358	(26,420,485)
Loans written-off	3,153,534	3,133,714	3,153,534	3,133,714
Gain/(loss) on mark to market valuation of shares	(6,523,785)	13,630,045	(6,523,785)	13,630,045
Capital gain/(loss) on sale of shares	552,549	(892,143)	552,549	(892,143)
Accrued interest on borrowings	31,532,788	29,103,163	31,532,788	29,103,163
Amortisation of structuring fees	16,585,284	5,123,944	16,585,284	5,123,944
	877,769,434	726,694,085	879,791,249	726,694,085

Figures in brackets indicate deductions.

The Notes to the Financial Statements form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

1.1 Domicile and Legal Form

Senkadagala Finance PLC is a public limited liability Company domiciled in Sri Lanka, incorporated under the Companies Act No. 51 of 1938 on 29th December 1968 and registered under the Finance Companies Act No. 78 of 1988 which was replaced by the Finance Business Act No. 42 of 2011. The Company has re-registered under the Companies Act No. 07 of 2007. The Registered Office of the Company is situated at No. 267, Galle Road, Colombo 03.

As a registered finance company, it is supervised by the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

1.2 Number of Employees

The number of employees of the Company at the end of the year was 414 (2012 - 347).

1.3 Consolidated Financial Statements

The consolidated Financial Statements of Senkadagala Finance PLC for the year ended 31st March 2013 comprise those of the Company (Parent company) and its subsidiary (together referred to as the 'Group'). The consolidated Financial Statements of all companies in the Group are prepared for a common financial year, which ends on 31st March. Group Financial Statements for the year ended 31st March 2012 comprise those of the Company and its associate.

1.4 Principal Activities and Nature of Operations

Company

The principal lines of business of the Company can be broadly classified under two categories - fund-based and fee-based. The fund based services include leasing, hire purchase finance, trade loans and pledge loans. The fee-based services include vehicle valuation, etc.

Subsidiary

The principal line of business of the subsidiary, Senkadagala Insurance Brokers (Pvt) Ltd. is insurance brokering activities.

1.5 Parent Enterprise and Ultimate Parent Enterprise

The Company is a subsidiary of E. W. Balasuriya and Company Private Ltd., which is incorporated and domiciled in Sri Lanka.

2. Basis of Preparation

2.1 Statement of Compliance

The Financial Statements of the Company and Group are prepared in accordance with Sri Lanka Accounting Standards (LKAS and SLFRS) as issued by The Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007, Finance Companies Act No. 78 of 1988 which is replaced by the new Finance Business Act No. 42 of 2011 and the amendments to these acts and provide appropriate disclosures as required by the Central Bank of Sri Lanka and Listing Rules of Colombo Stock Exchange.

For all periods up to and including the year ended 31st March 2012, the Company and the Group prepared its Financial Statements in accordance with Sri Lanka Accounting Standards effective as at 31st March 2012. These Financial Statements for the year ended 31st March 2013 represent the first time adoption of Sri Lanka Accounting Standards comprising SLFRS/LKAS effective 1st April 2012. Accordingly the Group has prepared Financial Statements which comply with SLFRS/LKAS applicable for period ending on or after 1st April 2012, together with the comparative period data as at and for the year ended 31st March 2011, as described in the Accounting Policies. In preparing these Financial Statements, the opening Statement of Financial Position was prepared as at 1st April 2011, the Group's date of transition to SLFRS. Refer Note 44 for information on how the Group adopted SLFRS.

The Financial Statements of the Senkadagala Finance PLC ('Company') and subsidiary consolidated ('Group') are prepared in Sri Lanka Rupees on a historical cost basis except for available for sale investments, derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit and loss, all of which have been measured at fair value and revaluation of certain freehold and leasehold premises. No adjustments have been made for inflationary factors.

2.2 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company in accordance with the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Financial Statements of Senkadagala Finance PLC for the year ended 31st March 2013 were authorised for issue in accordance with a Resolution of the Board of Directors on 30th May 2013.

NOTES TO THE FINANCIAL STATEMENTS

These Financial Statements include the following components:

- A Consolidated Income Statement providing the information on the financial performance of the Company and the Group for the year under review.
- A Consolidated Statement of Comprehensive Income providing the other comprehensive income of the Company and the Group for the year under review.
- A Consolidated Statement of Financial Position providing the information on the financial position of the Company and the Group for the year under review.
- A Consolidated Statement of Changes in Equity providing the information on all the changes in shareholder equity during the year under review.
- A Consolidated Statement of Cash Flows providing the information on the cash and cash equivalents generating ability of the Company and the Group and the way utilisation of those cash flows.
- Notes to the Financial Statements comprising Accounting Policies used and other Notes.

2.3 Bases of Measurement

The Financial Statements of the Group and the Company have been prepared on historical cost basis except for financial assets and liabilities designated at fair value through profit and loss which are measured at fair value.

2.4 Functional and Presentation Currency

The Consolidated Financial Statements are presented in Sri Lankan Rupees which is the functional currency.

2.5 Presentation of Financial Statements

The Company and the Group 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.

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the 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 of the Company.

2.6 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Company's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the Financial Statements. The most significant uses of judgments and estimates are as follows:

2.6.1 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, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.6.2 Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values.

2.6.3 Impairment Losses on Loans and Advances

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 judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found 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 types, levels of arrears, type of the borrowers, industries, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, prices indices, Inflation, etc.).

NOTES TO THE FINANCIAL STATEMENTS

2.6.4 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 judgment 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 judgment. In making this judgment, the Company evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

2.6.5 Events after the Reporting Period

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made in Note 41 where necessary.

3. Significant Accounting Policies

3.1 Basis of Consolidation

The Financial Statements of the Company and the Group comprise the Financial Statements of the Company and its subsidiary for the year ended 31st March 2013. The Financial Statements of the Company's subsidiary for the purpose of consolidation are prepared for the same reporting year as that of Senkadagala Finance, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are entities controlled by the Group. Subsidiaries are fully-consolidated from the date on which control is transferred to the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Investments of associates are accounted using the equity method. Accordingly, investments in associates are carried at cost plus post-acquisition changes in the Group's share of net assets of the associate and reported as a separate line item in the Statement of Financial Position. Associates are those entities in which the Group has significant influence, but not control over the financial and operating policies.

3.2 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees.

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other Operating Income' in the Income Statement.

3.3. Financial Instruments - Initial Recognition and Subsequent Measurement

(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 Instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments 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 and loss.

(iii) Financial Assets or Financial Liabilities Held for Trading

Financial assets or financial liabilities held for trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'net trading income'. Interest and dividend income or expense is recorded in 'net trading income' according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

NOTES TO THE FINANCIAL STATEMENTS

(iv) Financial Assets and Financial Liabilities Designated at Fair Value Through Profit and Loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit and loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.
- Financial assets and financial liabilities at fair value through profit and loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets and liabilities designated at fair value through profit and loss'. Interest earned or incurred is accrued in 'Interest income' or 'interest expense', respectively, using the effective interest rate (EIR), while dividend income is recorded in 'other operating income' when the right to the payment has been established.

(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'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the Income Statement when the inputs become observable, or when the instrument is derecognised.

(vi) Available-for-Sale Financial Investments

Available-for-sale investments include equity and debt 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 and loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Company has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the Income Statement as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Income Statement in 'impairment losses on financial investments' and removed from the 'available-for-sale reserve'.

(vii) Held-to-Maturity Financial Investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in 'interest and similar income' in the Income Statement. The losses arising from impairment of such investments are recognised in the Income Statement line 'credit loss expense'. If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

(viii) Debt Issued and Other Borrowed Funds

Financial instruments issued by the Company that are not designated at fair value through profit and 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.

NOTES TO THE FINANCIAL STATEMENTS

(ix) 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 and loss category after initial recognition.

3.4 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 derecognised 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.

(ii) Financial Liabilities

A financial liability is derecognised 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 derecognition 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.

3.5 Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised 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 Consolidated Statement of Financial Position as an asset with a corresponding obligation to return it, including accrued interest as a liability within 'cash collateral on securities lent and 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. When the counterparty has the right to sell or re-pledge the securities, the Company reclassifies those securities in its Statement of Financial Position to 'financial assets held for trading pledged as collateral' or to 'financial investments available-for-sale pledged as collateral', as appropriate.

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 'cash collateral on securities borrowed and 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.

3.6 Determination of Fair Value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES TO THE FINANCIAL STATEMENTS

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Company's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 45.1.

3.7 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.

(i) Loans and Advances Carried at Amortised Cost

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans whereas for groups of loans, this is done collectively. Impairment losses are recorded as charges to the Income Statement. The carrying amount of impaired loans on the reporting date is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually Assessed Loans and Advances and Lease and Hire Purchase

For all loans that are considered individually significant, the Company assesses on a case by case basis at each Statement of Financial Position reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include:

- 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
- a significant downgrading in credit rating by an external credit rating agency.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- company's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security and likelihood of successful repossession; and
- the likely deduction of any costs involved in recovery of amounts outstanding.

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loan's current carrying amount. 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.

NOTES TO THE FINANCIAL STATEMENTS

Collectively Assessed Loans and Advances and Lease & Hire Purchase

Impairment is assessed on a collective basis in two circumstances:

- known cash flow difficulties experienced by the borrower; 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 are 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 reporting date, which the Company is 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 and Lease & Hire Purchase

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 into 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 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 debt instruments classified as available-for-sale, the Company assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the Income Statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

The interest income is recorded as part of 'interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the Income Statement, the impairment loss is reversed through the Income Statement.

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.

(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 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 Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Company's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margin requirements, is valued daily.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as valuers, Audited Financial Statements, and other independent sources.

(v) Collateral Repossessed or Where Properties have Devolved on 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.

3.8 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 and Similar Income and Expense

For all financial instruments measured at amortised cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit and 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.

NOTES TO THE FINANCIAL STATEMENTS

(a) Lease

In accordance with Sri Lanka Accounting Standard LKAS 17 - 'Leases' recognition of finance income on leasing is accounted based on a pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate rentals receivable over the cost of leased assets constitutes the total unearned interest income at the commencement of the contract. The Company recognises the interest income from unearned income on the lease on an accrual basis over the term of the lease in proportion to the remaining balance of the lease.

(b) Hire Purchase

Recognition of interest income from hire purchase facilities is similar to that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on capital outstanding.

(c) Commercial Loans and Other Loans and Advances

Recognition of interest income from loans and advances is similar to that of leases, which recognises interest income based on a pattern reflecting a constant rate of return on the capital outstanding.

(d) Gold Loans (Pawning)

Interest on gold loans (pawning) are recognised on an accrual basis over a maximum period of 12 months.

(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 Earned from Services that are Provided Over a Certain Period of Time

Fees earned for the provision of services are not integral part of main source. These incomes are collections from the customers for reimbursement of expenses. These fees include commission income and finance charges, legal fees, valuation and document charges.

(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 all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'. This includes any ineffectiveness recorded in hedging transactions.

3.9 Cash and Cash Equivalents

Cash and cash equivalents as referred to in the Cash Flow Statement comprise cash on hand, balances with banks, placements with banks and money at call at short notice with an original maturity of three months or less.

3.10 Business Combinations and Goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Income Statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit to which the goodwill is allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes, and is not larger than an operating segment in accordance with Sri Lanka Accounting Standard (SLFRS 8) 'Operating Segments'.

Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

3.11 Property and Equipment

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.

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 depreciation rates and estimated useful lives of the different types of assets are as follows:

Buildings	5%	per annum (20 years)
Office equipment	10%	per annum 10 years)
Computers and other equipment	25%	per annum (4 years)
Furniture and fittings	10%	per annum (10 years)
Motor vehicles	16.67%	per annum (6 years)
Generators	12.5%	per annum (8 years)
Interior construction	20%	per annum (5 years)

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition 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 derecognised.

3.12 Intangible Assets

The Company's other 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, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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
IT Related Capital Items	8.34 Years	Straight line method

3.13 Investment Property

Property held to earn rental income and property held for capital appreciation have been classified as investment property. Investment property are initially recognised at cost. Subsequent to the initial recognition, the investment property are accounted using cost model.

Depreciation is calculated using the straight-line method to write-down the cost of property to their residual values over their estimated useful lives. Land is not depreciated. Buildings are estimated to have a useful life of 20 years, the depreciation rate adopted is 5% per annum.

3.14 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 subsidiary or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement.

Impairment losses relating to goodwill are not reversed in future periods.

NOTES TO THE FINANCIAL STATEMENTS

3.15 Gratuity

(i) Defined Benefit Plan

The cost of providing benefits under the defined benefit plan is determined separately using the projected benefit actuarial valuation method. Actuarial gains and losses are fully recognised as income or expense in the respective financial year.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly, less actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The latest actuarial valuation was carried out as of 3rd April 2013, by Piyal S. Gunatilleke F.S.A. (USA), Member of the American Academy of Actuaries and Consulting Actuaries.

The principal financial assumptions used in the valuation as at 31st March 2013 are as follows:

Interest/discount rate	11% p.a.
Basic salary increase for all grades	10% p.a.
Retirement age	55 years

The actuarial gains or losses are recognised in the Statement of Comprehensive Income in the period in which they arise.

Funding Arrangement

The gratuity liabilities are not externally funded.

Gratuity payments are being made by the Company according to the Payment of Gratuity Act No. 12 of 1983. Accordingly, the Company is liable to pay gratuity to permanent employees who have completed a minimum of five years service in the Company at the rate of 50% of the last drawn salary for each completed year of service.

The subsidiary and associate company of the Company provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for gratuity has been made for employees who have completed one year of service with the Company. These liabilities are 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.

3.16 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.

3.17 Taxes

(i) Current Taxation

Current tax assets and liabilities consist 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 reporting 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 14 to the Financial Statements.

(ii) Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the reporting 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

The carrying amount of a deferred tax asset is reviewed at each reporting 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 assets are reassessed at each reporting date and are recognised to the extent that it 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 reporting date.

(iii) Value Added Tax on Financial Services

Company's total value addition was subjected to a 12% Value Added Tax as per Section 25 A of the Value Added Tax No. 14 of 2002 and amendments thereto.

3.18 Segment Reporting

A segment is a distinguishable component of the Company that is engaged in providing services (Business Segment).

In accordance with Sri Lanka Financial Reporting Standard SLFRS 8 - 'Operating Segments' segmental information is presented in respect of the Company. The segments comprise of financing and investing segments.

Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of head office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one accounting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
4. Interest Income					
Cash and short-term funds		63,245,493	28,283,775	63,245,493	28,283,775
REPO income	4.1	30,907,457	23,769,710	30,907,457	23,769,710
Finance leases		1,159,613,170	560,684,609	1,159,613,170	560,684,609
Hire purchases		1,227,157,296	1,024,212,901	1,227,157,296	1,024,212,901
Personal loans		23,993,983	23,862,088	23,993,983	23,862,088
Commercial loans		9,084,496	9,224,987	9,084,496	9,224,987
Pawning advances		6,458,683	–	6,458,683	–
Fixed deposit loans		5,814,415	3,234,001	5,814,415	3,234,001
Insurance premium receivable		23,727,472	25,394,680	23,727,472	25,394,680
Financial investments - held-to-maturity	4.1	42,326,076	20,112,872	42,326,076	20,112,872
Other		269,594,414	165,721,887	269,594,414	165,721,887
		2,861,922,955	1,884,501,510	2,861,922,955	1,884,501,510

4.1 Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

Section 137 of the Inland Revenue Act No. 10 of 2006 provides that a company which derives interest income from the secondary market transactions in Government Securities would be entitled to a notional tax credit (being one-ninth of net interest income), provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest earned by the Company from the secondary market transactions in Government Securities (Treasury Bills) and Repo investment for the year have been grossed up in the Financial Statements, and the resulting notional tax credit amounts to Rs. 4,232,608/- (2012 - Rs. 2,011,287/-) and Rs. 3,090,746/- (2012 - Rs. 2,376,971/-) respectively for the Company.

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
5. Interest Expense				
Securitisations	808,293,856	354,087,225	808,293,856	354,087,225
Deposits from customers	400,032,063	267,940,326	400,009,141	267,940,326
Commercial paper	11,424,425	–	11,424,425	–
Debentures	287,952,340	213,882,920	287,952,340	213,882,920
Amortisation of securitisation loan structuring fee	16,585,284	5,123,944	16,585,284	5,123,944
	1,524,287,968	841,034,415	1,524,265,046	841,034,415

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
6. Fee and Commission Income				
Finance charges	18,952,728	25,978,284	18,952,728	25,978,284
Commission income	50,922,899	44,817,947	56,573,823	44,817,947
Legal fees	6,742,825	3,506,234	6,742,825	3,506,234
Inspection fees	385,454	1,938,214	385,454	1,938,214
	77,003,906	76,240,679	82,654,830	76,240,679

Commission income basically consists of commission received on brokering for insurance on vehicles financed in the ordinary course of business of the Company. The said line of income will be transferred to the fully-owned subsidiary Senkadagala Insurance Brokers (Pvt) Ltd. from 2013/14. This segment did not involve any asset, liability or any operation and it is only a line of income.

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
7. Fee and Commission Expense				
Commission paid	2,851,377	–	2,851,377	–
Other	15,636,406	13,318,783	15,636,406	13,318,783
	18,487,783	13,318,783	18,487,783	13,318,783
8. Net Gain/(Loss) from Trading				
Equities	(552,549)	892,143	(552,549)	892,143
Foreign exchange	12,702	–	12,702	–
	(539,847)	892,143	(539,847)	892,143
9. Net Gain/(Loss) from Financial Instruments Designated at Fair Value Through Profit and Loss				
Financial assets designated at fair value through profit and loss	6,523,785	(13,630,045)	6,523,785	(13,630,045)
	6,523,785	(13,630,045)	6,523,785	(13,630,045)
10. Other Operating Income				
Dividend income	1,994,173	1,429,616	1,994,173	1,429,616
Gains from sale of property, plant & equipment	19,450,301	33,569,954	19,431,572	33,569,954
IT services income	–	25,000,000	–	25,000,000
Rent income	1,714,286	1,714,286	1,714,286	1,714,286
Other income	7,531,110	6,305,924	7,531,110	6,305,924
	30,689,870	68,019,780	30,671,141	68,019,780

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
11. Impairment Expenses for Loans and Advances and Other Losses					
Impairment charge/(reversal) on individual impairment		(689,508)	225,234	(689,508)	225,234
Impairment charge/(reversal) on collective impairment		44,655,866	(26,645,719)	44,655,866	(26,645,719)
Direct write-offs		3,153,534	3,133,714	3,153,534	3,133,714
Net loss on sale of repossessed assets		11,107,789	17,010,670	11,107,789	17,010,670
Recovery of loans previously written off		(46,302,181)	(40,284,566)	(46,302,181)	(40,284,566)
		11,925,500	(46,560,667)	11,925,500	(46,560,667)
12. Personnel Expenses					
Salaries and wages		177,495,605	132,142,576	179,926,938	132,142,576
Directors' emoluments		14,032,500	15,520,000	14,032,500	15,520,000
Employees' provident fund		22,013,653	16,326,492	22,138,453	16,326,492
Employees' trust fund		5,503,413	4,081,623	5,534,613	4,081,623
Contribution for defined benefit plan	12.1	7,296,851	5,853,034	7,296,851	5,853,034
Staff bonus		–	8,200,000	–	8,200,000
Other personnel costs		6,114,520	4,103,522	6,114,520	4,103,522
		232,456,542	186,227,247	235,043,875	186,227,247
12.1 Contribution for Defined Benefit Plan Recognised in the Income Statement					
Current service cost		3,850,951	3,070,946	3,850,951	3,070,946
Interest cost		3,445,900	2,782,088	3,445,900	2,782,088
		7,296,851	5,853,034	7,296,851	5,853,034
12.2 Contribution for Defined Benefit Plan Recognised in the Statement of Comprehensive Income					
Actuarial gain/(loss) at the end of the year		(2,366,081)	2,498,527	(2,366,081)	2,498,527
		(2,366,081)	2,498,527	(2,366,081)	2,498,527
13. Other Operating Expenses					
External Auditors' remuneration - Audit fee		700,000	600,000	757,714	600,000
- Audit-related services		915,929	574,451	915,929	574,451
Internal Auditors' remuneration		5,400,000	5,400,000	5,400,000	5,400,000
Legal expenses		7,641,436	4,862,649	7,641,436	4,862,649
Contribution to deposit insurance scheme of CBSL		4,356,521	3,436,806	4,356,521	3,436,806
Other administrative expenses		36,005,482	36,285,085	36,858,186	36,285,085
Establishment expenses		228,311,478	151,391,264	228,362,295	151,391,264
Selling expenses		47,398,093	29,203,477	47,501,557	29,203,477
		330,728,939	231,753,732	331,793,638	231,753,732

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
14. Income Tax Expenses					
Current income tax	14.1	82,313,641	90,534,177	82,872,933	90,534,177
Adjustment in respect of current income tax of prior years		–	(7,341,331)	–	(7,341,331)
Deferred tax		20,304,688	75,228,331	20,306,128	75,228,331
		102,618,329	158,421,177	103,179,061	158,421,177

14.1 Reconciliation of the Total Tax Charge

	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Net profit before tax	680,481,686	634,871,653	681,811,946	634,871,653
Adjustments:				
Non-taxable income	(1,453,388,901)	(640,924,013)	(1,453,388,901)	(640,924,013)
Disallowable expenses	295,240,811	224,489,091	295,932,357	224,489,091
Allowable expenses	771,643,693	104,899,617	771,619,358	104,899,616
Total statutory income	293,977,289	323,336,348	295,974,760	323,336,347
Income tax rate	28%	28%	28%	28%
Income tax	82,313,641	90,534,177	82,872,933	90,534,177
Income tax on profit for the year	82,313,641	90,534,177	82,872,933	90,534,177
Effective tax rate	12.10%	14.26%	12.15%	14.26%

15. Earnings Per Share

Basic earnings per share has been calculated by dividing the net profit for the period attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
Profit attributable to ordinary shareholders of the Company	577,863,357	476,450,476	578,632,885	476,450,476
Weighted average number of ordinary shares	53,368,000	53,368,000	53,368,000	53,368,000
Basic earnings per share	10.83	8.93	10.84	8.93

NOTES TO THE FINANCIAL STATEMENTS

16. Dividends Per Share

Dividends per share is calculated by dividing the proposed and/or paid dividend to ordinary shareholders of the Company, by the number of ordinary shares in issue.

For the year ended 31st March	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
16.1 Dividend Paid for the Year				
1st interim dividend paid (2012/13 - 0.45, 2011/12 - Rs. 0.53)	24,015,600	28,285,040	24,015,600	28,285,040
2nd interim dividend paid (2012/13 - 0.79, 2011/12 - Rs. 0.60)	42,160,720	32,020,800	42,160,720	32,020,800
Total dividends paid	66,176,320	60,305,840	66,176,320	60,305,840
16.2 Dividend Proposed for the Year				
Proposed 3rd interim dividend (2012/13 - 0.80, 2011/12 - Rs. 0.70)	42,694,400	37,357,600	42,694,400	37,357,600
Proposed final dividend (2011/12 - Rs. 0.55)	–	29,352,400	–	29,352,400
Total dividends proposed	42,694,400	66,710,000	42,694,400	66,710,000
Dividends per share	2.04	2.38	2.04	2.38

As at 31st March	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
17. Cash and Cash Equivalents						
Cash in hand held in local currency	77,177,895	47,963,451	19,875,290	77,182,954	47,963,451	19,875,290
Cash in hand held in foreign currency	108,602	–	–	108,602	–	–
Balances with licensed commercial banks	256,153,668	185,798,676	324,123,027	263,351,775	185,798,676	324,123,027
	333,440,165	233,762,127	343,998,317	340,643,331	233,762,127	343,998,317
18. Deposits with Licensed Commercial Banks						
Bank of Ceylon	505,159,589	637,118,275	–	505,159,589	637,118,275	–
People’s Bank	556,619,427	–	–	556,619,427	–	–
	1,061,779,016	637,118,275	–	1,061,779,016	637,118,275	–

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
19. Financial Assets Held at Fair Value through Profit and Loss						
Quoted equity (Note 19.1)	67,627,657	60,121,242	60,317,248	67,627,657	60,121,242	60,317,248
	67,627,657	60,121,242	60,317,248	67,627,657	60,121,242	60,317,248

As at 31st March	Company 2013 No. of Shares	Company 2013 Cost Rs.	Company 2013 Market Value Rs.	Group 2013 No. of Shares	Group 2013 Cost Rs.	Group 2013 Market Value Rs.	Company 2012 No. of Shares	Company 2012 Cost Rs.	Company 2012 Market Value Rs.	Group 2012 No. of Shares	Group 2012 Cost Rs.	Group 2012 Market Value Rs.
19.1 Quoted Equity												
Bank, Finance and Insurance												
Central Finance Company PLC	22,387	243,207	4,029,660	22,387	243,207	4,029,660	22,387	243,207	3,834,893	22,387	243,207	3,834,893
National Development Bank PLC	668	500	110,220	668	500	110,220	668	500	82,030	668	500	82,030
Commercial Bank of Ceylon PLC	2,719	258,096	307,247	2,719	258,096	307,247	2,672	258,096	267,200	2,672	258,096	267,200
Beverage, Food and Tobacco												
Ceylon Tobacco PLC	3,100	142,017	2,420,170	3,100	142,017	2,420,170	3,100	142,017	1,596,810	3,100	142,017	1,596,810
Hotels and Travels												
Aitken Spence PLC	495	3,355	59,202	495	3,355	59,202	495	3,355	55,787	495	3,355	55,787
Investment Trust												
NAMAL Acuity Value Fund	25,000	1,250,000	1,605,000	25,000	1,250,000	1,605,000	25,000	1,250,000	1,575,000	25,000	1,250,000	1,575,000
Manufacturing												
Royal Ceramics Lanka PLC	20	273	1,990	20	273	1,990	20	273	2,300	20	273	2,300
Diversified Holdings												
John Keells Holdings PLC	2,582	13,800	637,754	2,582	13,800	637,754	2,582	13,800	531,892	2,582	13,800	531,892
Hayleys PLC	113	7,175	33,753	113	7,175	33,753	113	7,175	40,680	113	7,175	40,680
Trading												
Lanka Indian Oil Corporation PLC	5,500	148,500	112,200	5,500	148,500	112,200	5,500	148,500	106,700	5,500	148,500	106,700
Portfolio Investment (Note 19.2)		55,093,592	58,310,461		55,093,592	58,310,461		54,110,964	52,027,950		54,110,964	52,027,950
Total cost and market value		57,160,515	67,627,657		57,160,515	67,627,657		56,177,887	60,121,242		56,177,887	60,121,242

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 No. of Shares	Company 2013 Cost Rs.	Company 2013 Market Value Rs.	Group 2013 No. of Shares	Group 2013 Cost Rs.	Group 2013 Market Value Rs.	Company 2012 No. of Shares	Company 2012 Cost Rs.	Company 2012 Market Value Rs.	Group 2012 No. of Shares	Group 2012 Cost Rs.	Group 2012 Market Value Rs.
19.2 Portfolio Investment												
Bank Finance & Insurance												
Ceylinco Insurance PLC	10,000	1,560,322	3,272,000	10,000	1,560,322	3,272,000	10,000	1,560,322	3,043,000	10,000	1,560,322	3,043,000
Commercial Bank of Ceylon PLC	66	4,722	7,571	66	4,722	7,571	66	4,722	6,600	66	4,722	6,600
Hatton National Bank PLC (Non-voting)	23,657	1,997,328	3,117,993	23,657	1,997,328	3,117,993	23,000	1,997,328	2,173,500	23,000	1,997,328	2,173,500
Union Assurance PLC	3,000	257,856	257,100	3,000	257,856	257,100	–	–	–	–	–	–
Seylan Bank PLC (Non-voting)	26,666	1,144,859	946,643	26,666	1,144,859	946,643	86,666	3,720,858	2,513,314	86,666	3,720,858	2,513,314
Beverage Food & Tobacco												
Ceylon Cold Stores PLC	17,000	1,753,425	2,310,300	17,000	1,753,425	2,310,300	20,000	2,062,853	1,800,000	20,000	2,062,853	1,800,000
Distilleries Company of Sri Lanka PLC	65,000	10,061,377	10,822,500	65,000	10,061,377	10,822,500	65,000	10,061,377	9,425,000	65,000	10,061,377	9,425,000
Kotmale Holdings PLC	85,000	3,583,710	3,051,500	85,000	3,583,710	3,051,500	80,000	3,406,750	3,160,000	80,000	3,406,750	3,160,000
Lanka Milk Foods (CWE) PLC	65,888	6,376,747	7,135,670	65,888	6,376,747	7,135,670	65,713	6,359,457	6,426,731	65,713	6,359,457	6,426,731
Renuka Shaw Wallace PLC	200	3,084	3,600	200	3,084	3,600	–	–	–	–	–	–
Renuka Agri Foods PLC	50,000	214,880	205,000	50,000	214,880	205,000	–	–	–	–	–	–
Chemicals & Pharmaceuticals												
CIC Holdings PLC (Non-voting)	50,000	2,226,039	2,330,000	50,000	2,226,039	2,330,000	50,000	2,226,039	3,255,000	50,000	2,226,039	3,255,000
Haycarb PLC	13,300	2,049,981	2,340,800	13,300	2,049,981	2,340,800	13,300	2,049,981	2,128,000	13,300	2,049,981	2,128,000
Plantation												
Kegalle Plantation PLC	2,500	235,104	280,000	2,500	235,104	280,000	–	–	–	–	–	–
Footwear & Textile												
Hayleys Mgt Knitting Mills PLC	34,400	747,603	350,880	34,400	747,603	350,880	17,200	592,803	204,680	17,200	592,803	204,680
Healthcare												
Ceylon Hospitals PLC (Non-voting)	38,838	1,205,012	2,916,734	38,838	1,205,012	2,916,734	38,838	1,205,012	2,151,625	38,838	1,205,012	2,151,625

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 No. of Shares	Company 2013 Cost Rs.	Company 2013 Market Value Rs.	Group 2013 No. of Shares	Group 2013 Cost Rs.	Group 2013 Market Value Rs.	Company 2012 No. of Shares	Company 2012 Cost Rs.	Company 2012 Market Value Rs.	Group 2012 No. of Shares	Group 2012 Cost Rs.	Group 2012 Market Value Rs.
Hotels & Travels												
Browns Beach Hotels PLC	–	–	–	–	–	–	40,000	637,646	584,000	40,000	637,646	584,000
Eden Lanka Hotel PLC	1,502	48,603	52,570	1,502	48,603	52,570	10,000	323,587	308,000	10,000	323,587	308,000
Taj Lanka Hotels PLC	70,000	2,112,198	1,750,000	70,000	2,112,198	1,750,000	60,000	1,869,510	1,854,000	60,000	1,869,510	1,854,000
Investment Trusts												
Renuka Holdings PLC (Non-voting)	40,000	1,071,872	856,000	40,000	1,071,872	856,000	20,000	525,824	520,000	20,000	525,824	520,000
Land & Property												
C T Land Development PLC	5,000	111,570	120,500	5,000	111,570	120,500	5,000	111,570	121,000	5,000	111,570	121,000
Manufacturing												
Dipped Products PLC	50,000	6,177,582	5,550,000	50,000	6,177,582	5,550,000	50,000	6,177,582	5,005,000	50,000	6,177,582	5,005,000
Pelwatte Sugar Industries PLC	31,000	1,064,794	3,100	31,000	1,064,794	3,100	31,000	1,064,794	728,500	31,000	1,064,794	728,500
Tokyo Cement Company (Lanka) PLC (Non voting)	65,000	2,059,005	1,137,500	65,000	2,059,005	1,137,500	65,000	2,059,005	1,755,000	65,000	2,059,005	1,755,000
Power & Energy												
Hemas Power PLC	25,000	543,019	522,500	25,000	543,019	522,500	20,000	455,044	440,000	20,000	455,044	440,000
Lanka IOC PLC	175,000	3,182,897	3,570,000	175,000	3,182,897	3,570,000	100,000	1,855,697	1,940,000	100,000	1,855,697	1,940,000
Telecommunications												
Dialog Axiata PLC	600,000	5,300,003	5,400,000	600,000	5,300,003	5,400,000	350,000	3,783,203	2,485,000	350,000	3,783,203	2,485,000
Total cost and market value		55,093,592	58,310,461		55,093,592	58,310,461		54,110,964	52,027,950		54,110,964	52,027,950

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Note	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
20. Loans and Advances							
Lease	20.1	5,707,068,373	4,349,702,727	1,446,696,021	5,707,068,373	4,349,702,727	1,446,696,021
Hire purchase	20.2	5,446,674,892	4,410,021,518	3,742,138,445	5,446,674,892	4,410,021,518	3,742,138,445
Commercial loans	20.3	33,229,652	25,334,824	58,995,601	33,229,652	25,334,824	58,995,601
Other loans and advances	20.4	372,963,068	183,506,656	150,337,593	372,963,068	183,506,656	150,337,593
		11,559,935,985	8,968,565,725	5,398,167,660	11,559,935,985	8,968,565,725	5,398,167,660

20.1 Lease

	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
Gross investment in leases receivable within one year	2,844,549,493	1,987,791,334	754,875,359	2,844,549,492	1,987,791,334	754,875,359
Gross investment in leases receivable between one and five years	4,910,328,655	4,001,773,529	1,201,817,190	4,910,328,656	4,001,773,529	1,201,817,190
Gross investment in leases receivable in respect of non-performing leases	14,813,668	20,014,968	31,902,758	14,813,668	20,014,968	31,902,758
Repossessed lease receivable	104,438,893	30,265,888	46,763,316	104,438,893	30,265,888	46,763,316
Leases receivable in arrears	188,529,752	77,672,135	40,148,385	188,529,752	77,672,135	40,148,385
	8,062,660,461	6,117,517,854	2,075,507,008	8,062,660,461	6,117,517,854	2,075,507,008
Unearned lease income	(2,232,903,343)	(1,685,693,805)	(547,876,030)	(2,232,903,343)	(1,685,693,805)	(547,876,030)
Initial lease rental	(12,573,776)	(12,898,638)	(13,209,219)	(12,573,776)	(12,898,638)	(13,209,219)
Pre-paid lease rental	(14,930,630)	(11,996,951)	(6,589,639)	(14,930,630)	(11,996,951)	(6,589,639)
Net investment in finance leases	5,802,252,712	4,406,928,460	1,507,832,120	5,802,252,712	4,406,928,460	1,507,832,120
Impairment losses						
Provision for individual impairment	(6,076,133)	(1,277,186)	–	(6,076,133)	(1,277,186)	–
Provision for collective impairment	(89,108,206)	(55,948,547)	(61,136,099)	(89,108,206)	(55,948,547)	(61,136,099)
Net investment in finance leases after impairment	5,707,068,373	4,349,702,727	1,446,696,021	5,707,068,373	4,349,702,727	1,446,696,021

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
20.2 Hire Purchase						
Gross investment in hire purchase receivable within one year	2,772,199,629	2,220,235,439	2,062,771,795	2,772,199,629	2,220,235,439	2,062,771,795
Gross investment in hire purchase receivable between one and five years	4,882,776,370	3,782,209,183	3,001,494,829	4,882,776,370	3,782,209,183	3,001,494,829
Gross investment in hire purchase receivable in respect of non-performing hire purchase	9,091,869	39,087,803	43,092,004	9,091,869	39,087,803	43,092,004
Repossessed hire purchase receivable	28,076,583	19,778,377	27,018,396	28,076,583	19,778,377	27,018,396
Hire purchase receivable in arrears	155,733,812	104,604,582	134,849,004	155,733,812	104,604,582	134,849,004
	7,847,878,263	6,165,915,384	5,269,226,028	7,847,878,263	6,165,915,384	5,269,226,028
Unearned hire purchase income	(2,340,288,394)	(1,668,854,855)	(1,402,090,872)	(2,340,288,394)	(1,668,854,855)	(1,402,090,872)
Pre-paid hire purchase rental	(15,517,541)	(17,162,375)	(13,773,115)	(15,517,541)	(17,162,375)	(13,773,115)
Net investment in hire purchase	5,492,072,328	4,479,898,154	3,853,362,041	5,492,072,328	4,479,898,154	3,853,362,041
Impairment losses						
Provision for individual impairment	(774,069)	(350,702)	–	(774,069)	(350,702)	–
Provision for collective impairment	(44,623,367)	(69,525,934)	(111,223,596)	(44,623,367)	(69,525,934)	(111,223,596)
Net investment in hire purchase after impairment	5,446,674,892	4,410,021,518	3,742,138,445	5,446,674,892	4,410,021,518	3,742,138,445
20.3 Commercial Loans						
Gross investment in commercial loans receivable within one year	22,097,732	17,944,682	32,198,907	22,097,732	17,944,682	32,198,907
Gross investment in commercial loans receivable between one and five years	28,253,480	18,779,765	36,244,944	28,253,480	18,779,765	36,244,944
Gross investment in commercial loans receivable in respect of non-performing loans	–	22,779,641	21,994,294	–	22,779,641	21,994,294
Commercial loans receivable in arrears	791,409	1,123,256	11,364,038	791,409	1,123,256	11,364,038
	51,142,621	60,627,344	101,802,183	51,142,621	60,627,344	101,802,183
Unearned commercial loans income	(16,327,243)	(17,885,457)	(26,123,829)	(16,327,243)	(17,885,457)	(26,123,829)
Pre-paid commercial loan rental	(459,303)	(597,808)	(775,271)	(459,303)	(597,808)	(775,271)
Net investment in commercial loans	34,356,075	42,144,079	74,903,083	34,356,075	42,144,079	74,903,083
Impairment losses						
Provision for individual impairment	–	–	–	–	–	–
Provision for collective impairment	(1,126,423)	(16,809,255)	(15,907,482)	(1,126,423)	(16,809,255)	(15,907,482)
Net investment in commercial loans after impairment	33,229,652	25,334,824	58,995,601	33,229,652	25,334,824	58,995,601

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
20.4 Other Loans and Advances						
Gross investment in personal loan receivable within one year	42,285,012	39,724,909	35,977,587	42,285,012	39,724,909	35,977,587
Gross investment in personal loan receivable between one and five years	84,582,599	77,869,170	72,612,975	84,582,599	77,869,170	72,612,975
Personal loan receivable in arrears	97,424	307,750	399,621	97,424	307,750	399,621
	126,965,035	117,901,829	108,990,183	126,965,035	117,901,829	108,990,183
Unearned personal loan income	(50,533,786)	(46,453,191)	(43,455,250)	(50,533,786)	(46,453,191)	(43,455,250)
Pre-paid personal loan rental	(4,276,977)	(4,139,987)	(2,978,528)	(4,276,977)	(4,139,987)	(2,978,528)
Net investment in personal loans	72,154,272	67,308,651	62,556,405	72,154,272	67,308,651	62,556,405
Loans against fixed deposits	54,159,530	21,038,154	18,935,109	54,159,530	21,038,154	18,935,109
Gross investment in pawning advances	65,721,484	1,366,000	–	65,721,484	1,366,000	–
Unearned income from pawning advances	4,827,482	–	–	4,827,482	–	–
Net investment in pawning advances	70,548,966	1,366,000	–	70,548,966	1,366,000	–
Impairment losses						
Provision for individual impairment	–	–	–	–	–	–
Provision for collective impairment	(913,550)	–	–	(913,550)	–	–
Net investment in pawning advances after impairment	69,635,416	1,366,000	–	69,635,416	1,366,000	–
Other loans and advances						
Discounting of cheques	490,000	490,000	490,000	490,000	490,000	490,000
Insurance	185,743,435	98,178,150	83,885,331	185,743,435	98,178,150	83,885,331
Advances allowed to car sales	–	5,911,822	6,844,073	–	5,911,822	6,844,073
Staff debtors	11,748,836	8,753,056	7,885,283	11,748,836	8,753,056	7,885,283
Sundry debtors	3,462,403	10,097,251	2,026,266	3,462,403	10,097,251	2,026,266
	201,444,674	123,430,279	101,130,953	201,444,674	123,430,279	101,130,953
Impairment losses						
Provision for individual impairment	(1,906,394)	(7,818,216)	(9,220,870)	(1,906,394)	(7,818,216)	(9,220,870)
Provision for collective impairment	(22,524,430)	(21,818,212)	(23,064,004)	(22,524,430)	(21,818,212)	(23,064,004)
Net investment in pawning after impairment	177,013,850	93,793,851	68,846,079	177,013,850	93,793,851	68,846,079
Total investment in other loans and advances	372,963,068	183,506,656	150,337,593	372,963,068	183,506,656	150,337,593

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
20.5 Impairment Losses						
Movement in allowance for individual impairment						
Opening balance	9,446,104	9,220,870	–	9,446,104	9,220,870	–
Charge/(Reversal) for the year	(689,508)	225,234	9,220,870	(689,508)	225,234	9,220,870
Net write-off/(recoveries) for the year	–	–	–	–	–	–
Interest accrued in impaired loans and advances	–	–	–	–	–	–
Closing balance	8,756,596	9,446,104	9,220,870	8,756,596	9,446,104	9,220,870
Gross amount of loans individually determined to be impaired	15,701,239	25,252,129	17,245,622	15,701,239	25,252,129	17,245,622
Movement in allowance for collective impairment						
Opening balance	164,101,949	211,331,181	–	164,101,949	211,331,181	–
Charge/(Reversal) for the year	44,655,866	(26,645,719)	211,331,181	44,655,866	(26,645,719)	211,331,181
Net write-off for the year	(50,461,838)	(20,583,513)	–	(50,461,838)	(20,583,513)	–
Closing balance	158,295,977	164,101,949	211,331,181	158,295,977	164,101,949	211,331,181
Total of individual and collective impairment	167,052,573	173,548,053	220,552,051	167,052,573	173,548,053	220,552,051
21. Financial Assets Available for Sale						
Credit Information Bureau of Sri Lanka	90,586	8,200	8,200	90,586	8,200	8,200
Finance House Consortium (Pvt) Ltd.	200,000	200,000	200,000	200,000	200,000	200,000
National Equity Fund	1,129,127	969,661	600,925	1,129,127	969,661	600,925
Debentures - Commercial Bank - 13% (5,000 Debentures of Rs. 1,000/- each)	–	–	5,000,000	–	–	5,000,000
	1,419,713	1,177,861	5,809,125	1,419,713	1,177,861	5,809,125
22. Financial Assets Held to Maturity						
Government securities	389,855,927	304,111,412	198,509,828	389,855,927	304,111,412	198,509,828
	389,855,927	304,111,412	198,509,828	389,855,927	304,111,412	198,509,828
23. Investment in Subsidiary						
Unquoted						
Senkadagala Insurance Brokers (Pvt) Ltd.						
(2,000,000 Ordinary shares)						
Holding (%)	100	–	–	–	–	–
Directors' valuation	20,710,363	–	–	–	–	–
Cost	20,000,000	–	–	–	–	–

The Directors valuation of investment in subsidiary company has been carried out on net assets basis.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
24. Investments in Associate							
Senkadagala Hotels Ltd.	24.1	–	–	–	–	–	–
24.1 Senkadagala Hotels Ltd.							
Cost of the investment		13,957,555	13,957,555	13,957,555	13,957,555	13,957,555	13,957,555
Impairment loss		(13,957,555)	(13,957,555)	(13,957,555)	–	–	–
Share of (loss)/profit of associate		–	–	–	(13,957,555)	(13,957,555)	(13,957,555)
		–	–	–	–	–	–

The Company holds 32.27% of the issued share capital of the Senkadagala Hotels Ltd. The investment has been accounted under equity method in the Group Financial Statements.

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
25. Investment Property							
Cost							
Balance at the beginning of the year		87,782,655	87,782,655	87,782,655	87,782,655	87,782,655	87,782,655
Additions during the year		–	–	–	–	–	–
Disposals during the year		–	–	–	–	–	–
Balance at the end of the year		87,782,655	87,782,655	87,782,655	87,782,655	87,782,655	87,782,655
Depreciation							
Balance at the beginning of the year		7,545,570	7,242,532	6,939,494	7,545,570	7,242,532	6,939,494
Charge for the period		303,038	303,038	303,038	303,038	303,038	303,038
Charge on disposals		–	–	–	–	–	–
Balance at the end of the year		7,848,608	7,545,570	7,242,532	7,848,608	7,545,570	7,242,532
Net book value		79,934,047	80,237,085	80,540,123	79,934,047	80,237,085	80,540,123

25.1 Information on Freehold Investment Property of the Company

	Extent	2013 Rs.	Current valuation Rs.	2012 Rs.
Land				
Dean's Road, Colombo 10	6.000 P	500,000	24,000,000	500,000
12, Kotugodella Veediya, Kandy Lot 1	9.875 P	7,542,068	82,485,000	7,542,068
12, Kotugodella Veediya, Kandy Lot 2	18.000 P	70,679,827	113,400,000	70,679,827
		78,721,895	219,885,000	78,721,895
Building				
Dean's Road, Colombo 10	152 sq mts	3,000,000	–	3,000,000
98, Yatinuwara Veediya, Kandy	1,900 sq ft	6,060,760	56,160,000	6,060,760
		9,060,760	56,160,000	9,060,760
		87,782,655	276,045,000	87,782,655

The values of the properties set out above have been obtained from a report issued by the qualified valuer Mr. C. Palamakumbura (FSI) dated 24th March 2012. These values have not been incorporated in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

26. Property, Plant and Equipment

26.1 Company

	As at 01st April 2011 Rs.	As at 1st April 2012 Rs.	Additions Rs.	Disposals Rs.	As at 31st March 2013 Rs.
Cost					
Land and buildings	31,985,489	31,985,489	–	–	31,985,489
Furniture and fittings	77,049,998	77,352,475	1,600,539	–	78,953,014
Office equipment	71,936,549	98,647,958	17,422,495	(332,380)	115,738,073
Air conditioners	25,389,856	31,320,726	5,139,283	(648,723)	35,811,286
Computers and accessories	104,080,707	133,654,383	19,197,632	(89,900)	152,762,115
Facsimile machines	886,650	1,164,150	107,500	–	1,271,650
Generators	32,420,500	32,420,500	5,641,149	–	38,061,649
Motor vehicles	203,869,381	275,861,484	133,833,577	(53,389,712)	356,305,349
Photostat machines	5,618,676	7,455,626	504,000	–	7,959,626
Fixtures and fittings	80,606,482	106,572,902	22,958,694	–	129,531,596
Printers	15,788,193	19,805,693	2,826,600	–	22,632,293
	649,632,481	816,241,386	209,231,469	(54,460,715)	971,012,140

	As at 1st April 2011 Rs.	As at 1st April 2012 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31st March 2013 Rs.
Depreciation					
Buildings	2,424,282	3,322,558	898,276	–	4,220,834
Furniture and fittings	40,376,252	47,931,933	6,590,654	–	54,522,587
Office equipment	27,357,593	35,181,549	10,260,523	(164,268)	45,277,804
Air conditioners	18,706,711	21,597,394	4,758,804	(648,723)	25,707,475
Computers and accessories	81,532,955	91,785,333	17,487,488	(18,729)	109,254,092
Facsimile machines	466,192	555,291	103,862	–	659,153
Generators	17,472,211	21,356,768	3,686,110	–	25,042,878
Motor vehicles	69,423,007	72,360,102	52,433,747	(33,981,807)	90,812,042
Photostat machines	4,829,417	5,582,613	693,123	–	6,275,736
Fixtures and fittings	57,212,829	68,363,301	14,169,502	–	82,532,803
Printers	13,866,211	15,595,166	1,737,146	–	17,332,312
	333,667,660	383,632,008	112,819,235	(34,813,527)	461,637,716
Net book value	315,964,821	432,609,378			509,374,424

NOTES TO THE FINANCIAL STATEMENTS

26.2 Group

	As at 1st April 2011 Rs.	As at 1st April 2012 Rs.	Additions Rs.	Disposals Rs.	Consolidated As at 31st March 2013 Rs.
Cost					
Land and buildings	31,985,489	31,985,489	–	–	31,985,489
Furniture and fittings	77,049,998	77,352,475	1,600,539	–	78,953,014
Office equipment	71,936,549	98,647,958	17,431,819	(332,380)	115,747,397
Air conditioners	25,389,856	31,320,726	5,139,283	(648,723)	35,811,286
Computers and accessories	104,080,707	133,654,383	19,197,632	–	152,852,015
Facsimile machines	886,650	1,164,150	107,500	–	1,271,650
Generators	32,420,500	32,420,500	5,641,149	–	38,061,649
Motor vehicles	203,869,381	275,861,484	138,673,577	(53,389,712)	361,145,349
Photostat machines	5,618,676	7,455,626	504,000	–	7,959,626
Fixtures and fittings	80,606,482	106,572,902	22,958,694	–	129,531,596
Printers	15,788,193	19,805,693	2,826,600	–	22,632,293
	649,632,481	816,241,386	214,080,793	(54,370,815)	975,951,364

	As at 1st April 2011 Rs.	As at 1st April 2012 Rs.	Charge for the Period Rs.	Charge on Disposals Rs.	As at 31st March 2013 Rs.
Depreciation					
Buildings	2,424,282	3,322,558	898,276	–	4,220,834
Furniture and fittings	40,376,252	47,931,933	6,590,654	–	54,522,587
Office equipment	27,357,593	35,181,549	10,260,989	(164,268)	45,278,270
Air conditioners	18,706,711	21,597,394	4,758,804	(648,723)	25,707,475
Computers and accessories	81,532,955	91,785,333	17,487,488	–	109,272,821
Facsimile machines	466,192	555,291	103,862	–	659,153
Generators	17,472,211	21,356,768	3,686,110	–	25,042,878
Motor vehicles	69,423,007	72,360,102	53,106,104	(33,981,807)	91,484,399
Photostat machines	4,829,417	5,582,613	693,123	–	6,275,736
Fixtures and fittings	57,212,829	68,363,301	14,169,502	–	82,532,803
Printers	13,866,211	15,595,166	1,737,146	–	17,332,312
	333,667,660	383,632,008	113,492,058	(34,794,798)	462,329,268
Net book value	315,964,821	432,609,378			513,622,096

NOTES TO THE FINANCIAL STATEMENTS

26.3 Property, Plant and Equipment Retired from Active Use

Following fully depreciated property, plant and equipment of the Company were retired from active use as at the Balance Sheet date.

	2013 Rs.	2012 Rs.
Furniture and fittings	1,643,057	1,643,057
Office equipment	2,690,503	2,690,503
Air conditioners	942,573	942,573
Computers and accessories	20,179,401	20,179,401
Facsimile machines	126,500	126,500
Photostat machines	302,050	302,050
Printers	665,826	665,826

26.4 Fully Depreciated Property, Plant and Equipment

The cost of fully depreciated property, plant and equipment of the Company which are still in use as at the Balance Sheet date is as follows:

	2013 Rs.	2012 Rs.
Buildings	3,000,000	3,000,000
Furniture and fittings	18,169,557	10,317,377
Office equipment	3,434,485	1,395,175
Air conditioners	17,240,070	10,868,532
Computers and accessories	68,698,012	50,279,227
Facsimile machines	192,750	33,750
Generators	8,049,848	4,909,548
Motor vehicles	2,204,167	2,308,819
Photostat machines	5,353,676	3,904,625
Printers	14,818,870	12,153,270
Fixtures and fittings	51,937,737	35,081,696

26.5 Information on Freehold Land and Building of the Company

	Extent	2013 Rs.	Current valuation Rs.	2012 Rs.
Land				
7/4, Mawilmada Road, Kandy	38.380 P	7,779,960	28,117,081	7,779,960
Hyway Park, Amunugama, Pothuhera	0 A. 2 R. 23 P	6,240,000	22,245,853	6,240,000
		14,019,960	50,362,934	14,019,960
Building				
7/4, Mawilmada Road, Kandy	1,327 sq ft	5,230,914	4,282,919	5,230,914
Hyway Park, Amunugama, Pothuhera	885 sq ft	8,222,998	2,624,147	8,222,998
433, Negombo Road, Hendala Junction, Wattala	–	4,511,617	–	4,511,617
		17,965,529	6,907,066	17,965,529
Total		31,985,489	57,270,000	31,985,489

The values of the properties set out above have been obtained from a report issued by the qualified valuer Mr. C. Palamakumbura (FSI) dated 24th March 2012. These values have not been incorporated in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

26.6 Property, Plant and Equipment Pledged as Security for Liabilities

There were no item of property, plant and equipment pledged as security for liabilities.

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
27. Intangible Assets							
Software Programme							
Cost							
Balance at the beginning of the year		140,806,417	122,293,067	121,529,586	140,806,417	122,293,067	121,529,586
Additions during the year		4,649,400	18,513,350	763,481	4,649,400	18,513,350	763,481
Balance at the end of the year		145,455,817	140,806,417	122,293,067	145,455,817	140,806,417	122,293,067
Amortisation							
Balance at the beginning of the year		95,894,939	88,829,437	81,971,684	95,894,939	88,829,437	81,971,684
Amortised during the year		9,046,369	7,065,502	6,857,753	9,046,369	7,065,502	6,857,753
Balance at the end of the year		104,941,308	95,894,939	88,829,437	104,941,308	95,894,939	88,829,437
Carrying amount		40,514,509	44,911,478	33,463,630	40,514,509	44,911,478	33,463,630
28. Other Assets							
Search fee and seizing charges receivable		3,944,133	2,024,821	1,649,810	3,944,133	2,024,821	1,649,810
Stock of motor vehicles held for trading		–	7,650,840	14,929,353	–	7,650,840	14,929,353
Stock of gold specimen		259,200	–	–	259,200	–	–
Western Union MMBL		1,007,013	893,792	704,600	1,007,013	893,792	704,600
Goods and service tax recoverable		8,720,525	8,720,525	11,020,826	8,720,525	8,720,525	11,020,826
Value added tax recoverable		(8,996,420)	52,763,988	19,046,975	(8,996,420)	52,763,988	19,046,975
Pre-paid building rent		44,872,786	35,827,637	19,755,699	44,872,786	35,827,637	19,755,699
Pre-paid WHT on loans and debentures		33,430,733	–	–	33,430,733	–	–
Advance payments		32,253,387	36,045,129	18,212,997	32,253,387	36,045,129	18,212,997
Funds held at Orion Fund Management		21,029	1,556,207	13,912,459	21,029	1,556,207	13,912,459
Deposits		3,567,284	3,117,284	2,122,284	3,567,284	3,117,284	2,122,284
Cash cover		1,858,996	2,509,287	5,861,393	1,858,996	2,509,287	5,861,393
Saving charges		–	976,410	327,815	–	976,410	327,815
		120,938,666	152,085,920	107,544,211	120,938,666	152,085,920	107,544,211

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
29. Deposits from Customers							
Savings deposits		154,044,107	101,812,730	83,986,416	154,044,107	101,812,730	83,986,416
Certificates of deposit	29.1	3,521,454	2,924,831	2,897,349	3,521,454	2,924,831	2,897,349
Fixed deposits	29.2	3,254,898,529	2,627,293,066	2,299,937,357	3,244,875,608	2,627,293,066	2,299,937,357
		3,412,464,090	2,732,030,627	2,386,821,122	3,402,441,169	2,732,030,627	2,386,821,122
29.1 Certificates of Deposit							
Face value		3,800,000	3,100,000	3,100,000	3,800,000	3,100,000	3,100,000
Interest in suspense		(278,546)	(175,169)	(202,651)	(278,546)	(175,169)	(202,651)
		3,521,454	2,924,831	2,897,349	3,521,454	2,924,831	2,897,349
29.2 Fixed Deposits							
Fixed deposits		3,128,963,278	2,541,140,921	2,223,920,112	3,118,963,278	2,541,140,921	2,223,920,112
Amortised interest payable		125,935,251	86,152,145	76,017,245	125,912,330	86,152,145	76,017,245
		3,254,898,529	2,627,293,066	2,299,937,357	3,244,875,608	2,627,293,066	2,299,937,357
30. Borrowings							
Commercial paper	30.1	97,019,917	–	–	97,019,917	–	–
Asset securitised loans	30.2	6,093,279,214	4,840,803,830	1,532,665,314	6,093,279,214	4,840,803,830	1,532,665,314
Loan arranger fee paid		(54,146,867)	(34,965,429)	(4,133,281)	(54,146,867)	(34,965,429)	(4,133,281)
		6,136,152,264	4,805,838,401	1,528,532,033	6,136,152,264	4,805,838,401	1,528,532,033

Securities Pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 6,512,720,818/- has been pledged as security for the above loans.

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
30.1 Commercial Paper							
Commercial paper capital outstanding		86,550,000	–	–	86,550,000	–	–
Amortised interest payable		10,469,917	–	–	10,469,917	–	–
		97,019,917	–	–	97,019,917	–	–
30.2 Asset Securitised Loans							
Assets securitisation loans capital outstanding		5,915,721,008	4,691,062,659	1,415,743,058	5,915,721,008	4,691,062,659	1,415,743,058
Amortised interest payable		177,558,206	149,741,171	116,922,256	177,558,206	149,741,171	116,922,256
		6,093,279,214	4,840,803,830	1,532,665,314	6,093,279,214	4,840,803,830	1,532,665,314

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
31. Debentures							
As at the beginning of the year		1,670,000,000	1,330,000,000	1,090,000,000	1,670,000,000	1,330,000,000	1,090,000,000
Redemptions during the year		(417,000,000)	(219,000,000)	(60,000,000)	(417,000,000)	(219,000,000)	(60,000,000)
New debt instruments issued		1,216,000,000	559,000,000	300,000,000	1,216,000,000	559,000,000	300,000,000
Balance before amortised interest payable		2,469,000,000	1,670,000,000	1,330,000,000	2,469,000,000	1,670,000,000	1,330,000,000
Amortised interest payable		149,281,394	101,752,949	95,524,139	149,281,394	101,752,949	95,524,139
As at the end of the year		2,618,281,394	1,771,752,949	1,425,524,139	2,618,281,394	1,771,752,949	1,425,524,139

As at 31st March	Interest Payable	Issue Date	Maturity Date	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
31.1 Unlisted Secured Debentures							
2012-2013 - Fixed rated 19% p.a.	Semi Annually	2012/13	2014/15	285,000,000	–	285,000,000	–
2013-2014 - Fixed rated 18% p.a.	At Maturity	2012/13	2013/14	92,000,000	–	92,000,000	–
2013-2014 - Fixed rated 19% p.a.	Semi Annually	2012/13	2015/16	300,000,000	–	300,000,000	–
2012-2013 - Fixed rated 18% p.a.	At Maturity	2012/13	2013/14	10,000,000	–	10,000,000	–
2012-2013 - Fixed rated 18% p.a.	At Maturity	2012/13	2013/14	48,000,000	–	48,000,000	–
Amortised interest payable				25,805,123	–	25,805,123	–
				760,805,123	–	760,805,123	–

Securities pledged

Lease and hire purchase aggregate portfolio amounting to Rs. 830,713,415/- has been pledged as security for the above debentures.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Interest Payable	Issue Date	Maturity Date	Company 2013 Rs.	Company 2012 Rs.	Group 2013 Rs.	Group 2012 Rs.
31.2 Rated Debentures							
2011/2012 - Fixed rated 11.75% p.a.	Quarterly	2011/12	2014/15	67,000,000	100,000,000	67,000,000	100,000,000
2011/2012 - Fixed rated 11.5% p.a	Quarterly	2011/12	2014/15	67,000,000	100,000,000	67,000,000	100,000,000
Amortised interest payable				1,280,345	1,910,959	1,280,345	1,910,959
				135,280,345	201,910,959	135,280,345	201,910,959
31.3 Unlisted Unsecured Redeemable Debenture							
2007/08 - Fixed rated 16% p.a.	Annually	2007/08	2012/13	–	241,000,000	–	241,000,000
2008/09 - Fixed rated 16% p.a.	Annually	2008/09	2013/14	240,000,000	240,000,000	240,000,000	240,000,000
2009/10 - Fixed rated 16% p.a.	Annually	2009/10	2014/15	160,000,000	160,000,000	160,000,000	160,000,000
2009/10 - Fixed rated 14.5% p.a.	Annually	2009/10	2014/15	80,000,000	80,000,000	80,000,000	80,000,000
2010/11 - Fixed rated 14.5% p.a.	Annually	2010/11	2015/16	120,000,000	120,000,000	120,000,000	120,000,000
2010/11 - Fixed rated 14% p.a.	Annually	2010/11	2015/16	100,000,000	100,000,000	100,000,000	100,000,000
2010/11 - Fixed rated 12% p.a.	Annually	2010/11	2015/16	60,000,000	60,000,000	60,000,000	60,000,000
2011/12 - Fixed rated 12% p.a.	Annually	2011/12	2016/17	100,000,000	100,000,000	100,000,000	100,000,000
2011/12 - Fixed rated 13% p.a.	Annually	2011/12	2016/17	159,000,000	159,000,000	159,000,000	159,000,000
2011/12 - Fixed rated 13.15% p.a.	Annually	2011/12	2016/17	20,000,000	20,000,000	20,000,000	20,000,000
2011/12 - Fixed rated 14.2% p.a.	Annually	2011/12	2016/17	80,000,000	80,000,000	80,000,000	80,000,000
2012/13 - Fixed rated 17.25% p.a.	Annually	2012/13	2017/18	80,000,000	–	80,000,000	–
2012/13 - Fixed rated 16.5% p.a.	Annually	2012/13	2017/18	80,000,000	–	80,000,000	–
2012/13 - Fixed rated 17.5% p.a.	Annually	2012/13	2017/18	200,000,000	–	200,000,000	–
2012/13 - Fixed rated 16.75% p.a.	Annually	2012/13	2017/18	121,000,000	–	121,000,000	–
Amortised interest payable				122,195,926	99,841,990	122,195,926	99,841,990
				1,722,195,926	1,459,841,990	1,722,195,926	1,459,841,990
31.4 Guaranteed Debentures							
2013-2014 - Fixed rated 15.5% p.a.	Quarterly	2009/10	2012/13	–	110,000,000	–	110,000,000
Amortised interest payable				–	–	–	–
				–	110,000,000	–	110,000,000

	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
32. Current Tax Liabilities						
Income tax payable	68,335,064	110,664,835	132,676,702	68,894,356	110,664,835	132,676,702
Income tax payment	(57,358,569)	(69,926,787)	(20,817,496)	(57,358,569)	(69,926,787)	(20,817,496)
Economic service charges	–	(19,208,755)	(17,295,531)	–	(19,208,755)	(17,295,531)
Withholding tax on Treasury Bill and Repo interest	–	(4,388,258)	(3,207,206)	–	(4,388,258)	(3,207,206)
Withholding tax on interest income	(13,541,996)	(2,195,809)	(3,279,320)	(13,541,996)	(2,195,809)	(3,279,320)
Tax liabilities excluding income tax	22,430,737	28,104,968	16,260,878	22,430,737	28,104,968	16,260,878
	19,865,236	43,050,194	104,338,027	20,424,528	43,050,194	104,338,027

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
33. Other Liabilities							
Accrued expenditure - Non-interest		991,410	428,524	33,919,775	1,049,124	428,524	33,919,775
Payables to trade suppliers		156,928,568	253,391,675	217,517,567	156,928,568	253,391,675	217,517,567
Over drawn bank accounts		98,983,769	30,571,534	28,982,674	98,983,769	30,571,534	28,982,674
Dividend payable		3,647,627	2,427,169	1,684,031	3,647,627	2,427,169	1,684,031
Staff bonus payable		–	8,200,000	–	–	8,200,000	–
Other liabilities		5,905,491	33,710,688	32,673,419	5,991,276	33,710,688	32,673,419
		266,456,865	328,729,590	314,777,466	266,600,364	328,729,590	314,777,466
34. Employee Benefit Plans							
Present value of defined benefit obligations		36,588,720	28,109,529	22,564,095	36,588,720	28,109,529	22,564,095
Actuarial gains/(loss)	34.4	2,366,081	(2,498,527)	343,324	2,366,081	(2,498,527)	343,324
Net retirement benefit obligations		34,222,639	30,608,056	22,564,095	34,222,639	30,608,056	22,564,095
34.1 Movement of the Employee Benefit Obligation							
Balance at the beginning of the year		30,608,056	22,564,095	17,631,637	30,608,056	22,564,095	17,631,637
Retirement benefit expense recognised in the income statement	34.2	7,296,851	5,853,034	5,613,282	7,296,851	5,853,034	5,613,282
Retirement benefit expense recognised in the statement of comprehensive income	34.3	(2,366,081)	2,498,527	(343,324)	(2,366,081)	2,498,527	(343,324)
Benefits paid during the year		(1,316,187)	(307,600)	(337,500)	(1,316,187)	(307,600)	(337,500)
Balance at the end of the year		34,222,639	30,608,056	22,564,095	34,222,639	30,608,056	22,564,095
34.2 Retirement Benefit Expense Recognised in the Income Statement							
Current service cost		3,850,951	3,070,946	2,899,107	3,850,951	3,070,946	2,899,107
Interest cost		3,445,900	2,782,088	2,714,175	3,445,900	2,782,088	2,714,175
Total		7,296,851	5,853,034	5,613,282	7,296,851	5,853,034	5,613,282
34.3 Retirement Benefit Expense Recognised in the Statement of Comprehensive Income							
Actuarial (gain)/loss at the end of the year		(2,366,081)	2,498,527	(343,324)	(2,366,081)	2,498,527	(343,324)
		(2,366,081)	2,498,527	(343,324)	(2,366,081)	2,498,527	(343,324)

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
34.4 Actuarial Gains/(Loss)							
Present value of defined benefit obligations at the beginning of the year		30,608,056	22,564,095	17,631,637	30,608,056	22,564,095	17,631,637
Current service cost		3,850,951	3,070,946	2,899,107	3,850,951	3,070,946	2,555,783
Interest cost		3,445,900	2,782,088	2,714,175	3,445,900	2,782,088	2,714,175
Benefits paid during the year		(1,316,187)	(307,600)	(337,500)	(1,316,187)	(307,600)	(337,500)
Expected total present value of defined benefit obligations at the end of the year		36,588,720	28,109,529	22,907,419	36,588,720	28,109,529	22,564,095
Actual present value of defined benefit obligations at the end of the year		34,222,639	30,608,056	22,564,095	34,222,639	30,608,056	22,220,771
Actuarial gains/(loss) at the end of the year		2,366,081	(2,498,527)	343,324	2,366,081	(2,498,527)	343,324

Mr. Piyal S. Goonatilleke FSA (USA), a member of the American Academy of Actuaries has carried out an independent actuarial valuation of the defined benefit gratuity on 3rd April 2013. The valuation was carried out using the Projected Unit Credit Method, the method recommended by Sri Lanka Accounting Standard - LKAS 19 on 'Employee Benefits'.

The key assumptions used by the actuary include the following:

	2013	2012	1st April 2011
Discount rate	11%	10%	10%
Salary increase	10%	10%	10%
Retirement age	55 Years	55 Years	55 Years

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
35. Deferred Tax Liability							
Balance at the beginning of the year		178,788,239	103,559,908	70,968,196	178,788,239	103,559,908	70,968,196
Deferred tax charge/(reversal) for the year		20,304,688	75,228,331	32,591,712	20,306,128	75,228,331	32,591,712
Balance at the end of the year		199,092,927	178,788,239	103,559,908	199,094,367	178,788,239	103,559,908
36. Stated Capital							
Ordinary Shares							
53,368,000 ordinary shares		533,680,000	533,680,000	533,680,000	533,680,000	533,680,000	533,680,000
Balance as at 1st April 2010 - 21,347,200 ordinary shares		533,680,000	533,680,000	213,472,000	533,680,000	533,680,000	213,472,000
Bonus shares issued in November 2010 - 3 for every 2 held - 32,020,800 ordinary shares		–	–	320,208,000	–	–	320,208,000
Balance as at 31st March 2011 - 53,368,000 ordinary shares		533,680,000	533,680,000	533,680,000	533,680,000	533,680,000	533,680,000

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
37. Statutory Reserve Fund							
Balance at the beginning of the year		130,036,033	100,036,033	86,536,033	130,036,033	100,036,033	86,536,033
Transfers during the year		35,000,000	30,000,000	13,500,000	35,000,000	30,000,000	13,500,000
Balance at the end of the year		165,036,033	130,036,033	100,036,033	165,036,033	130,036,033	100,036,033

The Reserve Fund is maintained in compliance with Direction No. 1 of 2003 Central Bank of Sri Lanka (Capital Funds) issued to Finance Companies.

As per the said Direction, every Licensed Finance Company shall maintain a Reserve Fund and transfer to such reserve funds out of the net profits of each year after due provisions have been made for taxation and bad and doubtful debts on the following basis:

Capital Funds to Deposit Liabilities	% of transfer to Reserve Fund
Not less than 25%	5%
Less than 25% and not less than 10%	20%
Less than 10%	50%

Accordingly, the Company has transferred 5% of its net profit after taxation to the Reserve Fund as the Company's Capital Funds to Deposit Liabilities, belongs to not less than 25% category.

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
38. Investment Fund Account							
Balance at the beginning of the year		97,059,153	16,751,605	–	97,059,153	16,751,605	–
Transfers during the year	38.1	57,700,541	80,307,548	16,751,605	57,700,541	80,307,548	16,751,605
Balance at the end of the year		154,759,694	97,059,153	16,751,605	154,759,694	97,059,153	16,751,605

The Investment Fund Reserve Account is credited in accordance with the Central Bank's guidelines issued to create an Investment Fund Reserve which comprises 8% of the profits calculated for the payment of Value Added Tax (VAT) on financial services on dates as specified in the VAT Act for payment of VAT and 5% of the profit 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.

NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Notes	Company 2013 Rs.	Company 2012 Rs.	Company 1st April 2011 Rs.	Group 2013 Rs.	Group 2012 Rs.	Group 1st April 2011 Rs.
38.1 Transfers During the Period							
8% of profits calculated for the payment of Value Added Tax on financial services		41,629,830	66,322,191	16,751,605	41,629,830	66,322,191	16,751,605
5% of Profit before tax calculated for the payment of income tax		16,070,711	13,985,357	–	16,070,711	13,985,357	–
Balance at the end of the year		57,700,541	80,307,548	16,751,605	57,700,541	80,307,548	16,751,605

For the year ended 31st March	2013 Rs.	2012 Rs.
39. Related Party Transactions		
Parent Company		
Payment of rent expenses	(3,292,407)	(3,459,369)
Dividend payment	(74,802,809)	(45,432,956)
Rent income	1,714,286	1,714,286
Income for IT services rendered	–	25,000,000
Net funds paid/(received)	68,380,930	–
Balance receivable/(payable)	–	8,000,000
Subsidiary Company		
Fixed deposits made	10,000,000	–
Interest expense	22,921	–
Balance receivable/(payable)	(10,022,921)	–
Associate Company		
Payment of rent expenses	(787,800)	(787,800)
Fixed deposits	–	–
Payment of interest for fixed deposits with the Company	(300,432)	–
Fixed deposits made	–	–
Net fund paid/(received)	10,543,162	–
Balance receivable/(payable)	(4,014,078)	(13,469,008)

39.1 Transactions with Key Management Personnel (KMP) of the Company

According to Sri Lanka Accounting Standard - LKAS 24 Related Party Disclosures, Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly Senior Finance Officer, AGM Credit Control, AGM Accounts, DGM IT, GM Operations, Deputy CEO, Additional CEO and the members of the Board of Directors of the Company (including Executive and Non-Executive Directors), and of the Ultimate Parent Company have been classified as Key Management Personnel of the Company.

NOTES TO THE FINANCIAL STATEMENTS

39.1.1 Compensation of Key Management Personnel

	2013 Rs.	2012 Rs.
Short-term employee benefits		
Board of Directors	14,032,500	15,520,000
Other KMP	18,594,900	13,149,200

39.1.2 Post-Employment Benefits to Key Management Personnel

The Key Management Personnel are entitled to gratuity provisions as per the provisions laid down by the Act. And such provision as at 31st March 2013 is amounting to Rs. 8,085,221 (2011/12- Rs. 7,767,371).

39.1.3 Deposits Held by Key Management Personnel

	2013 Rs.	2012 Rs.
Deposits held with the company	6,202,634	2,735,617

40. Commitments and Contingencies

40.1 Capital Expenditure Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in the Financial Statements amounted to approximately the following:

	2013 Rs.	2012 Rs.
Approved but not contracted for	85,000,000	42,000,000
Approved and contracted for	4,000,000	2,500,000
	89,000,000	44,500,000

40.2 Contingent Liabilities

There were no contingent liabilities as at the Reporting date, which require adjustments to or disclosures in the Financial Statements.

41. Events After the Reporting Period

The Board of Directors has declared and paid an interim dividend of Rs. 0.80 per share for the nine month period ended 31st December 2012, on 19th April 2013. In accordance with the LKAS 10 on events after the Reporting period, the proposed dividend is not recognised as a liability in the Financial Statements as at the year end.

Except as mentioned above there were no material events occurring after the Reporting period that require adjustment to or disclosure in the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

42. Maturity Analysis

42.1 Company

An analysis of the total assets employed and the total liabilities of the Company as at 31st March 2013 based on the remaining period from the Reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31st March 2013 Rs.
Interest Earning Assets					
Cash and cash equivalents	333,440,165	–	–	–	333,440,165
Deposits with licensed commercial banks	1,061,779,016	–	–	–	1,061,779,016
Investments in Government and other Securities	464,418,428	1,199,507	–	–	465,617,935
Loans and advances	1,393,047,123	3,424,215,976	2,802,027,521	3,940,645,365	11,559,935,985
Other receivables	23,911,629	33,421,914	26,101,173	37,503,950	120,938,666
Total interest earning assets	3,276,596,361	3,458,837,397	2,828,128,694	3,978,149,315	13,541,711,767
Non-Interest-Earning Assets					
Financial assets held at fair value through profit and loss	67,627,657	–	–	–	67,627,657
Financial assets available for sale	–	354,928	709,857	354,928	1,419,713
Investment in subsidiary	–	–	–	20,000,000	20,000,000
Property, plant and equipment	–	–	–	629,822,980	629,822,980
Total assets	3,344,224,018	3,459,192,325	2,828,838,551	4,628,327,223	14,260,582,117
Percentage as at 31st March 2013	23.45	24.26	19.84	32.46	100.00

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31.03.2013 Rs.
Interest-Bearing Liabilities					
Deposits from customers	339,056,078	2,657,252,601	304,926,998	111,228,413	3,412,464,090
Bank overdraft	98,983,769	–	–	–	98,983,769
Borrowings	740,891,440	1,970,157,038	3,121,443,051	303,660,735	6,136,152,264
Debentures	79,534,673	579,012,410	1,068,945,988	890,788,323	2,618,281,394
Total interest-bearing liabilities	1,258,465,960	5,206,422,049	4,495,316,037	1,305,677,471	12,265,881,517
Non-Interest-Bearing Liabilities	53,772,059	96,524,176	56,099,307	214,258,356	420,653,898
Total Liabilities	1,312,238,019	5,302,946,225	4,551,415,344	1,519,935,827	12,686,535,415
Percentage as at 31st March 2013	9.20	37.19	31.92	10.66	88.96
Shareholders' Funds	–	–	–	1,574,046,702	1,574,046,702
Total Shareholders' Funds and Liabilities	1,312,238,019	5,302,946,225	4,551,415,344	3,093,982,529	14,260,582,117

NOTES TO THE FINANCIAL STATEMENTS

42.2 Group

An analysis of the total assets employed and the total liabilities of the Group as at 31st March 2013 based on the remaining period from the Reporting date to the respective contractual maturity dates is given below:

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 years Rs.	More than 3 years Rs.	Total as at 31st March 2013 Rs.
Interest-Earning Assets					
Cash and cash equivalents	340,643,331	–	–	–	340,643,331
Deposits with licensed commercial banks	1,061,779,016	–	–	–	1,061,779,016
Investments in Government and other securities	464,418,428	1,199,507	–	–	465,617,935
Loans and advances	1,393,047,122	3,424,215,976	2,802,027,521	3,940,645,366	11,559,935,985
Other receivables	23,911,627	33,421,917	26,101,173	37,503,949	120,938,666
Total interest-earning assets	3,283,799,524	3,458,837,400	2,828,128,694	3,978,149,315	13,548,914,933
Non-Interest-Earning Assets					
Financial assets held at fair value through profit and loss	67,627,657	–	–	–	67,627,657
Financial assets available-for-sale	–	354,928	709,857	354,928	1,419,713
Investment in subsidiary	–	–	–	–	–
Property, plant and equipment	–	–	–	634,070,652	634,070,652
Total assets	3,351,427,181	3,459,192,328	2,828,838,551	4,612,574,895	14,252,032,955
Percentage as at 31st March 2013	23.52	24.27	19.85	32.36	100.00

	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	More than 3 Years Rs.	Total as at 31.03.2013 Rs.
Interest-Bearing Liabilities					
Deposits from customers	329,033,157	2,657,252,601	304,926,998	111,228,413	3,402,441,169
Bank overdraft	98,983,769	–	–	–	98,983,769
Borrowings	740,891,442	1,970,157,038	3,121,443,051	303,660,735	6,136,152,266
Debentures	79,534,672	579,012,410	1,068,945,988	890,788,322	2,618,281,392
Total interest-Bearing liabilities	1,248,443,040	5,206,422,049	4,495,316,037	1,305,677,470	12,255,858,596
Non-Interest-bearing Liabilities	53,772,053	96,876,297	56,451,423	214,258,356	421,358,129
Total liabilities	1,302,215,093	5,303,298,346	4,551,767,460	1,519,935,826	12,677,216,725
Percentage as at 31st March 2013	9.14	37.21	31.94	10.66	88.95
Shareholders' Funds	–	–	–	1,574,816,230	1,574,816,230
Total Shareholders' Funds and Liabilities	1,302,215,093	5,303,298,346	4,551,767,460	3,094,752,056	14,252,032,955

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March	Leasing 2013 Rs.	Leasing 2012 Rs.	Hire Purchases 2013 Rs.	Hire Purchases 2012 Rs.	Pawning Advances 2013 Rs.	Pawning Advances 2012 Rs.	Other Advances 2013 Rs.	Other Advances 2012 Rs.
43. Segment Reporting								
Revenue								
Interest	1,159,613,170	560,684,609	1,227,157,296	1,024,212,901	6,458,683	–	62,620,366	61,715,756
Trading	–	–	–	–	–	–	–	–
Commissions	–	–	–	–	–	–	–	–
Rent	–	–	–	–	–	–	–	–
Dividends	–	–	–	–	–	–	–	–
Other income	–	–	–	–	–	–	–	–
Total revenue	1,159,613,170	560,684,609	1,227,157,296	1,024,212,901	6,458,683	–	62,620,366	61,715,756
Profit before tax								
Taxation								
Profit after tax								
Segment assets	5,707,068,373	4,349,702,727	5,446,674,892	4,410,021,518	69,635,416	1,366,000	336,557,304	207,475,480
Segment liabilities	4,921,792,465	2,738,761,646	5,208,472,696	5,002,946,337	27,412,846	–	265,782,119	301,461,361
Information on Cash flows								
Operating activities	(364,095,113)	(1,133,919,897)	(220,879,207)	(695,040,316)	(13,777,752)	(558,203)	(58,912,511)	(48,461,844)
Investing activities	–	–	–	–	–	–	–	–
Capital expenditure	(85,715,088)	(96,041,420)	(81,804,209)	(97,373,258)	(1,045,862)	(30,161)	(5,054,791)	(4,581,058)
Financing activities	–	–	–	–	–	–	–	–
Net cash flow	(449,810,200)	(1,229,961,317)	(302,683,417)	(792,413,575)	(14,823,614)	(588,364)	(63,967,303)	(53,042,902)
Depreciation and amortisation	(57,888,889)	(45,098,243)	(55,247,623)	(45,723,636)	(706,338)	(14,163)	(3,413,824)	(2,151,131)

44. Explanation of transition to SLFRSs and LKASs

The Group adopted Sri Lanka Accounting Standards comprising of SLFRSs and LKASs effective 1st April 2012. Prior to the adoption of SLFRS, the Group prepared its Consolidated Financial Statements in accordance with previous Sri Lanka Accounting Standards. The Group prepared its opening SLFRS Consolidated Financial Statements as at 1st April 2011, the date of transition to SLFRS which forms the starting point for the Group's financial reporting under SLFRS. These Consolidated Financial Statements have been prepared in accordance with the Accounting Policies described in Note 2.1 Basis of Preparation.

NOTES TO THE FINANCIAL STATEMENTS

Investments/Property		Insurance		Unallocated		Total	
2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.	2013 Rs.	2012 Rs.
136,479,026	72,166,357	–	–	–	–	2,592,328,541	1,718,779,623
5,971,236	(12,737,902)	–	–	12,702	–	5,983,938	(12,737,902)
–	–	56,555,094	44,817,947	–	–	56,555,094	44,817,947
1,714,286	1,714,286	–	–	–	–	1,714,286	1,714,286
1,994,173	1,429,616	–	–	–	–	1,994,173	1,429,616
19,450,301	33,569,954	–	–	365,215,205	282,107,831	384,665,506	315,677,785
165,609,022	96,142,311	56,555,094	44,817,947	365,227,907	282,107,831	3,043,241,538	2,069,681,355
						681,811,946	634,871,653
						(103,179,061)	(158,421,177)
						578,632,885	476,450,476
2,226,267,301	1,663,087,869	11,450,839	–	454,378,830	385,848,047	14,252,032,955	11,017,501,641
702,900,983	469,623,866	704,232	–	1,550,151,384	1,378,004,845	12,677,216,725	9,890,798,056
(992,138,348)	(1,376,106,558)	74,637,761	70,212,628	(203,918,770)	(239,425,229)	(1,779,083,941)	(3,423,299,420)
217,142	(6,481,016)	–	–	39,007,588	51,756,251	39,224,730	45,275,235
(33,436,553)	(36,720,974)	(4,849,326)	–	(6,824,366)	(8,519,523)	(218,730,193)	(243,266,394)
–	–	–	–	1,997,058,373	3,509,465,529	1,997,058,373	3,509,465,529
(1,025,357,760)	(1,419,308,548)	69,788,435	70,212,628	1,825,322,826	3,313,277,028	38,468,968	(111,825,050)
(303,038)	(303,038)	(672,823)	–	(4,608,931)	(4,000,519)	(122,841,469)	(97,290,730)

NOTES TO THE FINANCIAL STATEMENTS

In preparing these Consolidated Financial Statements, the Group has applied the requirements of SLFRS 1 - First time adoption of Sri Lanka Accounting Standards, including retrospective application of SLFRS effective for the Group on adoption, unless otherwise indicated. The resulting adjustments are described below:

44.1 Reconciliation of Equity as at 1st April 2011 (Date of Transition to SLFRS)

		Company				Group			
	Note	SLAS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS/LKAS Rs.	SLAS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS/LKAS Rs.
Assets									
Cash and cash equivalents		419,137,459	(75,139,142)	–	343,998,317	419,137,459	(75,139,142)	–	343,998,317
Deposits with licensed commercial banks		–	–	–	–	–	–	–	–
Investments in government securities		198,509,828	(198,509,828)	–	–	198,509,828	(198,509,828)	–	–
Repurchase agreements	A	–	75,139,142	–	75,139,142	–	75,139,142	–	75,139,142
Dealing securities		48,344,770	(48,344,770)	–	–	48,344,770	(48,344,770)	–	–
Investment securities		14,165,755	(14,165,755)	–	–	14,165,755	(14,165,755)	–	–
Financial assets held at fair value through profit and loss	B	–	42,743,846	17,573,402	60,317,248	–	42,743,846	17,573,402	60,317,248
Loans and advances	C	5,364,521,430	265,289,712	(231,643,482)	5,398,167,660	5,364,521,430	265,289,712	(231,643,482)	5,398,167,660
Other receivables		324,171,770	(324,171,770)	–	–	324,171,770	(324,171,770)	–	–
Financial assets available for sale		–	19,766,680	(13,957,555)	5,809,125	–	19,766,680	(13,957,555)	5,809,125
Financial assets held to maturity	D	–	198,509,828	–	198,509,828	–	198,509,828	–	198,509,828
Investments in subsidiary		–	–	–	–	–	–	–	–
Deferred asset	E	4,133,281	(4,133,281)	–	–	4,133,281	(4,133,281)	–	–
Investment property	F	–	80,540,122	–	80,540,122	–	80,540,122	–	80,540,122
Property, plant and equipment		396,504,943	(80,540,122)	–	315,964,821	396,504,943	(80,540,122)	–	315,964,821
Intangible assets		33,463,630	–	–	33,463,630	33,463,630	–	–	33,463,630
Other assets		48,662,155	58,882,056	–	107,544,211	48,662,155	58,882,056	–	107,544,211
Total assets		6,851,615,022	(4,133,282)	(228,027,635)	6,619,454,105	6,851,615,022	(4,133,282)	(228,027,635)	6,619,454,105
Liabilities									
Deposits from customers	G	2,392,741,865	–	(5,920,743)	2,386,821,122	2,392,741,865	–	(5,920,743)	2,386,821,122
Borrowings	H	1,414,764,929	(3,155,152)	116,922,256	1,528,532,033	1,414,764,929	(3,155,152)	116,922,256	1,528,532,033
Debentures	I	1,330,000,000	83,819,516	11,704,623	1,425,524,139	1,330,000,000	83,819,516	11,704,623	1,425,524,139
Current tax liabilities		88,077,149	16,260,878	–	104,338,027	88,077,149	16,260,878	–	104,338,027
Other liabilities		415,835,989	(101,058,523)	–	314,777,466	415,835,989	(101,058,523)	–	314,777,466
Employee benefits	J	22,564,095	–	–	22,564,095	22,564,095	–	–	22,564,095
Deferred tax liability		103,559,908	–	–	103,559,908	103,559,908	–	–	103,559,908
Total liabilities		5,767,543,936	(4,133,281)	122,706,136	5,886,116,790	5,767,543,936	(4,133,281)	122,706,136	5,886,116,790
Equity									
Stated capital		533,680,000	–	–	533,680,000	533,680,000	–	–	533,680,000
Statutory reserve fund		100,036,033	–	–	100,036,033	100,036,033	–	–	100,036,033
Investment fund account		16,751,605	–	–	16,751,605	16,751,605	–	–	16,751,605
Retained earnings		433,603,449	–	(350,733,771)	82,869,678	433,603,449	–	(350,733,771)	82,869,678
Total equity		1,084,071,087	–	(350,733,771)	733,337,316	1,084,071,087	–	(350,733,771)	733,337,316
Total liabilities and equity		6,851,615,022	(4,133,281)	(228,027,635)	6,619,454,105	6,851,615,022	(4,133,281)	(228,027,635)	6,619,454,105

NOTES TO THE FINANCIAL STATEMENTS

44.2 Reconciliation of Equity as at 31st March 2012

		Company				Group			
	Note	SLAS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS/LKAS Rs.	SLAS Rs.	Reclassification Rs.	Remeasurement Rs.	SLFRS/LKAS Rs.
Assets									
Cash and cash equivalents		336,563,265	(102,801,138)	–	233,762,127	336,563,265	(102,801,138)	–	233,762,127
Deposits with licensed commercial banks		637,118,275	–	–	637,118,275	637,118,275	–	–	637,118,275
Investments in government securities		304,111,412	(304,111,412)	–	–	304,111,412	(304,111,412)	–	–
Repurchase agreements	A	–	102,801,138	–	102,801,138	–	102,801,138	–	102,801,138
Dealing securities		51,147,407	(51,147,407)	–	–	51,147,407	(51,147,407)	–	–
Investment securities		14,165,755	(14,165,755)	–	–	14,165,755	(14,165,755)	–	–
Financial assets held at fair value through profit and loss	B	–	50,177,746	9,943,496	60,121,242	–	50,177,746	9,943,496	60,121,242
Loans and advances	C	8,901,512,039	294,717,013	(227,663,327)	8,968,565,725	8,901,512,039	294,717,013	(227,663,327)	8,968,565,725
Other receivables		400,841,647	(400,841,647)	–	–	400,841,647	(400,841,647)	–	–
Financial assets available for sale		–	15,135,416	(13,957,555)	1,177,861	–	15,135,416	(13,957,555)	1,177,861
Financial assets held to maturity	D	–	304,111,412	–	304,111,412	–	304,111,412	–	304,111,412
Investments in subsidiary		–	–	–	–	–	–	–	–
Deferred asset	E	1,994,914	(1,994,914)	–	–	1,994,914	(1,994,914)	–	–
Investment property	F	–	80,237,085	–	80,237,085	–	80,237,085	–	80,237,085
Property, plant and equipment		512,846,463	(80,237,085)	–	432,609,378	512,846,463	(80,237,085)	–	432,609,378
Intangible assets		44,911,478	–	–	44,911,478	44,911,478	–	–	44,911,478
Other assets		45,961,286	106,124,634	–	152,085,920	45,961,286	106,124,634	–	152,085,920
Total assets		11,251,173,941	(1,994,915)	(231,677,386)	11,017,501,641	11,251,173,941	(1,994,915)	(231,677,386)	11,017,501,641
Liabilities									
Deposits from customers	G	2,736,429,636	–	(4,399,009)	2,732,030,627	2,736,429,636	–	(4,399,009)	2,732,030,627
Borrowings	H	4,691,062,659	1,720,839	113,054,903	4,805,838,401	4,691,062,659	1,720,839	113,054,903	4,805,838,401
Debentures	I	1,670,000,000	90,306,423	11,446,526	1,771,752,949	1,670,000,000	90,306,423	11,446,526	1,771,752,949
Current tax liabilities		14,945,227	28,104,967	–	43,050,194	14,945,227	28,104,967	–	43,050,194
Other liabilities		450,856,734	(122,127,144)	–	328,729,590	450,856,734	(122,127,144)	–	328,729,590
Employee benefits	J	28,109,529	–	2,498,527	30,608,056	28,109,529	–	2,498,527	30,608,056
Deferred tax liability		150,000,298	–	28,787,941	178,788,239	150,000,298	–	28,787,941	178,788,239
Total liabilities		9,741,404,083	(1,994,915)	151,388,888	9,890,798,056	9,741,404,083	(1,994,915)	151,388,888	9,890,798,056
Equity									
Stated capital		533,680,000	–	–	533,680,000	533,680,000	–	–	533,680,000
Statutory reserve fund		130,036,033	–	–	130,036,033	130,036,033	–	–	130,036,033
Investment fund account		97,059,153	–	–	97,059,153	97,059,153	–	–	97,059,153
Retained earnings		748,994,672	–	(383,066,274)	365,928,398	748,994,672	–	(383,066,274)	365,928,398
Total equity		1,509,769,858	–	(383,066,274)	1,126,703,584	1,509,769,858	–	(383,066,274)	1,126,703,584
Total liabilities and equity		11,251,173,941	(1,994,915)	(231,677,386)	11,017,501,641	11,251,173,941	(1,994,915)	(231,677,386)	11,017,501,641

NOTES TO THE FINANCIAL STATEMENTS

	Note	Company SLAS Rs.	Company Reclassification Rs.	Company Remeasurement Rs.	Company SLFRS/LKAS Rs.	Group SLAS Rs.	Group Reclassification Rs.	Group Remeasurement Rs.	Group SLFRS/LKAS Rs.
44.3 Reconciliation of Income for the Year Ended 31st March 2012									
Interest income	K	1,870,542,417	25,394,679	(11,435,586)	1,884,501,510	1,870,542,417	25,394,679	(11,435,586)	1,884,501,510
Interest expense	G,H,I	(805,543,671)	(38,094,459)	2,603,715	(841,034,415)	(805,543,671)	(38,094,459)	2,603,715	(841,034,415)
Net interest income		1,064,998,746	(12,699,780)	(8,831,871)	1,043,467,095	1,064,998,746	(12,699,780)	(8,831,871)	1,043,467,095
Fee and commission income		–	76,240,679	–	76,240,679	–	76,240,679	–	76,240,679
Fee and commission expense		–	(13,318,783)	–	(13,318,783)	–	(13,318,783)	–	(13,318,783)
Net fee and commission income		–	62,921,896	–	62,921,896	–	62,921,896	–	62,921,896
Net gain/(loss) from trading		–	892,143	–	892,143	–	892,143	–	892,143
Net gain/(loss) from financial instruments designated at fair value through profit and loss	B	–	–	(13,630,045)	(13,630,045)	–	–	(13,630,045)	(13,630,045)
Other operating income		218,173,179	(150,153,399)	–	68,019,780	218,173,179	(150,153,399)	–	68,019,780
Impairment expenses for loans and advances and other losses		7,871,031	23,273,896	15,415,740	46,560,667	7,871,031	23,273,896	15,415,740	46,560,667
Net operating income		1,291,042,956	(75,765,244)	(7,046,177)	1,208,231,535	1,291,042,956	(75,765,244)	(7,046,177)	1,208,231,535
Personnel expenses		(178,027,246)	(8,200,001)	–	(186,227,247)	(178,027,246)	(8,200,001)	–	(186,227,247)
Depreciation of property, plant and equipment		(90,225,228)	–	–	(90,225,228)	(90,225,228)	–	–	(90,225,228)
Amortisation of intangible assets		(7,065,502)	–	–	(7,065,502)	(7,065,502)	–	–	(7,065,502)
Other operating expenses	B	(314,377,788)	76,623,914	6,000,142	(231,753,732)	(314,377,788)	76,623,914	6,000,142	(231,753,732)
Profit before VAT on financial services and income tax		701,347,192	(7,341,331)	(1,046,035)	692,959,827	701,347,192	(7,341,331)	(1,046,035)	692,959,827
Value added tax on financial services		(58,088,174)	–	–	(58,088,174)	(58,088,174)	–	–	(58,088,174)
Profit before income tax		643,259,018	(7,341,331)	(1,046,035)	634,871,653	643,259,018	(7,341,331)	(1,046,035)	634,871,653
Income tax expenses		(136,974,567)	7,341,331	(28,787,941)	(158,421,177)	(136,974,567)	7,341,331	(28,787,941)	(158,421,177)
Profit for the year		506,284,451	–	(29,833,976)	476,450,476	506,284,451	–	(29,833,976)	476,450,476
Earnings per share		9.49			8.93	9.49			8.93
Dividends per share		2.38			2.38	2.38			2.38

NOTES TO THE FINANCIAL STATEMENTS

44.4 Explanation of Transition to IFRS

A. Repurchase Agreements

At the adoption of SLFRS, the interest income on repurchase agreements is recognised based on an Effective Interest Rate method.

B. Financial Assets Held at Fair Value through Profit and Loss

In accordance with SLFRS, financial assets designated as fair value through profit and loss have been recognised at fair value. These assets were previously carried at cost.

C. Loans and Advances

Previous SLAS required provision for impairment of loans and advances to consist of both a specific amount of incurred losses and general amounts for expected future losses. SLFRS does not permit recognition of impairment for expected future losses and instead assessed on a collective as well as individual basis, based on objective evidence that there has been an impairment.

At the adoption of SLFRS, the lessor should recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. Hence the Company adopted the Actuarial Method of Income recognition as opposed to Sum of Digit method which was in use.

D. Financial Assets Held to Maturity

Financial assets where the Company has the ability and intention to hold till maturity were classified as Held to Maturity and measured at amortised cost using the Effective Interest Rate method.

E. Deferred Asset

Under SLAS the Company expensed borrowing costs as incurred. At the date of transition the Company elected to capitalise borrowing costs only in respect for qualifying assets for which the commencement date for capitalisation was on or after the date of transition.

F. Investment Property

At the adoption of SLFRS, the Company identified and reclassified some of its land and building held to earn rentals as Investment Property and continued to measure using a cost model.

G. Deposits from Customers

On adoption of SLFRS, the interest expense on amounts due to deposit holders is recognised based on an Effective Interest Rate method.

H. Borrowings

On adoption of SLFRS, the interest expense on borrowings is recognised based on an Effective Interest Rate method.

I. Debentures

On adoption of SLFRS, the interest expense on debentures is recognised based on an Effective Interest Rate method.

J. Employee Benefits

Under SLFRS the Company's accounting policy is to recognise all actuarial gains and losses in Other Comprehensive Income. Under the previous SLAS the Company recognised actuarial gains and losses in the profit and loss in the period in which it occurred.

K. Interest Income

At the adoption of SLFRS, the lessor should recognise finance income based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease. Hence the Company adopted the Actuarial Method of Income recognition as opposed to Sum of Digit method which was in use.

NOTES TO THE FINANCIAL STATEMENTS

45. Fair Value of Financial Instruments

45.1 Financial Assets and Liabilities at Fair Value through profit and loss

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: quoted prices in active markets for assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value:

As at 31st March 2013	Level 1 Rs.	Level 2 Rs.	Level 3 Rs.	Total Rs.
Financial Assets				
Financial assets designated at fair value through profit and loss				
Dealing securities	67,627,657	–	–	67,627,657
	67,627,657	–	–	67,627,657
Financial liabilities	–	–	–	–
	–	–	–	–

45.2 Financial Assets and Liabilities at Other Than Fair Value

This information does not include the fair values on non-financial assets and non-financial liabilities. Further, the following table contained the comparison, by class of the carrying amounts and fair values of the Company financial instruments that are not carried at fair value in the Financial Statements.

As at 31st March 2013	Carrying Amount Rs.	Fair Value Rs.
Financial Assets		
Cash and cash equivalents	340,643,331	340,643,331
Deposits with licensed commercial banks	1,061,779,016	1,061,779,016
Repurchase agreements	75,762,008	75,762,008
Loans and advances	11,559,935,985	11,312,245,166
Financial assets available for sale	1,419,713	1,419,713
Financial assets held to maturity	389,855,927	389,855,927
	13,429,395,980	13,181,705,161
Financial Liabilities		
Deposits from customers	3,402,441,169	3,402,441,169
Borrowings	6,136,152,266	6,136,152,266
Debentures	2,618,281,392	2,618,281,392
	12,156,874,827	12,156,874,827

NOTES TO THE FINANCIAL STATEMENTS

Methodologies and Assumptions

The carrying amounts of financial assets and liabilities that have a short-term maturity (less than three months) approximate their fair values. The same assumption is also applied to demand deposits, and savings accounts without specific maturity.

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

The estimated fair value of fixed interest-bearing deposits is discounted cash flows using prevailing current market rates for similar financial instruments.

The estimated fair value of fixed interest-bearing loans is discounted cash flows using prevailing current market rates.

The fair values of unquoted investments approximate their carrying amounts if there is no situation of impairments.

46. Risk Management

46.1 Introduction

The Company's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. Risk is an integral component of the business model of any finance company. Accordingly, the purpose of risk management is that the institution properly identifies measures and handles risk and prepares adequate reports on all these efforts so that the extent of risks which the Company has assumed have been compensated with adequate return.

With this in mind, the Company has established and operates mechanisms, which ensure the ongoing assessment of relevant risk types on an individual basis and of the overall risk position of the organisation.

At Senkadagala Finance PLC, the Board of Directors approves the integrated Risk Management Policy, which sets the objectives, principles, processes and responsibilities for risk management within the Company. The policy sets guidelines for defining, quantifying, monitoring and reporting financial risks. The Integrated Risk Management Committee, which is a subcommittee of the Board, is responsible for reviewing the effectiveness of risk control policies, procedures and regulations.

More specifically, the Committee is responsible for ensuring:

- Integrity and adequacy of the risk management function of the Company
- Adequacy of the Company's capital
- Risk exposures and risk profiles of the Company are within acceptable parameters and to make recommendations to the Board of Directors on any action required
- The compliance of the Company's operations with relevant laws, regulations and standards

The Company is primarily exposed to credit risk, market risk, liquidity risk, operational risk and regulatory risk.

46.2 Credit Risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender. In order to manage credit risk, the Company has established robust policies for credit appraisal and the staff is regularly trained in evaluating creditworthiness of prospective clients, Senkadagala Finance PLC manages high-risk sectors through sector restrictions that require prior high-level clearance before taking on new exposures even for small amounts. Once credit facilities are funded, they are continually monitored to identify changes in risk profiles. Further, sourcing and approval of clients are segregated to achieve independence. Recovery and NPA management are also given greater emphasis and are aggressively monitored.

NOTES TO THE FINANCIAL STATEMENTS

Impairment Assessment

The Company uses Net Flow Rate model for the recognition of losses on impaired financial assets. The losses can only be recognised when objective evidence of a specific loss event has been observed. This includes:

- Significant financial difficulty of the customer
- A breach of contract such as a default of payment
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation
- Observable data that suggest that there is a decrease in the estimated future cash flow from the loans

Individually Assessed Allowances

Individually assessed impairment allowance for each significant loan or advance is determined based on 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 should bankruptcy ensue, the availability of other financial support, the realisable 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 and advances and held to maturity debt investments that are not individually significant.

The general bases for impairment is derived through historical loss experience. However, when there are significant market developments, macro economic factor changes have to be considered. These factors include, current level of bad debts, changes in law, changes in regulations and other customer data. The Company may use the aforementioned factors as appropriate to adjust the impairment allowances.

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 utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels, recoveries once impaired 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. Local 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.

46.2.1 Credit Quality by Class of Financial Assets

As at 31st March 2013	Neither Past Due Nor Impaired Rs.	Past Due But Not Impaired Rs.	Individually Impaired Rs.	Total Rs.
Assets				
Cash and cash equivalents	340,643,331	–	–	340,643,331
Deposits with licensed commercial banks	1,061,779,016	–	–	1,061,779,016
Financial investments - Held at fair value through profit & loss	67,627,657	–	–	67,627,657
Loans and advances	6,155,203,444	5,389,031,302	15,701,239	11,559,935,985
Financial investments - Available-for-sale	1,419,713	–	–	1,419,713
Financial investments - Held to maturity	465,617,934	–	–	465,617,934
Total financial assets	8,092,291,095	5,389,031,302	15,701,239	13,497,023,636

NOTES TO THE FINANCIAL STATEMENTS

46.2.1.1 Ageing 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				
As at 31st March 2013	Less than 30 Days Rs.	31 to 60 Days Rs.	61 to 90 Days Rs.	More than 91 Days Rs.	Total Rs.
Loans and advances	702,102,904	2,101,633,900	1,256,199,425	1,329,095,073	5,389,031,302
	702,102,904	2,101,633,900	1,256,199,425	1,329,095,073	5,389,031,302

46.2.2 Industry Analysis

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

Sector-wise Breakdown	Cash and Cash Equivalent Rs.	Financial Investments - Held at fair value Rs.	Loans and Advances** Rs.	Financial Investments - Available-for-Sale Rs.	Financial Investments - Held to Maturity Rs.	Total Financial Assets Rs.
Agriculture	–	280,000	96,473,992	–	–	96,753,992
Manufacturing	–	6,692,590	4,858,083,740	–	–	4,864,776,330
Construction	–	4,092,500	85,231,644	–	–	89,324,144
Financial Services	1,402,422,347	12,048,434	54,406,934	1,129,127	75,762,008	1,545,768,850
Trading	–	112,200	843,970,840	–	–	844,083,040
Retail	–	–	5,008,903,971	–	–	5,008,903,971
Government	–	–	–	–	389,855,926	389,855,926
Hotels	–	27,810,512	56,319,981	–	–	84,130,493
Services	–	16,591,421	556,544,883	290,586	–	573,426,890
Total	1,402,422,347	67,627,657	11,559,935,985	1,419,713	465,617,934	13,497,023,636

*** Provincial breakdown for (01) Loans and advances, (02) Lease rentals receivable and Stock out on hire from customers within Sri Lanka is as follows:*

Province	Loans and Advances Rs.
Central	1,723,632,962
Eastern	221,982,507
North-Central	662,900,571
North-Western	1,083,254,390
Northern	190,767,400
Sabaragamuwa	938,883,789
Southern	758,413,759
Uva	231,309,552
Western	5,748,791,055
Total	11,559,935,985

46.3 Liquidity Risk and Fund Management

Liquidity risk is the risk of inadequate resources to meet financial obligations in time and in full, at an acceptable cost. As was seen in some registered finance companies in the recent past, liquidity risk can pose serious threats to the existence of finance companies. The Company understands the importance of a robust liquidity risk management policy and constantly monitors the liquidity position of the Company.

Further, it is the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit the risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS

46.3.1 Statutory Liquid Assets Ratio

As per the requirements of Finance Companies (Liquid Assets) Direction No. 01 of 2009, the Company has maintained minimum liquid assets, not less than 10% of the outstanding value of time deposits and face value of certificates of deposit and 15% of the outstanding value of savings deposits received by the Company at a given day.

Further in accordance with the Finance Companies (Liquid Assets) Direction No. 01 of 2009, every finance company has to maintain assets in the form of approved securities equivalent to 7.5% of the average of month end total deposit liabilities of twelve months of the preceding financial year.

As at 31st March 2013, the Company maintained Government Securities to deposit base ratio at 9.96%.

46.3.2 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31st March 2013.

	Less than 3 Months Rs.	3-12 Months Rs.	1-3 Years Rs.	Over 3 Years Rs.	Total Rs.
Financial Assets					
Cash and cash equivalents	340,643,331	–	–	–	340,643,331
Deposits with licensed commercial banks	1,061,779,016				1,061,779,016
Financial investments - Fair value through profit or loss	67,627,657	–	–	–	67,627,657
Loans and advances	1,393,047,122	3,424,215,977	2,802,027,522	3,940,645,364	11,559,935,985
Financial Investments - Available-for-sale	–	354,928	709,856	354,929	1,419,713
Financial Investments - Held to maturity	464,418,427	1,199,507	–	–	465,617,934
Total financial assets	3,327,515,553	3,425,770,412	2,802,737,378	3,941,000,293	13,497,023,636
Financial Liabilities					
Due to banks	740,891,442	1,970,157,037	3,121,443,051	303,660,735	6,136,152,265
Debt instruments issued and other borrowed funds	416,590,750	3,228,242,090	1,373,872,985	1,002,016,736	6,020,722,561
Total financial liabilities	1,157,482,192	5,198,399,127	4,495,316,036	1,305,677,471	12,156,874,826
Total net financial assets/(liabilities)	2,170,033,361	(1,772,628,715)	(1,692,578,658)	2,635,322,822	1,340,148,810

46.4 Market Risk

Market risk is the risk of potential losses accruing as a result of fair value of future cash flows of financial instruments fluctuating due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Of these market risks, the more frequent and most likely is the risk of adverse fluctuation of interest rates. The effect of such adverse movements could have an immediate and direct bearing on the Company. Interest rate risk is the risk of loss in the net interest income of the Company due to adverse changes in market interest rates. The Company routinely assesses its assets and liability profile in terms of interest rate risk and depending on this assessment, necessary realignments in the assets and liability structure are undertaken.

NOTES TO THE FINANCIAL STATEMENTS

46.5 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board has established limits on the non-trading interest rate gaps for stipulated periods. The Company policy is to monitor positions on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

46.6 Currency Risk

Currency risk is that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company monitored this on a daily basis and hedging strategies are used.

46.7 Equity Price Risk

Equity price risk is that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale.

46.8 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and from external events. Senkadagala Finance PLC manages operational risk in a variety of ways. These include maintaining a comprehensive system of internal controls including disaster recovery plans and business continuity plans, using technology to automate processes and reduce manual errors, monitoring and analysing risk, events and trends, employing experienced staff, monitoring business activities by compliance and audit professionals, requiring education and training of employees, and emphasising the importance of management oversight.

The Company has in place a process of continuous internal audit utilising the services of Messrs Ernst & Young Advisory Services (Pvt) Ltd.

46.9 Regulatory Risk

Regulatory risk is the risk of non-compliance with applicable legislation, regulation and regulatory directives, Senkadagala Finance PLC manages day by day regulatory risk primarily by educating and training employees about regulatory requirements, establishing and maintaining appropriate policies and procedures, and monitoring for compliance. The Company has appointed a Compliance Officer for communicating regulatory requirements to each business unit, ensuring that business units have appropriate policies and procedures in place and that staff are trained to meet regulatory requirements and for tracking, escalating and reporting significant issues and findings to Senior Management and the Board.

In this latter process, the Compliance Officer is supported and assisted by the Company’s Internal Auditors, Messrs Ernst & Young Advisory Services (Pvt) Ltd. who also reports on any issues of non-compliance, with both internal and external regulations. Compliance with regulatory requirements is also documented through formal procedure manuals for each business unit.

46.10 Reputation Risk

Reputation risk is the risk to earnings, capital or brand arising from negative public or employee opinion. A company’s reputation is a valuable business asset in its own right, essential to optimising shareholder value. Reputation risk cannot be managed in isolation from other forms of risks, since all risks can have an impact on reputation, which in turn can impact the brand, earnings and capital. Credit, liquidity, interest rate, operational, and regulatory risk must all be managed effectively in order to safeguard the Company’s reputation.

TEN YEAR SUMMARY

Rs. '000

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Results										
Interest income	2,861,923	1,884,502	1,493,088	1,451,560	1,560,124	1,259,893	1,058,870	645,333	307,686	238,807
Interest expense	1,524,288	841,034	679,358	845,696	931,904	668,737	499,471	268,693	126,496	104,678
Net interest income	1,337,635	1,043,467	813,730	605,864	628,220	591,156	559,399	376,640	181,190	134,129
Other operating income	107,694	144,260	177,868	100,671	87,309	101,899	104,487	108,974	60,036	38,892
Profit before taxation & VAT	735,545	692,960	435,584	172,614	132,807	283,098	260,671	210,918	101,481	63,169
Profit before income taxation	680,482	634,872	349,626	138,485	113,583	256,132	257,750	207,369	93,628	63,169
Profit for the year	577,863	476,450	222,400	54,951	61,364	241,092	277,547	205,595	95,685	63,050
Balance Sheet										
Assets										
Cash and near cash items	1,860,837	1,277,793	617,647	659,489	379,798	520,140	387,240	453,039	96,566	141,027
Investments	69,047	61,299	66,126	37,742	32,305	30,398	26,459	16,319	16,319	16,170
Loans and advances	11,559,936	8,968,566	5,398,168	4,684,291	4,882,142	4,789,265	3,654,387	3,168,384	1,700,933	1,205,200
Investments in subsidiary	20,000	–	–	–	–	–	–	–	–	–
Property and equipment	629,823	557,758	429,969	422,658	401,969	359,627	206,853	139,763	105,590	72,710
Other assets	120,939	152,086	107,544	60,948	51,986	86,454	509,271	405,380	188,712	64,332
Total assets	14,260,582	11,017,502	6,619,454	5,865,128	5,748,200	5,785,883	4,784,210	4,182,885	2,108,120	1,499,439
Liabilities										
Deposits from customers	3,412,464	2,732,031	2,386,821	2,094,478	1,398,151	937,315	764,349	686,740	522,985	482,787
Borrowings	6,136,152	4,805,838	1,528,532	1,428,382	2,401,083	2,921,212	2,566,478	2,497,594	1,063,165	577,627
Debentures	2,618,281	1,771,753	1,425,524	1,090,000	840,000	750,000	509,000	250,000	–	–
Deferred tax liability	199,093	178,788	103,560	70,968	65,240	40,394	34,099	67,793	10,065	12,121
Dividends payable	3,648	2,427	1,684	1,340	1,016	1,125	–	189	11,744	5,409
Other liabilities	316,897	399,961	439,996	275,061	156,471	278,941	256,459	221,890	133,876	142,889
Total liabilities	12,686,535	9,890,798	5,886,117	4,960,228	4,861,961	4,928,987	4,130,385	3,724,206	1,741,835	1,220,833
Equity										
Stated capital	533,680	533,680	533,680	213,472	213,472	213,472	213,472	213,472	53,368	53,368
Statutory reserve fund	165,036	130,036	100,036	86,536	83,536	79,536	61,026	43,594	27,074	19,514
Investment fund account	154,760	97,059	16,752	–	–	–	–	–	–	–
Retained earnings	720,571	365,928	82,870	604,892	589,231	563,888	379,327	201,613	285,843	205,724
Total equity	1,574,047	1,126,704	733,337	904,900	886,239	856,896	653,825	458,679	366,285	278,606
Total liabilities and equity	14,260,582	11,017,502	6,619,454	5,865,128	5,748,200	5,785,883	4,784,210	4,182,885	2,108,120	1,499,439

KEY RATIOS AND INDICATORS

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Performance Indicators										
Return on average total assets (%)	4.57	5.40	3.56	0.95	1.06	4.56	6.19	6.54	5.30	5.02
Return on average shareholder funds (%)	42.79	51.23	27.15	6.14	7.04	31.92	49.90	49.84	29.67	24.98
Net interest margin (%)	11.17	12.63	14.12	11.30	11.73	11.89	13.04	12.53	10.67	12.12
Growth of income (%)	51.87	26.22	2.86	-6.96	23.83	18.98	64.08	109.74	28.84	59.85
Growth of profit for the year (%)	21.29	114.23	304.73	-10.45	-74.55	-13.13	35.00	114.87	51.76	52.60
Growth of loans and advances (%)	28.89	66.14	15.24	-4.05	1.94	31.06	15.34	86.27	41.13	50.21
New advances disbursed (Rs. '000)	7,009,369	7,325,099	4,069,048	2,361,059	2,672,551	2,737,712	2,363,626	2,629,757	1,289,478	858,607
Net flow of deposits (Rs. '000)	680,433	345,210	298,264	696,327	460,836	172,966	77,609	136,757	40,197	67,658
Borrowings obtained (Rs. '000)	3,703,345	4,568,600	1,020,910	1,005,723	1,251,489	1,830,201	1,351,715	1,638,200	767,092	489,800
Debentures issued (Rs. '000)	1,263,528	565,229	300,000	350,000	240,000	241,000	259,000	250,000	–	–
Capital expenditure incurred (Rs. '000)	213,881	243,266	103,066	103,682	116,993	216,888	122,612	71,118	71,937	19,566
Non-performing assets as a % of total advances	1.07	1.18	2.30	4.31	3.53	6.25	6.35	2.87	0.20	0.12
Investor Information										
Earnings per share (Rs.)	10.83	8.93	4.17	1.03	1.15	4.52	5.20	3.85	1.79	1.18
Dividends per share (Rs.)	2.04	2.38	1.19	0.90	1.40	3.55	3.86	1.23	3.70	2.00
Net assets per share (Rs.)	29.49	21.11	13.74	42.39	41.52	40.14	30.63	21.49	68.63	52.20
Interest cover (Times)	1.38	1.57	1.33	1.06	1.07	1.36	1.56	1.77	1.76	1.60
Dividends cover (Times)	5.31	3.75	3.50	2.86	2.05	3.18	3.37	7.86	4.85	5.91
Dividend rate (%)	18.84	26.66	28.56	34.96	48.70	31.43	29.69	12.72	20.64	16.93
Capital and Leverage										
Core capital – Tier 1 (%)	11.42	10.51	12.07	17.56	16.67	16.84	15.85	14.34	18.16	21.46
Total capital – Tier 1 & 2 (%)	11.42	10.51	12.07	17.56	16.67	16.84	15.85	14.34	18.16	21.46
Equity as a % of total assets (%)	11.04	10.23	11.08	15.43	15.42	14.81	13.67	10.97	17.37	18.58
Equity as a % of total deposits and borrowings (%)	12.94	12.10	13.73	19.62	19.10	18.59	17.03	13.36	23.09	26.27
Growth of total assets (%)	29.44	66.44	12.86	2.03	-0.65	20.94	14.38	98.42	40.59	47.83
Growth of net assets (%)	39.70	53.64	-18.96	2.11	3.42	31.06	42.55	25.22	31.47	23.15
Earnings retention ratio (%)	70.08	73.34	71.44	65.04	51.30	68.57	70.31	87.28	79.36	83.07
Total deposit liabilities to capital (%)	46.13	41.24	30.72	43.20	63.39	91.42	85.54	66.79	70.04	57.71
Debt to equity ratio (Times)	5.56	5.84	4.03	2.78	3.66	4.28	4.70	5.99	2.90	2.07
Liquidity										
Liquid assets as a % of total assets	13.05	11.60	9.33	11.24	6.61	8.99	8.09	10.83	4.58	9.41
Liquid assets as a % of total deposit liability	54.53	46.77	25.88	31.49	27.16	55.49	50.66	65.97	18.46	29.21
Operational										
Number of branches	39	30	30	30	30	26	18	14	8	4
Growth in branch numbers (%)	30	–	–	–	15	44	29	75	100	–
Number of service centres	13	15	–	–	–	–	–	–	–	–
Number of staff	414	347	235	213	211	185	146	105	63	37
Staff productivity (Rs '000)	1,644	1,830	1,488	650	538	1,384	1,765	1,975	1,486	1,707

DEPOSITOR INFORMATION

Value of Deposit Base

	2013	2012	2011	2010	2009
Term deposits (Rs. '000)	3,254,899	2,627,293	2,299,937	2,027,465	1,343,060
Certificates of deposit (Rs. '000)	3,521	2,925	2,897	69	13,913
Savings deposits (Rs. '000)	154,044	101,813	83,986	66,944	66,944

Term Deposits Analysed on Rate of Interest Basis as at 31st March 2013

	No. of Deposits	Value (Rs. '000)	% of Total
Less than 12%	132	36,888	1.13
More than or equal to 12% and less than 14%	389	968,495	29.75
More than or equal to 14% and less than 16%	1,803	828,715	25.46
More than or equal to 16% and less than 18%	2,414	1,385,560	42.57
More than or equal to 18%	80	35,241	1.08
	4,818	3,254,899	100.00

Term Deposits Analysed on Deposit Period Basis as at 31st March 2013

	No. of Deposits	Value (Rs. '000)	% of Total
01 - 06 months	1,064	449,080	13.80
06 to 12 months	2,816	2,391,283	73.47
12 to 36 months	721	303,740	9.33
More than 36 months	217	110,796	3.40
	4,818	3,254,899	100.00

Depositor Indicators

	2013	2012	2011	2010	2009
Deposit interest expenses (Rs. '000)					
Term Deposits	391,358	261,904	262,605	267,089	190,369
Certificates of deposit	376	325	180	582	3,252
Savings deposits	8,298	5,711	4,982	4,978	3,605
Total deposit interest paid	400,032	267,940	267,767	272,649	197,225
Deposit interest cover (times)*	2.70	3.37	2.31	1.51	1.58
Liquid assets as a % of term and** certificates of deposit	57	49	27	33	28
Liquid assets as a % of savings deposits***	1208	1255	735	985	567

* *Deposit interest cover is obtained by dividing the pre-tax profit before payment of interest to depositors by the interest paid to depositors.*

** *Finance companies are required to maintain as at the close of business of any one day a minimum of 10% of its term and certificates of deposit base in the form of liquid assets.*

*** *Finance companies are required to maintain as at the close of business of any one day a minimum of 15% of its savings deposit base in the form of liquid assets.*

CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

In order to be resilient in a volatile economic condition a company must maintain an adequate Capital Base, which would provide a buffer in adverse environmental conditions. Central Bank of Sri Lanka (CBSL) identifying this has laid down directions to streamline the Capital Base of non-bank financial institutions, as the financial sector is highly sensitive to macroeconomic fluctuations. Stakeholder interests could be safeguarded in poorer economic conditions if Capital Bases are properly maintained.

Every non-bank financial institution is directed to maintain a Statutory Reserve Fund, transferring a specified fraction of its net profit for the period each year. Further the CBSL has directed every registered finance company to maintain an unimpaired Core Capital at all times not less than Rs. 400 million with effect from 2nd August 2011 onwards.

Every finance company is further directed to maintain its Capital at a level not less than 10% of its risk-weighted assets and the core capital constituting not less than 5% of its risk-weighted assets computed in accordance with the methodology issued by the CBSL.

The Capital Base consists of two capital structures,

- Tier 1 - Core capital comprising of Paid-up Ordinary Share capital, Statutory Reserves and or any Other Reserves created or increased by transferring of retained earnings excluding special purpose reserves.
- Tier 2 - Supplementary Capital comprising of capital instruments with both debt and equity characteristics revaluation reserves and general provisions.

Assets are weighted based on the degree of credit exposure to calculate risk-weighted assets. Central Bank has defined weightings based on the risk inherent in each category of assets. Cash and cash equivalent items as well as Government Securities are 0% weighted; securitised assets are weighted in accordance with risk exposure of the security, etc. Detailed calculation is given below.

Senkadagala Finance PLC has continuously adhered to these levels of capital, taking in to consideration the importance of maintaining adequate buffer to shield from market volatility. The main source of new capital during the year was through capitalisation of during the year earnings. The company's Capital Adequacy Ratio has improved over the past year from 10.51% in 2012 to 11.42% in 2013. The Capital Base of Senkadagala Finance was highly affected due to the accounting standards change, effected on 1st January 2012. In order to comply with the new accounting standards the Company had to change its income recognition method, which resulted in a huge reversal of income recognised in the previous year's adversely affecting the Capital Base of the Company.

Risk-Weighted Assets

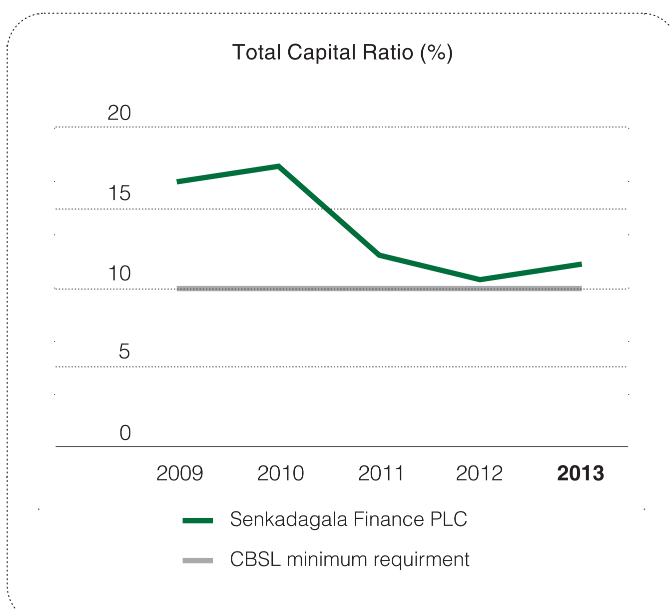
Rs. '000

	2013	2012	2011	2010	2009	Risk Weight	2013	2012	2011	2010	2009
On-balance sheet - Total assets	14,260,582	11,017,502	6,619,454	5,865,128	5,748,200		12,431,304	9,797,980	5,935,343	5,154,471	5,317,945
Cash & current accounts with banks	333,440	233,762	343,998	343,263	123,112	0%	–	–	–	–	–
Deposits with banks	1,137,541	739,919	75,139	153,034	113,335	20%	227,508	147,984	15,028	30,607	22,667
Deposits with finance companies	–	–	–	–	–	20%	–	–	–	–	–
Due from Central Bank of Sri Lanka	–	–	–	–	–	0%	–	–	–	–	–
Sri Lanka Government treasury bills	389,856	304,111	198,510	163,192	143,350	0%	–	–	–	–	–
Sri Lanka Govt./Central Bank Securities	–	–	–	–	–	0%	–	–	–	–	–
Other securities guaranteed by Sri Lanka Govt.	–	–	–	–	–	0%	–	–	–	–	–
Loans & advances	11,559,936	8,968,566	5,398,168	4,684,292	4,882,143		11,363,987	8,878,853	5,316,676	4,602,517	4,809,017
Against deposits with the company	126,314	88,347	81,492	81,775	73,126	0%	–	–	–	–	–
Against SL Govt. Guarantee/ Securities	–	–	–	–	–	0%	–	–	–	–	–
Against dues/Securities/ Guarantees of CBSL	–	–	–	–	–	0%	–	–	–	–	–
Loans against gold and gold jewellery	69,635	1,366	–	–	–	0%	–	–	–	–	–
Other loans & advances	11,363,987	8,878,853	5,316,676	4,602,517	4,809,017	100%	11,363,987	8,878,853	5,316,676	4,602,517	4,809,017
Fixed assets	629,823	557,758	429,969	422,658	401,969	100%	629,823	557,758	429,969	422,658	401,969
Other assets	209,986	213,385	173,671	98,690	84,291	100%	209,986	213,385	173,671	98,690	84,291

CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

Rs. '000

		2013	2012	2011	2010	2009
Capital Base						
Tier I: Core capital		1,419,287	1,029,644	716,586	904,900	886,239
Issued and paid-up ordinary shares		533,680	533,680	533,680	213,472	213,472
Statutory reserve fund		165,036	130,036	100,036	86,536	83,536
Published retained profits/ (accumulated losses)		720,571	365,928	82,870	604,892	589,231
Tier 2 : Supplementary capital						
Eligible revaluation reserves		–	–	–	–	–
Eligible general provisions		–	–	–	–	–
Approved hybrid capital instruments		–	–	–	–	–
Minority interest arising from preference shares issued by subsidiaries		–	–	–	–	–
Eligible approved unsecured subordinated term debt		–	–	–	–	–
Total capital base		1,419,287	1,029,644	716,586	904,900	886,239
		37.84%	43.69%			
Core Capital Ratio						
Core capital ratio	Core capital x 100 / Risk-weighted assets					
Senkadagala Finance PLC		11.42%	10.51%	12.07%	17.56%	16.67%
CBSL minimum requirement		5.00%	5.00%	5.00%	5.00%	5.00%
Total Capital Ratio						
Risk-weighted capital ratio	Total capital base x 100 / Risk-weighted assets					
Senkadagala Finance PLC		11.42%	10.51%	12.07%	17.56%	16.67%
CBSL minimum requirement		10.00%	10.00%	10.00%	10.00%	10.00%



SHAREHOLDER INFORMATION

The Company was listed in the *Diri Savi* Board of the Colombo Stock Exchange with effect from 22nd March 2011. All shares listed are voting shares. The Company does not have any other category of shares in issue. The main form of capital introduced during the year was through capitalisation of earnings. The Company capitalised 70.08% of its earnings during the year. No new funds were raised through Public Issue, Rights Issue or a Private Placement during the year.

In accordance with the Direction No. 01 of 2013, the Company has obtained approval from the Director of Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka for a final dividend of Rs. 1.20 per share for the financial year ended 31st March 2013.

Details of dividends paid to shareholders during the year are as follows:

	2013			2012		
Dividend Payment	Amount (Rs.)	DPS (Rs.)	Paid Date	Amount (Rs.)	DPS (Rs.)	Paid Date
1st interim dividend paid	24,015,600	0.45	14.11.2012	28,285,040	0.53	16.12.2011
2nd interim dividend paid	42,160,720	0.79	14.02.2013	32,020,800	0.60	15.03.2012
3rd interim dividend paid	42,694,400	0.80	19.04.2013	37,357,600	0.70	06.06.2012
Final dividend proposed/ paid	64,041,600	1.20	Subject to approval at AGM	29,352,400	0.55	24.08.2012
Total dividends paid/proposed	172,912,320			127,015,840		
Net profit for the year	577,863,357			476,450,476		
Dividends payout ratio (%)	29.92%			26.66%		
Earnings retention ratio (%)	70.08%			73.34%		

1. Twenty Largest Shareholders

As at 31st March	2013		2012*	
	Number of Shares	% of Holding	Number of Shares	% of Holding
E. W. Balasuriya & Co. (Pvt) Ltd.	29,994,150	56.20	30,088,050	56.38
Hallsville Trading Group Inc.	4,180,000	7.83	4,080,000	7.65
Dr. (Mrs.) G. Madan Mohan	3,065,832	5.74	3,065,832	5.74
Dr. A. Balasuriya	3,065,832	5.74	3,065,832	5.74
Mr. R. Balasuriya	3,065,832	5.74	3,065,832	5.74
Dr. M. Balasuriya	3,065,832	5.74	3,065,832	5.74
Mrs. L. Fernando	2,570,002	4.82	2,570,002	4.82
Mr. L. Balasuriya and Ms. A. S. Balasuriya	1,532,916	2.87	1,532,916	2.87
Mr. L. Balasuriya and Mr. S. K. Balasuriya	1,532,916	2.87	1,532,916	2.87
Mr. D. K. C. R. Fernando	495,830	0.93	495,830	0.93
Mrs. S. Thaha	389,000	0.73	389,000	0.73
Mrs. C. Fernando	155,600	0.29	155,600	0.29
Estate of the late Mr. D. G. K. Hewamallika	155,600	0.29	155,600	0.29
Mr. E. W. Balasuriya	41,660	0.08	41,660	0.08
Mr. M. M. Ariyaratne	22,400	0.04	22,400	0.04
Mr. P. P. K. Ikiriwatte	12,502	0.02	12,502	0.02
Mr. J. K. Jayatileke	12,492	0.02	12,492	0.02
Mr. C. Y. Ching	4,800	0.01	4,800	0.01
Ms. S. I. A. Ching	4,800	0.01	4,800	0.01
Mr. L. Balasuriya - The Trustee of the Capitalisation Issue	4	0.00	4	0.00
Ms. Rajini Dullewe	–	0.00	6,100	0.01
Total shares	53,368,000	100.00	53,368,000	100.00

**Comparative shareholdings as at 31st March 2012 of the twenty largest shareholders as at 31st March 2013.*

SHAREHOLDER INFORMATION

2. The percentage of shares held by the public on 31st March 2013 was 21.75% (2012 - 21.57%).

3. The Company has 53,368,000 (2012 - 53,368,000) voting shares in issue, with rights to vote allocated at one vote per share.

4. Directors' Shareholdings

	2013		2012	
	Number of Shares	% of Holding	Number of Shares	% of Holding
Dr. A. Balasuriya	3,065,832	5.74	3,065,832	5.74
Dr. M. Balasuriya	3,065,832	5.74	3,065,832	5.74
Mrs. L. Fernando	2,570,002	4.82	2,570,002	4.82
Mr. L. Balasuriya & Ms. A. S. Balasuriya	1,532,916	2.87	1,532,916	2.87
Mr. L. Balasuriya & Mr. S. K. Balasuriya	1,532,916	2.87	1,532,916	2.87
Mr. L. Balasuriya - The Trustee of the Capitalisation Issue	4	0.00	4	0.00
Mr. C. L. de Alwis	–	0.00	–	0.00
Mr. W. A. T. Fernando	–	0.00	–	0.00
Dr. P. Ramanujam	–	0.00	–	0.00
Mr. S. S. Kulatunga	–	0.00	–	0.00

5. Shareholding as at 31st March

	2013			2012		
	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
1 - 1,000	1	4	0.00	1	4	0.00
1,001 - 10,000	2	9,600	0.02	3	15,700	0.03
10,001 - 100,000	4	89,054	0.17	4	89,054	0.17
100,001 - 1,000,000	4	1,196,030	2.24	4	1,196,030	2.24
Over 1,000,000 shares	9	52,073,312	97.57	9	52,067,212	97.56
		53,368,000	100.00		53,368,000	100.00

SHAREHOLDER INFORMATION

6. Resident and Non-Resident Shareholders as at 31st March

	2013			2012		
	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
Resident shareholders	19	49,188,000	92.17	20	49,288,000	92.35
Non-resident shareholders	1	4,180,000	7.83	1	4,080,000	7.65
		53,368,000			53,368,000	

7. Institutional and Individual Shareholding as at 31st March

	2013			2012		
	Number of Holders	Number of Shares	%	Number of Holders	Number of Shares	%
Institutions	17	34,329,750	64.33	18	34,323,650	64.32
Individuals	3	19,038,250	35.67	3	19,044,350	35.68
		53,368,000			53,368,000	

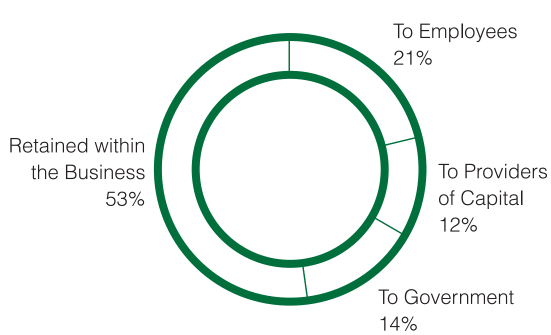
8. Information on Ratios, Market Prices per Share

	2013	2012
Earnings per share (Rs.)	10.83	8.93
Dividends per share (Rs.)	2.04	2.38
Net assets per share (Rs.)	29.49	21.11
Market prices -		
Highest price (Rs.)	50.00	40.00
Lowest price (Rs.)	50.00	40.00
Last traded price (Rs.)	50.00	40.00
Price earning ratio (Times)	4.62	4.48

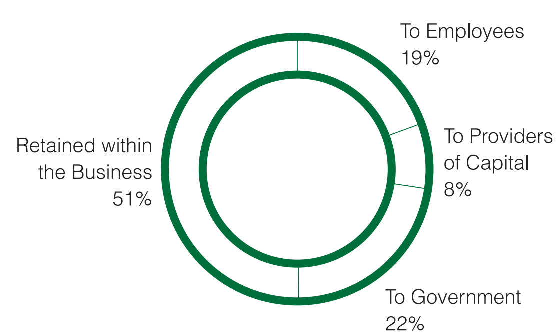
ECONOMIC VALUE ADDED STATEMENT

	2013 Rs. '000	%	2012 Rs. '000	%	% Change
Value Added					
Gross income	2,976,141		2,029,654		47
Less:					
Cost of borrowings	(1,524,288)		(841,034)		81
Payments towards support services	(349,757)		(258,703)		35
Provisions for loan losses and other provisions	(11,926)		46,561		-126
	1,090,170		976,478		12
Distribution of value addition					
To employees -					
as salaries and wages	197,643	18.13	159,966	16.38	24
as other benefits	32,448	2.98	28,760	2.95	13
To providers of capital as dividends	132,886	12.19	80,586	8.25	65
To Government -					
as income taxation	102,618	9.41	158,421	16.22	-35
as VAT on financial services	55,064	5.05	58,088	5.95	-5
Retained within the business -					
as depreciation for replenishment of assets	122,169	11.21	97,291	9.96	26
as reserves for investments	447,343	41.03	393,366	40.28	14
	1,090,170		976,478		12

Distribution of Value Addition 2013



Distribution of Value Addition 2012



SOURCES AND DISTRIBUTION OF FUNDS

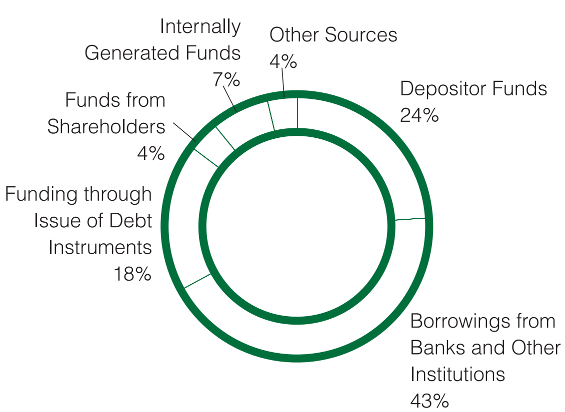
Sources of Funds (Rs. '000)

	2013	2012	2011	2010	2009
Depositor funds	3,412,464	2,732,031	2,386,821	2,094,478	1,398,151
Borrowings from banks and other institutions	6,136,152	4,805,838	1,528,532	1,428,382	2,401,083
Funding through issue of debt instruments	2,618,281	1,771,753	1,425,524	1,090,000	840,000
Funds from shareholders	533,680	533,680	533,680	213,472	213,472
Internally generated funds	1,040,367	593,024	199,657	691,428	672,767
Other sources	519,638	581,176	545,239	347,369	222,727
Total	14,260,582	11,017,502	6,619,454	5,865,128	5,748,200

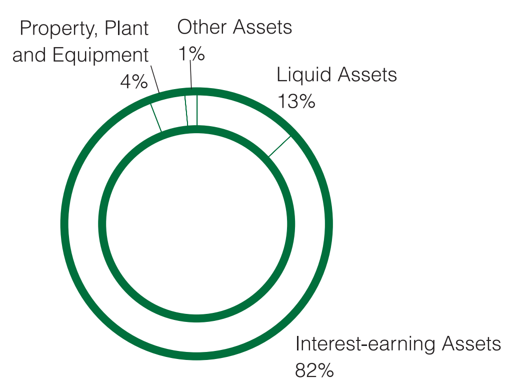
Distribution of Funds (Rs. '000)

	2013	2012	2011	2010	2009
Liquid assets	1,860,837	1,277,793	617,647	659,489	379,798
Interest-earning assets	11,559,936	8,968,566	5,398,168	4,684,291	4,882,142
Property, plant and equipment	629,823	557,758	429,969	422,658	401,969
Other assets	209,986	213,385	173,671	98,690	84,291
Total	14,260,582	11,017,502	6,619,454	5,865,128	5,748,200

Sources of Funds - 2013



Distribution of Funds - 2013



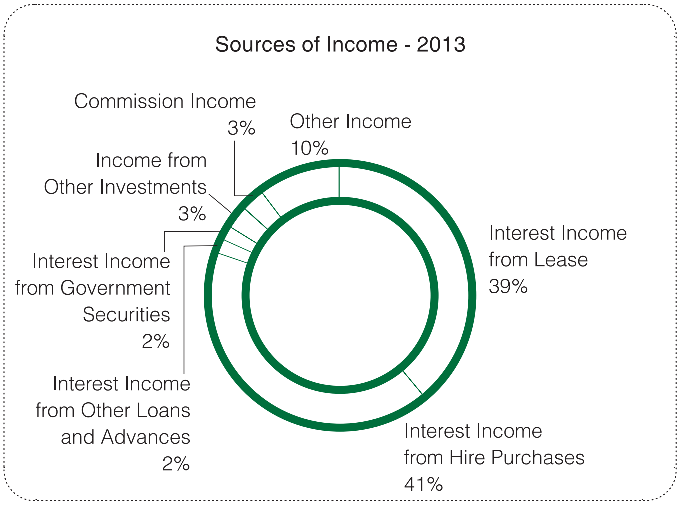
SOURCES AND UTILISATION OF INCOME

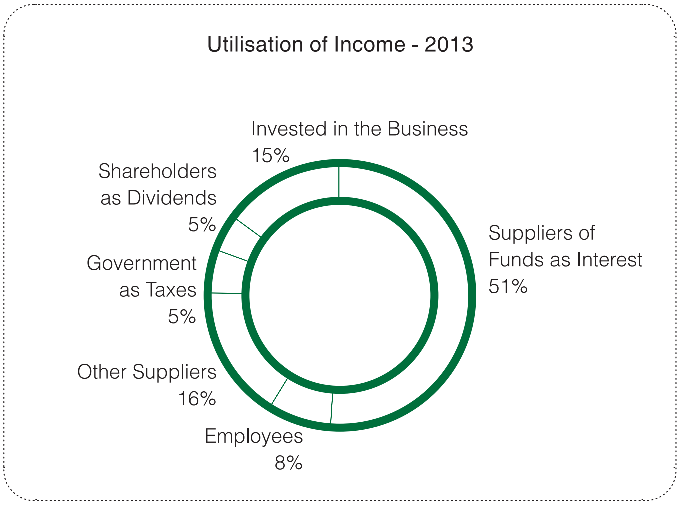
Sources of Income (Rs. '000)

	2013	%	2012	%
Interest income from lease	1,159,613	38.96	560,685	27.62
Interest income from hire purchases	1,227,157	41.23	1,024,213	50.46
Interest income from other loans and advances	69,079	2.32	61,716	3.04
Interest income from Government Securities	42,326	1.42	20,113	0.99
Income from other investments	94,153	3.16	52,053	2.56
Commission income	77,004	2.59	76,241	3.76
Other income	306,808	10.31	234,634	11.56
Total	2,976,141		2,029,654	

Utilisation of Income (Rs. '000)

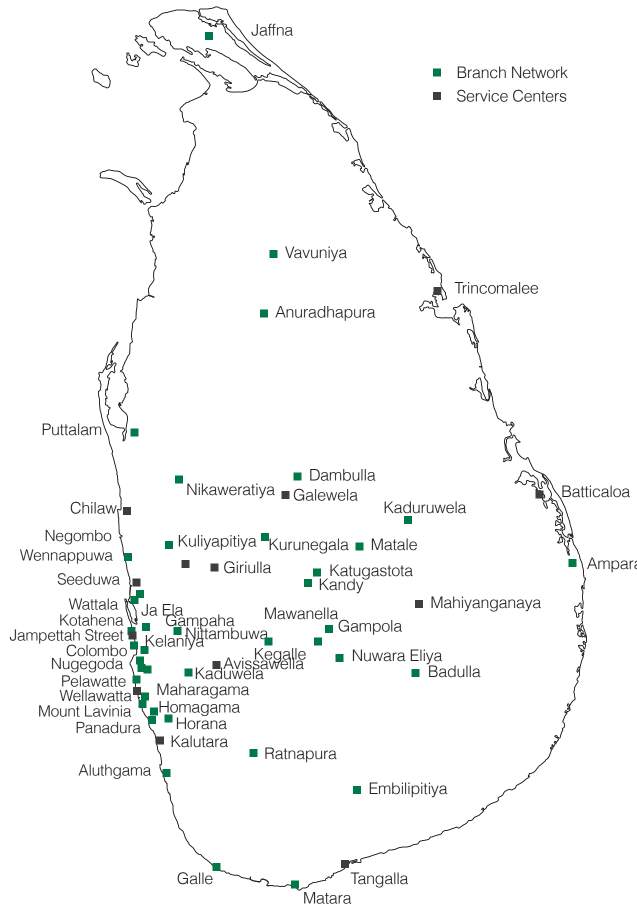
	2013	%	2012	%
Suppliers of funds as interest	1,524,288	51.22	841,034	41.44
Employees	232,457	7.81	186,227	9.18
Other suppliers	481,485	16.18	311,931	15.37
Government as taxes	157,682	5.30	216,509	10.67
Shareholders as dividends	132,886	4.47	80,586	3.97
Invested in the business	447,343	15.03	393,366	19.38
Total	2,976,141		2,029,654	





BRANCH NETWORK

Branch	Address	Telephone	Fax
Aluthgama	168, Galle Road, Kaluwamodara, Aluthgama	034-2270573	034-2270578
Ampara	778 A, D S Senanayaka Mawatha, Ampara	063-2224057	063-2224093
Anuradhapura	561/30, Priman Mw., Anuradhapura	025-2237969	025-2237989
Badulla	2, Riverside Road, Badulla	055-2224401	055-2224407
Colombo	2nd Floor, 267, Galle Road, Colombo 3	011-2301301	011-2301937
Dambulla	358 (First & Second) Matale Road, Dambulla	066-2285530	066-2285535
Embilipitiya	325 C,Ratnapura Road, Pallegama, Embilipitiya	047-2261991	047-2261996
Galle	70 A 1/1, Colombo Road, Kaluwella, Galle	091-2248111	091-2248116
Gampaha	560 A, Colombo Road, Gampaha	033-2233555	033-2233560
Gampola	240, (First Floor) Kandy Road, Gampola	081-2350100	081-2351850
Homagama	94/1 (First Floor) Highlevel Road, Homagama	011-2857878	011-2857880
Horana	246, Panadura Road, Horana	034-2262770	034-2262776
Ja-Ela	165/3, Colombo Road, Ja-Ela	011-2247861	011-2247866
Jaffna	62/3, New Stanley Road, Jaffna	021-2219960	021-2219965
Kaduruwela	292, Saw mill Junction, Kaduruwella	027-2224739	027-2224743
Kaduwela	Kumara Building, 502/10, Colombo Road, Kaduwela	011-2538180	011-2538186
Kandy	12, Kotugodella Veediya, Kandy	081-2201201	081-2201207
Katugastota	437 B, Katugastota Rd., Kandy	081-2213860	081-2213867
Kegalle	263, Colombo Road, Kegalle	035-2221277	035-2221281
Kelaniya	457, Kandy Road, Dalugama, Kelaniya	011-2914714	011-2914887
Kotahena	178 (Third Floor) George R De Silva Mawatha, Colombo 13	011-2441261	011-2441267
Kuliyapitiya	74/1/1, Hettipola Road, Kuliyapitiya	037-2284630	037-2284635
Kurunegala	34, Kandy Road, Kurunegala	037-2220402	037-2220405
Maharagama	161/1/A, High Level Road, Maharagama	011-2896888	011-2896052
Matale	97, 97 A, King Street, Matale	066-2222954	066-2222960
Matara	306, Tangalle Road, Matara	041-2233891	041-2233896
Mawanella	10 (First Floor) Rankothdiwela, Mawanella	035-2247626	035-2247655
Mount Lavinia	246, 1/1, Galle Road, Ratmalana South, Mount Lavinia	011-2715001	011-2715002
Negombo	149, 1st Floor,Rajapaksha Broadway, Negombo	031-2223456	031-2223462
Nittambuwa	550/1/12, Colombo Road, Nittambuwa	033-2297030	033-2297035
Nugegoda	86, Nawala Road, Nugegoda	011-2856600	011-2856650
Nuwara Eliya	26, Upper Lake Road, Nuwara-Eliya	052-2224123	052-2224128
Panadura	229, Galle Road, Panadura	038-2243990	038-2243995
Pelawatte	1067, Pannipitiya Road, Battaramulla	011-2774140	011-2774145
Puttalam	1, 2, 3, 4 (upstairs), Kurunegala Road, Puttalam	032-2266783	032-2266789
Ratnapura	19, Kudugalawatte, Ratnapura	045-2226890	045-2226895
Vavuniya	8, 1st Cross Street, Vavuniya	024-2226340	024-2226345
Wattala	264, Negombo Road, Wattala	011-2949611	011-2949616
Wennappuwa	272, Chilaw Road, Wennappuwa	031-2245266	031-2245271



Service Centres

Service Centre	Address	Telephone	Fax
Avissawella	19 , Kudagama Road, Avissawella	036-2222800	036-2222805
Batticaloa	221 (Ground & First Floor), Trinco Road, Batticaloa	065-2229200	065-2229205
Chilaw	F 12,1st Floor, New Shopping Complex, Urban Council, Chilaw	032-2224043	032-2224048
Galewela	87/3 A , Kurunegala Road , Galewela	066-2288025	066-2288075
Giriulla	101, Negombo Road, Giriulla	037-2288700	037-2288770
Jampettah Street	124, Jampettah Street, Colombo 13	011-2380804	011-2380809
Kalutara	First floor, 443,443/1, Galle Road, Kalutara	034-2227101	034-2227106
Mahiyanganaya	205/5, Padiyathalawa Road, Mahiyanganaya	055-2258280	055-2258285
Nikaweratiya	245/A , Puttalam Road, Nikaweratiya	037-2260117	037-2260217
Seeduwa	394, Negombo Road, Seeduwa	011-2251863	011-2251869
Tangalle	35, Sea Road, Tangalle	047-2241902	047-2241907
Trincomalee	346, (Ground Floor), Main Street, Trincomalee	026-2225115	026-2225119
Wellawatta	55, 55 A, 55 B, Manning Place, Wellawatta	011-2363634	011-2363680

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the 44th Annual General Meeting of Senkadagala Finance PLC will be held at the Registered Office of the Company, 2nd Floor, No. 267, Galle Road, Colombo 3 on Tuesday 30th July, 2013 at 11.00 a.m. for the following purposes:

1. To receive and consider the statement of accounts for the year ended 31st March 2013 with the Annual Report of the Board of Directors and Auditors' Report thereon.
2. To declare a final dividend of Rs. 64,041,600/- (Rs. 1.20 per share) to the shareholders of the Company as recommended by the Board of Directors.
3. To elect Dr. Prathap Ramanujam who was appointed as a Director of the Company in terms of Article 26(2) of the Articles of Association of the Company, as Chairman of the Company.
4. To reappoint the Auditors, Messrs KPMG, Chartered Accountants and authorise the Board of Directors to determine their remuneration.

By Order of the Board of
Senkadagala Finance PLC

Sgd.: Mrs. C. Salgado
Managers and Secretaries (Private) Limited
Secretaries

Colombo

10th June 2013

FORM OF PROXY

I/We, the undersigned ……

of……

being a member/members* of Senkadagala Finance PLC hereby appoint-

Mr. Lakshman Balasuriya of Colombo or failing him*
Dr. Asoka Balasuriya of Kandy or failing him*
Dr. Mahendra Balasuriya of Colombo or failing him*
Mrs. Lakshmi Fernando of Colombo or failing her*
Mr. Widanalage Ajith Terrence Fernando of Colombo or failing him*
Dr. Prathap Ramanujam of Colombo or failing him*
Mr. Sanjay Kulatunga of Colombo or failing him*

Mr./Mrs./Dr……

……………………………………………of ……………………………………………………………………………………………………

as my/our* proxy to attend and vote at the 44th Annual General Meeting of the Company to be held at the Registered Office of the Company, 02nd Floor, No. 267, Galle Road, Colombo 03 on Tuesday 30th July 2013 at 11.00 a.m. and at any adjournment thereof.

	For	Against
1. To adopt the Financial Statements of the Company for the year ended 31st March 2013		
2. To declare a final dividend of Rs. 1.20 per share for the financial year ended 31st March 2013		
3. To elect Dr. Prathap Ramanujam who was appointed as a Director of the Company in terms of Article 26(2) of the Articles of Association of the Company, as Chairman of the Company		
4. To reappoint the Auditors Messrs KPMG, Chartered Accountants and authorise the Board of Directors to determine their remuneration.		

Signed this……………………………………………………………day of……………………………………………………2013.

……………………………………
Signature

Note

1. *Please delete the inappropriate words.*
2. *Instructions on completing the form of proxy are set out on the reverse.*

Instructions for completion of Proxy Form

1. Kindly perfect the Form of Proxy by filling in legibly your full name and address, signing in the space provided and filling in the date of signature.
2. Please indicate clearly how your proxy should vote on the Resolution. If no indication is given, the proxy in his/her discretion will vote as he/she thinks fit.
3. 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.
4. The completed Form of Proxy should be deposited at the Registered Office of the Company at Senkadagala Finance PLC, 2nd Floor, No. 267, Galle Road, Colombo 3, 48 hours before the time appointed for the Meeting.

CORPORATE INFORMATION

Name of Company

Senkadagala Finance PLC

Date of Incorporation

29th December 1968

Legal Status

- Listed public limited liability company incorporated on 29th December 1968. The Company re-registered under the Companies Act No. 07 of 2007.
- Approved and registered under the Finance Business Act No. 42 of 2011.
- Approved and registered under the Finance Leasing Act No. 56 of 2000.
- An approved credit agency under the Mortgage Act No. 6 of 1949 and the Trust Receipt Ordinance No. 12 of 1947.

Company Registration Number

PB 238 PQ

Taxpayer Identification Number (TIN)

104028349

Stock Exchange Listing

Listed in the '*Diri Savi*', Board of the Colombo Stock Exchange with effect from 22nd March 2011.

Registered Office

2nd Floor, 267, Galle Road,
Colombo 3, Sri Lanka
Tel: 011-2301301
Fax: 011-2301937
Email: senk@senfin.com

Website

www.senfin.com

Board of Directors

Mr. C. L. de Alwis
BBM
Independent Non-Executive Director
(Resigned with effect from 5th June 2013)

Dr. Prathap Ramanujam
BSc (Hons.) MSc, PhD in Economics
Independent Non-Executive Director
(Appointed Interim Chairman with effect from 6th June 2013)

Dr. Asoka Balasuriya
BSc (Lond.), PhD (Lond.)
Executive Director - Operations

Mr. Lakshman Balasuriya
BSc (Lond), M.Sc. (Lancaster)
Managing Director/CEO

Dr. Mahendra Balasuriya
BVSc
Executive Director - Planning

Ms. Lakshmi Fernando
BSc (Hons.)
Executive Director - Human Resources

Mr. Ajith Fernando
FCMA (UK), MA (Colombo)
Independent Non-Executive Director

Mr. Sanjay Kulatunga
MBA (Booth School of Business), B.Com., ACMA, CFA
Independent Non-Executive Director

Secretaries

Managers and Secretaries (Pvt) Ltd.
8, Tickell Road,
Colombo 8

Auditors

KPMG
Chartered Accountants
32A, Sir Mohamed Macan Markar Mawatha,
Colombo 3

Legal Consultants

FJ & G de Saram
Attorneys-at-Law
216, De Saram Place,
Colombo 10

Internal Auditors

Ernst & Young Advisory Services (Pvt) Ltd.
839/2, Peradeniya Road, Kandy

Bankers

Commercial Bank of Ceylon PLC
Hatton National Bank PLC
Sampath Bank PLC

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This Annual Report is Carbon Neutral

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